

Leadership Style on Organizational Culture and Good Corporate Governance

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ABSTRACT

This study aims to determine the mediating effect of organizational culture variables between leadership style and Good Corporate Governance (GCG) in the Village Credit Institution (LPD) in Gianyar Regency. The sample used was 73 LPD of Gianyar Regency. The analysis technique used is Partial Least Square (PLS). The analysis shows that organizational culture provides a partial mediation effect on relationship between charismatic leadership styles and GCG, while in the relationship between transformational leadership styles and GCG, organizational culture provide full mediation. The implication of this research is that a good organizational culture of the institution will improve GCG in the institution.

Keywords: good corporate governance, leadership style, organizational culture

INTRODUCTION

Bali Province is one of the provinces that drives the economy not with natural resources but with cultural resources. The preservation of Balinese culture as an economic resource is currently entirely borne by the Pakraman villagers. In 1984, the Provincial Government of Bali sparked an idea to help Pakraman villages in carrying out such a heavy cultural function. Based on the Governor's Letter Number: 972 of 1984, dated November 1, 1984, the Provincial Government of Bali sparked the establishment of a Village Credit Institution (LPD) in each customary village. The existence of LPD is able to provide enormous economic benefits by Desa Pakraman in relation to the function of maintaining and developing culture. LPD is a financial institution owned by Pekraman village that provides social, economic and cultural benefits to its members, so it needs to be fostered, improved its performance, and strengthened and preserved its existence (Suartana, 2009: 12).

The Village Credit Institution (LPD) in Gianyar Regency is recorded to be the LPD which has the second largest asset and the second largest LPD in Bali. According to the Chairman of the LPLPD Gianyar Ida Bagus Suastika, in the Regency of Gianyar to date in 2019 there have been 270 LPDs recorded. Of that many there are 19 LPDs who are in trouble and declared sick. This data shows the addition of 2018 data, which recorded 10 unhealthy LPDs, 38 unhealthy 38, 50 healthy enough, and 145 LPDs declared healthy (Tribun-Bali.com, 2019). This increase in the number of unhealthy LPDs is partly due to corruption committed by LPD management. One of them was a corruption case carried out by the Chairperson of LPD Pacung, Bitera, Gianyar, I Nyoman Jaya who was sentenced to 1 year in prison for being proven to corrupt LPD money for personal gain worth Rp. 142

million more (NusaBali.com, 2019). With this increase in the number of unhealthy LPDs, it can be stated that there is a situation where there is a lack of control on LPD performance in Gianyar Regency.

To avoid the recurrence of corruption cases in the LPD, it should be necessary to have a good system, effective supervision, and the right decision making in improving the quality of work of a company such as LPD (Deby, 2014). So far the LPD is managed separately from the village manners institution, thus allowing agency conflicts. According to Shil (2008), agency conflict arises when people in different positions sacrifice corporate goals for personal gain. To minimize the possibility of agency conflict or other cases of misappropriation of funds in the LPD, good corporate governance is needed which is expected to be able to reduce the gap between agents and principals.

The application of good corporate governance (GCG) principles in LPD management is very important, because it will immediately provide clear direction for LPDs to enable responsible decision making and enable better management of LPDs, so as to improve LPD performance (Krismaya, 2014) . GCG principles consist of transparency, accountability, responsibility, independence, and fairness. According to Dominikus (2014), the application of corporate governance does not only depend on existing principles and regulations, but also depends on the integrity and quality of existing human resources. Work ethics and culture, and professional work principles play an important role in the implementation of corporate governance.

The existence of a problematic LPD is certainly inseparable from the culture and leadership style of each LPD, because the LPD's retreat and progress depends very much on the management and managers, especially the LPD leaders. Seeing this, it is deemed necessary to have a transformation from the leadership to implement GCG principles as a whole in the LPD. Leadership style is a leadership factor in an organization, meaning that leadership style has an influence on subordinates in adopting GCG principles. Charismatic Leadership and Transformational Leadership (New leadership) are a combination of individual leadership qualities that consist of personal traits, activities and skills needed to be effective leaders.

