

Transformational Leadership and Job Performance: Multiple Mediation Role of Job Satisfaction in SMEs Sector in Indonesia

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Abstract—The purpose of the study was to examine and explain the effect of transformational leadership, job satisfaction and organizational commitment on employees' job performance and the role of job satisfaction as a mediating variable. The population in this study were 69 export-oriented SMEs located in Bali Province, out of which a total sample frame consisting of 54 SMEs was built. Respondents were 177 employees and the data analysis were conducted with SmartPLS 3.0 software. The results of the analysis provided an explanation of the importance of the role of transformational leadership in building job satisfaction and organizational commitment which in turn influence employees' job performance. Theoretically, the research results contribute to the body of knowledge and the role of job satisfaction as a multiple mediation in building organizational commitment and job performance. The research implications are discussed in the paper.

Keywords—*transformational leadership, job satisfaction, organizational commitment, job performance, SMEs*

I. INTRODUCTION

The relationship between transformational leadership and job satisfaction of 133 bank employees in Pakistan and found that transformational leadership had a positive effect on employees' job satisfaction [1]. Managers who use charisma are able to become a source of inspiration, individual consideration and intellectual motivation and to give positive reactions to employees in increasing desire and commitment to the organization³. That is a strong positive correlation between transformational leadership and job commitment [2]. Therefore, transformational leadership not only brings about significant effects on job satisfaction, but it also can influence organizational commitment [3]. Transformational leadership had no significant effect on job satisfaction and organizational commitment [4]. Although some studies produced empirical evidence in support of the notion that transformational leadership has a significant effect on employees' job performance [5].

The studies on job satisfaction yielding a significant, positive effect on organizational commitment [6]. Otherwise, That is job satisfaction negatively affected the organizational

commitment of professionals in the education sector located in Malaysia.

The above review of past studies suggests that there is still a lacuna that is related to the conceptualization of the research model. Up to the present time, there has been no integrative research model employed by researchers. This is due to the fact that past studies examining employees' job performance deployed a partial model so that performance problems could not be solved partially.

The rest of this paper is organized as follow: Section II describes the proposed methodology. Section III presents the obtained results and following by discussion. Finally Section IV concludes this work.

II. METHODOLOGY

This section presents the methodology used.

A. Study Designs

The population of the present study comprised 69 export-oriented SMEs (small and medium enterprises), out of which a sample frame consisting of 59 SMEs was built. The samples were drawn using simple random sampling method, which is a non-replacement method which means that every member of the population had the same chance to be a one-time sample. So, from the 59 SMEs included in the sampling frame 3 respondents were asked to fill out the research questionnaire. The total number of respondents (employees) was 177 people being the unit of analysis in the present study.

B. Research Hypothesis

The study on the relationship between transformational leadership and job. It was found that transformational leadership had a significant effect on job satisfaction. The following hypothesis was formulated.

H1: Transformational leadership will have a significant positive effect on job satisfaction

The relationship between transformational leadership and organizational commitment is significant whereby character building and skills come from effective transformational

leadership [3]. The dimension of transformational leadership brought about a significant effect on organizational commitment of employees [7]. On the basis of these previous studies, the second hypothesis formulated is as follows.

H2: Transformational leadership will have a significant

C. positive effect on organizational commitment of employees

Based on study transformational leadership directly affected employee performance [8]. Transformational leadership was able to predict employee performance; if the leader was good then employee performance would be good too. Thus, the following hypothesis was formulated as follows.

H3: Transformational leadership will have a significant positive effect on employee performance.

Job satisfaction had a significant effect on organizational commitment [9]. Job satisfaction enhanced commitment to the organization to prevent employees from future fear and uncertainty and helped them think about finding the solution to a problem [10]. The next hypothesis is as follows.

H4: Job satisfaction will have a significant positive effect on

D. organizational commitment

The dimensions of job satisfaction (pay, supervision, promotion, work itself and work conditions) contributed significantly positively to employee performance [11]. Therefore, the following hypothesis was formulated as follows.

H5: Job satisfaction has a significant positive effect on employee performance

Organizational commitment had a significant effect on employee job performance [10]. This finding has motivated the following hypothesis.

