

LEADERSHIP STYLE, ORGANIZATIONAL COMMUNICATION, AND EMPLOYEE PARTICIPATION TO INCREASE EMPLOYEE READINESS IN FACING CHANGES IN BUSINESS ENVIRONMENT

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Abstract: The aim of this study is to analyze the influence of leadership style, organizational communication, and employee participation on employee readiness for changes in business environment at Small-Medium Enterprises (SMEs) in creative economy industrial sector, in partnership program of PT Pertamina (Persero) with criteria of having been established for at least 5 years, employing 20-99 personnels. Based on the criteria, only 3 SMEs meet the requirements; they are located in Bogor, Depok and Jakarta. This study involved 40 people, consisting of SME owners and employees. This study conducted descriptive analysis as well as Structural Equation Modeling PLS. The study resulted that both leadership style and organizational communication brought positive impact directly to employee participation, as well as positive impact indirectly to employee readiness for changes in business environment. In addition, employee participation also created direct positive influence to employee readiness for changes in business environment. The study results also suggest owners to actively communicate regarding planning for changes to improve employee participation. Nonetheless, both SME owners and PT Pertamina (Persero) shall continuously conduct relevant trainings.

Keywords: leadership style, organizational communication, employee participation, employee readiness for changes, organizational change



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The success of an organization to survive in rapid changes in business environment is determined by its individuals' ability to adapt to those changes quickly. According to Holt (2007), making organizational change requires the support of employees to improve themselves and readiness of employees

to be able to face changes. Devos et al., (2008) explain that the level of acceptance or readiness of employees for changes is influenced by the characteristics of the change process, including employee participation and organizational communication. In addition, Nordin (2011) argues that employees' readiness for changes is also influenced by the leadership style of the organization's leaders.

In early 2016, Indonesia faced ASEAN Economic Community (MEA). Reflecting on the experience of China ASEAN Free Trade Area

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(CAFTA), business world is demanded to be able to face global challenges better, such as improving product and service innovation, developing human resources and technology, and expanding marketing area.

SMEs in creative industry need to be well empowered. This is because Indonesia has a good combination of talents possessed by its population, and there are many local cultures that are deeply rooted in Indonesian society. This industry can be one of great potential for Indonesia to compete with other countries in MEA.

One of the efforts made by the government to develop SMEs is through Partnership and Community Development Program (PKBL) granted by State-Owned Enterprise (BUMN) by using some funds from the current period's profit.

Cooperation between SME and State-Owned Enterprise is expected to solve the problems faced by SMEs, such as increase in production, expanding employment opportunities, accessing to capital resources, absorbing knowledge and technology, and improving the quality of human resources. In order for these efforts can be achieved optimally, improvement in the form of guidance on several aspects that have been considered to be the problems faced by SMEs is made.

As one of the State-Owned Enterprises in Indonesia, PT. Pertamina (Persero) is also involved in the development of SMEs through Partnership and Community Development Program (PKBL).

To survive in facing global competition, SMEs need a change in facing international competition. Change requires every personnel in the company to have a good readiness in facing changes in business environment. The leadership style of corporate leaders who support changes is considered to have an effect on the readiness of employees to face changes. Change managers also require effective organizational communication between SME owners/ managers and employees, as well as involving them in the process of change, so that it is expected to improve employee readiness in facing changes in business environment.

The purposes of this study are to analyze the relationship between leadership style, organizational

communication, employee participation, and employee readiness in facing changes in business environment, and to analyze the relationship between those four variables.

