

## The Effect of Leadership Style on Employee Loyalty with Organizational Climate as a Moderating Variable

Junita Risa Megawati<sup>1\*</sup>, Haryono Umar<sup>2</sup>

Asia Banking, Finance and Informatics Institute, Perbanas Jakarta

**Corresponding Author:** Junita Risa Megawati [junitarisa12@gmail.com](mailto:junitarisa12@gmail.com)

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### ABSTRACT

This study aims to examine and analyze the effect of transformational and transactional leadership styles on employee loyalty, and the effect of organizational climate moderates transformational and transactional leadership styles on employee loyalty. The research method used ex post-facto with 253 samples from employees of PNM Mekaar Ltd. Region Probolinggo business unit. The results show that transformational and transactional leadership styles have a positive effect on employee loyalty, organizational climate has a positive effect on moderating transformational leadership styles and a negative effect on moderating transactional leadership styles

## **INTRODUCTION**

Permodalan Nasional Madani Ltd. is a company engaged in the non-banking financial services sector which distributes capital and empowers businesses for micro, small and medium enterprises (MSMEs). Permodalan Nasional Madani Ltd. was established by the Government on June 1, 1999 then in 2008 Permodalan Nasional Madani Ltd. carried out a business transformation by launching the PNM ULaMM product (Micro Capital Service Unit) which provides direct financing to micro and small business actors. In 2015 Permodalan Nasional Madani Ltd. launched the PNM Mekaar product (Fostering a Prosperous Family Economy) which provides special services for underprivileged women doing ultra micro businesses, both those who want to start a business or develop a business. The total number of Permodalan Nasional Madani Ltd. employees is currently more than 10,000.

Permodalan Nasional Madani Ltd. Mekaar Business Unit Probolinggo Region has a problem that is the center of attention related to human resources, namely employees, namely the intensity of their discharge is quite frequent. Having loyal employees, committed and high responsibility is one of the things that can bring success to the company in achieving its goals. The majority of Mekaar employees are women who have graduated from high school/vocational school or equivalent, with ages ranging from 18 to 25 years. However, at Permodalan Nasional Madani Ltd., the Mekaar Business Unit in the Probolinggo Region has a low level of loyalty.

Employee loyalty at Permodalan Nasional Madani Ltd. Mekaar Business Unit, Probolinggo region 1 is low. With the high number of employees leaving, it is certainly a problem in business at Mekaar. This requires deepening and how employees who continue to work continue to contribute to the growth of PNM Ltd. Mekaar Business Unit, Probolinggo region.

The company considers that one of the organizational resources that have an important role in achieving goals is human resources, namely employees. Therefore it is important for a company to be capable of optimizing and managing all of its human resources properly, it aims to be able to maintain and improve the condition of the company. Meanwhile, from employees themselves want a supportive corporate environment from colleagues, superiors, and the work climate.

According to (Subanidja & Aiaz, 2016) one of the company's activities is influenced by the pattern of relationships that occur within it, both relationships with fellow employees and relationships with superiors. One of the objectives of human resource management in the organizational management function is related to leadership issues. Someone who is appointed as a leader or who is recognized by his/her team members as someone who deserves to lead them, he/she is the one who carries out the functions of the organization. The way and pattern of leader behavior is interpreted by the subordinates who work with him/her as a leadership style.

An effective leadership style is needed in a company to direct company employees and control various existing problems with the right solution. A good leader, the effectiveness of his/her leadership style is determined by the ability to read the situation at hand and adjust his/her leadership style in such a way as to suit and be capable of meeting the demands of the situation at hand, so that the subordinates who are led by him/her, are capable of motivated well and capable of carrying out the work program that has been set.

Such conditions demand the capability and skills of leaders in managing changes in the organization's strategic environment which have an impact on the existence of the organization through effective leadership. The future Leaders are required to have broad perceptions and insights in dealing with real conditions faced by organizations, the level of need to motivate employees who are increasing, have the ability to control emotions, have new skills in analyzing organizational cultural assumptions, and identify functional assumptions and dysfunctional in the context of a business organization, have the will and ability to involve all employees, attract their participation to empower their roles and functions within the business organization.

