Organizational Culture and Leadership Role for Improving Organizational Performance: Automotive Components Industry In Indonesia

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Abstract—**This study built a research model in order to provide a comprehensive understanding not only to know how the contribution of organizational culture and leadership to enhance organizational performance, and how they are to each other, but also to answer the gaps in previous research on organizational culture and organizational performance. The study was conducted on automotive component industry in Indonesia. Target population consisted of 165 companies as members of GIAMM throughout Indonesia. The sampling technique used is the census sampling in which the entire target population to be sampled. Results show that Leadership has a strong role in improving organizational performance and in shaping organizational culture. While strong organizational culture cannot be proved to improve organizational performance.**

Index Terms—**Leadership, Organizational Culture, Organizational Performance.**

I. INTRODUCTION

Automobile and motorcycle parts industry is performing well is expected by Indonesian government. Manufacture of motor vehicles in Indonesia as a support to achieve the minimum 70% local content. Indonesia has been appointed as the coordinator of the motor vehicle sector in South East Asia in the face of ASEAN integration, in 2008. For that objective, Indonesia has established a policy of motor vehicles must have a minimum 70% local content. The point is to get a 0% import duty incentive in all Asean countries (Ministry of Trade, 2004). To support this government has set a variety of local content decision (Decree) which began with Decree No local content 307 in 1976, followed by Decree No. 371/ 1983, Decree No 117 / 1986, Decree No. 34 /1987, Decree No. 111/1990 to SK of local content, No 114 in 2003.

In the local content Decree No. 114 in 2003, the government intends to provide incentives for companies and motor vehicle components. Companies that have high local content will be given the import tax incentives, luxury tax and lower income taxes. The objective of Decree local content is to encourage automotive component industry to improve the supply of components. So there is incentive to increase local content in production vehicles. However, until the year 2007, only Toyota Avanza, Daihatsu Xenia and Suzuki APV that has met local content above 70%.

Automotive component industry considered as a strategic national industry for some reason: 1) the motor vehicle component industry is an industry that supports the achievement of local content vehicle. 2) It provides a lot of employment, based on data of Depperind in 2005, total employment that is absorbed by the automotive component industry is to reach 1.126.478 people. 3) Automotive component industry has the opportunity to save hundreds of trillions of dollars in foreign exchange per year.

The survey conducted by GIAMM (Gabungan Industri Alat Mobil dan Motor/Joint Industrial Tool and Motor Car) in 2007, showed a decrease in the performance of automotive component industry in Indonesia, despite an increase in car sales in the period of 2002-2008. Table 1 shows sales data for two-wheeled vehicles, four-wheeled and components according to data GAIKINDO (Gabungan Industri kendaraan Bermotor Indonesia/Combined Motor vehicle industry of Indonesia) and GIAMM.

TABEL 1: THE SALES OF MOTOR VEHICLES AND COMPONENTS

Year	Two Wheeled (Units)	Four Wheeled (Units)	Export Components (US $ mill)	Domestic Component (US $ mill)
2002	2,280,000	317,780	16.2	15.6
2003	2,700,000	354,333	14.4	13.7
2004	3,000,000	380,765	14.1	13.4
2005	3,400,000	533,992	13.9	13.2
2006	4,000,000	318,904	13.8	12.9
2007	4,800,000	434,473	13.6	12.8
2008	5,200,000	522,026	13.5	12.5

Source: GAIKINDO, GIAMM

Table 1 shows that in the middle of the rapid growth of sales of motor vehicle industry in Indonesia, the reverse happened with the sale of automotive component industry which tends to decrease. Sales data according to Table 1 in comparison with competitor countries such as Thailand which has achieved total sales of U.S. $5 billion in 2001, Indonesia was lagged, so this is a threat as well as opportunities for national automotive component industry to regain local market and to embark into the Thai market. Likewise, imports of motor vehicle parts in 2007 increased by 10.24% compared to 2006 with the value of imports reached $2.41billion. The above conditions indicate that the automotive component industry in Indonesia cannot compete with similar industries in ASEAN, especially Thailand, with the indication of a decline in the performance of the component industry in Indonesia.

