



The Effect of Transformational Leadership Style on Performance and Satisfaction of MSME Employees Mediated Through Leader Member Exchange

M. Abdi Dzil Ikhrum W¹, Rinaldy Achmad Roberth Fathoni²

Universitas Brawijaya, abdidzil@ub.ac.id, Indonesia¹
Universitas Muhammadiyah Malang, rinaldyachmad@umm.ac.id, Indonesia²

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ABSTRACT

The growth of Indonesia's economy depends significantly on micro, small, and medium-sized businesses (SMEs). When Indonesia experiences an economic crisis, SMEs become a powerful force that not only boosts national GDP but also helps to create jobs. This study's goal was to ascertain how the Leader Member Exchange, a kind of transformational leadership, affected worker productivity and job satisfaction. Partial Least Squares is a statistical test method used in this investigation (PLS). A questionnaire survey approach of data gathering was employed in this study. This study focuses on SMEs in East Java, one of which is that they have at least 50 individuals working for their company units. The study's findings show how transformational leadership affects worker performance. Additionally, there is no impact of transformative leadership on work satisfaction. The association between transformational leadership and employee performance is mediated by the Leader Member Exchange variable, although this variable does not mediate the relationship between transformational leadership and work satisfaction.

Keyword: Transformational Leadership Style, Performance, Satisfaction Employees, Leader Member Exchange

INTRODUCTION

The view of Indonesians is that every day conduct can't be separated from diverse offerings and items created via way of means of MSME actors. In the morning, at breakfast, human beings eat hen porridge or conventional desserts bought via way of means of MSMEs, save for simple requirements at a store or save close to their house, to go away or offer early training or day care which is likewise run via way of means of

¹ abdidzil@ub.ac.id

² rinaldyachmad@umm.ac.id

MSMEs. In the modern-day virtual era, a few even don't have a store however most effective do their merchandise online, and maximum of them do not have an enterprise license. Business actors with those traits may be located in our environment, specifically relatives, neighbours, friends, or ourselves. MSMEs are labour-extensive groups in order that they do now no longer actually need sure requirements, which includes the extent of training, employee skills, and using enterprise capital is distinctly small and the generation used continues to be simple.

In the era of reform until 2018, the number of SMEs across Indonesia has steadily increased. Based on the findings of Bank Indonesia's annual report, it appears that the number of SMEs will continue to increase year on year until they are able to hire 85 to 107 million employees by 2012. of Indonesian entrepreneurs was 56,534 .592 units describing nearly 99% and the remaining 4968 units or 0.01% are large companies (Bank Indonesia, 2015).

Some of the above statements show that the role of MSMEs cannot be separated from the performance of every entrepreneur or employee in them. Organizations or companies to achieve the goals required the performance of employees to achieve them. Mangkuprawira and Hubies in their book *Mutu Sumber Daya Manusia* (2017) argue that performance is the result of specific work processes planned for when and where the people and organizations involved are.

Performance itself chooses a knowledge as stated by using Robbins (2008), overall performance has a definition, specifically a result done by way of personnel in their paintings based on certain standards that apply to a process. overall performance itself can also be interpreted as a piece or paintings success this is definitely visible with the paintings standards that have been set by way of the company. further, one of the elements that impact an enterprise to run nicely except overall performance is employee job pleasure. according to Mangkunegara (2002) job satisfaction has the meaning, namely a feeling that encourages or does no longer encourage personnel who are associated with their work or with their person conditions.

Those matters cannot be separated from one of the outcomes of the closeness of the chief who can also be referred to as the chief Member alternate. research carried out by way of (Erdogan and Bauer, 2015) states that the impact generated through the chief member change is the overall performance and activity pleasure of employees. further, leaders usually practice appropriate management patterns to steer the overall performance of their subordinates. The management style used in MSMEs is extra toward the usage of a transformational leadership style due to the fact this management style motivates personnel more and does not only awareness on themselves.

Numerous research consequences which have been determined display that the transformational management style is extra efficiently utilized in MSMEs because leaders are greater focused on inspiring and motivating with a small range of personnel (Franco & Maltos, 2014). due to the small size of MSMEs, leaders can be a person who creates imaginative and prescient and path, therefore leaders need to be capable of deliver and talk expectancies to each employee personally (Matzler, 2008).

Many challenges facing MSME development, MSME leaders are expected to be able to use their resources and skills to survive and grow to be part of a successful business. The purpose of this study was to determine the impact of transformative leadership style on the performance and satisfaction of MSME workers through the Leader Member Exchange.

LITERATURE REVIEW

Transformational leadership is those who manage to shift the attention of their employees from direct self-interest to an isolated collective view and inspire them to do something beyond their duties (Rubin et al., 2005). SME leadership style is more likely to use a transformative leadership style, as this leadership style is more motivating for its employees and not just self-centered (Maria and Anastasia, 2019). Research by Franco and Maltos (2014) shows that the transformational leadership style is more effective in SMEs because it is easier for leaders to focus on inspiration and motivation with a limited number of employees.

