Direct and Indirect Effects on Employee Performance in Local MSMEs: A Case in the Covid-19 Pandemic

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ABSTRACT

Improving employee performance is one of the efforts that can be used by MSMEs to survive the economic disasters caused by the Covid-19 pandemic. This study was designed with the aim of analyzing the direct and indirect relationship between transformational leadership, self-efficacy, job satisfaction, work culture, and employee performance. A total of 340 respondents from 36 MSMEs in Karawang, West Java, Indonesia using purposive sampling. The research hypothesis was tested using structural equation modeling with AMOS 22.0. The results reveal that transformational leadership has no significant effect on employee performance, self-efficacy has a significant effect on employee performance. The Sobel test result confirmed the fully mediating role of job satisfaction on the relationship between transformational leadership and employee performance and the partial mediating role of job satisfaction on the relationship between self-efficacy and employee performance. Work culture moderated the relationship between self-efficacy and employee performance. Contributions, limitations and suggestions for future research will be discussed further.

Keywords: Transformational leadership, Self-efficacy, Job satisfaction, Work culture, Employee performance, MSMEs.

Introduction

The impact of the Covid-19 pandemic on the world has been dramatic. The Covid-19 pandemic has disrupted all human life structures, such as the social, economic, and health systems (Bacq et al., 2020). The decline in economic activity due to the global Covid-19 pandemic has caused a global recession, which has had a significant effect on the world's industrial job market, especially in Indonesia. Increasing economic volatility and psychological insecurity about the coronavirus infection in humans have resulted in many companies experiencing decreased sales (Carnevale & Hatak, 2020). Many companies in Indonesia have finally implemented special regulations to curb the spread of the Covid-19 virus. However, the policies established to result in various unique and fundamental challenges for employees and companies. MSMEs are also one of the companies affected by the Covid-19 pandemic, indicated by a decrease in production and sales figures. A
decrease in sales will have an impact on the decline in MSMEs profits. So that the implementation of the right strategy dramatically affects how the MSMEs can survive and compete with its competitors. One of the efforts made by the MSMEs is to improve employee performance.

According to some experts, employee performance problems can be resolved by implementing good leadership (Atatsi et al., 2019; Braun et al., 2013; Buil et al., 2019). One form of leadership that emphasizes the relationship with employee performance is transformational leadership (Deinert et al., 2015; Mittal & Dhar, 2015). Several scientific studies have shown a significant relationship between transformational leadership and employee performance (Jnaneswar & Ranjit, 2020; Megheirkouni, 2017). Banks et al., (2016) stated a positive and significant relationship between transformational leadership and employee performance. Furthermore, several studies have recorded the role of self-efficacy in improving employee performance (De Clercq et al., 2018; Lunenburg, 2011). An employee who has high self-efficacy can devote all his efforts and attention to achieving the company's goals, while employees who have low self-efficacy tend to be lazy to try when facing difficult situations, such as the Covid-19 pandemic situation. Yeo and Neal (2006) found a negative relationship between self-efficacy and employee performance using a multi-traffic control task.

In addition to understanding the effects of transformational leadership and self-efficacy, we feel the need to know whether job satisfaction has a mediating effect on the relationship between transformational leadership and self-efficacy on employee performance. In a business context, increasing employee job satisfaction tends to be discussed more often because job satisfaction has become a strategic driver in a successful business (Huynh & Hua, 2020; Jalalkamali et al., 2016). Zakaria et al., (2019) state that a lack of job satisfaction causes employee resignation cases from one company only after several months of working to find another job. So that several studies have used job satisfaction as a mediating variable to determine its effect on antecedents of company performance (Lok & Crawford, 2001; Matthews et al., 2018; Mihalcea, 2014; Vratskikh et al., 2016; Zakaria et al., 2019).