Organizational performance is related closely to the organizational culture since the culture of organizations can control on how members make decisions, how members interpret and manage the environment, how members treat

information and how members behave. Research by [18] from Harvard Business School, in their study for 11 years, found that companies with the organizational culture managed to record up to 682% increase in revenue. Meanwhile, companies who cannot managed their organizational only obtain 166% growth.

In the manufacturing industry in Indonesia, an awareness to built and manage organizational culture is still minimal. The company is seeing the development of corporate culture merely as a ceremony. Although the economic crisis in 1997 make the company in Indonesia realize to improve itself and make changes in culture, however, change in corporate culture is still artificial only and did not penetrate in. Thus, they soon return to the traditional culture that is paternalistic, avoidance of risk, monotonous work or less daring to innovate. The key cultural change is in the unique role of leadership. How to create an appropriate leadership so that they can initiate culture to encourage the creation of superior performance in the industrial component sector? The leader or founder of the company is the forming and reformer of organizational culture.

The majority of the component industry in Indonesia used a hierarchical organizational structure. In these companies, the leadership style is more likely authoritarian-style leadership or "one man show". Leaders do not fully trust the subordinate for hierarchical reasons. They consider the company's organization as a system that puts families and treat subordinates as "children" who must depend and never can be fully trusted by the "parents". Leadership is seen as "parents" who have to maintain and supervise "the children". Centralized decision-making is only done by a leader who was the founder or family member. It is a strong perception that many companies run by a figure of "father". Some leaders assume their subordinates are not psychologically mature enough to assume managerial job responsibilities so that almost all the important decisions taken alone. Likewise, conflict resolution is done by a force structure so that the cultural hierarchy that is formed is paternalistic culture or the pattern of "top down" approach. This is in contrast with the approach of MBO (Management By Objective) or participatory management presented by management expert, Peter F. Drucker. Nevertheless the role of leadership in the component industry in Indonesia, not necessarily an adverse impact on performance because the founders have a strong business sense, good at reading directions, work hard, tough and make decisions quickly because of the role of single fighter or a one man show as mentioned above.

Decrease in performance are often addressed by the head of the company in Indonesia by changing strategy due to changes in strategy is a solution that is considered real, popular and quick. This changed strategy is artificial because its limited formulation. Furthermore, at the time of implementation, the leader does not get involved and delegate because it was considered too technical. Leaders move to do anything else considered a bigger problem or strategic. In practice, solutions and implementation pattern like this is often less effective that the company will return to its original state after some time since it only solve the symptoms, which have not touched on the root causes of organizational culture and leadership. Leadership sets performance targets and strong culture, as well as the

business environment that will improve organizational performance. All three steps require an alignment direction and balanced attention.

II. LITERATURE REVIEW

A. Leadership and Organizational Culture

Leadership theory can be divided into 6 as follows: 1) Trait Theories, 2) Group and Exchanges Theories, 3) Path-Goal Leadership Theories, 4) Charismatic Leadership Theories, 5) Contingency Theory, 6) Transformational Leadership Theories [6]. Leadership as a major factor that determines the increase in organizational performance [29]. Leadership as a result of group dynamics (group process), the process to influence others (persuasion) as well as an instrument in achieving organizational goal [21].

[6] distinguish between transactional leadership and transformational leadership. Transactional leadership as the attainment of organizational goals through social exchange (for example the concept of reward and punishment). Meanwhile, transformational leadership, convince others to look at situations differently than others, and responded positively to alternative vision of the leader.

Several theories support the relationship between leadership and organizational culture. Among them delivered by [30], which declared that the leader, especially the supreme leader in the organization will create a well established organizational climate. In many successful companies in the world, leaders create a good organizational environment. Organizational culture that created by the company leaders can result in a good managerial function within the company [30]. The relationship between leadership and organizational culture are also presented by [5] which states leadership, particularly transformational leadership can build a higher innovation and a satisfactory organizational culture.

Culture is created by its leaders; leaders created by the Culture. Based on theoretical perspectives, cultures arise through three processes, namely: (1) Socio Dynamic Theory, (2) Leadership theory and (3) Organizational Learning [27].

