The Effect of Leadership Style, Work Environment and Organization Culture on Employee Performance: A Case Study at Kawasan Industri Makassar (KIMA), Indonesia

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Abstract: This paper aims to identify three indicators; leadership style, work environment and organization culture, which significantly influence the employee performance at Kawasan Industri Makassar (KIMA). The fact has shown that the quality of human resources in Indonesia is considered low compared to neighbour countries which affected by various indicators that might effect the organization performance. The condition at Kawasan Industri Makassar has shown degradation in practical indicators of human resources management, yet escalation for the other. The other fact has indicated that employee performance fluctuation has decreased in 2009 with the average of work accomplishment has never been up to 100%. This study employed quantitative approach with Structural Equation Model (SEM) as the tool to associate the exogeneous and endogeneous variables to discover the correlation and effect of every variable. Proportional Stratified Sampling Method was applied and involving 450 determined samples. The study revealed that dominant exogeneous variable which affected the employee performance is leadership, for the highest total effect of 0.292. However, total effect of work environment towards employee performance is 0.171. Meanwhile, total effect for organization culture on employee performance is about 0.160. The findings also reveal that those variables have significant correlation and positively influence the employee performance.

Keywords: Leadership Style, Work environment, Organization Culture, Employee performance.

1. Introduction

The quality of human resources in Indonesia nowadays is considered low compared to other ASEAN countries which can be seen from the low rate productivity per hour. According to Dockel, A (2003), in World Development Report, who stated that the per hour productivity of Indonesian workers in 2002 was about 1.84 US $. Meanwhile Singapore has the highest rate in amount of 35.92 US $, followed by Malaysia of 4.71 US $, whilst Thailand of 4.56 US $. There are some indicators that might affect work productivity or employee performance. Therefore, organization or company has to guarantee to fix those related indicators in order to enhance the employee performance for the good quality of human resources.

From the above indicators, this paper aims to identify three indicators which significantly affect the employee performance, i.e. leadership style, work environment and organization culture. As stated by Simamora (1997) that relationship between leader and organization performance is very positive which leadership shift can improve the organization performance. Thoyi, Armanu (2005) stated that the strength of organization culture determined by leadership style. The organization leader has function to influence subordinate’s behavior in order to achieve the organization goals with high willingness and enthusiasm. O’Neill et. al., (2001) found in the study that there is correlation between leadership style and organization performance by increasing the work motivation. However, the study concludes that leadership style has indirect correlation to organization performance. Despite, it has affected foremost on work motivation then the organization performance.

The first indicator is leadership style. The issue found in Kawasan Industri Makassar (Makassar Industrial Region/KIMA) has shown that practical indicators of human resources management has inclined, however the other indicators has declined (as shown in Table 1), i.e. training and promotions. Nonetheless, the leaders’ interaction has slightly declined. Robbins (1997) stated that such a condition shows that the practical of human resources management will not be succeed without involving the direct role of leaders in giving influence in participation, direction and set the target to achieve employee performance. The indicator from Robbins’ statement has shown that leader or management not only have to provide direction, training, salary increment and promotions, but also participatory supervision.
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Table 1. The Condition of Training, Promotion, Leaders’ Interaction and Meeting Time at Kawasan Industri Makassar in 2003 – 2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Total of Technical Training</th>
<th>Total of Non-technical Training</th>
<th>Promotions</th>
<th>Leaders’ Interaction and Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>107</td>
<td>53</td>
<td>34</td>
<td>35</td>
</tr>
<tr>
<td>2004</td>
<td>112</td>
<td>47</td>
<td>19</td>
<td>42</td>
</tr>
<tr>
<td>2005</td>
<td>113</td>
<td>52</td>
<td>12</td>
<td>47</td>
</tr>
<tr>
<td>2006</td>
<td>122</td>
<td>58</td>
<td>27</td>
<td>65</td>
</tr>
<tr>
<td>2007</td>
<td>160</td>
<td>54</td>
<td>67</td>
<td>67</td>
</tr>
<tr>
<td>2008</td>
<td>164</td>
<td>62</td>
<td>61</td>
<td>86</td>
</tr>
<tr>
<td>2009</td>
<td>171</td>
<td>67</td>
<td>72</td>
<td>78</td>
</tr>
</tbody>
</table>

