

The Effect of Transformational Leadership Model on Employees' Job Satisfaction and Performance at Perusahaan Listrik Negara (PLN Persero)¹ in South Sulawesi, Indonesia

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Abstract

This study aims at examining the effects of transformational leadership model on employees' job satisfaction and performance at PLN Persero in South Sulawesi Province. The population of the study consisted of 836 people. As many as 270 people took part as the sample of the study. They consisted of middle managers, first-line managers, top supervisors, middle supervisors, and first-line supervisors. Samples were taken from five PLN offices in South Sulawesi Province. These offices were (1) South Sulawesi regional office, (2) a steam power plant in Tello, (3) an office in Makassar, (4) a distributional and electrical load management office for South Sulawesi Province, and (5) a distributional management office for South Sulawesi Province. Data was collected through questionnaires and interviews. Data was analyzed quantitatively by employing a Generalized Structured Component Analysis (GSCA). The results of the study suggest that transformational leadership model positively and significantly affects employees' job satisfaction, but this model does not significantly affect employees' performance. Transformational leadership model indirectly affects employees' performance through an intervening variable of job satisfaction. Job satisfaction positively and significantly affects employees' performance.

Keywords: transformational leadership, job satisfaction, performance

Introduction

In this 21st century, organizations have grown to be more complex and experienced such rapid changes. Thus, it is crucial for organizations to prepare better and more qualified human resources—those who are competent in their field of work—as to support the growth and development of organizations themselves. Employees' performance is affected by both intrinsic and extrinsic motivation. Considering this matter, employers and leaders need to pay more attention on how to motivate their employees and subordinates in order to increase work performance. Therefore, leaders and employers play such an important role in organizations.

Leadership can be defined as ability to influence and motivate others to do something in order accomplish certain goals or tasks. A leader is someone who leads other people and practices the leadership. Being successful in leading an organization does not guarantee that a leader will succeed in leading another organization. Success as a leader depends on the style of leadership being practiced. Leadership styles refer to a group of characteristics a leader possesses and shows in influencing and leading his/her subordinates in order to accomplish certain goals or tasks intended by the organization (Rivai, 2005).

Leadership plays such an important role in any level of an organization or a company. Leadership is often associated with those who are dynamic and determined, people who control and run a company or even a nation (Nimran, 1999). Leadership has long been such an interesting topic for scientists and practitioners to study. Many of the studies on leadership focus on leadership styles. According to Bass (1985), leadership styles can be classified into two, namely transactional leadership model and transformational leadership model. Transactional leadership model makes it possible for leaders to motivate and influence their subordinates by exchanging performance with rewards. Transformational leadership refers to leaders' ability in changing work environment,

¹ Perusahaan Listrik Negara (Persero) is an electrical corporation belongs to and runs by the government of Indonesia. This company has a monopoly on electricity distribution in Indonesia. It can literally be translated into State Electric Company Limited. However, throughout the article, its original Indonesian name or its acronym will be used, that is PLN Persero.



motivation, work patterns, and work values perceived by their subordinates in order to maximized performance to accomplish organizational goals. Transformational leadership can increase employees' performance (Howell and Avolio, 1993; Politis, 2002). A study by Riaz (2010) concludes that transformational leadership significantly affects employees' performance. However, another study by Chen (2004) states that transformational leadership does not significantly contribute to employees' work performance.

Transformational leadership is a leadership model oriented at changes as to create effective leadership model (Ramo and Rico, 2005). The transformational processes can be seen through some leadership behavior, such as idealized influence, inspirational motivational, intelectual stimulation, individualized consideration (Bass, 1985). Transformational leadership is indispensable in all levels of organizations (Tucker and Russel, 2000).

Transformational leadership affects employees' satisfaction and organizational commitment (Hatter and Bass, 1990; Koh, Steers and Terborg, 1995; Barling *et al.*, 1996). A study by Dladha (2011) finds that leaders' behavior positively affects empowerment, organizational commitment, and job satisfaction. Job satisfaction will be achieved when there is suitability between expectations and reality in work places. Some of the indicators making employees feel unsatisfied with their job are (1) a thought that their job is boring, (2) unsuitable payment, and (3) unsupportive colleagues.

Two-factor motivation theory explains that there are intrinsic factors leading to job satisfaction and extrinsic factors leading to work dissatisfaction (Herzberg, 2003). Intrinsic factors come from the inside and affect employees' thoughts, and finally determine their attitude and behavior. Extrinsic factors are the ones coming from the outside or the surrounding environment, including salary, work environment, organizational policy, and work relationship such as reward, promotion, or structural position. Leaders of the organization mostly control extrinsic factors. Employees often feel dissatisfied just because their bosses approach them in ways inappropriate from the perspective of the employees.