According to Rivai (2005), employee performance is a very important factor in the company's efforts to achieve its objectives. Performance is used by a company's management in periodic evaluations of an organization's and employees' operational effectiveness based on predetermined criteria, standards and objectives. According to Mangkunegara (2002), performance is the result of qualitative and quantitative work carried out by an employee in the performance of his duties according to the responsibilities he has assumed. Performance is the result of the qualitative and quantitative work carried out by an employee in the performance of his duties according to the responsibilities entrusted to him.

Leader-member exchange theory, or what can also be called leader-member exchange (LMX), is a relationship-based theory of dyadic leadership. Unlike theories that focus on what leaders do, such as B. Theories of Transformational and Real Leadership, Leaders Who Can Serve, Leaders Who Can Deceive. LMX is a theory based on the assumption that leaders influence employees or would-be members through the quality of relationships developed. The high quality of the relationship is characterized by trust, desire, professionalism, respect and loyalty as mentioned in Erdoan and Bauer (2015) (Liden and Maslyn, 1998).

Job satisfaction reflects a person's feelings about their job. Job satisfaction is reflected in the positive attitude of employees towards work and everything that needs to be managed in the work environment. Wexley and Yulk in Moh.As'ad (2004) provide a limitation of job satisfaction, namely "job satisfaction is how an employee feels about their job", i.e. job satisfaction as a person's feelings towards their job. Keith Davis and John W. New Strom defines job satisfaction as a set of employee feelings about whether or not they like their job. Job satisfaction is an important factor for management to consider as it has a major impact on the organization both directly and indirectly.

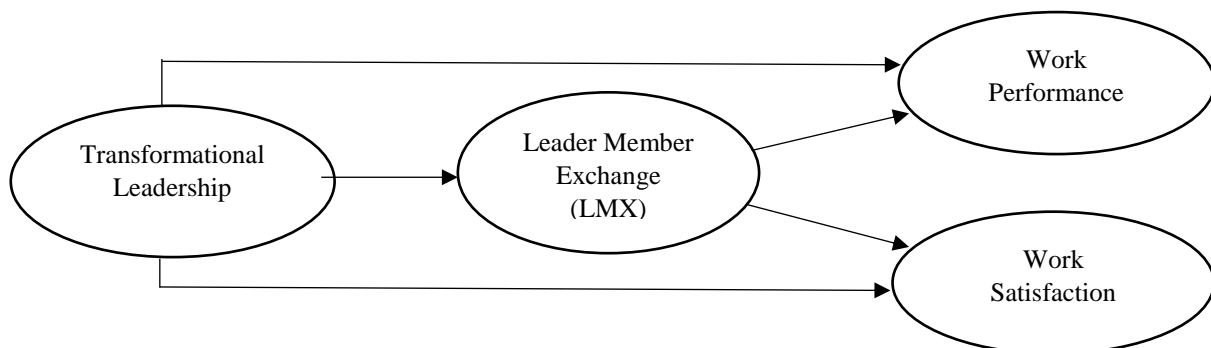


Figure 1. Conceptual Framework

RESEARCH METHOD

This study discusses the effect of transformational leadership on employee performance and job satisfaction, mediated by exchanging leaders with MSME members. This study uses a quantitative approach, using this approach to see the relationship between the variables and the object under consideration cause and effect (cause), so that there are independent and dependent variables in this study (Sugiyono, 2011). This study uses a statistical testing tool, namely Partial Least Square (PLS). The data collection procedure used in this study was a questionnaire survey method. The focus of this survey is the East Java MSMEs, which have one of the characteristics of having a minimum of 50 employees in their business unit. This study was conducted using least squares (PLS) analysis with SmartPLS software.

RESULT AND DISCUSSION

To ascertain the full suggested hypothesis's impact, including direct and indirect consequences, hypothesis testing is done. T-tests are used for all hypothesis testing for each impact, including both direct and indirect affects through mediating factors. If the probability value is less than 0.05 or the t-count or t-statistic value is larger than the t-table (1.96) then the direct impact is being tested (significance level 5 percent).

Table 1. Direct Effect Test Result

Variable Relation	Path Coefficient	t-statistic	p-value	Information
<i>LMX → Work Performance</i>	0,779	8,484	0,000	Significant
<i>LMX → Work Satisfaction</i>	0,300	0,718	0,473	No Significant
<i>Transformational Leadership → LMX</i>	0,966	125,379	0,000	Significant
<i>Transformational Leadership → Work Performance</i>	0,207	2,195	0,029	Significant
<i>Transformational Leadership → Work Satisfaction</i>	0,217	0,520	0,603	No Significant

Research hypotheses can be tested using the influence of direct or indirect interactions between research factors. A path coefficient of 0.207 and a t-statistic value of 2.195 were obtained from the findings of the hypothesis test on the impact of transformational leadership on employee performance. This indicates that transformative leadership has a major impact on staff performance. Additionally, the t-statistic value is 125.379, and the path coefficient of transformational leadership to LMX is 0.966. This demonstrates the significant influence transformational leadership has on LMX. However, the t-statistic for the path coefficient of transformational leadership on work satisfaction is 0.520, while its value is 0.217. This demonstrates that transformative leadership has no impact on work satisfaction among employees.