Source: PT KIMA (Persero), 2010

The other issue found in KIMA is the fluctuation of employee performance as shown in Table 2 which in fact, it has decreased in 2009. The average percentage of work completion has not even up to 100% of the target. The absence of employee was considered high in the average of 15% with non-productive time reached the average of 3%. It means that the management have not optimally play their role as leader so they cannot influence the employee to achieve better performance.

Table 2. The Absence, Non-Productive Time and Average Percentage Work Completion at Kawasan Industri Makassar in 2003-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Total of Employee Absence</th>
<th>Non-Productive Time</th>
<th>Average Percentage Work Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>4230 Hours</td>
<td>121</td>
<td>121 Hours 2.8% 87%</td>
</tr>
<tr>
<td>2004</td>
<td>4230 Hours</td>
<td>141</td>
<td>141 Hours 3.3% 93%</td>
</tr>
<tr>
<td>2005</td>
<td>4270 Hours</td>
<td>64</td>
<td>84 Hours 3.9% 93%</td>
</tr>
<tr>
<td>2006</td>
<td>4384 Hours</td>
<td>19%</td>
<td>172 Hours 3.9% 95%</td>
</tr>
<tr>
<td>2007</td>
<td>4384 Hours</td>
<td>19%</td>
<td>109 Hours 2.4% 96%</td>
</tr>
<tr>
<td>2008</td>
<td>4384 Hours</td>
<td>15%</td>
<td>131 Hours 2.9% 92%</td>
</tr>
<tr>
<td>2009</td>
<td>4384 Hours</td>
<td>16%</td>
<td>143 Hours 3.2% 94%</td>
</tr>
</tbody>
</table>

Source: PT KIMA (Persero), 2010

According to Bleudorn (1978), the employee performance is affected by the lack of participation, affection and motivation to achieve goal of the leader. This is determined by the increasing of employee absence, non-productive time and also the percentage of work completion. Those indicators have shown that despite the implementation of practical human resources management, it does not merely affect the employee performance.

The phenomenon in manufacturing company at Kawasan Industri Makassar shows that some leaders have not paid attention to leadership theories which can be applied to engage with the employee in order to enhance the company performance. There were studies conducted by Rustam (2011) and Azis (2006) which have not comprehensively covered the effect of leadership model on employee performance. Therefore, this study aimed to fill the gap by identifying which leadership style that can play a role in enhancing employee performance.

The second indicator is work environment. Smilansky (1997) stated that the pleasant work environment can affect employee creativity and performance. This indicates the conducive environment will create harmonization between employee and management. Hence, harmonization in the company will create organization cultural value (Schein 1992). Real condition in manufacturing company at Kawasan Industri Makassar shows has disrupted on environment safety, particularly at night, can affect the durability of the company. That is similarly to the lack attention of the manager towards the internal work environment indicator as refreshment workspace, lighting, activity layout and cleanliness in order to create a better work environment.

Organization culture, as the third indicator, can prevent conflict and injustice toward leader/management treatment in the organization. It can prevent any conflict among employee and even enhance their productivity by holding onto work culture in the company, though there is conflict potential among them regarding promotions, compensation and gratification. The stronger organization culture, the more increasing togetherness among employee as well as their performance. Moreover, Kotter & Heskett (1997) and Chatman & Caldwell (1991) stated that organization culture can build up aggressiveness among employee during working. Meanwhile, Schein (1997) mentioned there are numbers of organization culture which influence employee performance, i.e. innovation indicator, detail orientation, result orientation, human resource, team and stability. In fact, some employees at Kawasan Industri Makassar have not professionally performed yet and tend to change their job from one company to another. Therefore, the management needs to provide programs related to development, awareness and motivation for the employee in order to earn the expected goals.
Data from Badan Pusat Statistik (Central Bureau of Statistic or BPS) of South Sulawesi Province in 2007 has shown that employee productivity in the processing sector has decreased. The productivity was measured subject to the added point produced by every employee. The employee attainment which measured based on the average productivity presented in Figure 1. It shows that productivity of employees at the large and medium industry has decreased in range of year 2002 to 2006. The fact that employee productivity decreased in certain period of time has become interesting, yet important, to be explored in order to identify affected indicators.