Low job satisfaction normally occurs on organizations whose working condition is not effective. Instability of organizations can be seen from signs such as low job satisfaction, strike, low work performance, high rate of absences and job quitting. These symptoms actually represent employee's feeling and complaint. Leaders have to try eradicating factors which create job dissatisfaction and creating satisfactory condition for their subordinates (Luthans, 2001; Robbins, 2003).

Well-managed organizations represent an effective behavior management, so they are able to give job satisfaction to employees which will lead to better performance. Transformational leaders' ability in managing organizations can affect employees' performance (Howell and Avolio, 1993; Politis, 2002). A study by Riaz *et al.*,(2010) finds that transformational leadership significantly affects employees' work performance. Employees' performance is determined by ability and motivation. If employees do not have such good ability, then they will also not able to perform well in their job. To improve employees' performance, a leader whose orientation is on changes and improvement on work environment, motivation, values, and patterns to improve overall organizational performance is needed. Performance is directly related to satisfaction. This argument is supported by Chong *et.al.*, (2010) who find out that job satisfaction affects performance significantly. Employees feeling satisfied with salary, promotion, supervision, and colleagues will commit to their work more. Based on the afore-presented explanation, a research model was developed to examine the effect of transformational leadership style on job satisfaction and performance on the employees of PLN Persero in South Sulawesi Province.

PLN Persero is a company engaged in the field of production and distribution of electricity for households, commercial industries, manufacturing industries, governments, and non-profit institutions. The number of its subscribers in South Sulawesi in 2007 was 1,155,846 and 1,209,190 in 2009; thus, as many as 53,344 new customers were added during those periods. Thus, PLN Persero in South Sulawesi tries its best to provide enough electrical energy for its customers; however, deficiency for energy has caused PLN Persero to have regular power outage conducted. To solve this problem, the nation-wide company has accelerated the development of coal power plants as to decrease dependency on oil. This project should have been in operation in 2009 – 2010, but it could not meet the due for many factors such as licensing of land, weather, procedures, contractors, communication, and so forth. In addition, PLN Persero also launched a program named GRASSS to quickly get over the waiting list of potential customers which number is approximately 2.5 million. PLN Persero not only produces and distributes electricity, but also considers ways of giving its best service to its customers. A survey has been conducted to find out customers' perception and opinions on the services given by PLN Persero. This survey was conducted by Lembaga Survey Indonesia (LSI) or Indonesian Survey Organization in December 2010. The results show that 63.5% of the customers feel satisfied with the services given by PLN Persero (www.pln.co.id/dataweb/AR/ARPLN2010).



Related to the results of the survey, it seems clear that PLN Persero needs to improve its services. Services given by PLN Persero include payment services, new installation services, and problem-related services. Performance of a company is determined by the performance of its employees. Employees' performance is determined by skills, motivation, and chances. To improve employees' performance, transformational leadership is needed, as this model of leadership is oriented on changes on work environment, motivation, and values to improve performance. All of these points have encouraged the researcher to choose a topic on the effect of transformational leadership on employees' job satisfaction and performance at PLN Persero in South Sulawesi, Indonesia.

Research Problems

- 1. Does transformational leadership affect job satisfaction?
- 2. Does transformational leadership affect work performance?
- 3. Does job satisfaction affect work performance?

The theory underlying this present study is transformational leadership theory by Burns (1978), which was then developed by Bass (1985). Transformational leadership has four components, namely idealized influence, intellectual stimulation, individualized consideration, and inspiration motivation (Bass, 1985). Transformational leadership is the best leadership model to apply in organizations since it creates changes which can motivate subordinates and encourage people in organization to put the common interests above the personal interests.

Transformational leadership is often related with organizational commitment and job satisfaction (Koh, Steers, & Terbong, 1995; Barling; Barling, Weber, & Kelloway, 1996). Job satisfaction is the thing all employees want to achieve. Satisfaction is individual, as to the fact that everybody has their own definition on what constitutes satisfaction. The more aspects at work to be suitable with employees' expectation, the more satisfy they will be (As'ad, 1998). Job satisfaction refers to joyful feeling or positive feeling which comes from somebody's perspective or experience (Locke, 1997; Luthans, 2001). There are two factors that can affect job satisfaction, extrinsic and intrinsic factors. Intrinsic factors refer to those coming from the inside, and these factors are already there since employees start their work. On the other hand, extrinsic factors deal with things outside and surround the employees, such as physical condition of work environment, patterns of work interaction, payment systems, etc.

