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The Leadership Styles Impact, In Learning Organizations, And Organizational Innovation Towards Organizational Performance Over Manufacturing Companies, Indonesia

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The vitality of commodity prices and trade wars in international trade due to slowed export-oriented domestic manufacturing industries growth. Leadership is considered as one of the important solutions in improving the key performance of Indonesian manufacturing companies because a good leadership style can be enhance organizational learning and stimulate organizational innovation to improve company performance. In this study, we use quantitative approach with survey method to assess how leadership affect in organizational learning and organizational innovation in shaping of organizational performance. Here, we use a questionnaires and distributed over 320 manufacturing employees in company at several cities throughout Indonesia. Furthermore, the data observations are analyzed by using Structural Equation Modelling (SEM) method. The result shows a leadership style is influenced organizational innovation and organizational learning positively and significantly, then the organizational innovation and organizational learning also positively and significantly influenced organizational performance.

Keywords: Leadership Style, Organizational Learning, Organizational Innovation, Organizational Performance

1. INTRODUCTION

The manufacturing industry in Indonesia contribution to gross domestic income had been seen decreased since the economic crisis in 2008 to 2017 [1]. The contribution of the manufacturing industry to Gross Domestic Product (GDP) in 2017 only stood at 20.16%, down considerably from its contribution in 2008 which is 27.81%. It is appropriate that the performance problems occurred in the manufacturing industry should get serious attention, since it is one of the mainstay sectors that drive economic growth so far in Indonesia [2]. Here, company leaders play an important role in improving the performance of their organizations; the right leadership style can stimulate employees to be more active in the organization, thus it becomes more productive. Lack of understanding in the application of effective leadership styles has long been claimed to be one of the factors that causes problems in companies today. Leadership style

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is claimed to be an individual influence that encourages company innovation because a good leadership style can encourage employees to bring in more new ideas and innovate more in accordance with the goals set by the company [3]. Research topics on innovation and their relationship with organizational performance have become very interesting to study in recent years, the reason is to encourage companies to innovate which will lead to better company performance [4]. In today's rapid technological development, more often the company's conventional strategy in competing is no longer relevant, innovation becomes a necessity owned because without continuous innovation, the company cannot survive in the market [5]. In addition, in today's increasingly fierce competition, organizational learning has been considered a core capability of the company [6] and one of the key elements in company's strategy [7]. At a broader level, promoting organizational learning plays a key role in transforming and improving the national economy

because organizational learning is an effort to create knowledge assets as well as putting forward practical methods for managing knowledge assets [8]. Learning is believed to be a source of competitive advantage and a key to the company's success in the future, therefore it is very important for both practitioners and academics to learn about organizational learning [9]. Thus, this study proposes that both individual factors (leadership) and collective factors (organizational learning and organizational innovation) affect company performance. Several previous studies, although contributing significantly to the understanding of innovation, have not yet discussed how the efficacy of innovation can vary with organizational performance. Better identifying and understanding these influences will complement the general recipe that companies must innovate, especially in Indonesia as a developing country. Therefore, this research chose manufacturing companies in Indonesia as research subject and then investigated how leadership influences organizational learning and organizational innovation in shaping organizational performance. effort to create knowledge assets as well as putting forward practical methods for managing knowledge assets [8]. Learning is believed to be a source of competitive advantage and a key to the company's success in the future, therefore it is very important for both practitioners and academics to learn about organizational learning [9]. Thus, this study proposes that both individual factors (leadership) and collective factors (organizational learning and organizational innovation) affect company performance. Several previous studies, although contributing significantly to the understanding of innovation, have not yet discussed how the efficacy of innovation can vary with organizational performance. Better identifying and understanding these influences will complement the general recipe that companies must innovate, especially in Indonesia as a developing country. Therefore, this research chose manufacturing companies in Indonesia as research subject and then investigated how leadership influences organizational learning and organizational innovation in shaping organizational performance.

2. METHODOLOGY

A. Leadership Style

The leadership style had been emphasized as one of the most important individual influences on corporate innovation, because leaders can immediately decide to introduce new ideas into the organization, set specific goals, and encourage innovation initiatives from subordinates [10]. In leadership theory, transformational leadership can be defined as a leadership style that increases awareness of collective interests among members of organization and helps them achieve their collective goals. In contrast, transactional leadership focuses on promoting the individual interests of leaders and their followers to achieve satisfaction of contractual

obligations from both parties by setting goals, monitoring and controlling results [11].

