

The Examining of Transformational and Transactional Leadership on Banking Employee Performance at North Sulawesi Province, Indonesia

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ABSTRACT

Transformational and transactional leadership style is an activity that influences people to working together in order to achieve the organization goals. Leadership can occur anywhere, provided that someone shows his ability to influence the behavior of others towards achieving a certain goal. Transformational leadership as a leader who has the power to influence subordinates in certain ways. The intent of transformational and transactional leadership is to encourage employee performance in the Banking business in North Sulawesi, Indonesia. The object of the study was Bank BRI, BNI and SulutGo, which have branches throughout the North Sulawesi region. The number of respondents was 205 employees.

The collected data were then analysed by using a variant-based structural equation model or Partially Least Square (PLS-SEM). The data analysis results provide empirical evidence that a transformational leadership style, particularly in the individual consideration and individual inspirational dimensions, positively impacts employee performance. However, other dimensions, namely, intellectual stimulation and inspirational motivation, do not significantly encourage activities related to performance. Moreover, transactional leadership on the contingent reward dimension does not significantly impact knowledge sharing, in other word only transformational leadership individual consideration and individual inspiration were positively significant effect on encourage banking business industry employee performance at North Sulawesi, Indonesia.

Keywords: employee performance, transformational leadership, banking company,

Introduction

In globalization era, it certainly requires an intellectual workforce in creating creative advances in their respective fields of work, both government and private, therefore human resources who have a high work ethic, are trained and skilled can-do training, education and guidance for human resources. It's just that to produce high performance an employee not only needs to have skills, but also must have the desire and excitement for high achievers because the development of an organization is determined by the personnel of the organization itself. Leadership can be one of the internal factors that play an important role in whether or not an organization is successful in achieving its objectives so that it needs to be directed through effective and efficient human resource management.

According to Bass (1985, in Yukl, 2006) a leader in the organization is possible to have two different leadership style (i.e. transformational and transactional) integrated in one person. Using a model developed by Bass (1985) provides an opportunity to see the influence of leadership styles specifically and comprehensively.

Transformational and transactional leadership style could used by a leader if he/she wants his/her team to expand the boundary and have a performance beyond expectation or achieve a series of completely new organizational goals. Transformational leadership in principle motivates subordinates to do better than what can be done, in other words could increase the confidence or self-

confidence of subordinates that in turn affect performance improvement. While the transactional leadership style is a form of motivating subordinates by transacting with subordinates, such as salary increases and promotion.

Discuss about employee performance, it can be explained that performance is the quality of employee work shown in doing the work that has been charged to him, and also the job results achieved by a person or group within an organization in certain period of time. Accordance with the respective authorities and responsibilities, in order to achieve the objectives of the organization concerned legally, it does not violate the law and is in accordance with morals and ethics. Based on this understanding there is actually a close relationship between individual performance and institutional performance. In addition, employee performance is the level of achievement of work requirements. Because if the employee has a good performance, it means the quality of the work will have a good impact.

Banking industry is a financial business sector which has an important role to the community to save funds or provide business capital assistance. In North Sulawesi amidst the rapid economic progress, even higher than the average national economic growth, causing the banking sector to become more crucial for the economic progress of North Sulawesi. In North Sulawesi almost all major banks in Indonesia were present, thus creating a relatively high level of competition between banks. Therefore, the Bank is required to maintain its competitive advantage. As mentioned earlier, when individual performance is better, it will make a positive impact on organizational performance.

Yukl (2006), Rawung et al. (2015); Kawulur et al. (2014) states that transformational and transactional leadership styles factor can encourage various situations in a company, such as employee performance. In other words, to improve the performance of banking employees in North Sulawesi, it is needed to develop transformational and transactional leadership styles. Using the results of research from Rawung et al. (2015) this study also used the research model that breaks the dimensions of transformational and transactional leadership styles into research variables. This method can help clearer identification of which dimensions play a significant role in performance.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Transformational Leadership and Employee Performance

Bass (1985, as cited in Yukl, 2006) further explains that transformational leaders strive to motivate their subordinates to achieve a work performance that exceeds the organisational expectation. Therefore, Yukl (2006) suggests a transformational leader uses the following methods to motivate his or her subordinates: 1. Encourage employees to have a deeper awareness of the importance of output; 2. Encourage employees to put group interests first; and 3. Uphold the higher needs of employees, such as pride and self-actualisation.