Job satisfaction will be achieved when there is suitability between expectation and reality in work places. Job satisfaction refers to employees' perception on the goodness their job brings into their lives. When an employee has high job satisfaction, it means that this person loves and chooses a valuable job (Luthans, 2001). Job satisfaction according to Smith *et al.*, (1969) and Luthans (2001)) comes from five sources:

- 1. Work satisfaction
- 2. Pay satisfaction
- 3. Promotion satisfaction
- 4. Supervision satisfaction
- Colleague satisfaction

Well-managed organizations represent an effective behavior management, so they are able to give job satisfaction to employees which will lead to better performance. This argument is supported by Laffaldano and Muchinsky (1985); Meyer *et al.*, (1989); Gaetner (1999); and Chong, McInerney, Alexander (2010); all state that job satisfaction significantly affects performance, or as it is also called, *result*, as Campbel (1993) states. Performance is also called as *result* since it deals with things employees have done. From the above limitation, *job performance* is the result somebody has achieved based on the previously set criteria for a particular job the person does. The other definition states that performance is the result of work dealing with goals of the organization such as quality, efficiency, and some other criteria of effectiveness (Gibson *et al.*, 1995).

Employees' performance is a function representing an interaction between ability and motivation and is formulated as $kk = f(A \times M)$. If anything go wrong, such as low employees' ability, then performance will also be affected negatively. Thus, an opportunity to work is necessary, so that performance function is complete ($kk = f(A \times M \times O)$ (Robbins, 2003). Performance is affected by work satisfaction, rate of payment, skills, ability, and individual characteristics. Individual performance can be measured using these criteria: (1) quality, (2) quantity, (3) productivity, (4) punctuality, and (5) supervision (Lawler, 1973).

Mangkunegara (2005) explains two factors affecting achievement of performance, namely ability and motivation. Motivation itself is affected by attitude and environmental condition. Employees' ability consist of Employees' skills consist of intelligent quotient, knowledge, and skills. Performance is a measurable action. There are some ways to measure performance; they are (1) quality of work, (2) quantity of work, (3) punctuality,



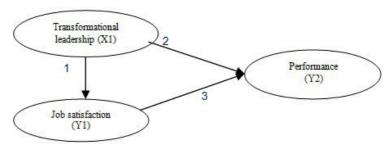
(4) cost efficiency, (5) ability to do the work, and (6) ability to build work relationship (Bernadin & Russel, 1993).

From the above explanation, it can be seen that performance is a result of work that can me measure using certain standards by considering quality, quantity, and punctuality. Quantity refers to the amount of work resulted in a certain period of time, and punctuality refers to ability to stick to time allotment plan. Thus, the present study used performance as its variable measured using some indicators, i.e. work quality, quantity, punctuality, cost efficiency, ability to do work, and ability to build relationship with colleagues—all are adopted from Bernadin and Russel (1993).

Research Variables

The exogenous variable in this study was transformational leadership. The endogenous variable was job satisfaction and performance. Based on the transformational leadership theory developed by Bass (1985), Riaz (2010), Chong., *et al.*, (2010), the researcher develop a model illustrating inter-connection among the concepts of transformational leadership, job satisfaction, and performance. The model of the conceptual framework underlying the study is illustrated as follows:

Conceptual Framework Underlying the Study



Based on the reviewed theories and the proposed model of conceptual framework, several hypotheses were proposed:

Hypothesis 1 : Transformational leadership significantly affects job satisfaction Hypothesis 2 : Transformational leadership significantly affects performance

Hypothesis 3 : Job satisfaction significantly affects performance

This study was designed using explanatory research design by employing survey. The population consisted of 836 employees of PLN in South Sulawesi Province, Indonesia. The sample consisted of 270 employees including middle managers, first-line managers, supervisors, and functional employees. The sample was chosen through stratified proportionate random sampling. Data was collected using questionnaires and interviews. The questionnaires used a five-point Likert Scale (Sugiono, 2009). Data was analyzed qualitatively employing generalized structured component analysis (GSCA) (Solimun, 2012).

Findings

The findings of the present study can be seen in the following table.

