

Transformational Leadership Style Moderating the Effect of Implementation of Good Corporate Governance Principles on Financial Performance

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Abstract

This study aims to obtain empirical evidence regarding the effect of applying the principles of Good Corporate Governance on the financial performance of Savings and Loans Cooperatives in Denpasar city, strengthened by a transformational leadership style. The research sample was 210 Savings and Loans Cooperatives in the city of Denpasar, both already and not certified with NIK. The method of determining the sample is the proportionate stratified random sampling method and the data is collected using a questionnaire. The data analysis technique used Smart Partial Least Square (PLS). Based on the results of the study which showed that the application of GCG principles had a positive and significant effect on the financial performance of Savings and Loans Cooperatives in Denpasar, both those who had and have not been certified with NIK.

Keywords: Financial Performance, GCG, Transformational Leadership Style.

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INTRODUCTION

The role of a leader cannot be separated from the leadership style he has. For an organization to be successful, an organization needs leaders who provide strong encouragement, are able to collaborate, inspire, motivate subordinates, and are able to build commitment to organizational goals and then empower followers to achieve organizational goals. These characteristics are possessed by transformational leaders who are well suited to leading and working with complex workgroups and organizations, where apart from looking for inspiring leaders to help guide them through an uncertain environment, followers are also challenged and feel empowered thereby cultivating them to be loyal and loyal. high performance.(Podsakoff et al., 1996).

Transformational leaders change followers' personal values to support the organization's vision and goals by fostering an environment in which relationships can be formed and by building a climate of trust in which visions can be shared (Bass, 1985a in Stone et al., 2004). The transformational leadership style increases intellectual stimulation through employee training and development. The transformational leadership style is also more concerned with the progress and development of the organization and its followers. In line with Tahir (2015) who studies leadership styles and organizational performance. This study conducted a comparative study between transformational and transactional leadership styles. This study targets employees in tactical and operational management in the corporate sector. Factor analysis was used to determine the key characteristics of each type of leadership. The results showed that charismatic actions, intellectual stimulation, inspirational motivation, encouragement for high morale, transformational leadership characteristics had a significant positive effect on organizational performance. Aghahowa (2021) also examines leadership styles and their impact on organizational performance. The results of the study reveal that the preferred leadership styles of the survey respondents are transformational, transactional, and democratic leadership styles. Further findings reveal that the least preferred leadership style is autocratic leadership style.

A high sense of ownership and managerial control can minimize agency costs and agency conflicts. The importance of applying a leadership style that provides strong encouragement, is able to collaborate, inspire and motivate subordinates can cultivate them to be loyal and high performers in order to achieve organizational goals. In addition to the importance of leadership style, managerial control also has an important role. The application of GCG principles in managerial control can improve financial performance, the better GCG, the higher the financial performance of a company. This is in line with the results of research conducted by Pradnyaswari and Putri (2016) as well as The Hero and the Princess (2018) that the principles of GCG have a positive and significant impact on the financial performance of cooperatives in Klungkung and Gianyar districts. Yuliantari et al. (2020) presents evidence that GCG has a positive effect on the financial performance of LPDs in Gianyar Regency. The Hero and the Princess (2018) states that good company performance can increase company profitability which has an impact on business sustainability. Ozuomba et al. (2016) examines the effect of corporate governance on organizational performance and the results reveal that corporate governance has a significant effect on organizational performance. However, in reality Good Corporate Governance (GCG) has not yet been fully implemented. The application of the principles of Good Corporate Governance (GCG) itself

may not necessarily be implemented properly by parties within the company (Kusumawati, 2020). The application and implementation of the principles of Good Corporate Governance (GCG) alone is not enough to improve the performance of a company and minimize agency problems. Research conducted by Kautsar and Kusumaningrum (2015), Peters & Bagshaw (2014), and Makki & Lodhi (2014) presents evidence that GCG has no effect on company performance.