Bass (1985; 1990, as cited in Yukl, 2006) mentions four dimensions in transformational leadership: motivation sources, inspiration sources, individual consideration source, and intellectual stimulation. Yukl (2006) and Northouse (1997) explain that an inspiration source, better known as a charismatic leader, refers to the type of leader who serves as a role model to all subordinates. This leader usually possesses high moral standards and is highly respected and trusted by subordinates. A transformational leader is a source of inspiration because this leader can be communicative in delivering a future vision. Intellectual stimulus is a part of transformational leadership and effectively encourages employees to be more creative and innovative. Leaders who have these characteristics will undoubtedly be able to motivate employees to develop new methods in solving problems in an organisation (Northouse, 1997). A consideration source is a leadership type that creates an encouraging work environment. This leader is willing to listen to employees' complaints and needs. This type of leader can act as a trainer, advisor, and consultant (Yukl, 2006; Northouse, 1997).

Performance is a form of work achievement. Performance is measured by making comparisons between work results and established work standards (Dessler, 1997: 164), thus performance focuses on the results of its work. According to Siagian (2003: 125) performance is a universal concept which is the operational effectiveness of an organization and part of the work based on established standards and criteria. Performance is human behavior in an organization that meets the standards of behavior established to achieve the desired results. According to Robbins (2003: 93) that employee performance is a function of the interaction between ability and motivation. The success or failure of employee performance that has been achieved by the organization will be influenced by the level of performance of employees individually and in groups. Performance reflects how well and how precisely an individual fulfills job demand.

Thus, to achieve the required employee performance, leaders who have transformational leadership style will try to encourage individuals to deliver their abilities optimally. It is expected that with each dimension of transformational leadership style capable of encouraging employees to work beyond expectations (Deluga, 1990).

H1: Overall, dimensions of transformational leadership positively affect employee performance.

Transactional Leadership

According to Bass (1985, as cited in Yukl, 2006), transactional leadership can be defined as a transactional process between leaders and subordinates. A transactional manager encourages subordinates to work through the observance of an explicit and implicit agreement established between leaders and subordinates (Deluga, 1990). In transactional leadership, for example, the employees have been given a distinctive job target. If they achieve the target, these employees will receive a reward or incentive from the leaders. If the employees do not achieve the target, the manager will take evaluative action, such as imposing sanctions.

Bass (1985; 1990, as cited in Yukl, 2006) further explains that the transactional leadership style can be divided into two dimensions: contingent reward and exception management. Contingent reward refers to an exchange process between leaders and subordinates that involves a reward (Northouse, 1997). Northouse (1997) further explains that contingent reward enables the leader to establish an agreement with employees regarding what they must do and what they will gain if the agreed work is successfully completed. However, exception management is a form of correction or evaluation by leaders when an employee makes mistakes (Northouse, 1997; Bass, Avolio, Jung, & Berson, 2003).

Consistent with Northouse (1997), Yukl (2006) describes managers who have a transactional leadership style as having the following characteristics. 1. Leaders know what the employees want and explain that the employees will obtain it if their achievements fulfil the expectations of the company. 2. Leaders exchange employees' efforts with rewards. 3. Leaders are responsive to the needs of their employees as long as it equals the value of the work that the employees have performed.

According to Deluga (1990), managers with a transactional leadership style consider the leader and subordinate relationship to be work relationships or an employment agreement in either implicit or explicit ways. Deluga (1990) also explains that employees receive rewards when obeying this employment agreement. Alternatively, employees who violate this agreement could receive sanctions.

Unlike the transformational leadership style, the transactional leadership style makes the leader-subordinate relationship a joint-venture relationship or agreement, not an emotional bond. With the transactional leadership style, the leader assumes that the employees' knowledge belongs to the company. Petigrew and Mechanic (1972; 1962, as cited in Deluga, 1990) indicate that the information and expertise of subordinates may be subject to negotiations to reach an agreement. Dengan demikian kemampuan pegawai berusaha dioptimalkan dengan cara menciptakan perjanjian terikat

agar ketika karyawan berhasil mencapai kinerja yang diharapkan maka karyawan bisa memperoleh sesuatu sesuai perjanjian, misalnya bonus, insentif, kenaikan gaji dan promosi jabatan.

H2: The entire dimension of transactional leadership positively affects knowledge sharing activities.