B. Organizational Learning

Organizational learning is defined as a collective abilities based on experience and cognitive processes and involves the acquisition of knowledge, knowledge sharing, and utilization of knowledge [12]. They also defined organizational learning as the development of knowledge related to the relationship between actions, consequences and environmental work. Organizational Learning is the process by which organizations increase the knowledge created by individuals in a way to organize and transform this knowledge into part of an organization's knowledge system. This interaction process occurs in a community where organizations create knowledge, which is develop in a constant dynamic between the tacit and explicit [13].

C. Organizational Innovation

Innovation is a new ability to create wealth with resources and discuss innovation in a complete and systematic way. They opposed that innovation is an "inspiration" idea, it can be trained and learned [14]. Innovation might be in the form of new products, new services, new technologies, or new management methods [15]. Discovery is a process for discovering new technologies, while innovation is a process for turning inventions into commercialization [16]. Innovation requires better ideas and emphasizes the process for implementing these ideas. Effective organizational innovation is the key to building and maintaining competitive advantage to face environment changes [17].

D. Organizational Performance

Performance is the measurement of the achievement to organizational goals, the application of indicators and measurement methods to present the achievement of plans on its missions and objectives [18]. Organizational performance measures the achievement of a company's strategic goals and examines the overall competitiveness of the company. Organizational performance is the input-output ratio of a company in all operations and the achievement of various objectives as well as satisfaction of each participant [19]. Performance refers to the results of operations and must be evaluated by management team. The performance evaluation results are also a useful reference for an organization involved in operational activities and resource allocation, while also base for revising management strategies and planning for future directions. Based on the detailed description of the literature review above, the current study proposes several hypotheses as follows:

E. The Influence of Leadership Style on Organizational Learning

Leadership style is the ability to influence and gain the trust of people who are in part of achieving organizational goals [20]. Leadership style has the most significant

indicators in determining organizational learning and recommended that in the future there is an urgent need to study leadership in relation to organizational learning [21]. Organizational learning is strongly influenced by leader behaviour and leadership is the key to strengthening learning through every level [22]. A several studies that fall within the general scope of leadership journals have provided strong evidence of a correlation between leadership styles and organizational learning. These studies provide conclusion that transformational leaders can act as catalysts, facilitate and accelerate the acquisition and distribution of information between members, improve the process of information interpretation and encourage dialogue and communication among members, which are important factors for organizational learning [23]. Other studies have investigated the correlation between transactional leadership and organizational learning. The result of this study reveals that transactional leadership positively influences organizational learning [24]. Other research has also investigated the correlation between transactional leadership and organizational learning. The effects of transformational leadership on organizational performance through the dynamic abilities of organizational learning and innovation had been analyzed [25]. Another impact of leadership on organizational learning was also found [26]. Based on the findings above, then the first hypothesis is formulated as follows:

(H₁): Leadership style positively influences organizational learning.

F. The Influence of Leadership Style on Organizational Innovation

Transformational leadership style has a significant impact on organizational creativity and innovation in many companies, previous research showed that transformational leadership gave a significant positive effect on organizational innovation [27]. Previous research also analyzed the effect of transformational leadership on organizational performance through the dynamic ability of organizational learning and innovation. The results revealed that transformational leadership positively influenced organizational performance through organizational learning and organizational innovation [28]. Other conducted research found the fact that leaders involved in developing organizational innovation play an important role in producing a friendly organizational climate for experimentation and introduction of new ideas, processes, procedures or new structures [29]. Previous research analyzed the empirical evidence that two leadership styles: transformational and transactional or a combination of the two types of leadership, have a positive and significant impact on the achievement of organizational innovation, performance and competitiveness [30]. Based on the findings above, the second hypothesis is formulated as follows:

(H₂): Leadership style positively influences organizational innovation

G. The Influence of Organizational Learning on Organizational Performance

Organizational learning can be defined as all systems, mechanisms and processes that are used to continuously improve individual potential so as to achieve specific goals related to individuals and organizations [31]. Organizational learning is dynamic because it involves the basic elements of organizational development and growth. Organizations can grow in the traditional sense of increasing capital or income. From a learning perspective, organizations grow when there is an increase in mutual understanding that involves the organization, its environment and the relationship between the two [32]. He further showed how individual and organizational learning have a significant and positive effect on organizational performance. Companies with broad, deep, and fast learning processes will have higher level of performance. This positive influence usually exists in technology and manufacturing companies [33]. they also stated that team learning had a positive effect, both on task performance and the quality of interpersonal relationships. Based on the above findings, the third hypothesis is formulated as follows:

