Factor Influencing Employee Performance: The Role of Organizational Culture

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Abstract

This study examines the role of Leadership style and Organizational culture in predicting employee Performance. The aim of the research is: 1) to know the direct effect of Democratic Leadership on employee Performance, 2) to know the direct effect of Democratic Leadership on organizational culture, 3) to know the direct effect of Organizational culture on employee Performance, 4) to test the role of Organizational culture as mediation the effect of Democratic Leadership on employee Performance. The respondents were all employees at the Education Office East Java. The sampling method was used to collect data from 106 employees at the Education Office East Java, Indonesia, using surveys and questionnaires. The data obtained were analyzed using the Path Analysis with SPSS statistical software. The study had four findings. Firstly, Democratic Leadership has a significant effect on employee Performance. Secondly, Democratic Leadership also has a significant effect on Organizational culture. Thirdly, Organizational culture has a significant effect on employee performance. Fourthly, organizational culture mediates the effect of Democratic Leadership on employee Performance. Furthermore, the direct effect of Leadership style and the mediation role contribute to knowledge. The results showed that implementing Democratic Leadership supported by a conducive organizational culture guides employee to perform better.

Keywords: Leadership Style, Democratic Leadership, Organizational Culture, Employee Performance, Path Analysis

JEL Classification Code: C39, L25, L29, M12, M14

1. Introduction

Democratic leadership style remains the most popular type of leadership (Siddigue et al., 2020) despite the emergence of other concepts and approaches, such as ethical and strategic leadership (Yukl, 2017). According to Siddique (2019) and Harms et al. (2018), this leadership is widely practiced in most Asian, Middle Eastern, and Western countries. Therefore, by analyzing the widespread use of democratic leadership styles, it is essential to understand how subordinates perceive it and how this leadership approach affects performance.

In recent years, various studies have been conducted on the influence of democratic leadership on various organizations; however, their efforts have not provided consistent results. Although studies conducted by Gu et al. (2018), Chen et al. (2016), and Chesbrough (2011) have documented the positive impact of democratic leadership on key work outcomes, such as satisfaction and creativity, however, recent research has reported its positive impact on performance (Wilson, 2020; Wang & Guan, 2018; Tian & Sanchez, 2017). This inconsistent depiction of widely used leadership approaches not only hinders theoretical progress; instead, it also fails to provide clear strategic direction for practitioners. Furthermore, researchers find it difficult to develop clear and empirically-based statements on democratic leadership approaches and their potential impact on performance.
Busro (2018) stated that performance is a work result achieved by employees both individually and in groups in an organization. Employee performance is the work of employees in fulfilling obligations in accordance with their duties and responsibilities (Kustono, 2020). This is following the organization’s authority and responsibility to achieve their vision, mission, and goals, including the ability, perseverance, and independence within the time limit, which does not violate the law, and in accordance with morals and ethics. Mgbere (2009) stated that leadership, organizational culture, and work environment are some factors that affect performance.

Leadership is the leader’s ability to influence and direct subordinates to achieve organizational goals (Kartono, 2016). Busro (2018) further stated that leadership style is a consistent pattern of behavior played by leaders when influencing others. According to Klein (2019), democratic leadership is a process in which decisions are deliberated between individuals, followed by responsible action. Leaders need to be creative to survive and compete in today’s rapidly changing world. Therefore, leadership plays an active role in influencing, adapting, moving, and innovating a society (Buekens, 2013; Vargas, 2015). A leader’s role can be more successful when organizational culture encourages and creates values, such as learning, development, and decision-making (Li et al., 2018).

Research carried out by Supriyanto et al. (2020), Basit et al. (2017), Iqbal et al. (2015), Al-Khaled & Fenn (2020), Bhargavi and Ali (2016), Agarwal (2020), Pawirosumarto et al. (2017) and Nguyen et al. (2020), stated that leadership affects performance. Therefore, the better the leadership style, the better the performance. Similarly, the research carried out by Al-Khajeh (2018), reported that leadership style affects performance. According to Trang (2018), Saleem (2020), Astuti et al. (2020), and Lai et al. (2020), leadership style has no direct effect on performance. This is in line with the research carried out by Jyoti and Bha (2015), which stated that the leadership results do not directly affect performance, preferably through LMX and individual relationships. Similarly, Ribeiro et al. (2018) stated that the better the leadership, the higher the work commitment, thereby leading to a significant increase in performance. Maamari and Saheb (2018) stated that a good leadership style followed by an organizational culture improves employee performance.