Figure 1: Employee Productivity at Kerja Kawasan Industri Makassar (2002-2006)

Employee productivity at large and medium scale industry in South Sulawesi, including Makassar, were between 80 – 100 million Rupiah in 2002 – 2006 as shown in Figure 1. This phenomenon also found in manufacturing industry at Kawasan Industri Makassar as the largest industrial center in South Sulawesi. The fact that employee performance in industrial company at Kawasan Industri Makasar was depending on what industry character is need to be observed further. Meanwhile, employee performance in processing industry has been inadequate. Yet, some industrial sector which require high skills have reached optimum performance of work. This study also intended to fill the gap of similar research, especially that take place at Kawasan Industri Makasar.

II. Literature Review

Previous studies have discussed about employment in regards to job satisfaction, commitment in organization, achievement, motivation, compensation, leaders’ behavior, work environment, organization culture and performance at work. As for this study, the research was limited to the exploration on leadership style, work environment and organization culture. Rivai (2005) has stated that leadership covers process in influencing the employee in order to set organization goals, to motivate the employee to achieve the goal set, as well as to improve the group performance and culture. Leadership somewhat understood as the strength to move and influence people in the organization (Bothwell, 1988 as cited in Rivai, 2005). In other words, leadership is a tool, even process, to persuade people, employee in this case, to be willing to do something, or work, with satisfaction. 

Hersey dan Blanchard (1993) employed the study of Ohio State to search further the four leadership style of manager, i.e. (a) telling, (b) selling, (c) participating, and (d) delegating. Situational leadership was considered based on the correlation among these three factors, i.e. (a) number of instructions given by the leader, (b) socio-emotional supports given by the leader, and (c) level of readiness or maturity of the employee in the line of duty, function or particular purposes for the company. 

Hersey and Blanchard (1993) stated that leaders’ behaviors in situational approach can higher employee performance which grouped into (1) Directive Behavior (with task in workplace) and (2) Supportive Behavior (in social social relations). Surveys were conducted by Harris and Ogbonna (2001) which shows that employee performance was found in three leadership styles, i.e. Participatory Leadership Style, Supportive Leadership Style and Instrumental Leadership Style. In the context of leadership and individual performance, as well as employee, has positive effect in the correlation of leadership and employee performance. Similar argumentation was also stated by Shea (1999) that leadership has positive correlation on the enhancement of...
employee performance. This means that leadership style has influenced employee performance in organization. Study conducted by Batram and Casimir (2007) toward 150 respondents at insurance company in Melbourne, Victoria and Australia have found that transformational leadership influenced the employee performance which mediated by trust.

Meanwhile, Parlinda and Wahyudin (2008) argued, based on their study, that work environment has positively and significantly influenced employee performance. The strength and conducive environment support the work procedure. Maier (1965) and Baird (1986) discovered that work environment has influenced the performance. Therefore, employee performance is basically supported by work environment as the completion of the work itself.

Robbin (2002) concluded that organization culture is dominant value supported by the organization which can illustrate the process of workflow in certain company or organization, as well as the assumption of basic trust hold by the organization members. Hasibuan (2001) was also argued that employee productivity is determined by organization culture in the form of creativity, innovation and togetherness. Employee performance is the outcome of values which managed and upheld in the organization. Therefore, togetherness value as culture in organization will improve the overall employee performance and productivity.