RESEARCH METHOD

The objects of this research are the owners and employees of SMEs in partnership program of PT Pertamina (Persero) CSR & SMEPP Unit Region III West Java (JBB) in sector of creative industry; the criteria of SME involved in this study are that the number of SME' employees around 20 to 99 people, and the SME has been established for at least 5 years. Based on these criteria, there are only 3 (three) SMEs that meet the criteria, who are located in Bogor, Depok and Jakarta. Sampling technique used is voluntary sampling, which is based on the willingness to participate in research. From 100 questionnaires distributed, only 40 questionnaires were filled and deserved to be analyzed

Analysis method used in this research is modeling approach. Modeling serves to see the relationship between latent variables, between indicators, and between both of them by using Structural Equation Modeling Partial Least Square (SEM PLS). PLS is used to analyze constructs formed with reflective and formative indicators (Latan and Ghozali, 2012).

RESEARCH MODEL

Based on the explanation above, research model on the object of research can be summarized with the relationship pattern, which is presented below:

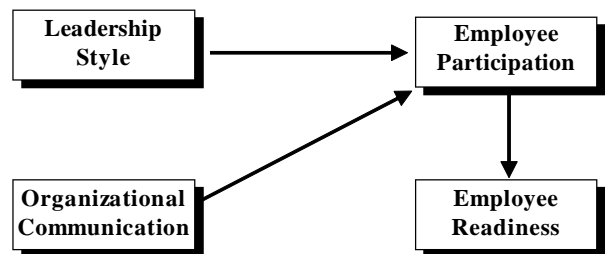


Figure 1 Research Model

HYPOTHESES

Hypotheses in this research are presented as follows:

- H1: Leadership Style affects employee participation.
- H2: Organizational communication affects employee participation.
- H3: Employee participation affects employee readiness.

RESULTS

Leadership Style, Organizational Communication, and Employee Participation on Employee Readiness in Facing Changes in Business Environment

Each latent variable has several manifest variables (indicators) that reflect each latent variable. Those indicators are derived from literature stud-

ies.

The measurement model is divided into two, i.e. outer model, which is interpreted by looking at several things, such as convergent validity, discriminant validity, composite reliability, Average Variance Extracted (AVE) and *cronbach's* alpha (Ghozali and Lattan, 2012). Assessment of convergent validity based on AVE value has a cut off value of 0.5000. Value of AVE above 0.5000 means that convergent validity of the indicator is good. Table 1 below shows the model evaluation criteria for the influence of leadership style, organizational communication, and employee participation on employee readiness in facing changes in the business environment. It also shows that the measurement model in this research has excellent validity and reliability with all value of composite reliability, *cronbach's* alpha, and AVE above its standard value, as follows:

Table 1 Value of AVE, Composite Reliability, and Cronbach's Alpha

Variable	AVE	Composite Reliability	Cronbach's Alpha
Leadership Style	0.6887	0.8979	0.8528
Organizational Communication	0.7936	0.9387	0.9124
Employee Participation	0.6392	0.8753	0.6392
Employee Readiness	0.6775	0.8932	0.8396

Inner model testing is done by looking at the value of R² on the dependent construct.

Latent variable of employee readiness can be explained by latent variable of employee participation of 44.64 percent, while the rest of 55.40 percent is not explained by other variables, which are not studied in this research model. R² value of latent variable of SME employee participation is 0.5786, meaning that latent variable of SME employee participation can be explained by latent variable of communication and leadership style amounted to 57,86 percent, while 42,10 percent is explained by other variables which are not studied in this research.

The next test is by looking at the significance of the influence of independent construct (exogenous) on dependent construct (endogenous) and answering what has been hypothesized. In testing with a significance level amounted to 5%, if the value of t-statistics > 1.96, then the null hypothesis (H0) is rejected. The t-statistical value of coefficient affects the latent construct which is obtained from PLS Bootstrapping. The results of Bootstrapping PLS Model in this study are presented in Figure 2.

