



## Transformational Leadership and Performance in Bank UMKM Jawa Timur

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### Abstract

This study aimed to determine the significance of the influence of transformational leadership style on performance. The level of influence of transformational leadership on performance in a company differs from one company to another; therefore, researchers want to apply and see the implementation of the influence of transformational leadership in banks, namely in Bank UMKM Jawa Timur (East Java MSME Bank). In addition to transformational leadership, innovation also plays an important role because without innovation, the applied transformation cannot run well, and the expected performance cannot run as expected. This study also aims to see the effect of transformational leadership on branch performance in Bank UMKM Jawa Timur. This study uses a quantitative approach by examining branch performance achievements. The study results also show that companies, especially banks, need to implement a transformational leadership style strategy and a willingness to innovate. Practically, this research means that without good leadership who is willing to change according to the surrounding circumstances and is willing to develop and implement good innovations, it is highly likely that a company will be successful in achieving performance and maintaining corporate sustainability. With these innovations, performance will increase as well as sustainability from the company or banking will be stronger. Moreover, what is more important is that the optimization of services to customers will be better maintained, and customers will not move to other companies or banks.

**Keywords** *Leadership, Transformation, Performance, Bank and Transformational Leadership*

### INTRODUCTION

Leadership, according to English, is defined as "Leadership" and also, in general, can be interpreted as a close relationship between someone in directing a group. Leadership has the same interests. In addition, one's leadership style is also an important subject in determining a company's success. A person's leadership behaviour is closely related to a leader's behaviour in influencing the employees or employees being led so that the employees being led are willing or willing to work together to realize an organizational goal.

Leadership will work well if leaders and employees collaborate well (Asmarazisa, 2016). The same agreement and appropriate strategic mechanisms are needed to achieve common goals. Leadership is also an intellectual bond with employees in producing goods, a social contract and employee moral commitment that will make a separate work partner in allocating company or organizational resources and realizing the company's vision and goals. Leadership is an important factor in organizations because it can affect employee motivation at work, strategy, vision and goals (Semuel et al., 2017; Yukl, 2013). Leadership is the art of influencing other people to voluntarily make decisions to increase the company's short- and long-term growth (Nejad & Rowe, 2009). In order to make the right decisions, management at all levels needs to know how to balance technical and social skills in an appropriate combination framework, then promote relationships as well as interactions that lead to an effective communication process in motivating and leading employees.

According to Saleem (2015), the transformational leadership style has a significant and positive influence on job satisfaction in the political field, so the right leadership style will affect the

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job satisfaction of related people, including every employee under that person's leadership. Therefore, transformational leadership plays an important role in improving the performance of employees; this is indicated by evidence that if a leader has a high transformational attitude, he will set a positive example for employees. In addition, systematic transformational leadership can influence where a leader enters the part of the structure (formal leader) that influences the amount of authority possessed and the limits of that influence are exercised by people, work and relationship patterns.

Some of the results of previous research, such as research conducted by Harmoko (2017), show that the leadership style that is in accordance with these changes is a transformational leadership style. This leadership style can keep up with information developments, technological advances, demands for work professionalism, and changes in the character of its users. Research written by Prahesti et al. (2017) shows that the higher the extra role that employees of cooperatives in Tabanan have, the higher the employee's intention to improve their performance. Furthermore, research from Veneta & Amalia (2019) states that OCB is an individual behaviour that voluntarily does work beyond its work obligations, which can increase the efficiency and effectiveness of an organization. Due to voluntary behaviour, OCB is carried out by employees without expecting anything in return because it is not in the organization's reward system.

In this study, the researchers examined the transformational leadership style in banking, especially at the East Java MSME Bank. This study examines the influence of transformational leadership on the performance of branch offices in Bank UMKM Jawa Timur. This is because the East Java UMKM Bank is a bank owned by the East Java Provincial Government and is included in the people's credit bank sector but has a network throughout East Java and is engaged in the MSME sector.

## **LITERATURE REVIEW**

### **Innovation**

Innovation and performance are considered important elements that impact a company's sustainability and, of course, on improving company performance (Ruiz & Fuentes, 2018). Companies with a high level of innovation tend to double the company's profitability than those without innovation. Companies can plan and design new products with a certain level of complexity so that they are not easily imitated and can meet customer needs and customer characteristics; this is because the company has sufficient knowledge about customers and market conditions and can contribute substantially to improving company performance.