According to (Jayanti & Lela, 2019) loyalty to the company as an attitude, the extent to which employees identify their workplace by showing a desire to work and try their best. According to (Newstorm, 2016) in a company, organizational climate can determine employee work loyalty. With a good organizational climate, efforts to maximize employee loyalty can be realized maximally.

Support for a positive attitude is formed because of values and needs that employees have feel appropriate and sufficient, such as the suitability of the amount of salary received with the breadth and amount of responsibility, the opportunity to make decisions and the authority to determine policies, the opportunity to always be able to develop oneself that is open and managed by a well planned company.

In research of (Jayanti & Lela, 2019) proved there is a positive and significant influence between leadership style on employee loyalty of Fastrata Buana Ltd. Pulogadung Branch. According to (Marzuki, 2018) the results of his research showed that the stronger the transformational leadership style and work professionalism, the more employee loyalty in the LP3I group will increase. Research of (Jayanti & Lela, 2019) shows the results that leadership style has a positive and significant effect on employee loyalty. The novelty of this study is the use of organizational climate as a moderation of leadership style research on loyalty.

## LITERATURE REVIEW

### Leadership Style

Leadership style is a norm of behavior used by someone when that person tries to influence the behavior of others as seen (Marzuki, 2018). According to (Tjokro, Willy, & Haryono, 2021) described leadership style as various patterns of behavior that direct and influence workers.

According to (Tjokro, Willy, & Haryono, 2021) suggested that transformational leaders meet the fundamental requirements of their employees (eg integrity, respect and trust), higher levels of motivation and morality will develop under such circumstances, and employees can dedicate more many efforts to achieve organizational goals. (Sari, 2016) stated four marked transformational aspects including ideal influence and charisma (a strong role model with high ethics), inspirational motivation (high team spirit and shared vision), intellectual stimulation (emphasizes problem solving and creativity) and finally individual consideration (a good climate). support and use of delegation.

The transformational leadership style tends to focus on employee values (Pathriranage, 2019). Democratic leadership style encourages employees to participate in organizational decision-making processes. According to (Apkarep, Enock, & Alisa, 2019) decision making in the transformational leadership style is not centered and recognizes even respecting employees. According to (Jayanti & Lela, 2019) provided an explanation that there is the potential for bad decision making if all results are left to employees or subordinates.

According to (Baig, et al., 2019) explained that an effective transformational leadership style is always able to provide direction in the top management of organization to motivate employees to increase loyalty. The pattern of transformational leadership encourages employees or subordinates to show high achievement thereby increasing employee commitment to loyal behavior (Apkarep, Enock, & Alisa, 2019). According to (Bassem et al., 2017), leaders can influence loyalty through inspiration and hope.

### Employee Loyalty

According to (Robbins & Judge, 2017) loyalty is defined as a willingness to protect and save one's self. According to (Jayanti & Lela, 2019) stated that loyalty is loyalty which is reflected by the willingness of employees to maintain and defend the organization inside and outside of work.

The process of making decisions and organizational loyalty causes them to evaluate alternative ways of acting by reminding the consequences of actions for the group. According to (Haryanto, Harry, Poppy, & Haryono, 2022) employee loyalty shows a sense of attachment to work or organization.

Physical, emotional and intellectual commitment to the organization is used to finish various jobs. Loyalty describes a conceptualization of initiative, dedication, effectiveness, identity and commitment toward the company.

## **H1: Transformational leadership style has a positive effect on employee loyalty**

### **Transactional Leadership Style**

According to (Wahyudi & Subanidja, 2022), transactional leadership has been defined as leader's behavior which can engage with employees to achieve the expected performance with the characteristics of explaining various contract terms, enforcing compliance with rules and standards, drafting contractual agreements regarding work goals and quality, supervising employees at work to ensure the work produced is in accordance with effective provisions, isolating work from environmental changes, using contingent prizes or bonuses to influence motivation and ensure equal distribution of rewards.

The transactional leadership pattern is considered by the leader as someone who is aware of his position and has little trust or confidence in his subordinates (Apkarep, Enock, & Alisa, 2019). Transactional leaders are classic, bossy and leaders want subordinates to work according to what the leader dictates (Baig, et al., 2019). Transactional leaders retain decision-making rights and feel that the remuneration given to employees serves as motivation.