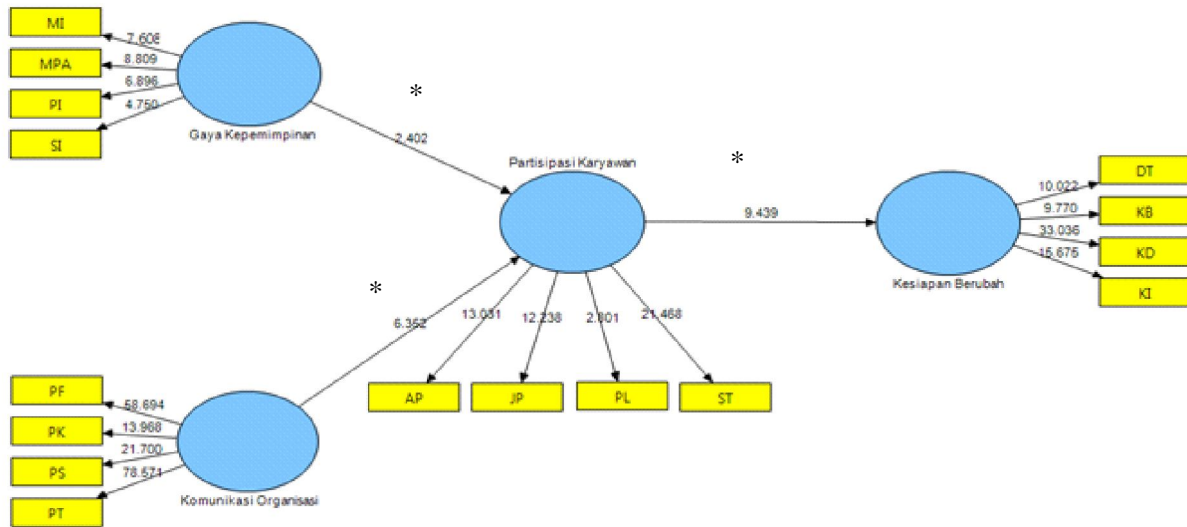


Figure 2. SEM PLS Bootstrapping Model

Note: * Significant

MI: Inspirational Motivation	PF: Focused Message or Message Distribution	AP: There is participation or not	KB: Correspondence.
MPA: Management and Active Exclusion.	PK: Message of Correspondence or Message of Difference.	JP: Long-term Participation or Short-term Participation	KD: Confidence to Change
PI: Individual Development	PS: Balance Message or Positive Message	PL: Direct and Indirect Participation	DTM: Support of Management Team
SI: Intellectual Simulation	PT: Directed Message or General Message	ST: Tactical or Strategic Participation	KI: Benefit for Individuals

The results show that leadership style has a direct, positive, and significant effect on employee participation variable. The structural relationship between those two variables is shown in Figure 2, with t-statistics value of 2.4021. Armenakis et. al., (1993) explain that designing a willingness to changes requires a proactive effort from managers to influence belief, attitude, intention, and behavior as a target for change. The proactive effort of managers, i.e. from organizational leaders, direct supervisors, or managers is manifested by growing the active participation of members (Walker et al., 2007).

The importance of support and participation grown from all members of the organization shows the seriousness of the manager about changes continuously, and convince all members that the changes made will benefit individuals and the organization.

Organizational communication variable also shows a significant positive effect directly on employee participation variable. The structural relationship between those two variables is shown in Figure 2 above, with t-statistics value of 6.3523. Participation is the product of communication process (Vandenberg et al., 1999). Effective communica-

tion can affect employee readiness through the role of information about changes, creating community spirit, and reducing level of uncertainty and insecurity of job (Elving and Hasma, 2008). Communication and interaction between implementers and recipients of change is needed to make change real. Together they discuss the practical consequences and what efforts needed to support change. Employee participation variable has a direct positive effect on the level of employee readiness to changes. The structural relationship between those two variables is shown in Figure 2 above, with t-statistics value of 9.4390. This finding is in line with research which was conducted by McKay et. al. (2013) stating that there is a significant relationship between participation and readiness for change.

Employees who participate in the change process will have a sense of ownership because they feel that they have an added value in the change process. In this study, when SMEs managers want to do a change program, they always involve employees from the beginning of planning to the evaluation stage. SMEs managers are open to inputs and problems faced by employees during the change process. Kinship applied by SMEs managers makes them willing to involve themselves in the changes that have been set by SMEs managers. However, currently SME employees are more actively involved in technical than in developing plans of change (strategic). They trust the planning to SME managers.

