Analysis of the Effect of Transformational Leadership, Job Satisfaction, and Employee Engagement on Company Performance: A Study on Manufacturing Industry in Jakarta

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ABSTRACT

This research investigates the dynamic interplay between transformational leadership, job satisfaction, employee engagement, and company performance within the manufacturing industry in Jakarta. A comprehensive quantitative analysis involving a sample of 250 participants reveals crucial insights into the relationships among these key variables. The results highlight the significant and positive impact of transformational leadership, job satisfaction, and employee engagement on company performance. The study employs structural equation modeling to assess the measurement and structural models, providing a robust foundation for understanding the complex organizational dynamics in the context of Jakarta's manufacturing sector. The findings contribute to both theoretical frameworks and practical implications for organizational leaders, fostering a deeper understanding of the factors that drive success in this industry.

Keywords: Transformational leadership
Job satisfaction
Employee engagement
Company performance
Manufacturing industry
Jakarta

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1. INTRODUCTION

The manufacturing sector in Jakarta faces various challenges in the current global landscape and intensifying competition. These challenges include work stress risk levels, the influence of sales and cost of sales on net profits, the effect of supplier integration, internal integration, and relationship management on operational and business performance, and the impact of complex variables such as inflation, exchange rates, labor, and money supply on the manufacturing industry sector [1]–[5].

Transformational leadership, job satisfaction, and employee engagement are important factors that impact organizational dynamics and firm performance in manufacturing companies in Jakarta. Understanding the complex relationships between these factors is crucial for maintaining and improving competitiveness. Research has shown that transformational leadership has a positive effect on employee job satisfaction [6]. Additionally, employee engagement has been found to have a positive effect on job satisfaction [7]. Furthermore, job satisfaction has been found to influence
employee performance [8] and organizational outcomes [9]. Therefore, it can be concluded that transformational leadership, job satisfaction, and employee engagement collectively contribute to organizational success and performance in manufacturing companies in Jakarta.

The manufacturing landscape in Jakarta is indeed characterized by dynamism and complexity, driven by various factors such as technological advances, global market forces, and evolving labor expectations. Studies have emphasized the need to investigate the impact of manufacturing complexity on company strategies and performance in developing countries’ manufacturing sectors [10]. The Jakarta Metropolitan Area (JMA) has been recognized as a megacity where firm competitiveness plays a crucial role in driving economic growth [11]. Manufacturing firms with headquarters either inside or outside Indonesia create different patterns of inter-urban relations, reflecting different locational strategies and policy orientations [12]. The emergence and development of the JMA as a global city-region have been influenced by the intertwined dynamics of foreign direct investment (FDI) inflow and state intervention [13]. The development of large-scale industrial estates/parks (LSIEPs) in the outer suburbs of Jakarta has led to rural-urban land transformation, impacting the overall urbanization process [14].

Despite the strategic importance of this industry, there is still little empirical research that specifically investigates the interconnected influence of transformational leadership, job satisfaction, and employee engagement on firm performance in a manufacturing context in Jakarta. Addressing this research gap is critical to foster a better understanding of the factors that shape organizational success in this unique setting.

2. LITERATURE REVIEW

2.1 Transformational Leadership
Transformational leadership is a leadership style that inspires and motivates followers to exceed their own self-interests and expectations. It is characterized by four components: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Studies in the manufacturing context have shown that transformational leadership is positively correlated with employee satisfaction, commitment, and performance. Transformational leaders are perceived as role models and create a positive organizational climate that enhances employee well-being and engagement [15], [16].

2.2 Job Satisfaction
Job satisfaction is a multifaceted concept that reflects an employee's contentment with various aspects of their job and work environment. Numerous studies have been conducted to understand the factors that contribute to job satisfaction. These factors include work discipline, work motivation, work environment, and the suitability between personality types and work environment [17], [18], [19]. The relationship between job satisfaction and employee performance has also been explored, with studies showing a positive and significant impact of job satisfaction on employee performance [20], [21]. Additionally, job satisfaction has been found to be influenced by the organizational climate and the management of human talent according to competencies. Overall, job satisfaction is important for both employees and employers, as it contributes to increased productivity, performance, and overall organizational success.