(H₃): Organizational Learning positively influences Organizational Performance

H. The Influence of Organizational Innovation on Organizational Performance

Organizational innovation was defined as a new approach in knowledge to do management work and the new process results in changes in organizational strategy, structure, administrative procedures and systems that should benefit organizational teamwork, information sharing, coordination, collaboration, learning and innovation [34]. Successful organizations are organizations whose creativity and innovation are at the end of their movement [35]. In other words, organizations today must be dynamic, their managers and staff must be creative and innovative to adapt the organization to changes that occur outside the company and to meet the needs of society if they want to survive. Numerous studies have shown a positive relationship between organizational innovation and company performance. For example, previous research showed how management products, processes and innovations partially affect company performance [36]. Likewise, another research showed that administrative products, processes and innovations jointly or simultaneously affect organizational performance positively [37]. Therefore, this study proposes the last hypothesis formulated as follows:

(H₄): Organizational Innovation has a positive effect on Organizational Performance.

Based on four hypotheses above, we design a conceptual research framework (see Figure 1).

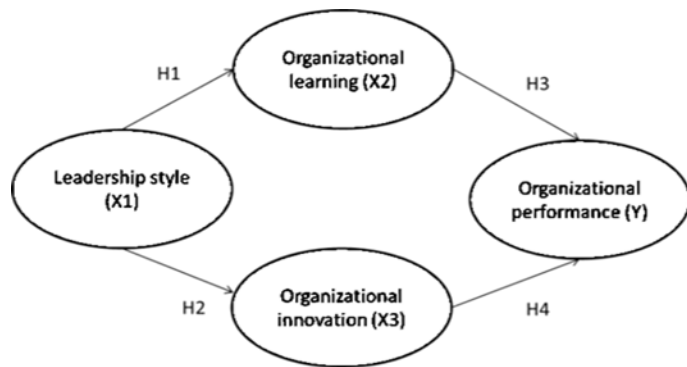


Figure 1. Research Framework

The design used in this study is a quantitative approach because it requires a systematic approach to the relationship between variables that emphasizes hypothesis testing using statistical tools to conduct the test. The measurement of these variables was adapted from a questionnaire instrument, which applied a Likert scale in five successive response rates from 1 to 5 (1 means "totally disagree" and 5 means "totally agree"). For the needs of this study, a pre-test questionnaire was conducted as first step to check whether the questionnaire needed to be modified. During the pre-test a total of 30 questionnaires were received. After checking the reliability and validity from the collected questionnaire using SPSS, the results indicated that the questionnaire does not need to be modified. Afterwards, questionnaires with the Likert scale were distributed offline to 320 respondents who were workers in manufacturing companies in several cities in Indonesia such as Lampung, Jakarta, Bandung, Gresik, Mojokerto, and Lombok. The collected data was tested through Explanatory Factor Analysis (EFA), it was used to reduce measurement items by identifying possible underlying variables and Confirmatory Factor Analysis (CFA) was used when the measured variables needed to be verified properly or did not represent the construct. The following steps are carried out to test the validity and reliability before modeling structural equations (SEM), the software is used to help the analysis. Data analysis was performed using structural equation modeling with the help of the SMART PLS 3.2.7 software. SEM-PLS (Partial Least Square) can work efficiently with a small sample size and relatively complex structural model (many constructs and many indicators). Variance-based SEM (SEM-PLS) is a causal approach that aims to maximize the variation of the criterion latent variables explained (explained variance) by the predictor latent variables [42].