A leader has a role to determine the program of activities based on the basic assumptions of the organization or management concept like "Six Sigma" [10]. If the behavior of subordinates are in accordance with the program outlined by the leader, the value obtained is high, and vice versa when the behavior of individuals within the organization is far from the truth as set forth in the work program by the leader, then its value is low. Thus the culture is created by leaders [27]. This phenomenon can be said to be similar to the growth phase of organization proposed by [11], especially in the second growth phase in which an organization grew on the basis of guidance (direction) of a leader that has been agreed upon by the organization.

The phenomenon can be turned around, meaning leader could be created by the organizational cultural when the leader is born as a successor (succession) in an organization in which the organizational culture has taken hold and has become part of the life of the organization. An example is in the organization of government. A country or government was born from the foundations of the Constitution and the philosophy of life in which the state constitution and the

philosophy of life is the basic assumption of the government culture. New leader as the next generation will continue the previous leadership with the basic assumption that the new leader as the successor will hold and preserve the culture of the organization. It can be said that new leader was being created by the organizational culture. This thinking has been proven by [19]. In his research, he found that the differences of the dimensions of transformational leadership, especially is on the charisma and inspirational motivation. U.S workers have greater leadership on the variables that focus on the vision, expected future, optimism, and enthusiasm in achieving business results. While in Germany, workers have less charisma and initiative. But there is no difference in terms of transactional leadership. Some cultural values may also predict leadership style, but only in small portions. This explains that cultural values have little affect on the leadership.

When we enter an organization, office space will vary from one organization to other organization that has a different leader. The phenomenon that we get in an organization (organizational culture phenomena), such as coolness, calmness, employee work ethic, attitude, hospitality, integrity, team work, etc., describes the leadership of the leader. [27] suggests that currently organizational culture is also a key factor for knowledge management, creativity, participatory management and leadership. [27] also states that leadership and culture are synonymous. It is almost impossible to compare between leadership and organizational culture. [27] acknowledges that the dynamics process of the birth of the organizational culture and management is the essence of leadership that making leadership and organizational culture are like two sides of the same coin.

[25], a researcher from the Southeastern Division of one of the largest commercial bank in America, has found that rewards significantly affect internalization (organizational culture). And [25] research found that the real culture of the organization associated with job satisfaction and job commitment.

B. *Organizational Culture and Organizational Performance*

Organizational culture, in various studies have proven theoretically and empirically, as one major factor improving performance of an organization [2].

Organizational culture, according to Schein is based on concept of building on three levels: basic assumption, values, and artifacts, according to the symbols/attributes that apply. From the standpoint of [27], organizational culture is the basic assumptions that have been there before (taken for granted), and as a guide of conduct for members of the organization in regard to problems. If the basic assumptions held by hard, then members of the organization will formulate a behavior based on the applicable agreements. Basic assumptions tend not to be disputed or debated and tend to be very difficult to change [27].

Furthermore, concept of organizational culture developed by [26], which states that organizational culture is the hallmark of which was formed by members of the organization. As well as a differentiator with other organizations. The uniqueness of a company in terms of

culture, as one of the key to winning the competition in the global business at the company today. [26] proposed system of shared meaning (cultural organizations) are divide into seven which is a key characteristic of the organization's values. The seven characteristics are: 1) innovation and risk taking, 2) attention to detail, 3) outcome orientation, 4) people orientation, 5) team orientation, 6) aggressiveness, 7) stability.

[9] develop theory of organizational culture with regard to their function of organizational culture, and divided into four are: 1) consistency, 2) mission, 3) Involvement, 4) adaptability.

There is relationship between organizational culture with organizational performance, which is described in model of organizational culture [1] better quality of factors that exist in organizational culture, then better these organization performance.

Employees who already understand the overall values of the organization would make such values as an organization's personality. Values and beliefs will be translated into behavior in their daily work, so it will become the individual's performance. Supported by the existing human resources, systems and technology, corporate strategy and logistics, good individual performance will lead to a good organizational performance.