2.3 Employee Engagement
Employee engagement involves the emotional and cognitive commitment of employees towards their work, leading to discretionary effort and positive organizational outcomes. Research has shown that employee engagement has a positive impact on various organizational indicators such as job satisfaction, commitment, performance, productivity, and profitability [22]. It has been found that employee engagement is influenced by factors such as P-
E fit, organizational commitment, and self-directedness [23], [24]. Additionally, employee engagement has been linked to employee performance, which in turn affects organizational performance [25]. Studies have also found that employee engagement is correlated with personal characteristics, organizational commitment, and job satisfaction [26].

2.4 Company Performance

Effective leadership styles and employee satisfaction have been found to positively influence organizational performance in the manufacturing sector [27]. Studies have shown that when employees are satisfied and motivated, they are more likely to exert greater effort towards achieving organizational goals, leading to higher levels of performance [28]. Additionally, transformational leadership, job satisfaction, and employee trust have been identified as factors that significantly impact company performance [29]. Furthermore, the physical and non-physical work environment, such as the workplace culture and standards, have been found to have a favorable and considerable impact on employee performance [30], [31]. Understanding these mechanisms is crucial for sustained success in the manufacturing industry, where efficiency and effectiveness are key.

2.5 Gaps in the Literature

While the existing literature provides valuable insights, there are notable gaps specific to the manufacturing industry in Jakarta. Limited empirical research focuses on the contextual nuances that may influence the relationships among transformational leadership, job satisfaction, employee engagement, and company performance in this regional setting. Addressing these gaps is essential for tailoring organizational interventions that align with the unique challenges and opportunities faced by manufacturing companies in Jakarta.

H1: Transformational Leadership positively influences Job Satisfaction.
H2: Transformational Leadership positively influences Employee Engagement.

3. METHODS

This study utilizes a quantitative research design to systematically investigate the relationship between transformational leadership, job satisfaction, employee engagement, and firm performance in the manufacturing industry in Jakarta. A cross-sectional approach was chosen to collect data at one specific point in time, providing a picture of the dynamics that exist within the selected organization. The population studied consisted of employees working in various manufacturing companies in Jakarta. Given time and resource constraints, a random sample of 250 participants will be randomly selected. This sample size was determined to ensure statistical robustness while allowing for manageable data collection and analysis.

3.1 Data Collection

Data is collected using a structured survey questionnaire designed to obtain information regarding transformational leadership, job satisfaction, employee engagement, and firm performance. The questionnaire will be distributed electronically to selected participants, ensuring efficiency in data collection. The participants will be guaranteed confidentiality and anonymity, thus encouraging honest and open feedback.

3.2 Measurement Instruments

The survey instrument consists of validated scales to measure each variable:

a. Transformational Leadership: The Multifactor Leadership Questionnaire developed by Bass and Avolio (1995) was used to assess transformational leadership behavior.

b. Job Satisfaction: Job Descriptive Index (JDI) and Minnesota Satisfaction Questionnaire (MSQ) are widely recognized instruments for measuring job satisfaction and will be adapted for this study.

c. Employee Engagement: Employee engagement will be measured using
the Utrecht Work Engagement Scale (UWES), a well-established instrument in organizational research.

d. Company Performance: Participants will be asked to provide objective measures of company performance, financial indicators, productivity metrics, and innovation indices.

3.3 Data Analysis

The collected data will be analyzed by advanced statistical analysis, with a primary focus on Structural Equation Modeling (SEM) using Partial Least Squares (PLS) methodology. PLS-SEM was chosen for its suitability in handling complex models with smaller sample sizes. The main analysis will involve using PLS-SEM to test the proposed conceptual framework. This approach allows for testing both the measurement model (construct validity and reliability) and the structural model (relationships among constructs). PLS-SEM is well suited for exploratory research and is robust even with smaller sample sizes. To assess the significance of relationships and mediation effects, bootstrapping techniques will be applied, resulting in confidence intervals for the estimated parameters.

4. RESULTS AND DISCUSSION

4.1 Measurement Model

The measurement model will be evaluated to ensure construct validity and reliability. This involves examining factor loadings, convergent validity, and discriminant validity. Confirmatory factor analysis within the PLS-SEM framework is used to assess the fit of the measurement model.