Sedarmayanti (2001) was also argued that indicators which influence work performance are human resource management, situational leadership pattern, motivation, and job satisfaction as well as organization culture. Kotter and Hesket (1997) pointed out that organization culture is basically in regards to norms and values applied in organization as efficiency of giving service to clients. Meanwhile, values therein reflect faith and belief for success.

However, Feldman and Arnold (1993) argued that organization culture has no positive influence on employee performance due to the possibility of causing conflict which possibly detains innovation and managerial process. According to Cooper (1994), organization culture will only hinder the performance when there is conflict of interest due to acceptance, refusal and modification. Therefore, conflict of interest is considered improper organization culture and will inhibit the process to achieve organization performance.

Even if there are different arguments on the influence of organization culture on employee performance, yet it is not something considered significant. We should look at local culture as well as local norm and traditions specifically where the company or organization established. For instance, the culture of being punctual among Japanese organization will be different compared to the culture in Indonesia, Saudi Arabia or United States. Another example is the culture to entertain guest, employee and management staff in the three countries mentioned earlier which are different. Therefore, the findings of Feldman and Arnold (1993) and Cooper (1994) which stated that organization culture has no positive influence on employee performance that can obstruct their performance. This has shown that company management in social science is complex and dynamic.

III. Methodology

Quantitative approach was employed in this study. Data were gathered from fieldwork by conducting survey in order to test the hypothesis. A set of questionnaire was distributed to 450 respondents on the field. Besides, interviews were also conducted as part of the field research.

Data were analyzed by using Structural Equation Model (SEM) to correlate exogeneous and endogenous variables to discover the correlation and influence of every variable on this study. The definition of latent variable and sub-laten variables are as follows; for X1 are X1.1= Directive Behavior, X1.2= Supportive Behavior, X1.3= Participatory Behavior, X1.4= Achievement Oriented Behavior; meanwhile for X2 are X2.1= Lighting, X2.2= Silence, X2.3= Refreshment, X2.4= Cleanliness, X2.5= Safety. For X3.1= Grouping Culture, X3.2= Cultural Development, X3.3= Rational Culture. As for Y1.1= Work Quantity, Y1.2= Work Quality, Y1.3= Creativity, Y1.4= Flexibility, Y1.5= Attendance. All variables were tested by means of Goodness of Fit Indices evaluation criteria which results as shown in Table 3.

Table 3. Goodness of Fit Indices Evaluation Criteria of Leadership, Work Environment and Organization Culture

<table>
<thead>
<tr>
<th>Goodness of fit index</th>
<th>Cut-off Value</th>
<th>Result*</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-square</td>
<td>62,214 &lt; (0,05;49= 66,339)</td>
<td>Good</td>
<td></td>
</tr>
<tr>
<td>Probability</td>
<td>0.95</td>
<td>Good</td>
<td></td>
</tr>
<tr>
<td>CMIN/DF</td>
<td>2.00</td>
<td>1.270</td>
<td>Good</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.08</td>
<td>0.033</td>
<td>Good</td>
</tr>
<tr>
<td>GFI</td>
<td>0.90</td>
<td>0.963</td>
<td>Good</td>
</tr>
<tr>
<td>AGFI</td>
<td>0.90</td>
<td>0.942</td>
<td>Good</td>
</tr>
<tr>
<td>TLI</td>
<td>0.95</td>
<td>0.968</td>
<td>Good</td>
</tr>
<tr>
<td>CFI</td>
<td>0.95</td>
<td>0.976</td>
<td>Good</td>
</tr>
</tbody>
</table>

Source: Author, based on data processing

DOI: 10.9790/487X-1810074955 www.iosrjournals.org 52 | Page
Data on Table 3 have shown the measurement of conformity model on leadership, work environment and organization culture. Model criteria has shown that the model fit which means that between data and model are corresponding. It is proven based on data on table that the entire eight fix criteria has met the desired criteria. Hence, the above model has shown a good result to be declared that the model is acceptable.