H6: Organizational commitment will have a significant positive effect on employee performance

Job satisfaction played a significant role in mediating the relationship between transformational leadership and organizational commitment of employees in Taiwan [12]. The number of employees who had a commitment to productivity and performance significantly increased. On the basis of these findings, the following hypothesis was formulated.

H7: Job satisfaction will mediate the relationship between transformational leadership and organizational commitment

Job satisfaction mediated the relationship between leadership behaviour and employee performance [8]. Leadership was a variable that held a critical position because it played a significant role in creating job satisfaction, while simultaneously providing direction in achieving employee performance. Based on the description above it can be hypothesized as follows.

H8: Job satisfaction will mediate the relationship between transformational leadership and employee performance

III. RESULTS AND DISCUSSION

This section presents the results obtained and following by discussion.

A. Result

a. Research Hypothesis Testing

Hypothesis testing in this study was done through two stages that is testing the direct effect and testing the indirect effect of exogenous variables on endogenous variables.

TABLE I. DIRECT EFFECTS OF TRANSFORMATIONAL LEADERSHIP, JOB SATISFACTION, ORGANIZATIONAL COMMITMENT, AND JOB PERFORMANCE

Construct	Original Sample	Sample Mean	STDEV	T Statistics	P Values	Remark
TL -> JS	0.844	0.853	0.022	38.151	0.000	Support
TL-> OC	0.382	0.394	0.088	4.351	0.000	Support
TL-> JP	0.361	0.392	0.131	2.763	0.006	Support
JS -> OC	0.535	0.521	0.084	6.384	0.000	Support
JS -> JP	0.474	0.467	0.081	5.836	0.000	Support
OC -> JP	0.459	0.455	0.090	5.104	0.000	Support

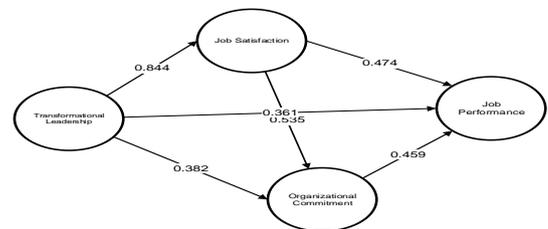


Fig 1. the relationship between transformational leadership and job satisfaction

From Table I above, the results of the analysis provide information that the relationship between transformational leadership and job satisfaction is significant positive where the value of path coefficient is 0.844 with t -statistic of $38.151 > 1.96$, which means that hypothesis 1 was accepted. From Figure 1 above, the relationship coefficient between transformational leadership and organizational commitment is 0.382 with a t -statistic of $4.351 > 1.96$ which is significant positive, and thus hypothesis 2 is accepted. The relationship coefficient between transformational leadership and employee performance is 0.361 with a t -statistic of $2.763 > 1.96$ which means positive significant so that hypothesis 3 is accepted. The relationship coefficient between job satisfaction and organizational commitment is 0.535 with a t -statistic of $6.384 > 1.96$ meaning significant positive so that hypothesis 4 was accepted. The relationship between job satisfaction and employee performance is shown with coefficient of 0.474 with a t -statistic $5.836 > 1.96$ which means positive significant so that hypothesis 5 was accepted. Organizational commitment has a significant positive effect on employee performance, where the value of path coefficient shown is 0.459 with a t -statistic $5.104 > 1.96$ meaning significant positive and hypothesis 6 was accepted.

b. Indirect Effect Testing

The test of the mediation variable aims to detect the position of the mediating variable in the research model. This test was conducted to see the role of job satisfaction in its position as a mediating variable on employee performance.

TABLE II. INDIRECT RELATIONSHIP AMONG TRANSFORMATIONAL LEADERSHIP VARIABLES, JOB SATISFACTION, AND ORGANIZATIONAL COMMITMENT TO EMPLOYEE PERFORMANCE

No	Model *	Path Coe	t-statistics	t-Tabel	Remark
a	TL → JS	0.844	38.151	> 1,96	a significant, b significant and c significant with the following the direct coefficient c<b = partial mediation
b	JS → OC	0.535	6.384	> 1,96	
c	TL → OC	0.382	4.351	> 1,96	
a	TL → JS	0.844	38.151	> 1,96	a significant, b significant and c significant with the following direct c<b = partial mediation
b	JS → JP	0.474	5.836	> 1,96	
c	TL → JP	0.361	2.763	> 1,96	

The Table II above presents information about the direct effect of transformational leadership on job satisfaction with a coefficient of 0.844 and a *t*-statistic of 38.151 > 1.96, the effect of job satisfaction on organizational commitment with a coefficient of 0.535 and a *t*-statistic of 6.384 > 1.96, and the effect of transformational leadership on organizational commitment with a coefficient of 0.382 and a *t*-statistic of 6.384 > 1.96. So, hypothesis 7 is accepted.