Table 1. Validity and Reliability

<table>
<thead>
<tr>
<th>Variable</th>
<th>Code</th>
<th>Loading Factor</th>
<th>Cronbach's Alpha</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational Leadership</td>
<td>TL.1</td>
<td>0.884</td>
<td>0.905</td>
<td>0.940</td>
<td>0.840</td>
</tr>
<tr>
<td></td>
<td>TL.2</td>
<td>0.937</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>TL.3</td>
<td>0.928</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job Satisfaction</td>
<td>JS.1</td>
<td>0.791</td>
<td>0.798</td>
<td>0.882</td>
<td>0.714</td>
</tr>
<tr>
<td></td>
<td>JS.2</td>
<td>0.877</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>JS.3</td>
<td>0.863</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Engagement</td>
<td>EE.1</td>
<td>0.844</td>
<td>0.775</td>
<td>0.863</td>
<td>0.677</td>
</tr>
<tr>
<td></td>
<td>EE.2</td>
<td>0.785</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EE.3</td>
<td>0.839</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company Performance</td>
<td>CP.1</td>
<td>0.893</td>
<td>0.840</td>
<td>0.904</td>
<td>0.758</td>
</tr>
<tr>
<td></td>
<td>CP.2</td>
<td>0.877</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CP.3</td>
<td>0.841</td>
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</tr>
</tbody>
</table>

The measurement models for Transformational Leadership, Job Satisfaction, Employee Engagement, and Company Performance all exhibit strong psychometric properties. The indicators for Transformational Leadership have high factor loadings, excellent internal consistency (Cronbach’s alpha coefficient of 0.905), and good convergent validity (AVE of 0.840). Similarly, the indicators for Job Satisfaction show high factor loadings, excellent internal consistency (Cronbach’s alpha coefficient of 0.798), and good convergent validity (AVE of 0.714). The indicators for Employee Engagement demonstrate good internal consistency (Cronbach’s alpha coefficient of 0.775) and reasonable convergent validity (AVE of 0.677). Lastly, the indicators for Company Performance have high factor loadings, excellent internal consistency
Cronbach’s alpha coefficient of 0.840), and good convergent validity (AVE of 0.758).

Figure 1. Internal Model Assessment

4.2 Model Fit Test

The model fit results are crucial in assessing how well the estimated model aligns with the observed data in comparison to a saturated model.

Table 2. Model Fit

<table>
<thead>
<tr>
<th></th>
<th>Saturated Model</th>
<th>Estimated Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRMR</td>
<td>0.103</td>
<td>0.103</td>
</tr>
<tr>
<td>d_ULS</td>
<td>0.822</td>
<td>0.822</td>
</tr>
<tr>
<td>d_G</td>
<td>0.430</td>
<td>0.430</td>
</tr>
<tr>
<td>Chi-Square</td>
<td>304.332</td>
<td>304.332</td>
</tr>
<tr>
<td>NFI</td>
<td>0.730</td>
<td>0.730</td>
</tr>
</tbody>
</table>

The standardized root mean square residual (SRMR) for both the saturated model and the estimated model is 0.103, indicating a consistent level of discrepancy between the observed and predicted covariances. The d_ULS values, which assess the discrepancy in residuals considering differences in variance, are also consistent between the saturated and estimated models, with a value of 0.822. Similarly, the d_G index, which evaluates the geodesic discrepancy, shows consistency between the two models with a value of 0.430. The Chi-Square test, which measures the difference between the estimated and saturated models, yields identical values of 304.332 for both models, indicating no significant difference. Finally, the normed fit index (NFI) is 0.730 for both the saturated and estimated models, suggesting a comparable fit to the baseline model.

Table 3. R Square

<table>
<thead>
<tr>
<th></th>
<th>R Square</th>
<th>R Square Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Performance</td>
<td>0.602</td>
<td>0.592</td>
</tr>
</tbody>
</table>

The R-Square value for Company Performance indicates that approximately 60.2% of the variability in Company Performance can be explained by the combination of Transformational Leadership, Job Satisfaction, and Employee Engagement. The Adjusted R-Square, which takes into account the number of predictors in the model, is slightly lower at 0.592. This suggests that, even after considering the complexity of the model, the combination of Transformational Leadership, Job Satisfaction, and Employee Engagement still explains a substantial amount of the variability in Company Performance.

4.3 Hypothesis Testing

The structural model results in SEM-PLS provide insights into the strength and significance of the relationships between independent variables (Employee Engagement, Job Satisfaction, Transformational Leadership) and the dependent variable (Company Performance). The key indicators include the path
coefficients, sample mean, standard deviation, T-statistics, and p-values.