Furthermore, we feel the need to know the role of work culture in strengthening or weakening the relationship between self-efficacy and employee performance. High company performance can be achieved if employees can work more optimally, which in turn can improve mutual welfare (Colaco & Loi, 2019). In contrast to research conducted by Ojo (2012), which states that many employees do not obey the rules made by the company even though these rules are a form of implementing the work culture that applies in the company. With the creation of good work culture, it is hoped that it can increase employee self-worth and can improve employee performance.

To answer the research gap, the purpose of this study is to examine the effect of transformational leadership and self-efficacy on employee performance. This study will also discuss the role of job satisfaction as a mediating variable on the relationship between transformational leadership and self-efficacy on employee performance.

- **Literature Review**

  - **Relationship between transformational leadership and employee performance**

The initial concept of transformational leadership theory is defined as the process by which a leader can mobilize resources to engage and motivate his followers (Mahmood et al., 2019). The direct indicator of transformational leadership lies in its followers' behavior, based on their perceptions of
the leader (Porch, 2018). Leaders' effectiveness in communicating significantly affects employee performance (Sholikhah et al., 2019; Wihuda et al., 2017). Transformational leadership has a significant effect on team decision making, which causes an increase in employee performance (Manesh et al., 2018). Other research studies have reported a positive relationship between transformational leadership and performance (Andri et al., 2019; Kee et al., 2020). Besides, transformational leadership is related to individual performance and a group and organizational level performance (Getachew & Zhou, 2018; Porch, 2018). Also, transformational leadership has long been considered a relevant factor for companies to achieve better performance. The highest performance levels and employee performance are achieved when improvements are made in cohesion, motivation, and goal setting among workgroups (Birasnav, 2014). So based on previous research, this study suggests the following hypothesis:

**H1.** Transformational leadership has a positive and significant effect on employee performance.

**H2.** Self-efficacy has a positive and significant effect on employee performance.

**H3.** Job satisfaction has a positive and significant effect on employee performance.
Several studies have been conducted to determine the relationship between variables used in this study. A previous study by Saleem (2015) states a positive relationship between leadership and individual performance. Wong and Laschinger (2013) also state that changing leadership behavior from transactional to transformational leadership will lead to increased job satisfaction and employee performance. So it can be said that to improve job satisfaction and employee performance, proper leadership is needed. Dimitrious Belias (2014) also found that leadership is related to job satisfaction, affecting performance. Good leadership, followed by high job satisfaction, is required to achieve high performance. So this research suggests the following hypothesis:

**H4.** Job satisfaction mediates the effect of transformational leadership on employee performance.

Apart from leadership, employee self-efficacy also has a significant positive relationship to job satisfaction to result in optimal employee performance. Self-efficacy development can be achieved through empowering employees and the workplace environment. Therefore, when an employee is given autonomy in decision-making and a conducive and clean work environment, self-efficacy will be created, increasing job satisfaction. Thus, the performance level of performance will also increase (Javed et al., 2014). Also, many researchers argue that employee performance affects the level of employee job satisfaction. Mittal and Dhar (2015) based their in-depth performance study on the idea that high performance results in job satisfaction and self-efficacy. High performance causes job satisfaction because performance affects self-efficacy (Pugno & Depedri, 2010). So this research suggests the following hypothesis:

**H5.** Job satisfaction mediates the effect of self-efficacy on employee performance.

○ **The moderation role of work culture**

Work culture is a habit that is cultured in the life of a community group, organization, or company, which is then reflected into behavior and beliefs that are manifested as "work"(Harris & Fleming, 2017). By implementing a work culture in the company means changing the attitudes and behavior of human resources to achieve higher performance in facing future challenges (Aguenza, 2012). Research conducted by Ravikumar (2013) states that high performance can be achieved if employees carry out their work according to predetermined main tasks and functions, and carry out work discipline properly, apply the basic values of work culture, and follow existing work procedures. According to the results of research by Wihuda et al., (2017) that employees with high self-efficacy are able to improve their performance, if the company has a high work culture too. The high work culture will be seen from how employees perceive work culture so that it affects behaviors such as having high motivation, dedication, creativity, ability and commitment (Frijns et al., 2016). The stronger the work culture, the higher the employee's performance (Wilderom et al., 2012). Based on the above findings, the following hypothesis is proposed:

