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Content

The Analysis of Leadership Style, Management Control System, Information Technology and Organizational Culture of SMES (Small Medium Enterprises) Garment Sector in Gresik

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Abstract

The issue of the influence of *leadership style* on management control system, information technology, and *organizational culture* is an interesting thing regarding to the SMEs in Gresik. The relationship effects among the variables are very essential in the business organization management. This research aim to know whether the direct *leadership style* can influence the management system in SMEs Garment sector particularly in Gresik area and whether the variables of information technology and *organizational culture* can be the mediation of the influence of *leadership style* in management control system. The object in this research is the SMEs garment in the Gresik, East Java, Indonesia. This research used 54 SMEs garment with the owners as the respondents. The research variables consist of *Leadership style* as independent variable, Management Control System as dependent variable, and Information technology together with *Organizational culture* as mediation variable. The method of analysis used for the research modeling is SEM (Structure Equation Model), the processing data were finished by Partial Least Square (PLS) program, The result of this research shows that *leadership style* does not have any direct influence on the management control system, however it can influence the management control system through information technology and *organizational culture* as the mediation variables. Information technology used in SMEs in Gresik does not influence the *organizational culture*.

Key words: leadership style, information technology, organizational culture, and management control system

Research Background

In this free trade era, all the business sectors not to mention SME are faced with the competitive market. It makes all the business sectors do some adjusments on their objectives as well as the strategies that they have been used.

Therefore, they need a management tool that able to influence the behaviour of the leaders in that organization to gain the objectives and make the leaders of the organization follow the effective strategy system, it is called management control system [1]. Management control system in an organization is very influenced by the information technology used, culture, [2] and the *leadership style* on that organization. The efficacy of *management control system* in an organization is also influenced by the management behaviour of the company as well as the culture of the organization. Different *leadership style* goes with the different control system applied. The leader with transactional *leadership style* will run his business with the rules based on the standard, the measurement of employee performance as well as job description division become more explicit. Leader with transformational *leadership style* will have all the decision making done by the top management, the decision about the the target is clear meanwhile the measurement of performance based on the target that has been fulfilled is not expected to be pictured in detail and clear [3]. In the use of information technology, transformational leadership positively influence the use of information technology on the organization while transactional leadership does not have any significant effect [4]. Transformational and transactional *leadership style* have strong and positive relationship toward clan culture and adhocracy culture [5]. The use of information technology in the organization can increase the sense of sharing among the member of organization as well as express the general perceptions that can be the cultural value on the organization [6].

In the 2010, when Indonesia entered the China Asian Free Trade era, lot of businessmen including SME were worried they could not compete with the goods that came from other countries since their price were mostly cheaper than Indonesian. SME garment sector in Gresik is one of the biggest SME sector after SME snacks and become one of the SMEs that can survive and compete in this free trade era. Of course the survival is supported by the *management control system* applied in this SME garment sector. From the previous research, it is known that *management control system* is influenced by the *leadership style*, information technology, and also the culture applied in that organization. Thus, this research aim to figure out whether those thing (*leadership style*, information technology and organization culture) can influence *management control system* in the SMEs garment sector in Gresik. Based on the background that has been explained, then the statement of the problem can be broken down into following questions: (i) Is there any influence of *leadership style* to management control on SMEs garment sector? (ii) Is there any influence of *leadership style* to information technology on SMEs garment sector? (iii) Is there any influence of *leadership style* to *organizational culture* on SMEs garment sector? (iv) Is there any influence of information technology to *organizational culture* on SMEs garment sector? (v) Is there any influence of *organizational culture* to *management control system* on SMes garment sector? (vi) Is there any influence of information technology to *management control system* on SMEs garment sector?

Literature Studies

Management Control System

Management control system is where the manager is making sure that the resources in the organization has been used effectively and efficiently in order to gain the goal set (Anthony taken from [7]). Simon's *leverage of control* framework (1995) emphasizes on the role of *management control system* for the organization which is in changing process [8]. Simon's leverage of control consists of four dimensions [8] which are: (a) belief system is a system used in order to increase the value related to the business strategies and it is used to find other opportunities but still in one business value [8]. (b) Boundary system is the system used in order to minimize the risk that would be faced by the organization. (c) diagnostic control system is a feedback which is formality used to control the outcome of an organization [8]. (d) interactive control system is a system used as a signal at all levels of organization to be controlled, the submission of new idea is required but still those idea should go through some test and must be communicated before [8].