It is also necessary to have an organizational culture within an institution, which acts as a guideline in continuously carrying out activities, thereby boosting employee performance (Fahmi, 2016; Nikpour, 2017). Organizational culture is a set of values, beliefs, and ways of carrying out activities in an organization. This condition describes the atmosphere in which an employee works and how they need to behave to achieve set goals within an organization (Mgbere, 2009; Hofstede, 2011). Organizational culture is considered a guideline for an organization’s activities, whereby organizational culture reflects its goals, vision, mission, and development plans (Ha, 2020).

According to Maamari and Saheb (2018), organizational culture impacts the level of authority and the organization’s decision-making process. This makes it meaningful and interesting to measure the ability to innovate and adapt to cultural changes and how it affects performance (Mgbere, 2009).

Several research results on organizational culture and performance were carried out by Shahzad (2014), Mulugeta (2020), Joseph and Kibera (2019), and Abidin et al. (2020). The results revealed that organizational culture has the ability to improve performance. Luca et al. (2018) stated that the effect of creative culture increases performance.

The majority of leadership research focuses on generic leadership styles, such as transformational, transactional, and laissez-faire (Engelen et al., 2014; Kang et al., 2015). In the last four decades, advances in leadership theory have led to the emergence of new leadership styles, such as paternalistic, democratic, and authentic (Aycan, 2006). Therefore, this study focuses on the relationship between democratic leadership style and employee performance. The study also examines the mechanisms by which this leadership style influences organizational culture, which acts as mechanisms for support and control in order to improve employee performance.

2. Literature Review and Hypotheses

2.1. Literature Review

Leadership style is the behavioral pattern of a leader who tries to influence others by coordinating and supervising their work to achieve organizational goals (Robbins & Coulter, 2010); (Northouse, 2013). According to Kartono (2016), leadership style is a leader with differing traits, habits, temperament, character, personality, behavior, and style in interacting with others. Leadership style is the movement of a leader that can differentiate between one leader and another. Busro (2018) stated that leadership style is a behavior pattern that leaders consistently play when influencing others.

Robbins and Coulter (2010) stated that the democratic leadership style is how leaders respect and take into account the opinions and suggestions of their subordinates. A democratic leader is one who encourages participation in decision-making, and democratic leadership relates to higher morale in most leadership situations. Democratic leaders offer guidance to group members, participate in the group, and allow input from subordinates (Sharma & Singh, 2013). Meanwhile, according to Kartono (2016), it is the process used to coordinate all members’ work and duties by emphasizing a sense of responsibility and good
cooperation. This leadership style is characterized by efforts to create and develop effective human relationships based on the principles of mutual respect among members of the organization. A leader with this leadership style always looks to take advantage of everyone they lead.

Raelin (2012), Sharma and Singh (2013) stated that there are democratic leadership style indicators, namely the ability to encourage members to use cognitive power to solve various problems, encouraging members to use innovation and creativity to carry out tasks. This is in addition to democracy, whereby leaders and members are involved in decision making and solving a problem at hand. Harmony is a good relationship between superiors and subordinates in order to create a harmonious atmosphere and foster a sense of mutual cooperation in carrying out their duties and obligations.

Organizational culture is a method used by members to differentiate one organization from another. According to Robbins and Timothy (2016), an organization has the characteristics that differentiate it from others. Busro (2018) stated that organizational culture is a shared perception held by an organization’s members, with an adhered value system. Therefore, the value or meaning system can differentiate between one organization with others. Similarly, Fahmi (2016) stated that organizational culture is a habit that has lasted a long time and is used and applied in the life of work activities as one of the drivers to improve work quality.

Performance is the result of work that can be achieved by employees of an organization both individually and in groups. This is in accordance with the organization’s authority and responsibility to achieve the vision, mission, and goals by including the persistence, independence, ability to solve problems within the legally assigned time limit, and in line with morals and ethics (Busro, 2018).