The innovation process usually consists of improving the production process, creating a higher level of efficiency, reducing costs and producing greater benefits for the company. In addition to this, innovation also produces a competitive advantage that is not easy for competitors to imitate. Innovation has proven to be critical to the success of an organization, and individual creativity and capacity for innovation should be key to innovation at the organizational level. It is important to emphasize that organizational climate can positively impact creativity and innovation in organizations (Nybakk & Jensen, 2012).

Transformational leadership emphasizes leadership styles that influence employees to work beyond expectations or goals. Working beyond these expectations, of course, requires employees to provide ideas or ideas about market descriptions. Thus, it indicates that innovation must be directed with a strategic leadership style that understands adaptation and is open. In developing a new product or service, various efforts are needed, which are called innovation. Someone with multilevel and varied levels of work in a company means having a work ethic and high performance in the company where he works. Therefore, in supporting product innovation, support from the leadership is also needed so that all employee ideas can be accommodated and

well-directed (Andriani et al., 2022).

### **Transformational leadership**

Hakim (2018) revealed that transformational leaders are more concerned with the re-actualization of their followers and their organization as a whole rather than giving top-down instructions. This can be defined as a top-down approach in decision-making by leaders and will then be communicated to the employees under it. In addition, leaders with a transformational style will better position themselves as mentors who are always willing to accommodate the aspirations of the employees under them.

Salahuddin (2015) also explains that the type of transformational leader comes from the word "to transform," which means to transform or change something in a different form than before and is oriented in a positive direction. Such as transforming visions and goals into a reality, potential becomes a real opportunity, and other forms become manifest in a positive and good direction.

### **Performance**

In today's era, change is the main determinant; the survival of a company and the ability to develop performance also depend on the ability to understand and adapt to change and respond to change by creating innovation (Kalmuk & Acar, 2015). Among the many studies on performance, it is known that the concept of performance is a concept that has not been agreed upon and is still often debated (Jenatabadi, 2015). According to experts and researchers, there are many performance measurements, but according to Maia & Costa (2021), performance appraisal is related to human resources, the ability to increase competitiveness, the level of product or service quality, and profits and high reputation.

Performance measurement aims to motivate personnel to achieve organizational goals and avoid behaviour that deviates from the established standards of behaviour. Performance measurement is carried out to reduce deviations and motivate a group of people in the organization to do things that must be done through feedback from performance results and rewards, both intrinsic and extrinsic. Organizational performance focuses on the extent to which an organization or company manages and uses its resources effectively and efficiently. A company must be able to align performance with goals, owned resources and targets from shareholders. Internally, performance is related to product quality, costs and profit levels.

### **Balanced Scorecard**

According to Kaplan and Norton (1996:24), the balanced scorecard is a comprehensive performance measurement tool. The Balanced Scorecard is considered comprehensive because performance is measured by four main perspectives, namely the financial approach, the customer or customer approach, the internal business approach, and the growth and learning approach. The concept of the balanced scorecard to measure performance is not only from the financial side of the organization. However, the concept of the balanced scorecard can also measure organizational performance from a non-financial perspective. The non-financial side referred to in the balanced scorecard concept is the financial approach, the customer or client approach, the internal business approach, and the growth and learning approach.

- **Financial Approach**

The financial approach can show whether the strategies used from other perspectives (customers, internal business processes, growth and learning) can increase company profits. There are three business life cycles, namely growth, sustain, and harvest, which are important to be considered for organizations to develop with their financial capabilities.

- Customer Approach

At this stage, the organization identifies what customers want and how to satisfy customers and identifies market segments to enter. Two benchmarks can be used by organizations in this perspective, namely the customer core measurement and the customer value proposition.

- Internal Business Process Approach

In the internal business process approach, management identifies internal business processes important to the organization. The goal is to achieve increased value for customers (customer perspective) and shareholders (financial perspective). There are three processes in the internal business process, namely, the innovation process, the operation process, and the after-sales service process.

- Growth and Learning Approach

The learning and growth (infrastructure) approach defines the capabilities required by an organization to achieve long-term growth and improvement. The growth and learning perspectives become the infrastructure and driving factors to achieve goals from a financial perspective, a customer perspective, and an internal business process perspective. This perspective has three main objectives: increasing employee capabilities, increasing information system capabilities, and increasing employee motivation, empowerment, and involvement.