The impact of organizational culture on performance can be seen from the few examples of companies that have high performance, such as Singapore Airlines, which emphasizes on the sustainable changes, innovative and to be the best. Baxter International, one of the largest companies in the world, have a culture of respect, responsiveness and result, and the values shown here is how they behave toward others, like customers, shareholders, suppliers and communities. Research results by [8] and [22] stated that a strong organizational culture can enhance organizational performance. [30] also states that the performance of an organization one of which is determined by the culture of the organization. Organizational culture affects the course of managerial functions, organizing, staffing, leadership and implementation of control. All managerial activities will affect the performance of the organization.

[18], in his study of 207 companies, concluded that the corporate culture has a significant impact on the company's economic performance in the long run. Corporate culture can be an important factor in determining success or failure of the company. Corporate culture supports strong financial performance in the long run, as well as corporate culture can be established to improve achievement.

[15] also suggested a link between corporate culture and firm performance. According to them, strong organizational culture helps the performance of business organizations because it creates a tremendous level of self-employees. Strong organizational culture helps the organizational performance because it provides structure and control as needed without having to rely on formal and rigid bureaucracy that can suppress the growth of motivation and innovation. In addition, [9] also find empirical facts, stating that participative organizational culture, in the form of higher levels of participation, employee participation associated with better organizational performance.

C. *Leadership and Organizational Performance*

[12] and [24] stated that the leadership has a noticeable effect on the results and organizational performance. [14] and [16] define leadership as the ability of the person in the hierarchy of roles assigned to influence the group in achieving better organizational performance.

[20] stated that leaders often have substantial influence on the performance of the organization he leads. Several empirical studies have repeatedly held and indicated that the leader plays an important role in influencing members of the organization to achieve the desired goals of the organization to get a good organizational performance [17].

Another study mentioned that leadership has recorded as a significant proportion of the difference in performance / organizational performance [7]. [29] stated there is a relationship between leadership and outcome / performance achieved by the organization. In more recent cases, other findings also indicate that leadership in the different levels associated with positive changes of organizational performance.

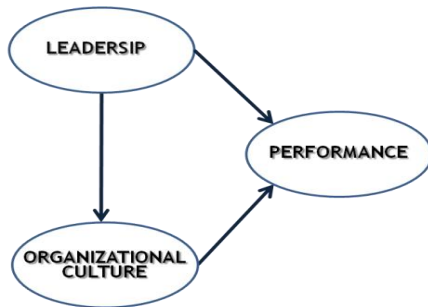Based on the above description, the conceptual framework of research is in Figure 1.

Fig1. Conceptual Framework

D. *Hypothesis*

1) Leadership has positive influence on Organizational Culture.
2) Leadership has positive influence on Organizational Performance.
3) Organizational Culture has positive influence on Organizational Performance.

III. RESEARCH METHODS

The population of this study is automotive component industry in Indonesia. The target population was members of GIAMM due to their role as permanent supplier of the automobile industry. Total target population was 165 companies. Sampling was carried out by census sampling technique in which all members of GIAMM were subjected to experiments. Survey was conducted by sending questionnaires to the leaders and company's management. The hypotheses of the relationship between researched variables were tested by using SEM (Structural Equation Model) with AMOS 16.

IV. FINDING

From the evaluation of the proposed model, all criteria used (RMSEA, GFI, CFI, AGFI and TLI) have shown satisfactory results. The overall model was fit. Thus, the development of conceptualized hypotheses and theoretical was supported by empirical data. To test the hypotheses, the results of path coefficients could indicate a causal relationship between variables. Table 2 showed each relationship.

TABEL 2. HYPOTHESIS TESTING RESULTS

Independent	Dependent	Regression Coefficient	p-value	Note
Leadership	Organizational Culture	0.650	0.010*	Significant (H1 supported)
Leadership	Organizational Performance	0.930	0.000*	Significant (H2 supported)
Organizational Culture	Organizational Performance	0.020	0.890	No Significant (H3 not supported)

*Significant at alpha $\leq 5\%$

Based on Table 2, the relationship between variables can be explained as follows: 1) Leadership has a positive influence on Organizational Culture (H1 was supported), 2) Leadership has a positive effect on performance (H2 was supported), 3) Organizational culture has no effect on performance (H3 was not supported).