Organizational Culture

Organizational culture is defined based on competing value framework which was developed by Quinn and partner; [9] [10] [11]. Competing value framework is based on empirical analysis value of an individual in the organization regarding his performance and behaviour where those things can be used to create an *organizational culture* [12]. Competing value framework is a framework which can give explanation about the characteristic relationship among *organizational culture*, efficacy, and success. Robert Quinn and Kim Cameron developed a model of competing value framework which consists of four different values and correlated to the four types of *organizational culture* [13]. Those frameworks are: (a) Clan, which is a great working environment where the organization member share personal information and the working environment which as warm as a family [13]. (b) Adhocracy, is a dynamic working environment, entrepreneurial that is a creative place to work for [13]. (c) Market, which is a organization type which oriented to the result where the main attention focus on the accomplished work [13]. (d) Hierarchy, which is a type of organization that is so formal and structured [13]. The measurement of *organizational culture* used an instrument called *organizational culture assessment instrument* (OCAI), the criteria in OCAI used to create the usefull conture of *organizational culture* based on the perceptions and preferences that related to the six subsystem culture which are) *dominant characteristic; organizational leadership; management of employee; organization glue; strategic emphases;* and *criteria of success.*

Information Technology

Information technology is defined as capability offered on the organization through computer, software, and other communication devices in sending data, knowledge, and inovations to every member in organization [14]. The adopted information technology for small and medium enterprises is the application from hardware, software which provide way out to solve problems

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in order to support the process of decision making, operational, and management in the small and medium enterprises [15].

Leadership Style

Contemporer literature focus on two kind *leadership style* that are transformational and transactional *leadership style*. Transformational *leadership style* concern with employee morale improvement and give motivation for all employee [16]. Transformational *leadership style* consists with four dimensions [17]. (a) idealized influence, which is described as a leader's behavior that create admiration, respect, and belief from the employee. (b) inspirational motivation is described as a leader's behavior that always give challenge to employee, and give reason of each tasks (c) intellectual stimulation is described as leader's behavior that always encourage employee to develop new ideas, find a creative problem solving, and always develop new ideas in working (d) individualize consideration is described as leader's behavior that always listen and give personal attention to the employee achievement and pay attention to the needs of employee in order to make it developed. Transactional leadership meets the wishes of employee based on employee interested [18]. Transactional *leadership style* consists of three dimensions which are: [19] (a) contingen reward, which is decribed as leader's behavior to give punishment or reward based on performance of employee (b) management by exception, which is leader's behavior that always explain what must to do and related to the working standards. There are two characteristic of management employee, that are management by active exception and management by passive exception, leader will intervere if employee cannot meet the standard (c) laissez faire is where leader abdicate their responsibility as a lader and evasion for decession making [18].

Research Hypothesis

Leadership style has an influence on the *management control system* of the organization. Existance change *leadership style* from transformational *leadership style* to transactional leadership result in change in control system form implisit control system be explisit control system [3]. Based on [3] research can come to the first hypothesis;

H₁ =*leadership style* has an influence on the *management control system*

Organizational leader has an influence on improvement and development organization that use information technology. Transformational *leadership style* has a significant and positive influence on the acceptance of information technology while transactional leadership has not show any significant effect [4]. Based on [4] this research can come to the second hypothesis;

H₂ =*leadership style* have an influence on information technology

Leadership style in an organization has an influence information of culture in that organization. Transformation and transactional *leadership style* have positive correlation on clan and adhocracy culture [5]. Based on [5] this research can come to the third hypothesis;

H₃ = *leadership style* **has an influence on** *organizational culture*

Information technology and information system that organizational used have an influence to organizational characteristic to foster a sense of sharing and general vision, where both of them will be *organizational culture* value [6] Based on [6] this research can come to the fourth hypothesis;

H₄ =information technology has an influence *organizational culture*

Every organization have different culture so the control system that is implemented is different from other organizations. *Organizational culture* has an important effect for *management control system* organization [20]. Based on [20] this research can come to the fifth hypothesis;

H₅ = *organizational culture* **has an influence on** *management control system*

Information technology can help leader to control organization. The more sophisticated the used of information technolohy the more sophisticated used of *management control system* will be [1] Based on [1] this research can come to tge sixth hypothesis;