### The Relationship of Transformational Leadership, Innovation and Performance

The research has also shown that leadership is a factor that has a significant effect on innovation and performance improvement (Hongdao et al., 2019; Leitao et al., 2023). Leaders must have their own creativity not only for survival but also to compete with competitors in a fast-changing world. Therefore, leadership has an active role in influencing, adjusting, mobilizing, leading and innovating. Leaders can influence followers' innovation processes directly and indirectly through higher-level motivations and needs. Leaders are usually faced with employees who are reluctant or unwilling to change. It was reported that changing the mindset and attitude of subordinates to a change is a challenge in managing change in an organization compared to other factors such as cost efficiency and other work complexity.

Therefore, this study examines the relationship between leadership, innovation and performance variables. The researcher proposes a conceptual framework for analyzing transformational leadership factors and then innovation and performance factors (the dependent variable), as shown in (Figure 1) below.

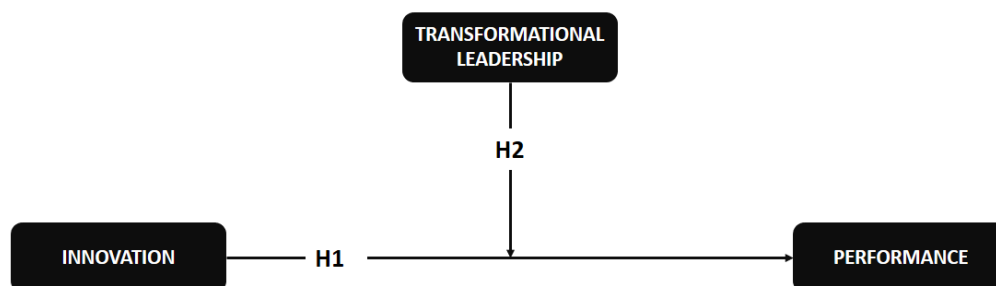


Figure 1. Research Framework

## RESEARCH METHOD

This study examines the relationship between innovation, transformational leadership and performance variables. Figure 1 above shows the researcher's proposal to analyze transformational leadership as a moderator variable in the relationship between innovation (independent variable) and performance (dependent variable). The transformational leadership variable as a moderator influences the level of significance of the relationship between the dependent and independent variables, of course, in a correlational relationship (Judd, 2015). The following are the proposed hypotheses put forward by researchers:

**H1:** Innovation affects performance.

**H2:** Transformational leadership influences the relationship between innovation and performance.

### Instruments in Collecting Data

In testing the hypotheses that have been proposed, a quantitative study is carried out, as well as collecting primary data sources from answering the questionnaires distributed. The questionnaire is divided into two parts. The first part is to collect socio-demographic information, and the second part consists of 37 questions divided by three variables. The first 12 questions are related to transformational leadership and are supported by item scales (Yukl, 2013). Then, it was followed by 11 questions related to innovation and 14 questions related to performance. Questions related to innovation and performance have been supported by the literature. Furthermore, the pre-test process is carried out to validate the consistency of the constructs.

### Sample characteristics

The operational definition indicates how a variable is measured, so researchers can find out whether the measurement is good or bad. The sampling technique is all branches and the head office of the East Java MSME Bank. The target population is the East Java MSME Bank employees, especially officials or managers, with 339 employees in 2022. Features in the questionnaire form contain employee ages, education levels and questionnaire questions.

## FINDINGS AND DISCUSSION

Table 1 below presents the value of Cronbach's alpha, calculated for each question series that measure each variable from the conceptual model that the researcher has previously proposed.

**Table 1.** Cronbach's Alpha Rating, which measures each variable

Variable	$\alpha$	N Items
Transformational Leadership	.75	12
Innovations	.85	11
performance	.83	14

All values in Table 1 above are included in the interval from 0.75 to 0.85. Where this means that in each set of items shows good and acceptable consistency (Streiner, 2003). We calculated the coefficients for each item with Cronbach's Alpha, and no particular significance was found.

Reliability analysis also informs that the query is well constructed, and therefore, the researcher will measure each latent variable through simple averages. For all items that have been appropriate, the researcher has also calculated simply the average of the related items to calculate the values of the three latent variables with the framework model that the researcher has proposed, namely transformational leadership, innovation and performance. Table 2 below shows descriptive and inferential statistics (N = 37 valid observations).