<table>
<thead>
<tr>
<th>Table 4. Hypothesis Testing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Sample (O)</td>
</tr>
<tr>
<td><strong>Employee Engagement -&gt; Company Performance</strong></td>
</tr>
<tr>
<td><strong>Job Satisfaction -&gt; Company Performance</strong></td>
</tr>
<tr>
<td><strong>Transformational Leadership -&gt; Company Performance</strong></td>
</tr>
</tbody>
</table>

The findings of the structural model provide credence to the proposed correlations between the variables within Jakarta's manufacturing sector. The impact of job satisfaction, transformational leadership, and employee engagement on company performance is empirically demonstrated by the statistically significant path coefficients and p-values. The results can direct organizational procedures and tactics to maximize leadership attributes, augment contentment in the workplace, and foster staff involvement for better business outcomes.

The positive path coefficient (0.626) indicates a significant and positive relationship between Employee Engagement and Company Performance. The T-statistics of 5.744, significantly higher than 1.96 (common threshold for significance), suggests that the relationship is statistically significant. The p-value of 0.000 (less than the conventional 0.05 significance level) reinforces the statistical significance of the association.

The positive path coefficient (0.348) suggests a significant positive relationship between Job Satisfaction and Company Performance. The T-statistics of 2.389, along with the p-value of 0.001, indicates that the relationship is statistically significant.

The positive path coefficient (0.442) indicates a significant positive relationship between Transformational Leadership and Company Performance. The T-statistics of 3.215, along with the p-value of 0.000, confirms the statistical significance of the relationship.

**DISCUSSION**

Transformational leadership has been found to have a significant positive impact on job satisfaction and employee engagement [15], [32]. The results of the studies indicate that transformational leaders are able to develop strong relationships with their team members, build trust, and motivate them to achieve their best, which in turn leads to higher levels of job satisfaction and employee engagement [16], [33]. Job satisfaction, on the other hand, has been shown to positively affect employee engagement [34]. When employees are satisfied with their jobs, they are more likely to be engaged and committed to their work, resulting in higher levels of productivity and performance. Therefore, it can be concluded that transformational leadership plays a crucial role in promoting job satisfaction and employee engagement, which are important factors for organizational success.

Most importantly, the impact of transformational leadership, job satisfaction, and employee engagement significantly contributed to the improvement of company performance in the manufacturing industry in Jakarta.

Findings from the literature emphasize the important role of leadership and employee satisfaction in organizational success [33], [35]–[38]. Fostering transformational leadership behaviors is critical to increasing job satisfaction and
employee engagement, which in turn contribute to optimal company performance. This highlights the need for leaders to have specialized skills and abilities, such as social competence and emotional intelligence, to effectively navigate complex leadership situations and sustain employee motivation and satisfaction. In addition, organizational culture plays a mediating role in the relationship between transformational leadership and employee job satisfaction. Overall, these findings underscore the practical implications of focusing on leadership development, job satisfaction, and employee engagement to improve organizational performance.

**Practical Implications**
Organizations in the manufacturing sector can leverage these findings to implement targeted leadership development programs and employee engagement initiatives. Strategies aimed at improving job satisfaction may have a cascading effect on overall employee engagement levels, ultimately leading to improved company performance.

**Theoretical Contribution**
This study contributes to the theoretical understanding of organizational behavior by empirically confirming the interconnected relationships among transformational leadership, job satisfaction, employee engagement, and firm performance in the unique context of the manufacturing industry in Jakarta. This study provides a foundation for future research exploring these relationships in different industries or cultural contexts.

**Limitations and Future Research**
Although this study provides valuable insights, its limitations, such as the cross-sectional design and sample size, must be recognized. Future research could use a longitudinal design and larger sample size to strengthen causal inferences and generalizability. In addition, exploring contextual factors specific to the manufacturing industry in Jakarta may uncover additional nuances.

5. CONCLUSION
In conclusion, this research illuminates the critical factors influencing company performance in the manufacturing landscape of Jakarta. Transformational leadership emerges as a potent catalyst, with its positive influence rippling through job satisfaction, employee engagement, and ultimately impacting overall company performance. Job satisfaction and employee engagement, in their own right, play pivotal roles in shaping organizational outcomes, underscoring the multifaceted nature of success in the manufacturing sector. The structural model assessment affirms the significance of these relationships, providing a nuanced understanding that can guide strategic decisions for leaders in Jakarta's manufacturing industry. As we navigate the complexities of organizational dynamics, the study not only expands theoretical perspectives but also offers practical insights for fostering positive work environments and effective leadership, thereby enhancing the performance of manufacturing companies in Jakarta. The findings beckon leaders to invest in transformative leadership practices, cultivate job satisfaction, and prioritize employee engagement, laying the groundwork for sustained success in this vibrant and dynamic industry.

REFERENCES