H₆ =information technology has an influence on *management control system*
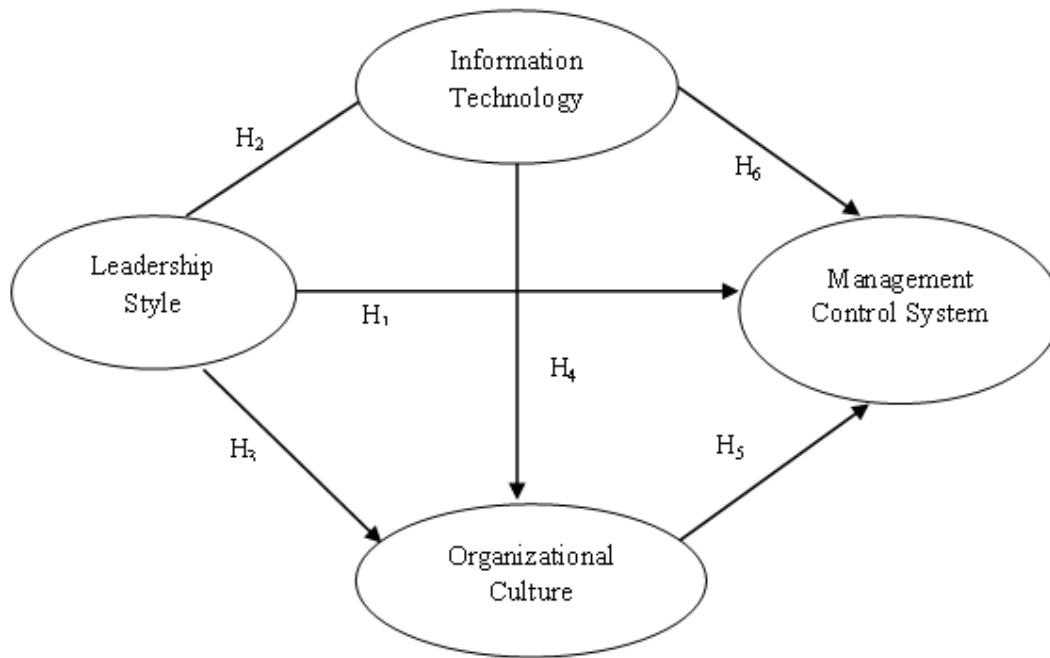
Figure 1 Hypothesis Model

Research Method

This research use 54 respondents who are the owner of SMEs garment sector in Gresik. The SMEs garment sector in here consist of SMEs that produce sarong, songkok (mosleem cap for pray), Gresik's batik, veil, children to adult mosleem clothing, and also mukena (mosleem women's clothing for pray). This research use primer data from the data collected from quesionnare which is spreaded and use the linkert scale from 1-5. In order to measure *organizational culture*, this research use OCAI (*organizational culture assessment instrument)* which was developed by [10]. In order to test the *management control system*, this research only use an approach from interactive control system dimention. The indicator used in this research is same as the indicator used in the previous research by [21].   In the leardership style testing, this research use multifactor leadership questionare (MLQ) form 6S which was developed by [22]. In the information technology testing, this research used indicator which was developed by [23]. In order to analyze the data, this research use SEM method (structure equity model) by using PLS (Partian Least Square)

Research Findings

The outer model testing, the total amount of *leadership style* (LS) variable and *organizational culture* variable were recorded into 1-5. This record numbers were used in the outer model testing by using PLS. In this research transformational leadership and transactional leadership are a combination of *leadership style*.

The research found that each indicators which are MCS1; MCS2; MCS3; MCS4; and MCS5 have the number of convergent validity as follows 0.734; 0.670; 0.749; 0.66 and 0.758. Each

indicators which are IT1; IT 2; IT 4; IT 5; IT 10; IT 12; and IT 9 have their validity convergent number as follows 0.878, 0.717, 0.563, 0.560 0.645, 0.717 and 0.518. On the *leadership style* (LS) variable it is known that these dimentions: *contingen reward; management by exception; Laissez faire; idealize influence; inspirational motivation; individual consederation; intellectual stimulation* have each convergent validity number as follows 0.816, 0.649, 0.700, 0.748; 0.697; 0.685; and 0.48.

On the *organizational culture* (OC) variable can be seen that these dimentions such as *management of employee; organizational culture; strategic emphasis; criteria of success; dominan characteristic; organizational glue* have each convergent validity number as follows 0.861; 0.861; 0.812; 0.815; 0.682; and 0.755.

The research findings also found that MCS, LS, IT, and OC have its own high correlation toward their indicators if compare to the correlation toward other indicators or dimentions. Thus, it can be concluded that MCS, LS, IT, and OC have high *discriminant validity*.

Composite ReabilityAnalysis

Table 1Composite Reability

	AVE	Composite Reliability	R Square	Cronbachs Alpha
LS	0.476232	0.861981		0.814131
MCS	0.513280	0.840157	0.472216	0.762254
OC	0.641331	0.914255	0.439016	0.886560
IT	0.459125	0.851807	0.134610	0.808286

Based on the table 1, can be seen that MCS has 0.84 *composite reability* which means MCS has 84% reability. LS has 0.861 *composite reability* means LS has 86% reability. IT has 0.851 *composite reability* means it has 85% reability. OC has 0.91 *composite reability* means it has 91% reability. MCS has 0.51 AVE while OC has 0.64 AVE which means MCS and OC have good *discriminant validity*. LS has 0.47 AVE while IT 0.45 or less than 0.5 as what have been recommended. It shows that the LS and OC variables do not have a good *discriminant validity*. MCS variable has 0.76 cronbrach alpha, LS 0.81, IT 0.808 and OC 0.88. Conseptually speaking, all the latent variables used in this model have the high reliability so it is acceptable to go on to the next analysis.