V. DISCUSSION

A. *Leadership and Organizational Culture*

The results showed a significant positive effect of leadership on organizational culture. It means that effective leadership role on the formation of organizational culture. This finding suggests the enactment of "role model" theory. A leader is establishing or changing the culture through mind, speech and behavior as shown on his or her dealing with problems or paying attention to everything that is considered important. This finding is also consistent with the findings of some previous researchers, namely: one of the functions of the leader is to create and build a culture and climate within the organization [27].

The finding of this research also shows that effective leadership will determine the formation or changes in organizational behavior. Furthermore, this behavior is regarded as a guide behavior or a strong organizational culture and business in harmony with the environment. Similarly, the views of [27] suggested that the leadership behaviors of leaders of organizations on the one hand influenced by the culture of the organization, but on the other hand leadership in organization shaping and changing the organizational culture within a company or organization.

Based on the mean value of the leadership variable, individual consideration appears to have a low value. It is directly proportional to the low mean values on a people-oriented culture. In other words, less attention and encouragement from leader to the development of human resource resulted in less competent subordinates.

Leader, especially the founder of the organization, leaving a core value that guide members of the organization from its inception up to the future. The main values that guide members of the organization is called the organizational culture. The characteristics and orientation brought by the leaders in the organization will affect the culture adopted in his or her organization [23]. Leaders in the organization-oriented and autocratic control of the organization will be

centralized and managed by top-down approach. The founder of an organization that participatory and team-oriented, the organization will be decentralized and open. Leaders generally make decisions about various factors that will shape the culture. Leaders in the organization were also exemplary of the other members of the organization. They set a status symbol and bequeath the artifact/main foundation of organizational culture.

The power of leaders to make decisions regarding the strategy, structure and system of the organization is an effort of cultural formation. By determining the hierarchy, levels of monitoring, reporting relationships, and the level of formalization and specialization, the leader creates culture. Higher decentralization and organizational structure is the result of a participative and open culture, whereas the structure of higher centralization will be associated with the bureaucratic and mechanistic culture. The relationship between leadership and organizational culture are also presented by [5]; [6] which states that particularly, leadership of transformational leadership can build a culture of innovation higher and more satisfactory.

Cultural organization created by leaders in the organization [27]. A leader has a role to determine the program of activities based on the basic assumptions of the organization, or management concept that is used like `Six Sigma [10]. This phenomenon can be said to be similar to the growth phase of organization proposed by [11], especially in the second growth phase in which an organization that grew on the basis of guidance (direction) of a leader that has been agreed upon by the organization.

B. Leadership and Organizational Performance

The research results showed a significant positive effect of leadership on performance. This empirical evidence supports the second hypothesis. It is proven that effective leadership role as a determinant of organizational performance improvement.

This study suggests the enactment of leadership theory and support the collection of past research, namely: there is a direct relationship between transformational leadership, especially leadership behaviors to increase organizational effectiveness [7]. Leadership is also shown to affect the organizations performance improvement [29]; has a noticeable effect on the results and performance of organizations [14]; and as the ability of a person in the hierarchy of roles assigned to influence the group in achieving a good organizational performance [16]. Furthermore, a leaders often have a substantial influence on the performance of the organization he/she headed [20].

The highest Indicator variable loading factor of leadership is to provide intellectual stimulation to subordinates. This can be explained that the automotive components industry has entered the global business environment, which requires competent human resources. To achieve this goal, leadership needs to make an intellectual stimulus of the employees thereby increasing the competence and creativity in improving competitiveness.

Several empirical studies have repeatedly indicate that the leader plays an important role in influencing members of the organization to achieve the desired goals of the organization to get a good organizational performance [17]. Other research states that leadership has significant proportion of difference in performance/organizational performance [7]. There is relationship between leadership with performance achieved by the organization [29].

C. Organizational Culture and Organizational Performance

The research results showed that there was no positive significant effect of organizational culture on performance. The third hypothesis is not supported and a strong organizational culture has no role to increase performance.