The successful implementation of GCG implementation is also influenced by internal organizational factors, namely there is an organizational culture that supports the implementation of GCG in the mechanism and work management system in LPD. Organizational culture is a framework that guides daily behavior to achieve organizational goals. A good organizational culture can change the attitude and behavior of human resources to achieve better productivity in facing future challenges. The relationship between GCG and corporate culture is directly proportional. The implementation of GCG in the company can succeed smoothly and successfully if it is supported by internalization of a good corporate culture. Without a strong corporate culture and run consistently, the implementation of GCG will experience difficulties and may even fail.

Based on the description above, this study aims to determine the effect of leadership style on the implementation of Good Corporate Governance (GCG) and the effect of organizational culture mediation on the relationship between

leadership style and GCG in the Village Credit Institutions (LPD) in Gianyar Regency. The leadership style used in this study is the charismatic leadership style and the transformational leadership style.

Good Corporate Governance (GCG)

Governance related to the management of authority. This relates to how to achieve organizational goals for the common good, and how to prevent organizational resources from being misused so that organizational goals can be achieved. According to Jang, the issue of corporate governance is not only related to business and economic issues, but also related to socio-political issues. Jang sees corporate governance as very helpful in encouraging transparency and accountability in the business community. This gives overall benefits to the community because of the influence of transparency and accountability in the public sectors (Surya and Yustiavandana, 2016: 8-9). Based on the above definition, it can be concluded that Corporate Governance is a system that regulates how a company or organization is run (operating) and controlled or as corporate governance (organization).

Hypotheses

Effect of Leadership Style on Organizational Culture

The leadership style which consists of charismatic and transformational leadership as a new leadership framework influences the culture in an organization. In the context of new leadership, charismatic leadership is a combination of individual leadership qualities that consist of personal traits, activities and skills needed to be effective leaders. Trianingsih (2007) and Maniarti (2000) found that leadership style is a dominant factor in determining and shaping organizational character / culture. Based on the description above, the hypotheses developed are:

H1a : Charismatic leadership style influences organizational culture.

H1b : Transformational leadership style influences organizational culture.

Effect of Leadership Style on the Implementation of Good Corporate Governance

The maximum implementation of GCG requires several factors, including the strength of the organization's leader's vision and certainty of the direction and objectives to be achieved; strong managerial leadership and able to transfer the vision possessed into daily management practice; the availability of rules and regulations that must run parallel with the needs of good business management; the function of supervision and enforcement of existing rules. With the support of all parties, the application of GCG in the company will better guarantee organizational performance in a strong and sustainable manner.

Related to the implementation of GCG, the leader has an important role in the success of GCG programs in the business unit environment. Leaders as part of the leadership axis have a very strategic role in improving the quality of corporate governance, including in the implementation of GCG. The role of leaders as transformational leaders in this case is very important in line with the assumption that GCG is considered an organizational transformation towards a better direction. The leader is as a leader and agent of transformation in the implementation of strategic GCG implementation updates, including in applying social contexts and influencing everyone in the organization. Temalagi research results (2010) Charismatic and transformational leadership have indirect positive effects on

performance through achievement orientation. Based on the description, the hypotheses developed are:

H2a : Charismatic leadership style influences the application of Good Corporate Governance

H2b : Transformational leadership style influences the application of Good Corporate Governance

Effects of Organizational Culture on the Implementation of Good Corporate Governance

Corporate Governance is a governance system that is implemented by considering all factors related to the regulator's function. The implementation of GCG in a company can succeed smoothly and successfully if it is supported by internalization of a good corporate culture. Without a strong corporate culture and run consistently, the implementation of GCG will experience difficulties and may even fail. The results of Widuri and Paramita's research (2008) show that there is a strong correlation between corporate culture and good corporate governance, which shows the stronger the application of corporate culture, the higher the application of good corporate governance. Empirical research conducted by Prasetyo and Kompyurini (2008) found that organizational culture has an influence on public accountability at a sufficient level. Based on the description, the hypotheses developed are:

H3: Organizational culture influences the application of Good Corporate Governance

Effect of Leadership Style on Good Corporate Governance With Organizational Culture As A Mediation Variable

Companies that are superior and praiseworthy usually have the following advantages: 1) Management is superior so that the company can create high performance and optimal operating profit; 2) The superior management process is maintained by good corporate governance practices which consist of five main aspects, namely transparency, independence, accountability, responsibility, and fairness. Good corporate governance is a prerequisite for the quality of corporate management required in global competition. Corporations that implement good corporate governance receive higher acceptances. Corporations that uphold social responsibility will obtain a positive institutional image.