3. RESULT AND DISCUSSION

To check the construct validity, the EFA (Explanatory Factor Analysis) was performed with the Barlett's Test of Sphericity and Kaiser-Meyer-Olkin (KMO). It means valid and the proposed model is good enough for further analysis. Confirmatory Factor Analysis (CFA) was carried out using SmartPLS software to determine the extent to which the data observed is valid and in accordance with a predetermined theory-based model [43]. CFA has several criteria such as construct reliability, convergent validity, and discriminant validity as illustrated in Table I. The construct validity was assessed by calculating the composite reliability and internal consistency of each item. Composite reliability is evaluated using SmartPLS and if it produces a value above 0.6 it can be accepted. Internal consistency is measured using Cronbach's alpha (α) and if the value is above 0.6 which is higher than the recommended threshold of 0.5 then shows adequate reliability. In this study, convergent validity was assessed using Average Variance Extracted (AVE). Average Variance Extracted (AVE) for leadership style is 0.826, organizational innovation is 0.662, organizational learning is 0.660 and organizational performance is 0.826 which exceeds the standard value of 0.5 so as to confirm the achievement of convergent validity. To meet the discriminant validity requirements of the measurement model, this study followed the criteria suggested by Fornell and Larcker. The discriminant validity as shown in Table III as the square root of the AVE construct must be greater than the correlation between the construct and other constructs in the model. This was achieved so that it can be concluded also that discriminant validity has been achieved (see Table I).

Table I. Result of Convergent and Construct Validity

Construct	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Leadership Style	0.789	0.790	0.905	0.826
Organizational Innovation	0.871	0.889	0.907	0.662
Organizational Learning	0.829	0.865	0.885	0.660
Organizational Performance	0.790	0.792	0.905	0.826

After that, the data that has passed the validity test were tested further for reliability, Cronbach alpha of each variable is more than 0.8 and for each question item (cronbach alpha if item deleted), it also exceeds 0.8, which means each question item and variable is declared reliable. Next, we use R square to find out about how well the ability of the independent variable in explaining the dependent variables. The ability of the leadership style to explain organizational innovation is 10.2%, to explain organizational learning is 6.8%, to explain organizational performance is 29,3% (see Table II), and the rest are explained by other independent variables that are not in the research model of this study.

Table II. Result of R²

Quality Criteria	R Square
Organizational Innovation	0.102
Organizational Learning	0.068
Organizational Performance	0.293

All data that has passed the validity and reliability test are then analyzed descriptively and then a hypothesis test is performed to answer the research question. Hypothesis testing has been done, with the value of DF namely the number of observations minus the number of variables (NK) at significance 0.05 namely 320-4 = 316 found a t table value of 1.65 which will then be compared with the calculated t value to find out whether the hypothesis that has been made is accepted or rejected (see Figure 2). If the T statistic > T table then the hypothesis is accepted while vice versa if the T statistic < T table then the hypothesis is rejected. The significance can also be seen from the P Value, the effect is considered significant if the P value < 0.05 (see Table III).

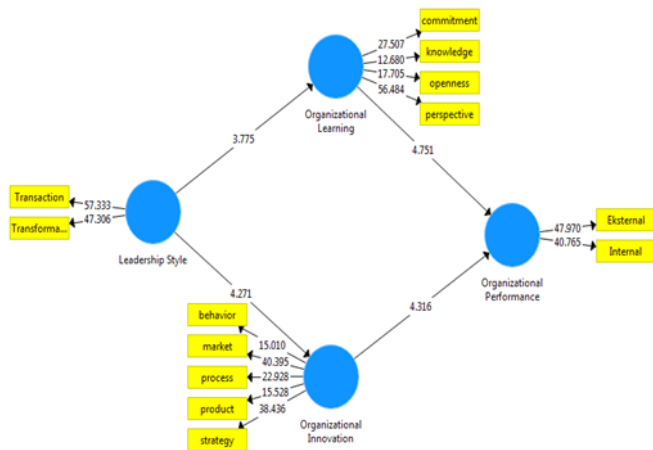


Figure 2. Result of Structural Model

Table III. Hypothesis Testing of Path Coefficient

HYPOTHESIS	O	M	STDEV	T-Stat.	P
Leadership Style → Organizational Innovation	0.319	0.328	0.075	4.271	0.000
Leadership Style → Organizational Learning	0.260	0.262	0.069	3.775	0.000
Organizational Innovation → Organizational Performance	0.392	0.388	0.091	4.316	0.000
Organizational Learning → Organizational Performance	0.327	0.324	0.069	4.751	0.000
Leadership Style → Organizational Performance (Indirect effect)	0.210	0.216	0.050	4.233	0.000

The results showed the influence of leadership style on organizational learning, the influence of leadership style on organizational innovation, the effect of organizational learning on organizational performance, and the influence of organizational innovation on organizational performance.