Phenomena of no influential cultural on performance likely occurred because of organizational culture in the automotive components industry is a weak organizational culture, due to the following reasons: 1) The majority of companies do not have company-specific attributes such as color of clothing, a company logo with its specific color, creed, greetings, the layout of the office/factory that physically differentiate it with other companies. 2) The Company does not have a book containing the principles of cultural program guide to the values of corporate culture. This makes the value of culture to be unclear and lead to the formation of many sub cultures, which is not integrated into a strong corporate culture. 3) The Company does not have a work program of the cultural socialization since of new employees employed till their placement. This process of cultural socialization can be analogous as "brain wash". It will help new workers to adapt to environmental organizations and creating the appropriate behavior of cultural values; 4) Incentives and promotion criteria that are explicitly associated with the ability to understand and execute the organization's culture has not been found. 5) Orientation and ongoing training program to understand and grasp the content of cultural values and conduct, teaching values and norms have also not been found.

This study states that companies in Indonesia have minimal cultural practices or in other words have a weak organizational culture. Coupled with the leadership style of paternalistic/authoritarian and a lack of appreciation of a new idea create a working condition commonly called "no news is good news". This condition means that if the subordinate is not called by the boss, it means that he or she has worked well and vice versa. A good idea or achievement is seen as a liability and no appreciation for this. To resolve this condition, the employees tend to play safe and wait for command leadership. This contrasts with the formation of a strong organizational culture that requires an "empowerment" or the division of authority.

This study also supports the [25] study that found that organizational culture is seen as a process of internalization had no effect on performance improvement. These conditions can be explained by the lack of disbelief employees to performance appraisal that are considered less objective. When confirmed to the Managers, it was found that management has difficulty connecting between cultures as a guide to performance appraisal behavior. These conditions make the culture of the organization is not able to act as a determinant of organizational performance improvement.

Motor vehicle components industry in Indonesia largely does not have a corporate culture-building program yet. So,

the existing organizational culture is an origin or traditional culture. Traditional organizational culture of the company that has been aged more than 10 years, generally are not in accordance with the global business environment. These cultures are not effective for improving organizational performance [28].

The study is in line with [13] about the national culture. Indonesia has a score of 46 low-to moderate masculinity. This suggests that low levels of encouragement to produce high performance or a strong-organizational culture. If the traditional culture is not formed into a powerful organizational culture that fit the global business environment, the organizational culture had no effect on organizational performance [18].

This study is also consistent with the "dysfunctional culture, dysfunctional organization capturing the behavioral norms of organizational culture and drive performance" of [4]. He found that a dysfunctional organizational culture has no significant effect on organizational culture improvement. A weak and dysfunctional organizational culture will result in will also result in low performance. This occurs when the organization consisting of people who are not capable [4]. The contributing factor is the organizational culture which is based on the existing norms and behavior of individuals in all levels of the organization. Prevailing norms in the organization is a culture that flourished in the cultural organization that consists of a constructive, passive / defensive and aggressive/defensive culture. Culture is both aggressive and passive defensive tend to have no effect on organizational performance [4].

VI. CONCLUSION

The conclusions of this study are as follows: 1) automotive component industry in Indonesia is an organization in developing countries. It is tended to be paternalistic leadership role. This kind of role is against the formation of a strong organizational culture; b) Automotive component industry in Indonesia is an industry in developing countries so that a strong leadership is needed as a determinant of performance improvement; c) organizational cultures are not able to act as a determinant of organizational performance improvement because of its weak culture. The majority companies of automotive component industry do not have: cultural programs, special attributes, socialization program, incentive and promotion criteria that are linked to cultural values and no orientation training to understand/grasp the content of cultural value.

VII. LIMITATION

This research will provide a broader level of generalization if no various limitations as the following: 1) Objects in this study were motor vehicle parts industry are only members in Indonesia GIAMM. The study with the other object such as the component industries of other Asean countries; namely Thailand and Malaysia, could possibly give different results because of differences in business environment, culture and leadership. 2) The emphasis in this model is not designed for all the variables that affect

organizational performance. This limitation is intended to focus on the variables of organizational culture, leadership in the link with organizational performance improvement. 3) This research model focuses on the analysis of causal relationships of the automotive components industry in Indonesia without analyzing the difference between a professional or family organization, large or small companies, as well as transformational or transactional leadership.

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