Corporate culture concentrates on the form of attitude, this form of attitude is the personality of the individuals in the company, so that the attitude and personality interaction between individuals within the company will bring up the company's character in him. Companies that are big, strong, and last for decades or hundreds of years while still being a company of pride and idol are competent companies that move all parts of his body at the behest of his body. The driving force is corporate culture, so it can be said that corporate culture is the core of good corporate governance.

Temagi's research results (2010) found that both charismatic and transformational leadership styles have an indirect influence on the implementation of GCG through organizational culture. Based on the description above, the hypotheses developed in this study are:

H4a : Organizational culture can mediate the influence on the charismatic leadership style on good corporate governance

H4b : Organizational culture can mediate the influence of the transformational leadership style on GCG good corporate governance.

RESEARCH METHODS

This study uses primary data obtained based on the results of respondents' responses in the questionnaire to be distributed. The LPDs selected in this study were LPD employees in Gianyar Regency. Measurement of the variables of this study uses a five-point Likert scale that aims to capture the assumptions, respondents' perceptions in the form of statement items and are seen to be roughly the same as the attitude value. Scale 1 means strongly disagree, scale 2 means disagree, scale 3 means don't know, scale 4 means agree and scale 5 means totally agree. The variables of this study consisted of:

1. Charismatic Leadership Style (X_1)

The charismatic leadership style in Yukl (2015: 290) is a leadership style that gives rise to a radical vision that offers a solution to the so-called crisis, where leaders attract followers who believe in that vision and are believed to be extraordinary. Charismatic leadership is measured using items developed by Conger and Kanungo (1987), who propose a theory of charismatic leadership based on the assumption that charisma is a related phenomenon.

2. Transformational Leadership Style (X_2)

Transformational leadership style according to Yukl (2015: 306) is an effective leadership style that involves internalization because inspirational motivation includes an interesting vision pronunciation that connects the task objectives with the values and idealism of followers, but it also involves personal identification because the ideal influence produces attribution of the charisma of followers to the leader. This variable is measured using items developed by Bass and Avolio (1994) consisting of Charisma, Intellectual Stimulation, Individualized Consideration, and Inspirational Motivation.

3. Organizational Culture (Y_1)

Organizational Culture is the values of beliefs owned by members of the organization which are manifested in the form of norms of behavior of individuals or groups of organizations concerned (Hofstede et al., 1993).

4. Good Corporate Governance (Y_2).

Good Corporate Governance according to the World Bank in Emirzon (2007: 91) is a collection of laws, regulations and rules that must be fulfilled that can encourage the performance of company resources to work efficiently, producing long-term sustainable economic value for stakeholders. This variable is measured using dimensions of GCG principles, namely: transparency, accountability, responsibility, independence, and fairness.

The population of this study were all LPDs in Gianyar Regency, which were 270 LPDs. The sample is determined using the Slovin formula with a significance level of 10 percent, so that the number of samples to be studied is 72.9 (rounded 73) LPD. The sampling method using proportional random sampling method is the method of random sampling but with a certain proportion in each district LPD in Gianyar Regency.

This research model will be analyzed using the Partial Least Square (PLS) method. PLS is an alternative method of Structural Equation Modeling (SEM) that can be done to overcome problems in relationships between highly complex variables but

small data sample sizes (30-100 samples) and have non-parametric assumptions, meaning that the data does not refer to either certain distributions (Yamin and Kurniawan, 2009).

RESULTS AND DISCUSSION

Questionnaires distributed to each LPD in each district in Gianyar Regency were 90 questionnaires. The total number of returned and complete questionnaires was 73 questionnaires, or the response rate was 81,11 percent, so the number of questionnaires that could be analyzed was 73 questionnaires.

