Organizational commitment and job satisfaction: the leadership role of leader-member exchange in SMEs

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ABSTRACT:

Leadership is consistently recognized as a major contributor to organizational success including SMEs. The lack of consistency of leaders in small businesses to deal with the changes that occur, making leaders often fail in running their business. This study aims to examine the effect of leadership style *leader-member exchange* (LMX) on organizational commitment mediated by job satisfaction variableson SME employees in Bandar Lampung. This research uses a method *survey* by distributing structured questionnaires to 325 employees of SMEs with *a purposive sampling technique.* The results showed that leadership style *leader-member exchange* affected the job satisfaction of SMEs employees and organizational commitment. Job satisfaction partially mediates the influence of leadership style *leader-member exchange* and organizational commitment. The results also showed that the award given by the leadership, perceived fairness, and clarity of the objectives to be achieved by SMEs were the determining factors for employee satisfaction at work.

Keywords: SMEs, leadership style *leader-member exchange,* job satisfaction, organizational commitment.

# INTRODUCTION

Leadership has consistently been recognized as a major contributor to the success of a business and influencing organizational members at work (Lee, 2005). The leader can act as a motivator, mediator, and communicator in the organization. Relationships between leaders and employees are generally based on the existence of exchanges that provide benefits between the two parties. Graen and colleagues developed a leadership model called *leader-member exchange* (LMX), which is a variation of *social* *exchange* *theory* that explains how leaders develop different exchange relationships with their subordinates (Graen and Uhl-Bien, 1991). LMX theory states that the relationship between superiors and employees is the result of work exchanges related between leaders and subordinates. There are two types of relationships, namely high-quality relationships that reflect trust, respect, and loyalty or low-quality relationships (M. Abu Elanain, 2014). At LMX, social exchange or friendship makes followers likely to be committed to the organization because of the attachment to their leaders and members in the organization. The Commitment of followers can be a way for them to repay the kindness of the leader (Lee, 2005).

Research conducted by (Gerstner and Day, 1997); (Liao *et al.*, 2017) and (Lee, 2005) shows a significant relationship between LMX and organizational performance, satisfaction, and commitment. Job satisfaction is determined by the organizational climate (Valaei and Rezaei, 2016); organizational commitment is determined by the quality of the leader-follower relationship ((Wei, Lee, and Kwan, 2016); higher performance will be shown by subordinates who have a high level of satisfaction with their superiors, decreased turnover, and better quality of tasks (Abu Bakar, Su Mustaffa, and Mohamad, 2009) Leadership is very necessary for small and medium-sized businesses. In SMEs, the relationship between leaders and subordinates occurs due to social exchange, due to social interactions that occur between leaders and subordinates during the work process (M. Abu Elanain, 2014) The quality of the relationship between leaders and subordinates varies and influences the results of subordinates (Bhal, 2006). It is identified that the relationship between superiors and subordinates in SMEs is of low-quality exchange. In this relationship, there is little access to supervisors, few resources. The limited information that has the potential to cause dissatisfaction at work, low ko commitment to organization, turnover (Maslyn and Uhl-Bien, 2001). Relationships that are formed due to obligations create a low level of trust and emotional support (M. Abu Elanain, 2014) can cause employee dissatisfaction which can impact low commitment to the organization.

Business in Lampung Province is dominated by Small and Medium Enterprises, which in 2017 numbered 11,903 units (Department of Cooperatives and SMEs, 2018). Small and medium-sized businesses make a significant contribution to the economy, absorb a large workforce and reduce unemployment. SMEs have a very important role in moving the wheels of the Lampung economy. SMEs are the first choice because they require relatively small capital. In small businesses, consistent leadership is needed to face challenges and problems that cannot be predicted when dealing with unexpected events as a result of planned changes or new ventures (Finlay-Robinson, 2013). This research is important to obtain information about leadership and the exchange process that occurs between leaders and their subordinates at SMEs in Bandar Lampung, Lampung Province.

Research Methodology

The purpose of this study was to examine the effect of leadership style *leader-member exchange* (LMX) on organizational commitment mediated by job satisfaction variableson SMEs employees in Bandar Lampung.

This study uses a method *survey* carried out by distributing structured questionnaires to SMEs employees in Bandar Lampung as well as providing opportunities for SMEs employees to convey the leadership desired by SMEs employees because the work relationships that occur at SMEs are low-quality relationships that make employees only perform obligations according to contracts written work as well as lacking the initiative to do something more in the work.

 The sample size in this study refers to the opinion of Hair *et al.* (2010), which is 325 people taken by *purposive sampling technique.* Criteriarespondents in this study were (1) employees who worked at SMEs in Bandar Lampung, (2) SMEs had at least 5 employees.