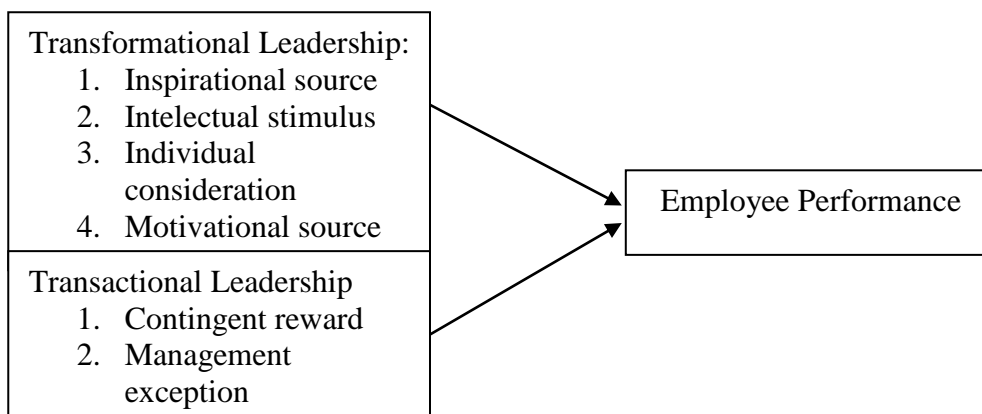
RESEARCH METHOD

A survey was conducted at Banking Company in North Sulawesi, Indonesia. The reason research was conducted in the North Sulawesi Province, Indonesia because of its fascinating development. North Sulawesi is considered to be one of the regions experiencing the highest economic growth. According to the data obtained from the North Sulawesi Statistical Bureau (2017), the growth of North Sulawesi's economy is even higher than Indonesia's economic growth, which is only 6.1%.

The procedure of the samples taken must meet the following couples of procedures.

1. The banking company must have been established for a minimum of three years and have many branches at around North Sulawesi Indonesia. The Bank Company were, Bank Negara Indonesia (BNI), Bank Rakyat Indonesia (BRI), Bank Mandiri, Bank Sulutgo dan Bank BCA. Then, the selected Bank were randomly choosed. Three selected Bank were Bank BNI, Bank BRI and Bank Sulutgo.
2. To representative Bank BNI was Bank BNI Manado city primary branch, Bank BRI representative by Manado city primary branch and Bank Sulutgo representative also Manado city primary branch. Manado Branch were choosen due of their power to control other branches and relatively completed employee from many departments,
3. All the representative bank company, then randomly selected for employee as samples respondent. The sample respondent was collected is 205 respondents from all the selected branch.
4. The chosen respondent was senior employee¹ on the representative bank mention in number 1.

Research Model and Its Measurement



The instruments used in this research were also used in previous research. Every construct was measured by using several questions. The questionnaire instruments were measured using 5-point Likert scales (1 = seldom/rarely to 5 = very often/almost always). Transformational and transactional leadership styles were measured using the self-report research instrument MLQ-1995. According to Bass et al. (2003), MLQ is perfectly applicable for leaders from the employees'

perspective and for self-analysis. Transformational leadership style inspirational sources, intellectual stimulus, individual consideration and motivational sources were tested using 4-item questions for each dimension. A transactional leadership style of contingent reward and management exception (active and passive) were tested using 4-item questions for each dimension. Employee performance were measured using 10 items. This instrument was adapted from Sumual (2015), who determined that it was suitable for either individual or organisational analysis.

DATA ANALYSIS AND RESULTS

The data analysis method applied in this research is the variant-based *Structural Equation Model* (SEM) or *Partially Least Square* (PLS-SEM) with the SmartPLS 2.0 program. PLS-SEM is chosen as a suitable data analysis method because it is robust toward the classical assumption problem and suitable for the measurement problem (Hair et al., 2011). Validation using PLS covers the construct validity test (convergent validity and discriminant validity) and composite reliability. Then, hypothesis justification can be conducted.

Validity and Reliability

The validity tests intend to determine the extent to which the measurement instruments reflect theoretical constructs, as indicated by empirical evidence (Hair et al., 2010; Cooper & Schindler, 2008). The result of validation finally shows that among the 28 questions, 12 questions must be excluded from the measurement; thus, only 16 questions can be used in this study. Some of the questions should be excluded because the factor loading value cannot reach the minimum limit to be considered valid (0.5) and/or because they have a cross loading problem (Hair et al., 2010). From this research, it is clearly observed that the only valid dimension of transactional leadership is contingent reward. However, the factor loading values of the dimensions of exception management are below the minimum limit of 0.5, or these dimensions have a cross loading problem. As a result, such variables should be eliminated from hypothesis testing.

A convergent validity test is conducted to determine the correlation among research constructs. The indicators used in the convergent validity are the factor loading values that accumulated in the construct and AVE values. AVE values are considered good if they reach minimum of 0.5 score (Hair et al., 2010; 2011). Hair et al. (2011) reveal that the most appropriate method in the reliability test in PLS-SEM to measure the internal consistency is composite reliability because it reflects the true value of research constructs reliability. The ideal value for composite reliability is ≥ 0.7 (Hair et al., 2011). The overall results of convergent validity and reliability testing can be observed in Table 1.