Transactional leaders make choices based on personal ideas and do not take suggestions from subordinates. Transactional leadership involves absolute control so that subordinates are not given trust (Book, Anthony, & Jungsun, 2019). Transactional leaders do not develop employee self-actualization by providing reward motivation as an increase in loyalty (Rehman, Anam, & Naveed, 2019).

## **H2: Transactional leadership style has a positive effect on employee loyalty.**

### **Organizational Climate**

According to (Wirawan, 2017) organizational climate is a fundamental spirit value in how to manage relationships and organize it. According to (Robbins & Judge, 2017) organizational climate is a term used to contain a series of behavioral variables that refer to values, beliefs and key principles that play a role. Meanwhile, according to (Newstorm, 2016) organizational climate is the personality of an organization that distinguishes it from other organizations that lead on the perception of each member in viewing the organization.

According to (Wirawan, 2017) organizational climate is the perception of organization members (individually and in groups and those who are in constant contact with the organization (eg suppliers, consumers, consultants and contractors) regarding what is or happens in internal environment of the organization regularly, which influence organizational attitudes and behavior and the performance of organizational members who then find organizational performance.

### **Transformational Leadership Style Against Employee Loyalty**

Transformational leadership is considered good in theory but has problems with slow decision-making processes and the received results can be applied in the long term. (Rizan, Warokka, Wibowo, & Febrilia, 2020) provided an explanation that transformational leaders allow decision-making to be shared between leaders and groups. Criticism and praise are given objectively and a

sense of responsibility is developed within the group. (Pathriranage, 2019) described transformational leaders always involving members.

(Bassem, Maamari, & Majdalani, 2017) explained that leadership style has a very large impact on organizational climate. Awareness and understanding of the convenience offered by the leadership changes the mindset of employees through the organizational climate in order to encourage employee loyalty.

(Bassem, Maamari, & Majdalani, 2017) explain leadership style with employee loyalty. A good leadership style prevents boundaries between superiors and employees. Employees have the perception that adopting the superior's leadership style will be beneficial for loyalty and effectiveness. According to research of (Fernandez, Silvia, Luisa, & Gabriel, 2018), parties who have a high level of loyalty tend to have good relationships with companies as trusted parties will fulfill all their obligations and are as expected both in terms of quality and timeliness.

According to (Book, Anthony, & Jungsun, 2019) a transformational leadership style where leaders tend to trust subordinates thereby encouraging members of the organization or employees to behave loyally over the various delegations given. Matters relating to leadership style are related to lifestyle of leading, directing, in a more practical way of working.

### **H3 : Organizational climate strengthens the influence of the position of transformational leadership style on employee loyalty**

#### **Transactional Leadership Style Toward Employee Loyalty**

Transactional leaders make choices based on personal ideas and rarely accept suggestions from subordinates. Transactional leadership involves absolute control so that subordinates are rarely given trust (Book, Anthony, & Jungsun, 2019). Transactional leaders are unable to develop pride of achievement, refusal of personal development, employee self-actualization is not optimal (Rehman, Anam, & Naveed, 2019)

According to (Jayanti & Lela, 2019) stated that leadership style is a manifestation of trust in employees. The study explains that leadership style is one of the factors related to loyalty in this study, namely because it involves the loyalty of company employees. In a research journal conducted by (Wahyudi & Subanidja, 2022) said that leadership style has such a big impact on loyalty. The existence of employee loyalty to a company is shown by following rules in the company. Leadership style concerns the willingness of leaders to behave in a certain way because of the belief that employees will provide their own various potentials. Employee loyalty is the foundation of an organization and must be built and proven.