Sinambela (2012) stated that performance is the result or level of success of a person. It is associated with the overall period in carrying out a task compared to various possibilities, such as work standards, targets, or criteria that have been mutually determined in advance. The intended performance is the achievement of an employee both individually and in groups within a specified period and following the planned organizational goals. Meanwhile, according to Bintoro and Daryanto (2017), performance results from work in quality and quantity achieved by employees in carrying out their responsibilities.

2.2. Research Hypotheses

Leadership style is a leader’s behavior pattern that tries to influence others (Northouse, 2013). According to Klein (2019), democratic leadership is a leadership process in which democratic decision making is preceded by deliberation between individuals and followed by responsible action. Supriyanto et al. (2020), Basit et al. (2017), Agarwal (2020), and Landum et al. (2000) stated that leadership style has a significant effect on employee performance. Therefore, based on the empirical and theoretical studies that have been stated, the research hypothesis is as follows:

**H1:** Better the application of a democratic leadership style, better the performance of the employee.

Democratic leadership style is the awareness to manage subordinates while respecting and considering their suggestions (Robbins & Coulter, 2010). Top management actions play a significant role in creating an organizational culture (Robbins & Timothy, 2016). Li et al. (2018) reported that a leader’s role is successful when it is accompanied by an organizational culture that functions to encourage and create values such as learning, development, and decision making. Therefore, based on the stated empirical and theoretical studies, the research hypothesis is as follows:

**H2:** The better the application of a democratic leadership style, the greater its ability to create a conducive organizational culture.

Organizational culture is a habit that has lasted a long time and acts as a driving force to improve the quality of work of employees and company managers (Fahmi, 2016; Mulugeta, 2020). Joseph and Kibera (2019) stated that the better the organizational culture, the greater the ability to improve individuals and organizations’ performance. Therefore, based on the empirical and theoretical studies that have been stated, the research hypothesis is as follows:

**H3:** The better the implementation of Organizational Culture, the better the Employee Performance.

Busro (2018) stated that leadership style is a pattern of behavior that leaders consistently play when influencing others. According to Robbins and Timothy (2016), top management’s actions play a significant role in creating an organizational culture, which functions as a meaning-making and controlling mechanism that shapes attitudes and behaviors that impact work productivity and performance (Robbins, 2006). Saleem (2020) and Lai et al. (2020) stated that leadership style has no direct effect on performance. Maamari and Saheb (2018) reported that a good leadership style followed by an organizational culture has the ability to improve employee performance. Therefore, based on the empirical and theoretical studies that have been stated, the research hypothesis is as follows:

**H4:** Organizational Culture mediates the influence of leadership style on employee performance.
2.3. Hypotheses Model

Testing the mediation hypothesis can be carried out using a procedure developed by Sobel (1982), known as the Sobel test. When the t-value is greater than the t-table (> 1.96), it can be concluded that there is a mediating effect between X and Y (Ghozali, 2013).

4. Results and Discussion

The validity test was carried out by correlating the score of the statement items with the total variable score. According to Supriyanto & Maharani (2013), the validity test is valid when the coefficient is ≥0.3 with α = 0.05. Therefore, the validity test results show that the items used to measure the variables of democratic leadership, organizational culture, and employee performance have validity values in line with the Pearson product-moment above 0.3. Table 1 shows that the Cronbach Alpha value of the variables of democratic leadership, organizational culture, performance is above 0.6 and in a good reliability category.

The linearity test is used to determine whether the model used in the study is linear or not. The model can be declared linear when the significant value of deviation from linearity is above 0.05. The results of the linearity test in this study are shown in Table 2. Table 2 shows the results of the significant value of deviation from linearity of variable X to Z, Z to Y, and X to Y in values of 0.175, 0.259, and 0.085. Therefore, all of these variables have a linear relationship because the significant values of deviation from linearity are all greater than 0.05.

The standardized coefficient beta value shows the size of the leadership style contribution to employee performance by 0.354. The summary model shows that R-square has a small contribution, which is only at 0.375 (37.5%). The remaining amount comes from the influence of other variables outside the one understudy. In this case, the criteria are when t-count > t-table or significance t < 0.05, then H1 is accepted. This means that there is a significant democratic leadership effect on employee performance.