Characteristics of Variable of Leadership Style in SME

There are 5 (five) indicators of leadership style, namely intellectual stimulation, individual development, contingent rewards, active exclusion management and inspirational motivation. Intellectual stimulation indicator is re an important factor in leadership, where leaders encourage and support their members to solve problems logically and innovatively. SME managers try to educate their employees to become problem solver. In individual development indicator, SME managers understand the needs of employees, both by giving attention and opportunities to develop themselves through two-way communication, and listening to the difficulties

faced by employees. In addition, SME managers are also willing to teach the knowledge they have; it is expected that employees will be more advanced and independent.

In contingent reward indicator, employee performance assessment is based on how much targets they have accomplished and the impact on the amount of incentives employees receive. Associated with active exceptional management indicator, SME managers take careful monitoring of employee work to ensure that performance standards have been achieved. In an inspirational motivation indicator, SME managers try to make their employees passionate in dealing with changes. The managers implicitly revealed that the goal of changes can be achieved through the participation of all elements of SMEs, who are directly involved in finding solutions. Motivation is not only given in meetings held by managers, but it is also done to the individuals directly through small discussion with employees. If there is problem faced, SME managers and their employees try to find the main cause and find a solution to make the right decision. In addition, SME managers also open two-way communication with their employees, listening to the difficulties faced by employees. To improve the quality of products and services provided to customers, managers always monitor employee work to make sure that it is appropriate with performance standards.

Characteristics of Variable of Organizational Communication in UKM

Variable of organizational communication has 4 (four) indicators, namely intended message and public message, the message distribution and focus input, positive message (not balanced), and message of compliance (not differentiation). The general message indicator reveals that when managers want to make changes, they will make public announcements to all employees through a general meeting. All employees will know what changes have been planned by the manager. Managers are open to ideas and feedback from employees. In addition to using public messages, SME managers also inform about matters related to changes specifically, only to specific departments directly in-

volved in the change program to be performed (indicator of intended message). In addition, specific information about change processes and procedures may prevent confusion among employees, that may hamper employee participation in changes. Associated with indicator of message distribution, SME managers provide information directly from superiors to subordinates. Message distribution focuses on employee compliance; this is favored by change leaders. Employees are given the opportunity to provide inputs related to the change program and the input will be the consideration of SME managers in making decisions and improvement of the planned changes (indicator of input).

Positive (non-balanced) message indicator, the owner/ manager of the SME relatively only communicates the benefits of the changes made, while the weakness of the changes is almost never informed. SME managers hope that by simply communicating the positive benefits of change will motivate employees to be able to complete the planned changes.

Managers do not explain the negative impact of changes because managers have concerns that employees will focus on negative impacts and loss of motivation. In addition, the conformity message indicator (not a differentiator) reveals that SME managers are trying to convince their employees that they are capable of making changes. It is done in the hope of fostering employee confidence, so they are confident and believe that they can complete their responsibilities related to the change. One way that SME managers do is to conduct training related to change.

Characteristic of Variable of Employee Participation in UKM

Employee participation variable has 4 (four) indicators, namely participation, long-term participation (not short-term), direct participation (not indirect) and tactical (non-strategic) participation. Through indicators of participation, SME managers involve all employees in the program of change that has been made. Employees are also actively involved in the training provided by the managers, PT Pertamina (Persero) and the relevant Departments,

to participate in the evaluation meeting of change program (long-term participation). This is in line with the result of research which was conducted by Hackman and Wageman (1995) that most organizations use training as part of their planned change effort. In addition, employee engagement begins at an early stage, since the change is announced until evaluation of changes has been made (indicator of direct participation). In technical decisions, SME managers involve employees in decision-making as employees are perceived to be more technical in their work (tactical participation indicators). Employees who are directly involved in decision making will be better at executing the decision result.