Outer Model Testing

Convergent Validity is done by looking at the item reliability (indicator of validity) shown by the loading factor value. A loading factor value greater than 0.7 is said to be valid. But according to Chin, as quoted by Imam Ghozali, an outer loading value between 0.5 to 0.6 is considered sufficient to meet the convergent validity requirements. From the results of data processing, it is found that there are no variable indicators whose outer loading values are below 0.5, so that all indicators are declared to be feasible or valid for use in this research.

Based on the results of data processing, it can also be seen that each indicator on the research variable has the largest cross loading value on the variable it forms compared to the cross loading value on the other variables. Based on the results obtained, it can be stated that the indicators used in this study already have good discriminant validity in preparing their respective variables. Based on the results of the data processing it was also found that the composite reliability and Cronbach's alpha values of each study variable were greater than 0.7, which means that all constructs had good reliability.

R Square Determination Coefficient

R square is used to see the significance value of the latent variable. In the first model R square of 0,663 which means that variations of organizational culture can be explained by variables charismatic leadership style and transformational leadership style by 66,3%. R Square in the second model of 0,648, which means that variations of the variable of good corporate governance can be explained by variables of charismatic leadership style, transformational leadership style and organizational culture by 64,8%.

Hypotheses Testing

To see whether a hypothesis can be accepted or rejected, including by considering the significance value between constructs and t-statistics. These values can be seen from the results of bootstrapping. The rules of thumb used in this study are t-statistics > 1.96 . The structural model of this research can be seen in the following picture:

Table 1: Path Coefficients (Mean, STDEV, t-Value)

Hypoteses	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics	Signifikansi
BO -> GCG	0.345846	0.324102	0.149998	2.305670	Signifikan
GKK -> BO	0.504339	0.500880	0.099174	5.085398	Signifikan
GKK -> GCG	0.524157	0.531718	0.127322	4.116787	Signifikan
GKT -> BO	0.358559	0.366349	0.106965	3.352126	Signifikan
GKT -> GCG	-0.022950	-0.006862	0.128365	0.178790	Tidak Signifikan

Source: Result Data Processing, 2019

Based on table 1 it can be explained that:

1. The coefficient value of organizational culture (BO) on good corporate governance (GCG) is equal to 0,345846 with a t-statistic value of 2,305670 > 1,96, which means organizational culture (BO) has a positive effect on good corporate governance (GCG).
2. The coefficient of charismatic leadership style (GKK) on organizational culture (BO) is 0,504339 with a t-statistic value of 5,085398 > 1,96, which means the charismatic leadership style (GKK) has a positive effect on organizational culture (BO) .
3. The coefficient of charismatic leadership style (GKK) on good corporate governance (GCG) is 0,524157 with t-statistic value 4,116787 > 1,96, which means the charismatic leadership style (GKK) has a positive effect on good corporate governance (GCG).
4. The coefficient value of transformational leadership style (GKT) on organizational culture (BO) is equal to 0,358559 with t-statistic value 3,352126 > 1,96, which means the transformational leadership style (GKT) has a positive effect on organizational culture (BO) . nilai koefisien gaya kepemimpinan transformasional (GKT) terhadap good corporate governance (GCG) yaitu sebesar -0,022950 dengan nilai t-statistik 0,178790 > 1,96, yang artinya gaya kepemimpinan transformasional (GKT) tidak berpengaruh terhadap good corporate governance (GCG).

Discussion of Research Results

Effect of Leadership Style on Organizational Culture

The first hypothesis (a) examines whether a charismatic leadership style influences organizational culture. Based on the test results it can be seen that the charismatic leadership style influences organizational culture, so it can be stated the first hypothesis (a) is accepted. This proves that the charismatic leadership style is proven to have an influence on organizational culture in the LPD in Gianyar Regency.

The first hypothesis (b) examines whether transformational leadership styles affect organizational culture. Based on the test results it can be seen that the transformational leadership style influences the culture of the organization, so it can be stated the first hypothesis (b) is accepted. This proves that the transformational leadership style is proven to have an influence on organizational culture in the LPD in Gianyar Regency.