There are inconsistencies in the results of previous studies related to the influence of GCG on which performance Yuliantari et al. (2020), The Hero and the Princess (2018), and Pradnyaswari and Putri (2016) stated that the principles of GCG have a positive and significant impact on financial performance. This is also supported by research conducted by The Hero and the Princess (2018) as well as Ozuomba et al. (2016) which states that good company performance can increase company profitability which has an impact on business sustainability and organizational performance. Contrary to the results of research conducted by Kautsar and Kusumaningrum (2015), Peters & Bagshaw (2014), and Makki & Lodhi (2014) presents evidence that GCG has no effect on company performance. Based on these inconsistencies, the researchers included moderating variables that could weaken or strengthen the influence of GCG on the company's financial performance. The moderating variable considered in this study is the Transformational Leadership Style. The relationship between leadership and financial performance has been tested by Pratiwi & Budiarta (2018) which states that leadership can affect the smooth running of an organization in achieving organizational goals. Aghahowa (2021) states Good leaders are exemplary leaders and it is the responsibility of managers to inspire their subordinates and fully utilize their intellectual capacities. This leads to a quality leader-follower relationship, which ultimately improves employee performance, thereby increasing productivity. Different from Noviyanti et al. (2019) which conducted research on the influence of leadership, motivation, and job satisfaction on the performance of the education and culture office of Padang Pariaman Regency with the results of leadership not having a significant effect on the performance of the Padang Pariaman Regency Education and Culture Office.

Based on this analysis, it was obtained several things that became the focus and novelty of the research, namely first, the measurement of the efficiency of a company's financial performance in financial management usually uses the form of profitability ratio analysis. This profitability assessment uses several criteria, including: Gross Profit Margin (GPM), Net Profit Margin (NPM), Return On Assets (ROA), and Return on Equity (ROE). (Pratiwi & Budiarta, 2018). However, in this study it was replaced with the perception of the management of the Savings and Loans Cooperative on 7 aspects of the cooperative health assessment. Cooperative health assessment can be measured through aspects of capital, productive asset quality, management, efficiency, liquidity, independence and growth, and cooperative identity. The perception of the Savings and Loans Cooperative management is used to determine whether the management has been efficient in managing all Savings and Loans Cooperative assets for operational activities and in generating profits (profit-SHU). A good company's financial performance can increase public confidence in the company, when the Savings and Loans Cooperative has good financial performance, all members, the community and the Cooperative Service will give trust and are interested in investing their funds in the cooperative. This will have an impact on the sustainability of the cooperative (sustainability). (KNKKG, 2006).

Second, adding a transformational leadership style variable as a moderating variable on the effect of the application of GCG principles on the financial performance of Savings and Loans Cooperatives in the city of Denpasar. This was done because of the inconsistency of the results of research conducted by Aghahowa (2021), Noviyanti et al. (2019), and Pratiwi & Budiarta (2018). Leadership is needed to strengthen the GCG system used in an organization. A person's leadership style can determine the success and failure of an organization. To be successful, an organization needs a leader who provides strong encouragement, is able to collaborate, inspire and motivate the subordinates he leads because leadership is the main factor in the success or failure of an organization. In addition, a positive type of leadership will also form a positive culture within the company which will eventually become a role model for an anti-fraud culture (Kusumawati, 2020). Owuori (2021) examines the moderating mediation between leadership style and organizational performance: the role of corporate governance with research results, namely moderating board diversity and director compensation partially and simultaneously having a significant positive effect on the relationship between board composition (women) and financial performance when measured as ROE (Return On equity). That is, leadership has an influence on company performance. Because it is still rare for researchers to use transformational leadership style variables as moderating variables, this moderating variable is interesting to study.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The application of the principles of good corporate governance (GCG) such as transparency (openness), accountability (accountability), responsibility (responsibility), independence (independence), and fairness (equality and fairness) is expected to minimize agency costs arising from agency problems. which has an impact on the performance and sustainability of the Savings and Loans Cooperative. Mahrani & Soewarno (2018) state One way that can be used to monitor contractual issues between management and principals and limit