Structural Model Table

Hypotheses	Path Coefficients				Note
		Estimate	SE	CR	
H1	X1 → Y1	0.161	0.058	2.76*	Significant
H2	X1 → Y2	0.088	0.074	1.2	Not Significant
Н3	Y1 → Y2	0.283	0.095	2.99*	Significant

Three paths, with one not significant path. The data on the table can be interpreted as follows:

1. Transformational leadership significantly affects job satisfaction with an estimate value of 0.242 and critical ratio value of (cr) 4.16*. This indicates that the better the implementation of transformational leadership through the dimensions of idealized influence, inspirational motivational, intelectual stimulation, and individualized consideration, the higher job satisfaction felt by employees in PLN Persero of South Sulawesi Province. This finding makes the proposed hypothesis accepted. From the results of data analysis, it is known that respondents perceive a leader who treats subordinates well by using appropriate forms of language,



showing respect and empathy as a motivator; in other words, these respondents or employees are motivated to work better by having this kind of leader. In addition, a leader who puts common interests above their personal interest, who avoids misuse of power for personal benefit, is also considered honorable on the eye of these employees. Respondents of the study believe that their leaders can do organizational tasks well in order to achieve the goals as well as to find solutions to problems. Leaders become an exemplary for employees for their being disciplined and punctual.

Leaders have to support their subordinates and show optimism, as well as involve their subordinates in all organizational tasks. In addition, leaders should also give chances to their employees to develop creativity, skills, and talent. Leaders have to praise subordinates for the work they do as to make their subordinates feel appreciated and worthy. Leaders have to develop new ideas to accomplish the tasks by evaluating the work done and change ways of doing work which have been proven to be inefficient. Leaders empower subordinates through access on information, resource, support, and chances. All these thing make employees to be more motivated in doing their work and affect job satisfaction.

This study is also supported by some theories explaining that transformational leadership affects job satisfaction and organizational commitment (Bass (1985), Koh *et al.*, (1995), Barling *et al.*, (1996). A study by Chen (2004) finds transformational leadership does not significantly contribute to employees' work performance but significantly contributes to job satisfaction.

2. Transformational leadership does not significantly affect employees performance. This is shown through the estimate value of 0.088 and critical ratio value of (cr) 1.2. This indicates that good implementation of transformational leadership through the dimensions of idealized influence, inspirational motivational, intelectual stimulation, and individualized consideration, does not guarantee better performance of employees in PLN Persero of South Sulawesi Province. As such, the second proposed hypothesis has to be rejected. However, there is an indirect relationship between transformational leadership and performance through job satisfaction with a coefficient path of 0.161x0.283 = 0.045563. This coefficient shows a significant effect. This means that the indirect effect of transformational leadership on performance through job satisfaction is bigger than the direct effect of transformational leadership on performance. The critical value for the non-significant effect was on degree of alpha of 95%, so it can be concluded that transformational leadership does not significantly affect performance. This can be seen on the indicator of employees' punctuality, which resulted in the lowest score compared to the other indicators, that is 3.711. This value represents a situation in which leaders have to give example and guide their employees to appreciate the working culture by being more disciplined in order to improve performance.

This study is different from a study by Riaz *et al.*, (2010) which examines transformational leadership, transactional leadership, job satisfaction, and performance. The study finds out that transformational leadership significantly affects performance. However, this current study results in different finding, that transformational leadership does not significantly affect performance. Different subjects each study addresses may cause these contradictory findings. Riaz's study was conducted in a private company in Pakistan, while this study focused on employees in PLN Persero of South Sulawesi Province. In addition, different values in each company—in which employees in previous study may appreciate working culture more than employees in this present study—also contribute to these contradictory findings. This means that employees in PLN Persero of South Sulawesi Province need to be more disciplined. However, the finding confirms the finding form studies by Chen (2004) and Howell (2005), stating that transformational leadership does not significantly affect performance.

3. Job satisfaction significantly affects performance. This is shown through the estimate value of 0.283 and critical value (cr) of 2.99*. This indicates that the more satisfied the job satisfaction felt by employees of PLN Persero of South Sulawesi Province, the better their performance would be. Payment indicator has the highest influence compared to the other indicators, with a value of 4.167. This means that employees are satisfied with the payment they get from the company because it is suitable with the job they are doing. This also happens to colleague indicator, which results in quite high score, that is 4.093. This means that employees are happy with their colleagues since they can help, support, and cooperate with each other in accomplishing tasks and achieving goals.

From the explanation above, it can be concluded that PLN Persero in South Sulawesi Province is able to create job satisfaction. Job satisfaction is closely related to performance; thus, employees who are satisfied with payment, promotion, supervision, and colleagues will have better commitment in improving their performance.