**Table 2.** Descriptive and inferential statistics for latent variables

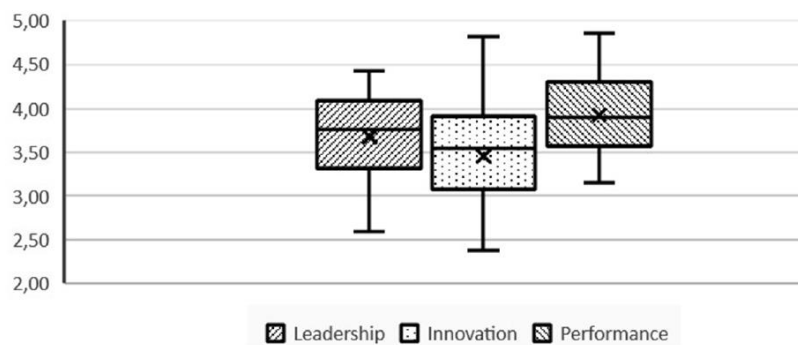
	Min	Max	Mdn	M	M.SE	95% CI		SD	95% CI	
						for	$\mu$		for	$\sigma$
						Lower	Upper		Lower	Upper
Transformational Leadership	2.58	4.42	3.75	3.67	0.08	3.51	3.84	0.46	0.37	0.80
Innovations	2.36	4.82	3.55	3.45	0.10	3.24	3.66	0.61	0.49	0.92
performance	3.14	4.86	3.89	3.92	0.08	3.77	4.07	0.44	0.35	0.78

**Normality Test**

In testing the hypothesis with three-variable normal distribution data, researchers used the Kolmogorov-Smirnov normality test (at a significance level of 5%)

**Innovation Relationship with Linear Performance**

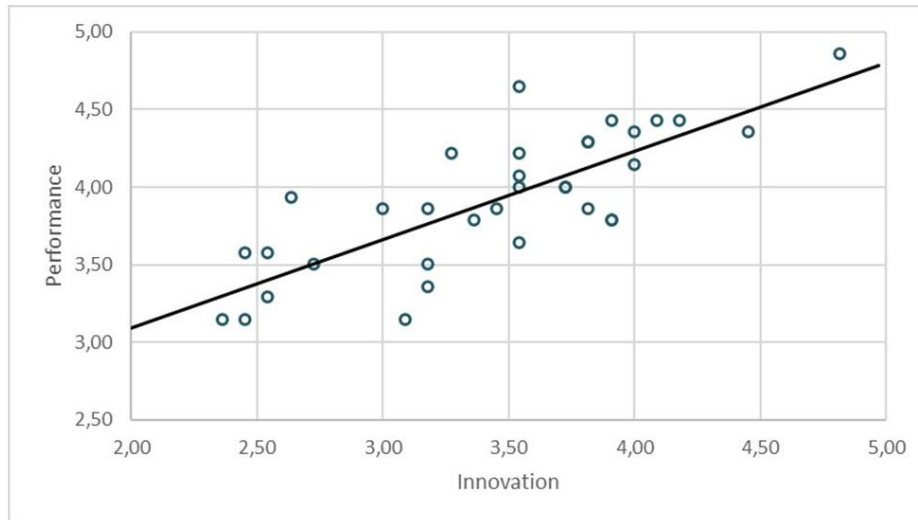
Given that innovation and performance are continuous variables with normally distributed data, the hypothesis is proven and has no significant outliers. Simple linear regression was run to predict innovation from performance. Figure 2 below shows the appropriate box plot, which also proves that there are no outliers.



**Figure 2.** Latent variable plots

The results of the F test are  $F(1.32) = 53.15$ ,  $P < 0.001$ , indicating that innovation is a significant predictor of performance variables with a Pearson correlation coefficient  $R = 0.79$ , proving that there is a strong positive linear correlation and  $R^2 = 0.62$  which has 62% of the total performance variation can be explained by predictor innovation. The coefficient of the regression constant  $B_0 = 1.95$  is ( $P < 0.001$ ), and the 95% CI is [1.41, 2.50]. The regression coefficient for predicting innovation  $B_1 = 0.57$  is significant ( $P < 0.001$ ), and the 95% CI is [0.41; 0.73].

Figure 3 below shows the performance regression equation =  $1.95 + 0.57 * Innovation$ .