The Table II also reveals the direct effect of transformational leadership on job satisfaction with a coefficient of 0.844 and a *t*-statistic of 38.151 > 1.96, the effect of job satisfaction on employee performance with a coefficient of 0.474 and a *t*-statistic of 5.836 > 1.96 and the effect of transformational leadership on employee performance with a coefficient of 0.361 and a *t*-statistic is 2.763 > 1.96. Suggested that if all have a direct and significant effect, but the coefficient value of *c* (0.361) is smaller than the coefficient value of *b* (0.474) then it indicates partial mediation and hypothesis 8 is accepted.

B. Discussion

a. The Effects of Transformational Leadership on job Satisfaction

The results of the analysis show that the effect of transformational leadership on employee job satisfaction is significant positive. This indicates that transformational leadership perceived by employees influences their job satisfaction, which means that the implementation of transformational leadership dimensions increases job satisfaction.

The leadership in export-oriented SME is not entirely good. Proven in the context of export-oriented SME employees, all four dimensions have been implemented very well, especially how leaders/ managers help employees in coping with difficulties in problem solving and how managers boost employee motivation through the

implementation of the dimensions of inspirational motivation.

b. The Effect of Transformational Leadership on Employees' Organizational Commitment

The effect of transformational leadership on employee organizational commitment is significant positive. This indicates that the transformational leadership felt by employees influences their commitment to the organization, which means that the increase in transformational leadership role leads to the increase in employee commitment.

There is a positive relationship between transformational leadership and organizational commitment through leadership development to build behavior and skills. Furthermore, there are strong positive interaction between transformational leadership and organizational commitment, where managers had to adopt transformational leadership styles in order to increase employee commitment.

c. The Effect of Transformational Leadership on Employee Performance

The effect of transformational leadership on employee performance is significant positive. This indicates that the transformational leadership felt by employees influences individual employee performance, which suggests that the increase in transformational leadership role leads to improvement in employee performance.

d. The Effect of job Satisfaction on Employee Organizational Commitment

The effect of job satisfaction on organizational commitment of employees is significant positive. This indicates that job satisfaction perceived by the employees has an effect on their commitment to the organization, suggesting that the increase in job satisfaction will be followed by an increase in their commitment.

The highlight of the study is increasing employee empowerment means to increase organizational commitment of employees because with empowerment, employees feel more confident to show contribution to the organization.

e. The effect of job satisfaction on employee performance

The effect of job satisfaction on employee performance is significant positive. This indicates that job satisfaction felt by employees influences the performance of individual employees, which further suggests that with higher perceived work satisfaction comes higher employee performance. The results of this study found that the dimension of work satisfaction consisting of pay, supervision, promotion, work itself and work condition contributes positively and significantly to the performance of employees.

f. The effect of organizational commitment on employee performance

The effect of employee organizational commitment on their performance is significant positive. This indicates that the organizational commitment perceived by employees influences their performance, indicating that with the increase in the employee perceived commitment comes improvement in employee performance. Committed employees tend to generate positive outcomes such as better performance, higher job satisfaction, increased corporate profits, lower turnover and small absence rates. If this can be done then the company will benefit from increased employee loyalty, and the ability to deal with the dynamics of a flexible organizational environment. That is a strong positive relationship between organizational commitment and employee performance.

g. The role of job satisfaction in mediating the relationship between transformational leadership and employee performance