Findings and Discussion

Questionnaires were distributed to 325 SME employees in Bandar Lampung, 300 copies were returned and were eligible for further processing. Thus the response rate in this study was 92.3%. The profile of respondents by sex is 58% male and 42% female. Based on their years of service, most respondents (80%) have 1-5 years, 6-10 years (18%), and more than 10 years (2%).

Profile of respondents in this study was male (52%) and female 48%) with working years 1-5 years (80%); respondents work in the food and beverage business (40.3%), services (34.3%) and sales (25.4%).

Based on several model suitability test criteria it can be stated that the entire research model is fit, with a CMIN / DF value of 2.444; GFI 0.829; AGFI 0.801; RMSEA 0.069; TLI 0.790; and CFI 0.806. Based on the results of data processing using SEM, it is obtained the results of the *Maximum Likelihood Estimates* that the CR value in *regression weight* is 4.988, greater than ± 1.96 and p-value <0.05. Thus it can be stated that **H1 is** supported, this means that the leadership style *leader-member exchange* has a positive effect on job satisfaction. In testing hypothesis 2, the results obtained at *Maximum Likelihood Estimates* that the CR value in the *regression weight* is 4.192, greater than ± 1.96 and p-value <0.05. Thus it can be stated so that **H2 is** supported, this means that the leadership style *leader-member exchange* effect on organizational commitment. In hypothesis 3, mediation testing requires a significant relationship between the three variables. The following mediation test results indicate that job satisfaction mediates a *partial mediation* LMX leadership style variable with organizational commitment variables.

Table 1. Mediation test results

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Construct Beta Estimates S.E C.R. P.Value Result

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Before Mediation:

OC 🡨 LMX Lead 0,339 0,064 5,249 \*\*\* Significant

After Mediation:

OC 🡨 LMX Lead 0,274 0,065 4,192 \*\*\* Significant

JS 🡨 LMX Lead 0,393 0,079 4,988 \*\*\* Significant

OC 🡨 JS 0,161 0,061 2,653 0,008 Significant

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results showed that all three variables are positive and significant. LMX leadership style influences organizational commitment. SMEs employees value knowledge, competence, and admire the professional abilities possessed by superiors. Extensive knowledge possessed by the leader will produce innovations for SMEs both for products and in the marketing activities of their products. Employees also like the leadership personally. This can occur because of a good relationship between superiors and subordinates. As a reward for the benefits provided by the leadership, the leader will expect subordinates to help them with work assignments that are outside the formal scope of the job description (Elanain, 2014). The results of this study are in line with research conducted by (Lee, 2005) with the result that leadership directly influences organizational commitment. LMX consisting of *effect, loyalty, contribution,* and *professional* respect can explain organizational commitment.

LMX leadership style positively influences organizational commitment. This result is in line with research conducted by (Jing-zhou and Wen-xia, 2011) about the effect of the affective commitment of member organizations from four dimensions, namely *affection, contribution, loyalty, professional respect* and observing the mediating variables of *perceived organizational support* (POS). The results showed that only three dimensions affected affective commitment, namely *affection, loyalty, and professional respect.* This is as Gouldner's opinion (Jing-zhou and Wen-xia, 2011) states that the mutually beneficial relationship between managers and members will determine the sustainability of the organization.

The job satisfaction variable partially mediates the LMX leadership style with organizational commitment. The award given by the leadership of SME employees, the sense of fairness felt by SME employees, as well as the clarity of the objectives to be achieved by SMEs are the determining factors for employee satisfaction at work. These results are in line with research conducted by (Jing-zhou and Wen-xia, 2011; M. Abu Elanain, 2014) which examines job satisfaction and organizational commitment mediating the relationship of *leader-member exchange* with turn-over intentions. The results showed that the variable job satisfaction and organizational commitment mediated *leader-member exchange* with turn-over intentions. The higher job satisfaction and organizational commitment will improve the relationship *leader-member exchange* with turn-over intentions. Increased LMX will cause *the* employee to be lower. Research conducted by (Torka, Schyns and Kees Looise, 2010) on the quality of direct participation and organizational commitment also tests mediation using the *Sobel test*, it is known that the relationship between LMX and affective commitment is mediated by job satisfaction with participation.

Conclusion

This study examines the effect of job satisfaction mediating on LMX leadership variables and organizational commitment. Based on the results of the study, several conclusions can be drawn, namely (1) SME leaders who value the efforts made by their employees and can be fair to employees make employees feel satisfaction at work. (2) A good relationship between the leadership and employees of SMEs will determine the sustainability and stability of the organization. (3) The award given by the leadership of SME employees, the sense of fairness felt by SME employees, as well as the clarity of the objectives to be achieved by SMEs are the determining factors for employee satisfaction at work. The higher job satisfaction and relationships *leader-member exchange* will increase commitment to the organization.

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