**H6.** Work culture moderates the relationship between self-efficacy and employee performance.

The research model and proposed hypothesis is shown in Figure 1.
• Research Methodology

  o Sampling and Data Collection

We contacted 50 MSMEs in Karawang, West Java, Indonesia. By using purposive sampling, we contacted the MSME owners and inquired about their availability as a sample for this study. We chose MSMEs that have been operating for more than 2 years so that they can provide a more accurate picture to answer the research objectives proposed. Of the 50 MSMEs we contacted, 36 MSMEs expressed their willingness to participate in this research. Of the 480 respondents, only 340 employees filled out the questionnaire via the google form application (the effective response rate was 70.8%). The data were collected in April 2021 to May 2021.

Measurement using a 7 point-Likert scale (1 describes strongly disagree and seven describes strongly agree). For transformational leadership, we use 10 indicator items developed by van Knippenberg and Sitkin (2013). Cronbach's alpha for transformational leadership is 0.87. For self-efficacy, we use 7 indicator items developed by Lunenburg (2011). Cronbach's alpha value for self-efficacy is 0.86. For job satisfaction, we use 6 indicator items developed by Van Der Walt and De Klerk (2014). Cronbach's alpha score for job satisfaction is 0.83. For work culture, we use 8 indicator items developed by Valentine et al., (2011). The value of Cronbach's alpha work culture in this study was 0.91. For employee performance, we use 8 indicator items developed by Chen et al., (2018). Cronbach's alpha value for employee performance is 0.78.

  o Data Analysis Tools

This study uses the two-stage approach proposed by Anderson and Gerbing (1988) for structural equation modeling (SEM), namely the first stage to test the research framework and the second stage to test research hypotheses. The first stage was analyzing the research model using confirmatory factor analysis (CFA). For the second stage, this study uses SEM to test the research hypothesis. The Sobel test is used to test the significance of the independent variable's indirect effect on the dependent variable through the mediating variable (Allen, 2017).

• Results

  o Confirmatory Factor Analysis

CFA was used to test the validity and reliability of the questionnaire using SPSS version 22. After the validation test has been carried out, it can be seen that all indicators are valid because they have an estimated standardized regression weights > 0.6. In Table 3 the item reliability value can be seen in the composite reliability. The composite reliability scores of all constructs ranged from 0.72 to 0.82, above the acceptable minimum value of 0.6 (Bagozzi & Yi, 1988). All these results imply that validity and reliability values are met for the construction. The measurement model provides a reasonable fit for the data ($\chi^2 = 315.214; \text{df} = 145; \ p = 0.017, \ \chi^2/\text{df} = 2.17; \ GFI = 0.91; \ CFI = 0.92; \ TLI = 0.90; \ RMSEA = 0.049$), with all conformity indicators within an acceptable range (Hair et al., 2010). Furthermore, based on data analysis, it can be seen that the mean value of transformational leadership is 4.03, self-efficacy is 4.15, job satisfaction is 4.06, work culture is 4.01 and employee performance is 4.38.
Measurement of discriminant validity using HTMT criteria based on Henseler, Ringle and Sarstedt (2015), with a suggested threshold value of 0.90. In other words, HTMT values above 0.90 indicate a lack of discriminant validity, based on the results of the study, it is known that all variables meet the requirements for discriminant validity because they have a value of less than 0.90.