Based on the calculation of path analysis, democratic leadership style directly affects employee performance, which is in line with the research carried out by Robbins & Coutler (2016). Bararuallo (2019) stated that a democratic leadership style is a behavior used by leaders to respect and consider their subordinates’ opinions and suggestions. The conditions in the field are in line with research from Supriyanto et al. (2020), Basit et al. (2017), Agarwal (2020), Landum et al. (2000), Nguyen et al. (2000), which stated that leadership style has a significant effect on employee performance. Therefore, the leader has a significant influence on employee performance in carrying out their duties and obligations, which means that the better the leadership style, the better the employee performance.

3. Research Methods and Materials

This study’s sample size was 106 employees of the East Java education office, including leadership elements with a minimum service period of 2 years. Data was collected through a questionnaire and measured using a five-point Likert scale. According to Sharma and Singh (2013), indicators of democratic leadership is the ability to solve a problem, innovate, and involve leaders and members in the decision making and solving process. Organizational culture indicators refer to the opinion of Robbins and Timothy (2016) taking risk into account innovatively, paying attention to every problem, oriented on the results to be achieved, oriented to all interests of members of the organization, and aggressive at work, and maintain work stability. Performance indicators are in line with the research of Robbins (2006). It comprises of Quality, Quantity, Punctuality, Effectiveness, Independence, and Work commitment.

The research data’s verification and reliability used Cronbach’s Alpha, which is proceeded by testing the data validity using the product-moment Pearson correlations. Furthermore, the Path analysis technique is used to analyze the pattern of relationships between variables. This model aims to determine the direct or indirect effect of a set of free (exogenous) variables on the dependent (endogenous). Path analysis is a standardized regression coefficient, calculated from a database that has been set in standard numbers (Z-score) (Supriyanto & Maharani, 2013), while the Sobel test is used for intervening variable testing. According to Baron and Kenny (Ghozali, 2013), a variable is called an intervening variable when it influences the relationship between the independent and the dependent variables.
This leadership style is characterized by efforts to create and develop effective human relationships based on the principles of mutual appreciation and respect among members of the organization. Furthermore, it makes employees feel more valued and motivated to think and have the courage to contribute more to agencies/institutions, which in turn improves their performance. However, an employee needs also to obey the leadership and be ready to carry out their duties and obligations (Robbins & Coutler, 2016).

Table 1: Results of the reliability

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic leadership</td>
<td>0.916</td>
<td>Reliable</td>
</tr>
<tr>
<td>Organizational Culture</td>
<td>0.843</td>
<td>Reliable</td>
</tr>
<tr>
<td>Employee performance</td>
<td>0.865</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Table 2: Linearity Test Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Deviation from Linearity</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic leadership</td>
<td>0.175</td>
<td>Significant</td>
</tr>
<tr>
<td>Organizational Culture</td>
<td>0.259</td>
<td>Significant</td>
</tr>
<tr>
<td>Democratic leadership</td>
<td>0.085</td>
<td>Significant</td>
</tr>
</tbody>
</table>

The standardized coefficient beta value shows the size of the democratic leadership contribution to the organizational culture of 0.617. The summary model shows that $R^2$ has a small contribution to 0.381 (38.1%). The remaining amount of contribution comes from the influence of other variables outside the one understudy. When $t$-count > $t$ table or significance $t < 0.05$, then there is a significant effect of the independent variable on the dependent, therefore $H_2$ is accepted. This means that the democratic leadership style has a direct effect on organizational culture.

The findings in this field are in line with the research carried out by Robbins and Timothy (2016), which stated that top management’s actions play a major role in creating organizational culture. Li et al. (2018) reported that a leader’s role is successful when it is accompanied by an organizational culture that functions to encourage and create values such as learning, development, and decision making. The results of the study are in line with the research carried out by Maamari and Saheb (2018), which stated that a good leadership style followed by an organizational culture improves employee performance.
The standardized beta coefficient value shows the contribution amount of organizational culture to employee performance is 0.428. The summary model shows that R Square has a small contribution, which is only at 0.375 (37.5%). The remaining amount of contribution comes from the influence of other variables outside the one understudy. In this case, H3 is accepted assuming $t_{count} > t_{table}$ or significance $t < 0.05$, which means that there is organizational influence culture on employee performance.