IV. Data

This study is using two kinds of data; primary and secondary data. Primary data were gathered by conducting survey technique. Questionnaires which are prepared for P.T Kawasan Industri Makassar were distributed directly to the employees who selected to be respondents of the study. The respondents were selected based on numbers of considerations as (a) total of employees, (b) education background, (c) length of work, (d) level and position, (e) others in regards to research object.

Meanwhile, secondary data were gathered through relevant information sources: Management of the organization and report on employee performance in Kawasan Industri Makassar, Kantor Tenaga Kerja (Employment bureau office) in Makassar, Kamar Dagang Indonesia (Indonesia Commerce of Chamber) in Makassar, and Kantor Badan Pusat Statistik (Central Berau of Statistic).

The population of this study is the entirety employee of the organization at Kawasan Industri Makassar as of 10,319 people. The intended employee are those who work in 55 large and medium scale companies located in KIMA. Sample withdrawal was conducted based on Proportional Stratified Sampling Method. Number of sample was based on Hair et.al. (as cited in Ferdinand, 2000) who stated that the proper sample size are between 100 – 200 research units. However, this study has defined sample in the number of 450 people with the details as follows: from Food and Beverages companies are 116 sample, from Furniture Company are 68 people, from Wood Processing company are 55 sample, from Building Materials company are 57 sample, from Cold Storage are 77 sample, from Plastic Packaging company are 49 sample and from Animal Feed company are 28 sample.

V. Result And Conclusions

Table 4. Loading Factor Correlation among Variables

<table>
<thead>
<tr>
<th>Correlation among Variables</th>
<th>Est</th>
<th>S.E</th>
<th>C.R</th>
<th>P</th>
<th>Desc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee_Performance_Y1 ← Leadership_X1</td>
<td>0.187</td>
<td>0.071</td>
<td>2.649</td>
<td>0.008</td>
<td>Sig</td>
</tr>
<tr>
<td>Employee_Performance_Y1 ← Work_Environment_X2</td>
<td>0.142</td>
<td>0.074</td>
<td>1.905</td>
<td>0.057</td>
<td>Sig</td>
</tr>
<tr>
<td>Employee_Performance_Y1 ← Organization_Culture_X3</td>
<td>0.144</td>
<td>0.080</td>
<td>1.787</td>
<td>0.074</td>
<td>Sig</td>
</tr>
</tbody>
</table>

Source: Author, based on data processing

*Significant α =10%:

Table 4 indicates that every correlation among variables in total effect has shown that direct correlation is substantial than indirect one. Data show that leadership has positive direct influence and significant toward employee performance. This means that good leadership will encourage the employee to work better. Besides, it is caused by the leadership model applied in manufacturing sector KIMA is considered suitable for the employee; based on kinship and mutual respect. Even employee feel strongly advised through compensation given during holiday or year-end. This strategy has motivated the employee to work better even harder.

Work environment has direct and significant influence on employee performance with P = 0.06 > 0.10 and with coefficient value of 0.129. This fact has shown that if the quality of work environment improved, it will encourage the employee to improve their performance. Concerning organization culture has positive direct and significant influence on employee performance with P = 0.075 < 0.10 and coefficient value of 0.138. This has shown that the better organization culture, more increasing the employee performance.

Table 5. Result of Hypothesis Testing

<table>
<thead>
<tr>
<th>Hg</th>
<th>Independent Variable</th>
<th>Dependent Variable</th>
<th>Direct</th>
<th>Indirect</th>
<th>Total</th>
<th>P-value</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Leadership</td>
<td>Employee Performance</td>
<td>0.212</td>
<td>0.080</td>
<td>0.292</td>
<td>0.006</td>
<td>Sig</td>
</tr>
<tr>
<td>2</td>
<td>Work Environment</td>
<td>Employee Performance</td>
<td>0.129</td>
<td>0.042</td>
<td>0.171</td>
<td>0.062</td>
<td>Sig</td>
</tr>
<tr>
<td>3</td>
<td>Organization Culture</td>
<td>Employee Performance</td>
<td>0.138</td>
<td>0.022</td>
<td>0.160</td>
<td>0.075</td>
<td>Sig</td>
</tr>
</tbody>
</table>