Additionally, the t-statistic for the LMX employee performance variable is 8.484 and the path coefficient is 0.779. These findings suggest that LMX directly affects employee performance. While the path coefficient and t-statistic values for the LMX employee satisfaction measure are both 0.300. These findings suggest that LMX does not directly influence employee satisfaction.

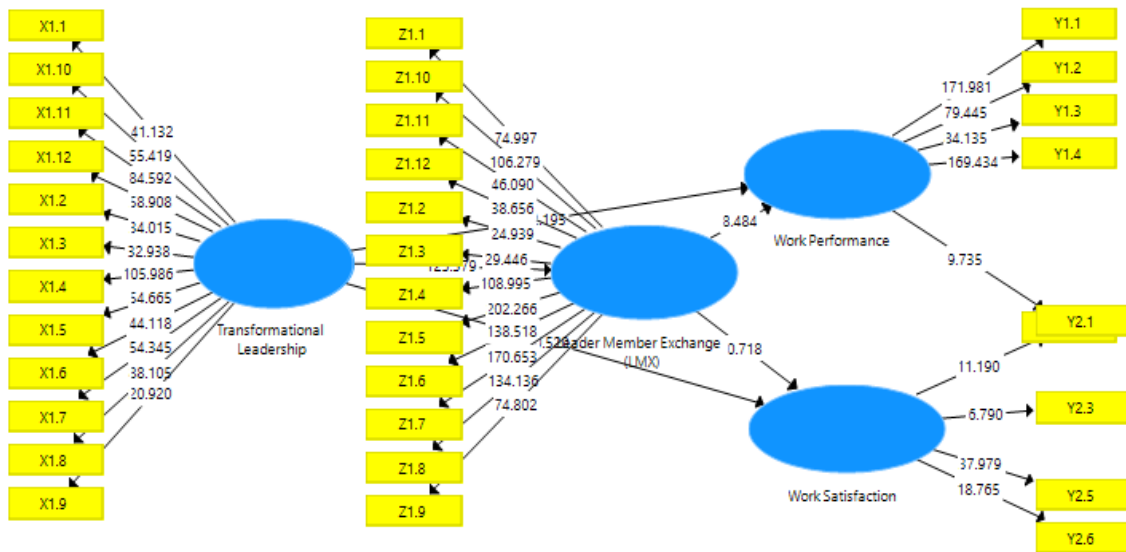


Figure 2. Direct Effect Test Results

Variable Relation	<i>t</i> -statistic	<i>p</i> -value	Information
<i>Transformational Leadership</i> → <i>LMX</i> → <i>Work Performance</i>	8,447	0,000	Significant
<i>Transformational Leadership</i> → <i>LMX</i> → <i>Work Satisfaction</i>	0,717	0,474	No Significant

Through an intermediate known as the mediating variable, indirect impact testing analysis how one variable affects other variables. Based on table 2, it is possible to draw the conclusion that transformational leadership influences employee performance via leader member exchange. Additionally, because the t-statistic is smaller than 1.96, the transformational leadership variable has no impact on workers' satisfaction with the leader member exchange mediation.

CONCLUSION

This study is comparable to one by Irjanto and Setiawan (2016), which found that in the MSME sector, leadership had a favorable impact on worker performance. More precisely, according to this study, MSMEs in East Java are brought about by leaders who urge staff members to continue their development in accordance with the direction set by the company's leadership while also supporting changes that are always present. The organization's transformational leaders themselves are expected to be able to adapt to changing business conditions and have the drive to advance the company. This is also influenced by the presence of a Leader Member Exchange, which serves as a leader to create bonds with followers, which may eventually increase job happiness for MSME employees. This study has established that the performance of employees in MSMEs would be impacted by the influence of transformational leadership.

This study differs from earlier studies in other ways as well. For example, Chang and Lee's (2007) asserts that transformational leadership would affect employee happiness through the Leader Member Exchange. This did not occur in the research because the leader employed different approach techniques to provide an approach to each unique employee.

Through the use of the leader's proximity to his subordinates, this research demonstrates the critical role of the leader in the company growth process, which starts with employee performance and high satisfaction. Employees will perform well and be happy with the job they do under a leader who possesses transformational leadership qualities and uses the employee proximity technique, which will ultimately benefit the business.

Regional variations might potentially have an impact on the accepted outcomes in future study. It is envisaged that future study would examine the traits of leaders in MSMEs in the western area of Java in light of the features of MSMEs in 2 regions of Java that have been the subject of several studies. Further investigation may also displace other styles of leadership, including charismatic leadership and other styles. Since the corporate environment is so dynamic, even leaders can have a variety of traits.

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