Table 1. Validity

Variable	N item	Factor Loading	AVE	Reliability
Inspirational source	2	0.684 – 0.833	0.584	0,849
Intellectual stimulus	2	0.701 – 0.834	0.626	0,833
Individual consideration	3	0.670 – 0.871	0.532	0,858
Motivational Source	2	0.644 – 0.917	0.598	0,870
Contingent reward	2	0.623 – 0.854	0.539	0,839
Employee performance	5	0.717 – 0.802	0.570	0,835

Table 1 shows that all of the research variables have valid and ideal factor loading values, i.e., they are greater than 0.5 (Hair et al., 2010). The entire value of the AVE of each construct is greater than the requirement described by Hair et al. (2010; 2011), i.e., greater than 0.5. The reliability tests also showed good results. Table 2 shows that all of the variables have composite reliability values greater than 0.7.

The Result

Hypothesis testing is conducted to analyse the cause-effect relationships (causality) among the variables in the model based on the value of the critical ratio (CR). In terms of PLS-SEM, CR is known as the *t*-stat value. If *t*-stat values higher than 1.96 (sig. 5% two-tailed) and has positive relationship (see hypothesis) means that the hypothesis is supported. The results of hypothesis testing can be observed in Figure 1.

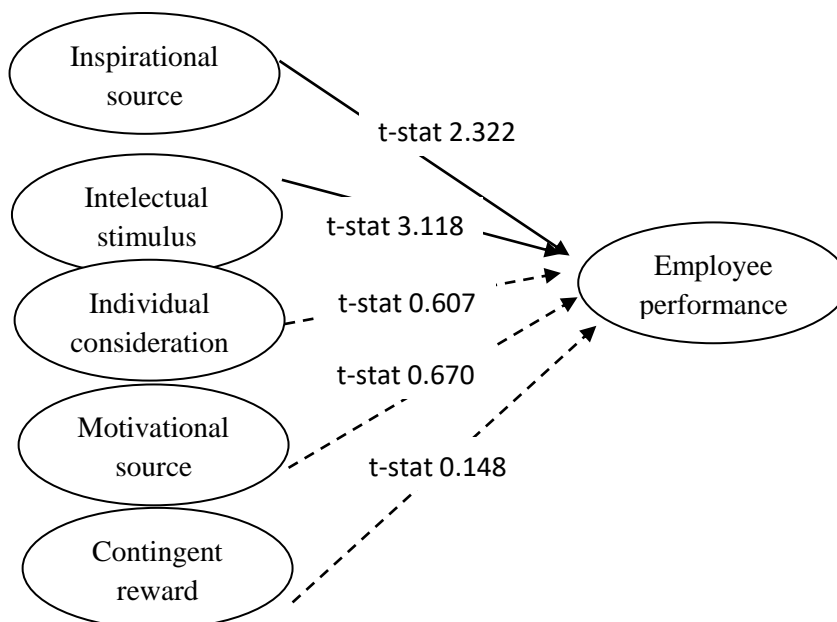


Figure 1 shows that the first hypothesis, which reveals that the all dimensions of transformational leadership had positive effects on knowledge sharing, was only partially supported. Only individual inspiration and individual considerations were supported because their t-stats are higher than 1.96, whereas the intellectual stimulus and source of motivation has a t-stat value below 1.96. Hypothesis two is also not supported because the CR value is less than 1.96 for the contingent rewards variable.

DISCUSSION AND CONCLUSION

The results of this research both confirm and revise the previous research. Several credible arguments confirmed by the results of or research are as follows. According to Yukl (2006), transformational leadership is more effective because it is sufficiently powerful to establish long-term

relationships between employees and employers. However, a transactional leadership style is only capable of building short-term relationships between employees and employers.

This research emphasises the idea that in bank company, particularly in the North Sulawesi Province, an emotional bond to encourage individual performance is possible if the leader is capable of becoming an individual or charismatic inspiration so that subordinates respect their leader. Moreover, a leader must consider individuals, create a supportive working atmosphere and act as a counsellor (Yukl, 2006) to establish an emotional bond to preserve and create a knowledge sharing environment.

The individual consideration factor refers to a leader who is capable of creating an encouraging and good working atmosphere (Yukl, 2006). This dimension significantly influences employee performance because of the existence of familiness build by leader. As a result, the working environment becomes more convenient because employees could act as a family. Conversely, the motivational source dimension did not significantly impact employee performance. In this case, this result was possible because the leader could be not sufficiently communicative in delivering the vision of their organisation. Therefore, it may be that the intent and purpose of the vision did not reach their employees.

The transactional leadership dimension, which is contingent reward, produces the same result as do the two transformational leadership dimensions that fail to make a positive contribution. Kohn (1993) revealed that there is a strong relationship between imposing sanctions and contingent reward. He explained that anticipating a reward from Management is one form of sanction. Further, Kohn explains that rewarding could make it difficult for an employee to differentiate whether he/she receives punishment if he/she fails to achieve the target. Kohn also clarifies that contingent reward can undermine good relationships between leaders and followers and create disharmony if not carefully accomplished.

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ⁱ Employee with minimum 5 years experience.