### **H4 : Organizational climate strengthens the positional influence of transactional leadership style on employee loyalty**

The framework of thought is based on the relationship between one research concept and another as well as the problems in the studied research. Thus, in this study a framework was created to explain the relationship between the variables included in this study. The framework of thought is in this following figure:

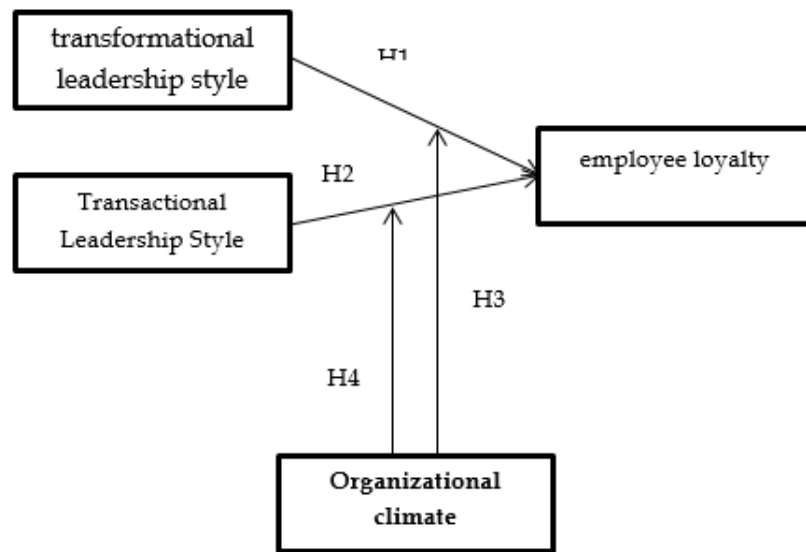


Figure 1. Conceptual Framework

## METHODOLOGY

This research is an ex post-facto research, namely research conducted to examine events that have occurred and then trace back to find out the factors that can cause these events. The incident in question is the problem of the increasing number of employees leaving at Permodalan Nasional Madani Ltd. in Mekaar Business Unit in Probolinggo Region, thus indicating that there are certain factors that need to be examined in depth in the form of a business leadership style that is able to encourage employees to leave and show low employee loyalty, even though companies are required to manage and improve their human resource capabilities. All employees who have worked for at least 6 months are given a questionnaire to answer according to the criteria determined by the slovin formula so as to obtain 253 samples from 688 populations. Then the unit of analysis in this study, namely Permodalan Nasional Madani Ltd., is a company engaged in the field of non-banking financial services that distributes capital and empowers businesses for micro, small and medium enterprises (MSMEs) specifically in the Probolinggo region. Employees of Permodalan Nasional Madani Ltd. specifically for the Probolinggo area were used as respondents in this study.

The population in this study were all employees of PNM Ltd. Business Unit Mekaar Region Probolinggo, numbering 688 based on the criteria, who had been employees for at least 6 months. As for the determination of the sample with the slovin formula which produces 253 samples.

Data sources are divided into primary and secondary. Primary data is generated from filling out questionnaires and secondary data from research results, journals, books and others. The data collection method used a questionnaire technique/questionnaire with reference to the Likert scale. Then processing and analyzing data using smart PLS software version 3.

## RESULT

### Measurement Model Analysis (Outer Model)

As shown below, the Outer Model has been analyzed based on the results of the data collected and processed through the program of SmartPLS 3.0. In addition, it can be seen that each indicator has its own external load value, and the value of the path coefficient from one variable to another can also be seen from the research model.