management's opportunistic behavior is through the implementation of GCG. This is in line with research conducted by Yuliantari et al. (2020) states that GCG has a positive effect on the financial performance of the Gianyar Regency LPD. Kusumawati (2020) stated that the presence of GCG in Indonesia is one solution in creating activities that can help avoid all forms of scandal in the company, including fraud. Mahrani & Soewarno (2018) which shows the results of the study that the GCG and CSR mechanisms have a positive effect on financial performance and CSR on financial performance. Research conducted by Ahmed & Hamdan (2015) with empirical results showing that performance measures such as return on assets (ROA) and return on equity (ROE) are significantly related to corporate governance in Bahrain. However, contrary to Buallay et al. (2017) which shows the results of the study test that there is no significant effect of the implementation of corporate governance on the company's operational and financial performance in companies listed on the Saudi stock exchange. Makki & Lodhi (2014) concluded that corporate governance does not directly improve financial performance.

H₁: The application of the principles of Good Corporate Governance (GCG) has a positive effect on the financial performance of savings and loan cooperatives in the city of Denpasar.

The importance of implementing a good governance system (GCG) in a company and strengthened by one's leadership style can also influence the attitude of followers. In complex and uncertain organizational conditions, leaders who focus and care about followers and the needs and personal development of followers. This leader attitude fits well with the transformational leadership style, where transformational leaders are well suited to leading and working with complex workgroups and organizations, where in addition to seeking inspiring leaders to help guide them through an uncertain environment, followers are also challenged and feel empowered so cultivate them to be loyal and high performers. Transformational leaders change followers' personal values to support the organization's vision and goals by fostering an environment in which relationships can be formed and by building a climate of trust in which visions can be shared (Bass, 1985a in Stone et al., 2004). Effective leadership skills will lead the organization to achieve its goals. Thus, achieving optimal performance that has an impact on business continuity (sustainability). In line with Panda & Leepsa (2017) which states the existence of this principal-agent relationship can lead to agency conflicts. This happens because the interests of the parties are different, conflicts of interest arise, and can only be passed down through managerial ownership and control. Kusumawati (2020), showing that the implementation of GCG and good leadership is beneficial for companies in Indonesia in facing globalization and following developments in the global economy and competitive world market. Indrayati et al. (2020) shows a positive and significant influence on audit quality, good corporate governance, transformational leadership, organizational commitment, organizational culture on the performance of auditors at a Public Accounting Firm in East Java.

H₂: The transformational leadership style strengthens the influence of the application of GCG principles on the financial performance of savings and loan cooperatives in the city of Denpasar.

METHODS

This research was conducted at the Savings and Loans Cooperative in Denpasar. The city of Denpasar was chosen as the research location because, Denpasar city is a city center with high mobility, a large population, which is 962,900 people according to the results of the census of the Bali Province Central Statistics Agency in 2020 and is a city with the number of Savings and Loans Cooperatives highest, which is 286 units (<http://nik.depkop.go.id/>, 2021). This research was conducted in the period January 2021 - February 2022 which includes the process of submitting research titles, preparing proposals, collecting questionnaire data, analyzing and processing data, compiling and completing research reports.

The population in this study, namely 286 units of savings and loan cooperatives in the city of Denpasar, which have not and have been certified with a cooperative identification number (NIK). Based on the results of calculations using the Slovin formula, 210 research samples were obtained which were divided into two groups, namely 104 samples of certified Savings and Loans Cooperatives and 106 samples of Savings and Loans Cooperatives that were not certified.

The method of determining the sample, namely the Proportionate Stratified Random Sampling. This technique is done by dividing the population into sub-populations or strata proportionally and done randomly (Now, 2006). The sampling technique using Proportionate Stratified Random Sampling is done by collecting data on the number of savings and loan cooperatives in the city of Denpasar and then determining the number of samples from each Savings and Loan Cooperative.