Based on the values of R square shown in the table 1, then the goodness of fit (Q^2) can be measured like this $1 – ((1-0.47) \times (1-0.43) \times (1-0.13)) = 0.738$.

It shows that the ability of the model as the relation predictor among the variables is 73.8%. It is an acceptable number for the prediction 0 to 1.

Table 2 Coeficient Path and Statistics Value

Influential relationship among Variables	Original Sample	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error	t_ stat	Sig
LS -> MCS	-0.007	-0.016	0.154	0.154	0.043	0.966
LS -> OC	0.569	0.561	0.116	0.116	4.923	0.000
LS -> IT	0.367	0.407	0.165	0.165	2.223	0.030
OC -> MCS	0.387	0.375	0.136	0.136	2.838	0.006
IT -> MCS	0.439	0.457	0.162	0.162	2.716	0.009
IT -> OC	0.189	0.228	0.138	0.138	1.368	0.177

From the table 2 can be seen that the influential relationship between LS to MCS is significant (sig = 0,966), so the H_1 is not accepted. Influential relationship between LS to IT is significant (sig = 0,030), so the H_2 is accepted. The same thing shows on the significant influential relationship between LS to OC (sig = 0,000), it makes H_3 is accepted. The influential relationship between IT to OC is not significant (sig = 0,177), so the H_4 is not accepted. The influential relationship between OC to MCS is significant (sig. = 0,006), so the H_5 is accepted, the same thing goes to influential relationship between IT and MCS (sig.= 0,009) since it is significant then the H_6 is accepted.
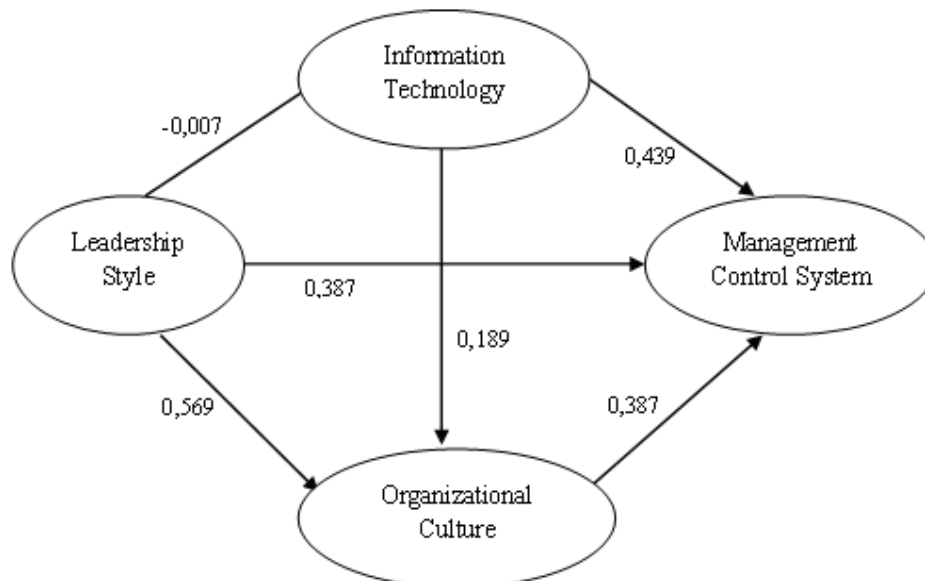

Figure 2 Result of the Research Model

Conclusion

Based on the research findings that it can be concluded that (a) *leadership style* has an influence to *organizational culture* on SMEs. (b) *Leadership style* has an influence to the use of information technology used as the communication tools in running SMEs garment sector. (c) Information technology as a communication tools can be used to influence *management control system*. The mostly used of information technology are handphone, internet, blackberry messanger, and SMS. (d) *Learderhip style* can influence the *management control system* with the

information technology and *organizational culture* as the mediations. (e) The use of information technology as the communication tools in this research does not prove can influence the *organizational culture.*

The suggestion for all the owner of SMEs garment sector is to be open to learn and know the information technology in order to help them maintain the business as well as expand the market so that they will not only depend on one or some agents. For the next research, the writer suggest the object of SMEs can be broader not only focus on the garment sector. The respondent number could be bigger so it can more represent the real condition. The scope of the research also can be broader. *Leadership style* should be seen from each perception of transformational leadership and transactional leadership, it can be seen as one like what the writer did in this research; did the dominant *leadership style* identification and *organizational culture* in SMEs garment sector. The limitation of this research is the respondents which were only 54 respondents; only four hyphothesis that represent significancy; and did not identify the dominant *leadership style* and *organizational culture* on SMEs garment sector.

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