○ **Hypothesis Testing Direct Effect Between Variables**

After the overall structural model can be considered fit, the next process is to see whether there is a significant influence between the independent and dependent variables. This hypothesis testing is done by looking at the estimation results of the research model. The basis for decision making (Hair et al., 2010), namely the value of CR > 1.96 and the value of P < 0.05, the hypothesis is not rejected, meaning that the variable has a significant effect. The model estimation results can be seen in Table 1.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>JS &lt;- TL</td>
<td>.171</td>
<td>.067</td>
<td>3.018</td>
<td>***</td>
<td>Not Rejected</td>
</tr>
<tr>
<td>JS &lt;- SE</td>
<td>.822</td>
<td>.146</td>
<td>5.632</td>
<td>***</td>
<td>Not Rejected</td>
</tr>
<tr>
<td>EP &lt;- TL</td>
<td>.666</td>
<td>.118</td>
<td>1.645</td>
<td>.098</td>
<td>Rejected</td>
</tr>
<tr>
<td>EP &lt;- SE</td>
<td>.736</td>
<td>.274</td>
<td>2.684</td>
<td>.007</td>
<td>Not Rejected</td>
</tr>
<tr>
<td>EP &lt;- JS</td>
<td>1.169</td>
<td>.301</td>
<td>3.884</td>
<td>***</td>
<td>Not Rejected</td>
</tr>
</tbody>
</table>

Notes:
S.E: Standard errors; C.R: Critical ratio; P: Probability (*** P is significant at 0.01 level).

Hypothesis 1, transformational leadership has a positive and significant effect on employee performance was rejected because the P-value is 0.098 (P ≥ 0.05), and the CR value is 1.645 (CR < 1.96). The result indicates that transformational leadership has no significant effect on employee performance. Hypothesis 2, self-efficacy has a positive and significant effect on employee performance was not rejected because the P-value is less than 0.05 (*** < 0.05) and the CR value is 2.684 (CR < 1.96). The results of this study support previous research, which shows evidence that self-efficacy has a positive and significant relationship to individual performance (Kappagoda, 2018; Vancouver & Kendall, 2006). Hypothesis 3, job satisfaction has a positive and significant effect on employee performance was not rejected because the P-value is less than 0.05 (*** < 0.05) and the CR value is 3.884 (CR < 1.96). By realizing employee job satisfaction in carrying out their duties and jobs, it can improve employee performance related to quantity, quality, and timeliness.

○ **Testing the Effect of Job Satisfaction as a Mediating Variable**

The Sobel test is used to determine the mediating variable. The Sobel test is a test to determine whether the relationship through a mediating variable is significantly capable of acting as a mediator in the relationship (Allen, 2017). The hypothesis is not rejected if this calculation results in a z value ≥ of 1.98 with a significance level of ≤ 0.05. The results of the Sobel test can be seen in Table 2.

<table>
<thead>
<tr>
<th>Indirect Effect</th>
<th>a</th>
<th>b</th>
<th>SEa</th>
<th>SEb</th>
<th>z-value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>TL to EP through JS</td>
<td>.171</td>
<td>1.169</td>
<td>.067</td>
<td>.301</td>
<td>2.13</td>
<td>Not Rejected</td>
</tr>
<tr>
<td>SE to EP through JS</td>
<td>.822</td>
<td>1.169</td>
<td>.146</td>
<td>.301</td>
<td>3.20</td>
<td>Not Rejected</td>
</tr>
</tbody>
</table>

Notes:
Based on Table 2, the Sobel test results show that the hypothesis H4 and H5, which state that job satisfaction mediates the effect of transformational leadership and self-efficacy on employee performance was not rejected (z value > 1.98 with a significance level of 5%). The Sobel test result confirmed the fully mediating role of job satisfaction on the relationship between transformational leadership and employee performance, and partial mediating role of job satisfaction on the relationship between self-efficacy and employee performance.

- **Testing the effect of work culture as a moderating variable**

Hypothesis 6 was tested using the moderation test. The moderation test is carried out by making one single variable which is the interaction between the independent variable and the moderating variable (Hayes, 2017).