Data analysis technique is a research data processing technique that comes from answers to statements or questionnaire questions that have been collected so that they can produce information that can be used to answer research problems. Based on the understanding of variables, number of samples, research objects, and level of difficulty, in this study the data analysis technique used was descriptive analysis with Partial Least Square (PLS) analysis method.

RESULTS AND DISCUSSION

Structural Model Evaluation (Inner Model)

The structural model was evaluated by looking at the value of R2 (R-square) for the dependent latent variable using the Stone-Geisser Q squares test and also by looking at the magnitude of the structural path coefficient (Path co-efficiency). The stability of this estimate was evaluated using the t-statistic test obtained through the bootstrapping procedure (Ghozali, 2014). The results of bootstrapping can be seen in Figure 1.

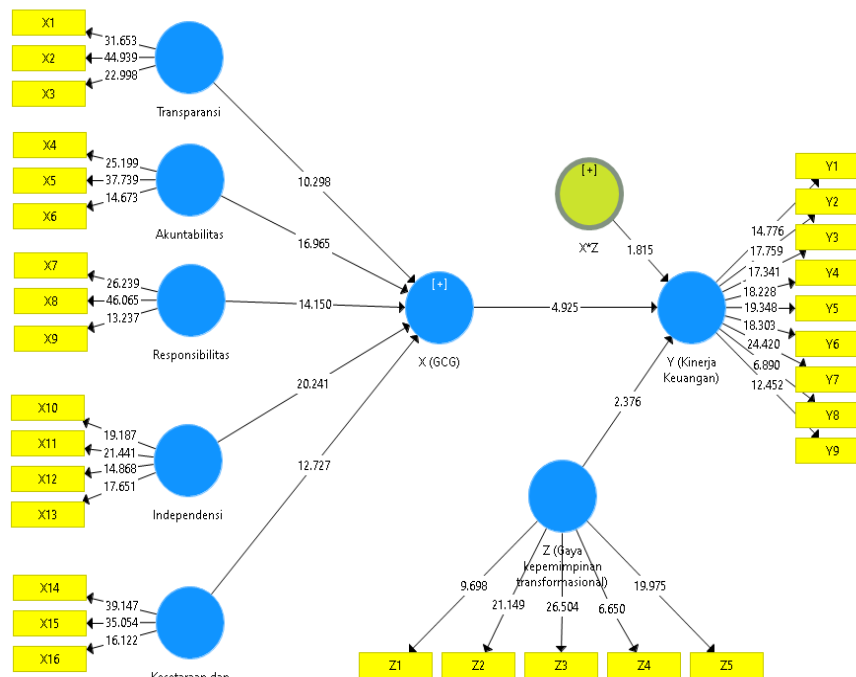


Figure 1.

Results of Bootstrapping Structural Model Evaluation (Inner Model)

Based on the results of the PLS Bootstrapping test output in Figure 1, it can be explained in more detail in Table 1.

Table 1. Results of R-Square Correlation Test (R2) and Path Co-efficient

Relationship Variables	Between	Hypothesis	R Square	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
X (GCG) -> Y (Financial Performance)		H1		0.503	0.511	0.102	4,925	0.000
GCG*Transformational Leadership Style (X*Z) -> Y (Financial Performance)		H2	0.515	-0.154	-0.143	0.085	1,815	0.070
Z (Transformational leadership style) -> Y (Financial Performance)				0.253	0.254	0.107	2,376	0.018

Primary Data, 2022

The R-square value is obtained on the endogenous construct with the provision that the R-Squares value is 0.75, 0.50, and 0.25 which concludes that the model is strong, moderate and weak. (Ghozali, 2014). The results of the PLS R-Squares output in table 1 show the magnitude of the R-square value for the moderator variable path model is 0.515. This means that the application of GCG principles (X) and transformational leadership style (Z) in explaining financial performance (Y) is 51.5%, thus the model is classified as moderate while the remaining 48.5% is explained by other factors outside the research model.