Source: Author, based on data processing

Based on Table 5, this study discovered that dominant exogeneous variable which has influenced on employee performance is Leadership Variable due to the highest total effects of 0.292. The total effect is the influence amount of various correlation in one latent variable (Ferdinand, 2000). Result of this study shown that leadership varibale has significant influence of 0.006 < 0.10 on employee performance with regression coefficient of 0.212. Positive regression coefficient values show that leadership style has positive influence on employee performance. This means that leaders’ behavior in KIMA applied participatory leadership style with goals orientation which encourage the enhancement of employee performance. This study also found that
leadership model applied by the leader of manufacturing industry at KIMA is directive leadership with goals orientation yet not really put so much attention on the other models. The findings were in line with Mamik (2008) study which revealed that leadership style has significant influence on employee performance. Therefore, this study has supported the statement of leadership style has influenced the enhancement of performance all the time.

Managerial practice in handling subordinate is different from one to another. Soon Hee Kim (2002) stated that participatory management practice has substantial positive influence on performance. Furthermore, Shea (1999) have found that leader who continuously apply comparison leadership style can produce the highest quality output among the employee compared to those who work under structured and charismatic leadership style. The finding has indicated that by focusing on knowledge and amenities of every individual, then application of comparison leadership style can help them to work faster and have time to take a rest compared to structured leadership style which emphasize on the completion of work loads based in given time frame.

Referring to Table 5, this study discovered that the total effect of work environment on employee performance is about 0.171. The variable of work environment has influenced on employee performance with significant level of 0,062 and regression coefficient of 0,129. This findings has indicated that serenity of workplace, in order environment, cleanliness and decent workplace layout give satisfaction to the employee and possibly encourage them to enhance their performance. Otherwise, there are some problems as noise and insecurity in workplace can prevent them from achieving good quality of work. Nevertheless, this finding is in line with Parinda and Wahyudin (2008) study that work environment has positive and significant influence on employee performance. Besides, this finding is also similar to what Maier (1965) and Baird (1986) have done, which revealed that work environment has influence the employee performance. Therefore, employee performance which supported by work environment is the work completeness.

The total effect result of organization culture toward employee performance is 0,160 as shown in Table 5. This finding has revealed that there is a correlation between organization culture and employee performance at KIMA. The correlation has given positive direct and significant influence of 0,075 with coefficient of 0,138. Result of this study also emphasize that group work, preserved solidarity and improvement in work method as well as make an effort to work rationally can enhance employee performance in companies at KIMA. This shows that a good and proper organization culture will intensify the quality of work.

This finding is in line with Simosi study in 2006 which involved 300 financial organizations in Greece and found that adaptive orientation culture and goals orientation culture have direct influence on organization performance. Then, transformational leadership has positif indirect influence on performance through goals orientation intermediaries. Result of this study also has proved that three layered culture model, which developed by Schein (1992), i.e. artifacts, supported values and underlying assumption, has been applied in order to create organization culture in companies at KIMA. Descriptive data from this study has found that employee in KIMA assumed that being rational during working is important to prevent the solidarity in group work. However, this attempt does not mean that efficiency in work will be achieved.

Based on the findings stated above, the leader in manufacturing company have to apply conducive leadership style in order to encourage employee performance. However, that does not mean that leader of the organization can neglect work environment and organization culture. Even though work environment and organization culture, statistically, has not dominantly influence the work performance compared to leadership. However, theoretically, decent work environment and conducive organization culture has bigger contribution toward employee performance. As the conclusion of the study, the three indicators has positively and significantly influenced employee performance. Therefore, management of organization have to focus and pay attention to the three of the indicators in order to create higher employee performance for achieving organization vision, mission and objectives.

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