**Table 3. Interaction moderation**

<table>
<thead>
<tr>
<th>Path</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZEP &lt;--- ZSE</td>
<td>.901</td>
<td>.063</td>
<td>3.211</td>
<td>***</td>
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<tr>
<td>ZEP &lt;--- ZSE_x_ZWC</td>
<td>.111</td>
<td>.047</td>
<td>2.315</td>
<td>.014</td>
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<tr>
<td>ZEP &lt;--- ZWC</td>
<td>.412</td>
<td>.035</td>
<td>2.436</td>
<td>***</td>
</tr>
</tbody>
</table>

Notes:
- C.R: Critical ratio; P: Probability (*** p is significant at 0.001 level).

Based on Table 3, the interaction variable between self-efficacy and work culture has a positive and significant effect on employee performance (P <0.05 and CR> 1.96). So it can be concluded that work culture moderates the relationship between self-efficacy and employee performance. Figure 2 explains the role of work culture in strengthening the positive relationship between self-efficacy and employee performance.

![Figure 2. The role of work culture as a moderating variable](image)

- **Discussion**
Several studies state that transformational leadership is an essential factor for companies to achieve better performance. Company performance (Colbert et al., 2014) and employee performance (Imperatori, 2017) is achieved when leaders can motivate their employees. This study's results are not in line with previous studies; namely, transformational leadership has no significant effect on employee performance. Previous research states that transformational leadership positively and significantly affects company performance (Simon Zach; Urs Baldegger, 2012). In a crisis like this, leaders need to properly carry out transformational leadership values, namely the ability to motivate, inspire, and provide examples that can improve employee performance. Covid-19 pandemic has a significant impact on company management (Grint, 2020). Company leaders play a significant role in surviving the Covid-19 pandemic (Shore, 2020). Company leaders must be able to keep the company moving forward. Company leaders need to consider the welfare needs of all employees as a result of the Covid-19 pandemic. Based on the research results, it is known that in local beverage companies, transformational leadership has no contribution to fulfilling employees’ basic needs related to decision-making, increasing employee competence, and feedback on job control, allowing individual employees to take on their leadership to manage and control their performance. The leader's role in determining company performance has a broad impact on employees (Antonakis & House, 2014). Previous research has shown that successful leaders are skilled at making the right decisions and have optimism and realism about the future (Osei et al., 2019). In other words, influential leaders will continue to strive in any condition to carry out the company's vision and mission (Tuncdogan et al., 2017). However, the Covid-19 pandemic, which requires leaders and employees to work from home, has encouraged participatory relationships that tend to decline.

Also, the results of previous studies found that self-efficacy had a positive and significant effect on individual performance (Beattie et al., 2017). Self-efficacy is considered capable of acting as a substitute for transformational leadership. Self-efficacy is a metacognitive skill that can be trained (Baron et al., 2016). Self-efficacy can compensate for the low level of transformational leadership. Self-efficacy can make an essential contribution to the company to encourage employee intrinsic motivation to improve performance, both employee performance, and company performance (De Clercq et al., 2019).

The results also show that the effect of transformational leadership and self-efficacy on employee performance is partially mediated by job satisfaction. This finding is in line with previous research that has examined the role of job satisfaction as a mediating variable on the antecedent variable of performance (Charoensukmongkol et al., 2016). The full mediation effect on the relationship between transformational leadership and employee performance in this study shows that the effect of transformational leadership becomes significant when mediated by job satisfaction. Also, the effect of partial mediation on the relationship between self-efficacy and employee performance is because employee performance may not only be a function of increasing self-efficacy and job satisfaction. This finding implies that there may be other variables that are antecedents of performance that were not captured in this study, for example, work motivation, work ethic, and company environment.

**Conclusion**

The results show that transformational leadership has no significant effect on employee performance. Self-efficacy and job satisfaction significantly affecting employee performance. Job
satisfaction acts as a mediating variable in the relationship between transformational leadership and self-efficacy on employee performance. Work culture moderated the relationship between self-efficacy and employee performance. Considering the critical role played by job satisfaction and work culture in improving employee performance, future research is needed to explore further the role of job satisfaction variables as mediating variable and the role of work culture as moderating variable in the relationship between employee performance antecedent variables.

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