Test the first hypothesis on the effect of implementation of GCG principles on financial performance resulted in a correlation coefficient value (Original Sample) of 0.503. The value of t-statistics is 4.925 (> t-statistics 1.96) with a p value of 0.000 < 0.050, then the effect of Good Corporate Governance on financial performance is significant. Thus, hypothesis 1 (H1) which states that Good Corporate Governance positive effect on financial performance is acceptable.

Based on the path co-efficient results which show that the P-Value on the interaction of variables applying

GCG principles to the financial performance of Savings and Loans Cooperatives in Denpasar is $0.000 < 0.05$, then H1 is accepted. This shows that there is a positive and significant influence between the relationship between the application of GCG principles on the financial performance of Savings and Loans Cooperatives in Denpasar. The application of the principles of good corporate governance (GCG) such as transparency (openness), accountability (accountability), responsibility (responsibility), independence (independence), and fairness (equality and fairness) is expected to minimize agency costs arising from agency problems. which has an impact on the performance and sustainability of the Savings and Loans Cooperative.

Agency problems cause agency costs, one of which is a loss due to inefficient agent decisions (Jensen & Meckling, 1976). This can happen because agents are the main component of the principal-agent relationship and their performance is largely dependent on the abilities, motivations and perfect opportunities of the agents. Agency theory means that the company's management acts as an agent for the owners or stakeholders of the company. Agency theory is related to the management of cooperatives because the chairman and management are given the authority to manage the cooperative, while the members are the owners and users of cooperative services. (Pradnyaswari and Putri, 2016).

In line with the results of research conducted Mahrani & Soewarno (2018) state one way that can be used to monitor contractual issues between management and principals and limit management's opportunistic behavior is through the implementation of GCG. Yuliantari et al. (2020) states that GCG has a positive effect on the financial performance of the Gianyar Regency LPD. Supported by Kusumawati (2020) stated that the presence of GCG in Indonesia is one solution in creating activities that can help avoid all forms of scandal in the company, including fraud. Mahrani & Soewarno (2018) which shows the results of the study that the GCG and CSR mechanisms have a positive effect on financial performance and CSR on financial performance. Based on the research that has been done, the application of GCG principles to Savings and Loan Cooperatives in Denpasar can minimize the occurrence of agency problems that can harm the Savings and Loan Cooperatives. Thus, when the implementation of GCG principles is carried out properly, it can improve the financial performance of the Savings and Loans Cooperatives in Denpasar and minimize the occurrence of agency problems.

Based on the respondent's response, it is obtained the highest perception (90.14%) is in the statement Savings and Loans Cooperatives are able to provide accurate, current, and comparable information so that they are easily accessible to interested parties (eg members, supervisors, administrators, cooperative offices). This means The Savings and Loans Cooperative in Denpasar has been proven to have implemented the principles of GCG well, especially on indicators of transparency by means of: provide accurate, current, and comparable information so that it is easily accessible to interested parties (eg members, supervisors, administrators, cooperative offices). Due to the well-implemented GCG implementation, the Savings and Loan Cooperative in Denpasar City is able to produce good financial performance as well.

Hypothesis testing on the influence of interaction variables *Good Corporate Governance* with transformational leadership style ($X*Z$) on financial performance produces a correlation coefficient value (Original Sample) of -0.154. The value of t-statistics is 1.815 ($< t$ -statistics 1.96) with a p value of $0.070 > 0.050$, then the effect of the interaction variable of Good Corporate Governance with transformational leadership style (XZ) on financial performance is not significant. So it can be concluded that the variable Moderation of transformational leadership style significantly weakens the effect of applying GCG principles on financial performance. Thus, hypothesis 2 (H2) which states that Transformational leadership style strengthens the influence of the application of GCG principles on the financial performance of savings and loan cooperatives in the city of Denpasar rejected.