Employees' performance in PLN Persero in South Sulawesi Province can be seen from the indicator of ability in building relationship with colleagues, which results in highest score compared to the other indicators,



that is 4.266. This means that employees are able to cooperate and work together with their colleagues, and are happy with their colleagues since they can help, support, and cooperate with each other in accomplishing tasks and achieving goals. This also happens to the indicator of ability in work (Y4.5), which results in a score of 4.104. This indicates that employees feel they are able to do their work. Efficiency indicator also results in high score of 4.011, which means that employees use cost efficiently in doing their organizational tasks. The indicator of quantity of work performance (Y4.2) also results in a good score of 3.944, which means that employees are able to perform their job well from the perspective of quantity of work results. The indicator of quality of work performance results in a quite good score, which is 3.937. This means that improvement on the quality of work performance is needed, and that leaders have to guide their subordinates as to help them perform better qualitatively.

The results of this current study confirm findings from previous studies, such as Laffaldano and Muchinsky (1985), Meyer *et al.*, (1989), Gaetner (1999), and Chong *et al.*, (2010) on job satisfaction, performance, and job security; these studies find that job satisfaction affects performance.

Conclusion

- 1. Transformational leadership significantly affects job satisfaction with an estimate value of 0.161 (> 0.05) and critical value (cr) of 2.76*. This indicates that the better the implementation of transformational leadership through the dimensions of idealized influence, inspirational motivational, intelectual stimulation, and individualized consideration, the higher job satisfaction felt by employees in PLN Persero of South Sulawesi Province.
- 2. Transformational leadership does not significantly affect employees performance. This is shown through the estimate value of 0.088 and critical ratio value of (cr) 1.2. This indicates that good implementation of transformational leadership through the dimensions of idealized influence, inspirational motivational, intelectual stimulation, and individualized consideration, does not guarantee better performance of employees in PLN Persero of South Sulawesi Province.
- 3. Job satisfaction significantly affects performance. This is shown through the estimate value of 0.283 and critical value (cr) of 2.99*. This indicates that the more satisfied the job satisfaction felt by employees of PLN Persero of South Sulawesi Province, the better their performance would be.

Implications

The results of the study give such important contribution to practitioners especially dealing with transformational leadership related to job satisfaction and performance.

- 1. There is a significant effect of transformational leadership on job satisfaction for employees of PLN Persero in South Sulawesi. This finding opens up new horizon for practitioners on the importance of transformational leadership from the dimensions of idealized influence, inspirational motivational, intelectual stimulation, individualized consideration in order to create job satisfaction.
- 2. The finding in this study shows that there is no significant effect of transformational leadership to employees' performance, but there is a significant effect of indirect relationship between transformational leadership and performance through an intervening variable of job satisfaction. Thus, it is important for practitioners to implement transformational leadership by improving appreciation to employees for the work the employees have done in order to motivate employees to perform their work better and finally to improve their performance.
- 3. The finding also contributes to practitioners in that it informs ways to create job satisfaction that will finally increase employees' performance. This indicates that the higher the level of job satisfaction, the better the performance of the employees will be.

This study has examined the effect of transformational leadership on job satisfaction and performance, yet limitations are still to be found and exist. These limitations open up new spaces for future researchers and further inquiry on the topic of the study.

- 1. This current study only focused on employees working in offices, while those working in the field were not included in the study, as it was difficult to access the latter type of employees as well as time constraint.
- 2. There may have been some important variables which were not included in the study, such as turnover or attention to leave or attention to stay.
- 3. There are some items which could not be explained into details for some reasons such as personal preferences which psychologically are difficult to change.



Based on the findings presented above, there are suggestion to follow up, for both enriching the body of knowledge in the field of study and future researchers who are interested to study the topic.

Future researchers are suggested to do these followings:

- Re-examination on the non-significant variables and contradictory findings will be very beneficial as to understand deeper theories related to the effect of transformational leadership to job satisfaction and performance.
- 2. Careful selection of research instruments is of high importance as to avoid errors in analyses, especially dealing with reflective and formative variables.

For Practitioners

- 1. Job satisfaction acts as one of the variables determining attitude and behavior at work. Employees who are satisfied with their job have bigger tendency to say good things about the company where they work, to perform better at work, and comply with job responsibility. Thus, leaders are suggested to pay better attention to procedure and policy related to payment and reward, be it reward oriented for performance or payment oriented at fulfilling employees' rights. If these procedures and policies are done in a fair way, it sure will create job satisfaction.
- 2. It is important for leaders to shape professionalism of their subordinates, as well as to give attention and chances for employees to share problems they face dealing with their responsibilities. Leaders and subordinates have to become friends who share things at work.
- Leaders in any organizations have to give chances to future researchers who are interested to study this
 kind of topic, especially dealing with access on information and actual data, as to sustain the development
 of the field of study itself.

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