The results of this study are supported by previous research from Ha (2020). It stated that Organizational culture is considered a guideline for all activities of an organization, whereby organizational culture reflects its goals, vision, mission, and development plans of the organization. This makes it meaningful and interesting to measure the ability to innovate and adapt to cultural changes and how it affects performance (Mgbere, 2009).

Mulugeta (2020) and Joseph and Kibera (2019) stated that organizational culture could improve performance. Therefore, a better organizational culture has the ability to improve the performance of both individuals and organizations. This condition is in line with Fahmi (2016), which stated that organizational culture is a habit that has lasted a long time and is used and applied in the life of work activities as one of the driving forces to enhance employees’ abilities. Like culture, sharing things, such as uniforms, creates neatness and discipline and makes employees appear polite. There is also a culture that is often referred to as sharing doing, which means carrying out social service work at least once a month. This is a culture that positively impacts employees in terms of cooperation and harmony within an organization.

The mediation hypothesis needs to be tested to detect the position of the intervening variables in the model. Testing can be carried out with a procedure developed by Sobel and known as the Sobel test. This process is carried out by testing the influence of Islamic leadership on performance through empowerment and innovative work behaviors. The Sobel test uses the free calculator software for the significance of mediation version 4.0, as shown in Table 4.

Based on the results of the Sobel test analysis for the democratic leadership pathway, organizational culture, and employee performance, a score of $2.486 > 1.96$ and significance of $0.013 < 0.05$ is obtained; therefore, H4 is accepted. It can be concluded that organizational culture mediates the democratic leadership influence on employee performance.

According to Maamari and Saheb (2018), an organizational culture’s good leadership style improves employee performance. Furthermore, top management actions play a significant role in creating an organizational culture. According to Robbins and Timothy (2016), this functions as a meaning-making and controlling mechanism that shapes attitudes and behaviors that have an impact on work productivity and performance (Robbins, 2006).

The findings in this field are in line with Busro (2018), which stated that leadership style is a pattern of behavior that is consistently played by leaders when influencing others. Similarly, Robbins and Coulter (2010) reported that a leader coordinates and supervises others’ work to achieve organizational goals. Leadership style is a characteristic of leaders in leading those under them, starting from moving, directing, and guiding in decision-making. Leaders’ style is inseparable from their character or personality, which remains to achieve the organization's goals.

Table 3: Hypothesis testing for the direct effect

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variables</th>
<th>Standardized Coefficients</th>
<th>R Square</th>
<th>Significance</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic leadership</td>
<td>Employee performance</td>
<td>0.354</td>
<td>0.375</td>
<td>0.028</td>
<td>Significant</td>
</tr>
<tr>
<td>Democratic leadership</td>
<td>Organizational Culture</td>
<td>0.617</td>
<td>0.381</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Organizational Culture</td>
<td>Employee performance</td>
<td>0.428</td>
<td>0.375</td>
<td>0.041</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Table 4: The results of the Sobel test analysis

<table>
<thead>
<tr>
<th>Path</th>
<th>A</th>
<th>B</th>
<th>SEA</th>
<th>SEB</th>
<th>$t_{count}$</th>
<th>sig</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DL-OC-EP</td>
<td>0.617</td>
<td>0.428</td>
<td>0.071</td>
<td>0.165</td>
<td>2.486</td>
<td>0.013</td>
<td>Sig</td>
</tr>
</tbody>
</table>

5. Conclusions

This study describes the relationship between democratic leadership style and organizational culture, which is described on the basis of previous research and one of the significant contributions to science. Furthermore, the study provides guidelines for education offices in East Java to improve performance by optimizing both leaders and organizational culture’s role to function as a mediating effect.
The direct relationship was significant where the democratic leadership style had a significant effect on employee performance. The democratic leadership style had a positive effect on organizational culture, and organizational culture significantly affected employee performance. Organizational culture mediates the relationship between democratic leadership style and employee performance.

This study is limited to using a survey research design; therefore, future research needs to use a longitudinal design to highlight the nature of the causal relationship between democratic leadership, organizational culture, and performance. They also need to consider other mediators and moderators’ possibilities in determining the relationship between democratic leadership and work outcomes to describe better the processes and conditions under which democratic leadership affects various aspects of subordinates’ work-life. Ongoing research efforts are needed to increase understanding of the democratic leadership influence on work outcomes and determine strategies to minimize its negative impact on the work lives of subordinates.

References


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