The transformational and charismatic leadership style of LPD leaders in Gianyar Regency can make subordinates feel trust, admiration, and respect for their superiors, and they are motivated to do more than expected for LPD progress. Transformational and charismatic leadership like this is considered effective in encouraging organizational culture in any organization, especially in the LPD.

Effect of Leadership Style on Good Corporate Governance (GCG)

The second hypothesis (a) tests whether the charismatic leadership style influences the application of good corporate governance. Based on the test results it can be seen that the charismatic leadership style influences the application of GCG, so it can be stated the second hypothesis (a) is accepted. This proves that the charismatic leadership style is proven to have an influence on the application of GCG in the LPD in Gianyar Regency.

The second hypothesis (b) tests whether the transformational leadership style influences the application of GCG. Based on the test results it can be seen that the transformational leadership style influences the application of GCG, so it can be stated the second hypothesis (b) is rejected. This proves that the transformational leadership style cannot influence the application of GCG in the LPD in Gianyar Regency.

Related to the implementation of GCG, the leader has an important role in the success of GCG programs in the LPD environment. Leaders as part of the leadership axis have a very strategic role in improving the quality of corporate governance, including in the application of GCG. The role of the leader as a charismatic leader is very important in line with the assumption that GCG is considered an organizational condition towards a better direction. The leader is as a leader and agent of transformation in the implementation of strategic GCG implementation updates, including in applying social context and influencing everyone in the LPD, while transformational leadership is considered unable to influence or bring LPD conditions in a better direction according to the results of the questionnaire answers and the results of tests that have been carried out.

Effect of Organizational Culture on Good Corporate Governance (GCG)

The third hypothesis examines whether organizational culture influences the application of GCG. Based on the test results it can be seen that organizational culture influences the application of GCG, so it can be stated that the third hypothesis is accepted. This proves that organizational culture is proven to have an influence on the application of GCG in LPD in Gianyar Regency. Building a strong organizational culture can be used as a guide to improve the application of good corporate governance. In mature organizations such as LPD, organizational culture influences leaders more than leaders who influence their culture, so that organizational culture can directly influence the application of GCG to LPD in Gianyar Regency.

Effect of Leadership Style on Good Corporate Governance With Organizational Culture As A Mediation Variable

The fourth hypothesis (a) examines whether charismatic leadership style influences the application of GCG through organizational culture. Based on the test results obtained that the charismatic leadership style affects the application of GCG, the leadership style also influences the organizational culture and the organizational

culture influences the application of GCG. This means that organizational culture provides a partial mediating effect on the relationship between charismatic leadership styles and the application of GCG. It can be concluded that the fourth hypothesis (a) is accepted because the charismatic leadership style influences the implementation of GCG through organizational culture in LPD in Gianyar Regency.

The fourth hypothesis (b) tests whether transformational leadership style influences the application of GCG through organizational culture. Based on the test results obtained that the transformational leadership style affects the organizational culture, and organizational culture influences the application of GCG, but the transformational leadership style does not affect the application of GCG. This means that organizational culture provides a full mediating effect on the relationship of transformational leadership styles with the application of GCG. It can be concluded that the fourth hypothesis (b) is accepted because the transformational leadership style influences the implementation of GCG through organizational culture in LPD in Gianyar Regency.

The leadership style adopted by the leadership of an LPD can create change for the better and can create harmony in the organizational culture of the LPD, so that in the end will have an impact on improving the implementation of good corporate governance.

CONCLUSIONS

Based on the results of data analysis, it can be concluded that Organizational culture provides a partial mediating effect between the relationship of charismatic leadership styles with the good corporate governance and organizational culture provides a full mediating effect between the relationship of charismatic leadership styles with the good corporate governance. The suggestions that researchers can provide are as follows LPD in Gianyar Regency must further improve the regulation and control of relations between shareholders, LPD management or managers, creditors, government, employees and other internal and external stakeholders, so that the number of unhealthy LPDs can be reduced and properly addressed. We recommend that LPD routinely conduct meetings with shareholders, employees or other parties related to LPD, so that corruption cases such as those that have occurred in the Pacung, Bitera, Gianyar LPD can be overcome by the existence of tighter controls and better good corporate governance implementation. .

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