Characteristics of Variable of Employee Readiness in UKM

Indicator of appropriateness, confidence in changes, support of the management team, and benefits for individuals, are 4 (four) indicators of employee readiness. In the conformance indicator, most employees support changes. Although not all of them understand the impact of changes to SMEs which they work in, they can understand why and for what changes need to be made. In addition, employees who have a high self-esteem (image) will tend to believe that they have the ability to complete tasks and activities related to the implementation of changes in SMEs (indicators of self-confidence to change). They are the ones who will feel well-prepared to changes.

Support of management team reflects the extent to which management team demonstrates their confidence and enthusiasm that change is important. This support is demonstrated through concrete actions as well as formal and informal communication; so that the employees involved in the change feel that they get moral support. SME managers provide real support to improve employee readiness for change. Weekly and monthly meetings conducted by SME managers are also used by managers to provide motivation and encouragement to the employees, so that they will learn and do new tasks related to change activities, socialize the process of change itself to employees, and assure employees that the importance of change will be done

The benefit of individuals (personal valence) is the belief that changes will benefit the employee personally and will affect employee readiness (Vroom, 1964). Employees feel the benefits of the change program being run. For example, employees in production department are paid on a whole-sale system. As new products grow, it is expected that they will gain an income increase from their additional production. For employees in marketing department, adding products allows them to sell more products, thereby increasing the sale commissions earned. Increase in sales in the end will also affect the amount of bonuses that will be obtained by employees.

To improve the quality and type of products, SME managers need to make changes, not only to increase sales but also to increase employee income. Mentoring and training provided by managers and supervisors can make most of employees feel that they have sufficient capability and experience to be able to complete tasks related to change activities. In addition, SME managers and supervisors need to make time to ensure that employees involved in change understand the changes and have sufficient knowledge to support the change process. SME managers need to have frequent discussions with supervisors, both formal and informal discussions, to ensure that they fully understand the process of change. This is done because the supervisors will communicate it more intensively to employees. Confidence in the success of changes will provide a positive perception on the employees, thus it will reduce the uncertainty of employees.

CONCLUSIONS

Based on a research which was conducted on 3 (three) SME partnership program of PT Pertamina (Persero) Region III JBB, leadership style has a direct effect on employee participation variable amounted to 2.4021. Leadership style also has an indirect effect amounted to 11.8411 on employee readiness to face changes in business environment. The proactive leadership style of motivating employees will lead to an increase of employee participation in change program and ultimately can improve

employee readiness in facing changes in business environment.

In this study, it also can be seen that organizational communication has a direct effect on employee participation amounted to 6.3523 and has an indirect effect of 15.7913 on employee readiness in facing changes in business environment. Effective organizational communication can increase employee participation, which has an impact on increasing employees' understanding of how change can have a significant effect on organizations and individuals. Compared to leadership style, this research shows that organizational communication has a more dominant indirect effect on employee readiness to change. To improve employee readiness in facing changes, SME managers should be able to prioritize the management of organizational communication more optimally.

Employee participation has a direct effect on employee readiness in facing changes is 9.4390. When employees are directly involved in change process, starting from the planning stage, implementation, and evaluation will provide a more comprehensive understanding and awareness for the employee that change must and needs to be done, both for the organization and for itself. Thus, it is expected that employees have the readiness to face changes and reduce the negative influence that will hinder the realization of changes.

SUGGESTIONS

Based on the conclusions above, the researchers would like to suggest that managers should actively communicate their plans of changes that have been arranged if they want to make changes; and managers should continue to motivate and encourage employees to be actively involved in the change process. In addition, SME managers should actively provide trainings related to spiritual motivation as well as technical competence required in facing the challenges by change programs.

PT Pertamina (Persero) through Region III JBB needs to develop appropriate with partner SMEs, so that they can keep abreast of the development of business environment from time to time.

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