Hypothesis 2 states transformational leadership style strengthens the influence of the application of GCG principles on the financial performance of Savings and Loans Cooperatives in the city of Denpasar. Based on the results of the path coefficient which shows the P-Value value of $0.077 > 0.05$, then H2 rejected. This means that the transformational leadership style does not significantly strengthen the effect application of GCG principles to the financial performance of Savings and Loan Cooperatives in Denpasar.

Trait theory states that great leaders are determined by the qualities and abilities the leader possesses and learns (Irdiansyah, 2012). Transformational leaders change followers' personal values to support the organization's vision and goals by fostering an environment in which relationships can be formed and by building a climate of trust in which visions can be shared (Bass, 1985a in Stone et al., 2004). Transformational leadership is the process of building commitment to organizational goals and then empowering followers to achieve those goals Yukl (1998).

Based on the results of the study, the transformational leadership style with a negative and insignificant direction strengthens the effect of the application of GCG principles on the financial performance of Savings and Loans Cooperatives in Denpasar. This can be caused by the leadership style used. The results of the respondents' responses obtained that the lowest perception of the transformational leadership style variable (77.52%) was in the statement I immediately acted by arousing the respect of subordinates while the results the highest perception (86.47%) is in the statement I immediately took action explaining the importance of having a strong

sense of purpose. Next based on the respondent's response, it is obtained pThe lowest perception on the financial performance variable (83.03%) is in the statement that the Savings and Loan Cooperative is able to produce SHU which increases every year while the highest perception (91.74%) is in the statement Savings and Loans Cooperatives routinely conduct RAT, have a clear vision, mission, and goals, have a long-term work plan, have clear publishing procedures, management and supervisors work independently and not to benefit themselves and carry out their duties effectively.f. This means The Savings and Loans Cooperative in Denpasar is proven to have implemented GCG principles well, such as: routinely conduct RAT, have a clear vision, mission, and goals, have a long-term work plan, have clear publishing procedures, management and supervisors work independently and not to benefit themselves and carry out their duties effectivelyf but transformational leadership style who focus and care for their followers alone is not enough to work with complex work groups and organizations and with an uncertain environment like the Savings and Loans Cooperative in Denpasar city.

These results are in line with the research conducted Noviyanti et al. (2019) which conducted research on the influence of leadership, motivation, and job satisfaction on the performance of the education and culture office of Padang Pariaman Regency with the results of leadership not having a significant effect on the performance of the Padang Pariaman Regency Education and Culture Office. On the contrary to Owuori (2021) which examines the moderating mediation between leadership style and organizational performance: the role of corporate governance with research results, namely moderating board diversity and director compensation partially and simultaneously having a significant positive effect on the relationship between board composition (women) and financial performance when measured as ROE (Return On Equity). That is, leadership has an influence on company performance. Kusumawati (2020), showing that the implementation of GCG and good leadership is beneficial for companies in Indonesia in facing globalization and following developments in the global economy and competitive world market. Indrayati et al. (2020) shows a positive and significant influence on audit quality, good corporate governance, transformational leadership, organizational commitment, organizational culture on the performance of auditors at a Public Accounting Firm in East Java.

CONCLUSION

The application of GCG principles has a positive and significant impact on the financial performance of the Savings and Loans Cooperative in the city of Denpasar. Due to the well-implemented GCG implementation, the Savings and Loan Cooperative in Denpasar City is able to produce good financial performance as well. This means that the higher the application of GCG principles, the higher the financial performance of Savings and Loans Cooperatives in Denpasar city.

Transformational leadership style does not significantly strengthen the influence of the application of GCG principles on the financial performance of Savings and Loans Cooperatives in the city of Denpasar. This means that although The Savings and Loans Cooperative in Denpasar has proven to have implemented GCG principles well but transformational leadership style who focus and care for their followers alone is not enough to work with complex work groups and organizations and with an uncertain environment like the Savings and Loans Cooperative in Denpasar city.

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