**Figure 3.** Scatter plots with regression lines for performance and innovation

The figure above shows that a one-unit increase in innovation implies an estimated performance increase of 0.57 (or between 0.41 and 0.73 when considering the 95% CI).

### The Moderating Relationship Between Transformational Leadership, Innovation and Performance

In this section, the researcher examines transformational leadership variables. Can transformational leadership be a moderation of the relationship between innovation and performance? If previously, researchers have proven a positive, linear, and strong relationship between innovation and performance, then what if there is a transformational leadership variable as a moderator between the two variables? The researcher changed the leadership sustainability variable into three possibilities, namely transformational, neutral and non-transformational leadership styles. Researchers believe the three leadership clusters have represented the situation, considering the distribution of variables has been sustainable.

To test the leadership mediation hypothesis, researchers studied the interaction patterns and relationships between the three variables with a general linear model. For statistical results, the three leadership groups have significantly different values, which are illustrated in Table 3 below.

**Table 3.** Variable with a linear model in general

Parameter	B	Std. Error	t	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Intercept	1.88	.73	2.56	.02	.38	3.38
[Leadership Type =-1]	.39	.91	.43	.67	-1.46	2.24
[Leadership Type =0]	.10	.99	.10	.92	-1.92	2.12
[Leadership Type =1]	0 <sup>a</sup>	.	.	.	.	.
Innovation	0 <sup>a</sup>	.	.	.	.	.
[Leadership Type=-1] * Innovation	.46	.18	2.63	.01	.10	.82
[Leadership Type =0] * Innovation	.55	.19	2.90	.01	.16	.93
[Leadership Type =1] * Innovation	.60	.19	3.21	.00	.22	.99

<sup>a</sup>. This parameter is set to zero because it is redundant.

Based on Table 3 above, transformational leadership (leadership type = 1) becomes a linear regression model in general. The regression parameters for this type are  $B_0 = 1.88$  (Statistically significant because  $\text{Sig} = 0.02 < 0.05$ ) and  $B_1 = 0.61$  (Statistically significant,  $\text{Sig} = 0.00 < 0.05$ ) and  $R^2 = 0.55$ . The corresponding linear regression equation is a transformational leadership style and will be a reference model with performance =  $1.88 + 0.60 * \text{Innovation}$ .

Another consideration namely the neutral leadership style (Leadership type = 0). The parameter is  $B_0 = 0.10$ , which is not statistically significant. Actually, the significant value =  $0.92 > 0.05$  but the new intercept that is suitable is  $B_0 = 1.88 + 0.10 = 1.98$ . The coefficient of innovation is  $B_1 = 0.55$  which is statistically significant ( $\text{sig} = 0.01 < 0.05$ ) and  $R^2 = 42$ . Therefore, the linear regression equation is changed to performance =  $1.98 + 0.55 * \text{innovation}$ .

## CONCLUSIONS

In the current era of globalization, technology is urgently needed, and financial service providers are increasingly competitive. Innovation cannot be avoided due to the era of uncertainty and the business environment that easily changes according to the times. Boosting performance achievements certainly requires something unique, different from the others and a characteristic to survive in the existing competition. Innovation is recognized for turning opportunities into new business ideas and increasing organizational profitability and competitiveness by offering different products and or services that are, of course, optimal for customers.

Furthermore, leadership itself is a person's art in influencing the employees under him to positively do work and go beyond the limits of employees in working so that goals can be achieved. Transformational leadership is currently a leadership style that is superior and important because transformational leaders are synonymous with being innovative, open to change, exploring new approaches and motivating people to get the best performance.

With a transformational leadership style, there are new work methods, new approaches, and more inspiration for work teams to work. Leaders have the right to set specific goals and encourage employees to implement innovation to achieve predetermined goals.

Performance is related to innovation. When performance increases, innovations in these companies tend to be applied and implemented more frequently. However, it is also necessary to understand that controlling non-financial performance also requires a separate focus.

## Implications

The findings in this study can be used as reference material for practitioners and top-level management/or executives in managing changes in companies, especially banking. Practically, this research means that without good leadership who is willing to change according to the surrounding circumstances and is willing to develop and implement good innovations, it is highly likely that a company will succeed in achieving performance and maintaining corporate sustainability. In addition, these findings can also help increase company awareness regarding the importance of the role of a leader and individual employees in developing leadership styles as well as exploring the potential of each area to improve performance.

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