H₁: Leadership style impacts positively and significantly to organizational learning

Hypothesis 1 proved that leadership style provides a significant and positive influence on organizational learning because the value of t statistic is 3,775, greater than the value of t table 1.65 and P value 0.00 <0.05 so it can be concluded giving a significant effect at the 0.05 significance level. All dimensions of leadership style namely transformational and transactional leadership have a positive and significant effect on organizational learning, this is in line with the results of previous studies said that the style leadership is one of the important factors that shape organizational learning.

H₂: Leadership style impacts positively and significantly to organizational innovation

Hypothesis 2 proved that leadership style provides a significant and positive influence on organizational innovation because the value of t statistic 4.271 is greater than the value of t table 1.65 and P value 0.00 <0.05 so that it can be concluded giving a significant effect at the 0.05 significance level. Good leadership style can encourage organizational learning and organizational innovation so that it can improve company performance. The results of this study have also been confirmed by previous researchers who said that leadership style can stimulate innovation, performance and competitiveness. Leadership theory has considered transactional and transformational leadership as two complementary perspectives. Transactional leadership focuses on the exchange of tasks related to actions and rewards between members and leaders, and often requires the existence of a hierarchy and authority to be displayed. Transformational leadership, on the other hand, is applied if leadership instruments such as rewards and punishments will never succeed. If you want to build a system that is conducive to renewal, an environment that encourages innovation and diversity, transformational leadership is the solution.

H₃: Organizational learning impacts positively and significantly to organizational performance

Hypothesis 3 proved that organizational learning has a significant and positive influence on organizational performance because the value of t statistic 4.751 is greater than the value of t table 1.65 and P value 0.00 <0.05 so it can be concluded giving a significant effect at the 0.05 significance level. Organizational learning includes increasing knowledge and decision making about how to meet work goals, increasing communication and internal exchange, engagement and cooperation, as well as motivation and commitment to organizational learning. They also stressed the importance of organizational learning for company survival and effective performance. The main objectives of organizational learning are to

improve quality and quantity, increase performance and increase sales, get more support, and to create, maintain and enlarge their customer base. Furthermore, learning organizations can enhance their strategic abilities quickly, enabling them to maintain a position of competitive advantage and improve results. Organizational attitudes, behaviours, and learning strategies will guide organizations to excel in the long term.

H₄: Organizational innovation impacts positively and significantly to organizational performance

Hypothesis 4 proved that organizational innovation has a significant and positive influence on organizational performance because the value of t statistic 4.316 is greater than the value of t table 1.65 and P value 0.00 <0.05 so it can be concluded giving a significant effect at the 0.05 significance level. A number of previous studies have also confirmed a positive relationship between organizational innovation and company performance, organizations today must be dynamic, their managers and staff must be creative and innovative to adapt the organization to changes that occur outside the company and to meet the needs of society if they want to survive. It can be said that in the current global economic system and increasing competition, creativity and innovation are considered key to the survival and success of an organization.

4. CONCLUSION

A good application of transformational and transactional leadership styles can effectively improve organizational innovation and learning so as to improve overall company performance. Transformative and transactional leaders can broaden employee perspectives, increase their commitment to the company and ultimately stimulate and motivate employees so that they continue to learn and improve their knowledge, employees become more open with each other so that collective learning can provide broad knowledge and become assets that increase company performance both internally and externally. In addition, the leadership style can be encourage innovation in the fields of processes, products, strategies, behaviours and markets so as to improve company performance internally and externally. Manufacturing companies in Indonesia are expected to learn and apply transformational and transactional leadership styles well in their respective companies. Transformational leadership style has a variety of ways to motivate followers in order to improve the performance of followers by giving more encouragement to followers, giving examples to give more importance to groups than individuals for the common good, and provide facilities to followers to be more enthusiastic at work. Meanwhile, a company that wants to apply a transactional leadership style, it is suggested that its leaders can improve performance by motivating followers through an award to encourage followers to work. Leaders can also provide rewards in the form of salary increases,

promotions, and other things that can have a positive impact on their employees. Further research is recommended to enrich the results of research by making similar research in other industries in Indonesia. In addition, they can also add other variables such as competitive advantage as a mediating variable between organizational learning and organizational innovation with organizational performance.

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