The direct effect of transformational leadership variable on job satisfaction has a coefficient of 0.844 and a t-statistic of $38.151 > 1.96$ which is significant (a). The effect of job satisfaction on organizational commitment has a coefficient of 0.535 and a t-statistic of $6.384 > 1.96$ which is significant (b). The effect of transformational leadership on organizational commitment has a coefficient of 0.382 and a t-statistic of $6.384 > 1.96$ which is significant (c). Suggested that if all have a direct and significant effect, but the coefficient of c (0.382) is smaller than the coefficient of b (0.535), it indicates partial mediation which means that the effect of transformational leadership on organizational commitment can explained by the presence of job satisfaction variable and other variables. The results of the statistical analyses can be used as the basis in this study to accept hypothesis 12 which states that work satisfaction will mediate the relationship between transformational leadership and employee organizational commitment.

h. The role of job satisfaction in mediating the relationship between transformational leadership and employee performance

The results of the analysis proved that the strengthening of job satisfaction can be a mediator for transformational leadership constructs in order to improve employee performance, which is significant based on interaction effect test with 5% confidence level. The role of partial mediation is that transformational leadership has a significant direct effect on job satisfaction, so mediation effect is not the only variable that affects employee performance. Based on the prediction results, it was found that the interaction effect was 0.474, which is positive but still smaller than the predicted results of direct relationship between transformational leadership and job satisfaction (0.844).

Because the effect on work satisfaction of a mediating variable of the transformational leadership construct is positive, this study provides empirical finding that transformational leadership strengthens the position of job

satisfaction as a mediator for the strengthening of employee performance. This means that transformational leadership can choose two channels to strengthen employee performance, because the path of mediation is positive so that both paths through transformational leadership construct have a strategic value in order to strengthen employee performance.

IV. CONCLUSIONS AND RECOMMENDATION

A. Conclusion

First, the present study offers a more comprehensive knowledge and conceptualization of a new research model, providing a clear and systematic understanding of variable interrelationships. Second, the research succeeds in revealing the empirical fact that job satisfaction serves as a multiple mediator, first being a mediator for transformational leadership construct in order to strengthen organizational commitment through the role of partial mediation, where transformational leadership has a significant direct effect on organizational commitment, which is the only factor that affects employee organizational commitment. Based on the prediction result, the estimation on the interaction effect yields a value of 0.382, which is positive but smaller than the predicted result of direct relationship between job satisfaction and organizational commitment (0.535). Because the effect of job satisfaction as the mediator of transformational leadership construct is positive, this research proves that transformational leadership construct strengthens the position of job satisfaction as a mediator for the organizational commitment. Thus, transformational leadership can choose two channels to strengthen organizational commitment of employees, and because the path through mediation is positive the two paths through which the transformational leadership construct has a strategic value in order to strengthen organizational commitment of employees.

The second role of the job satisfaction construct is as a mediator for transformational leadership construct to improve employee performance. The role of mediation that occurs is partial mediation, where transformational leadership has a direct significant effect on employee performance, so mediation effect is not the only factor that affects employee performance. Based on the prediction results obtained, the estimate of the interaction effect is 0.361, which is positive but smaller than the predicted results of direct relationship between job satisfaction and employee performance (0.474). Because the effect on job satisfaction as a mediator of the transformational leadership is positive, this study can prove that transformational leadership construct strengthens the position of job satisfaction as a mediator to strengthen employee performance. Transformational leadership can choose two channels in improving employee performance, and because the path through mediation is positive the two paths through which the transformational leadership construct has a strategic value in order to improve employee performance.

B. Implications

The practical implications of the present study concern the position or role of company managers/ leaders which is very important as a trigger in building job satisfaction and employee organizational commitment in order to improve their job performance. To improve performance, a leader is first expected to create employee job satisfaction, then to build and maintain their organizational commitment. For organizations/ SMEs, creating a conducive working environment can be done through the creation of a standard operating procedure (SOP), fair implementation of reward and punishment and a transparent and challenging promotional system.

C. Future Work

This study does not claim that the results of the study can be applied equally well on other samples, so caution should be exercised when making generalization. This research was a study of behavior evident within one period of research so that in the future it is necessary to conduct a longitudinal study so that the development of the aspects of behavior of the object of research can be followed dynamically, so as to determine whether or not the behavior evident during the study period (2016-2018) remain the same in the future. Further research should be conducted on all sectors of SMEs using a longitudinal method so that the results can be generalized. Future research is expected to use 360-degree appraisal method especially in assessing employee performance, either personal appraisal, colleague or peer, subordinate and leader so that the result of assessment can avoid the effect of bias.

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