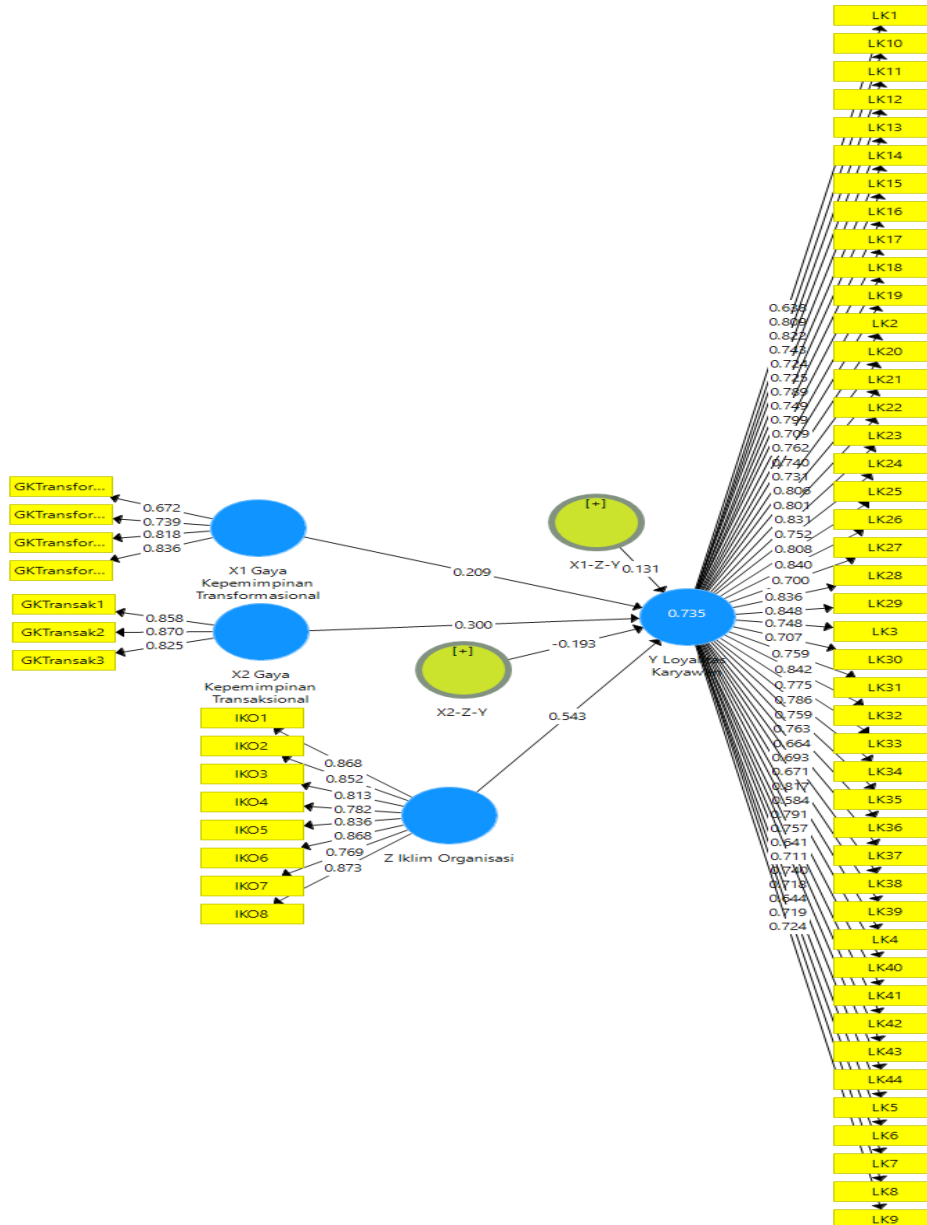


Figure 2. Model Analysis  
Source: Appendix



## DISCUSSION

### **H1: The effect of transformational leadership style on employee loyalty in PNM Mekaar Business Unit, Probolinggo Region.**

The transformational leadership style tends to focus on employee values (Pathriranage, 2019). Democratic leadership style encourages employees to participate in organizational decision-making processes. According to (Apkarep, Enock, & Alisa, 2019) decision making in the transformational leadership style is not centered and recognizes, even respecting employees. According to (Jayanti & Lela, 2019) provided an explanation that there is the potential for bad decision making if all results are left to employees or subordinates.

According to (Book, Anthony, & Jungsun, 2019) described that the transformational leadership style is able to motivate subordinates with quality leadership. According to (Baig, et al., 2019) explained that an effective transformational leadership style is always able to provide direction in the top management of the organization to motivate employees to increase their loyalty.

According to (Bassem et al., 2017), leaders can influence loyalty through inspiration and hope. The created expectations through the given motivation, create various positive impacts on the organization. According to (Kalkan, Fahriye, Zehra, Ramazan, & Gokmen, 2020) transformational leadership style is often associated with giving trust to leave subordinates to complete tasks and work according to ability or capacity in compliance with strict policies or procedures.

### **H2: The effect of transactional leadership style on employee loyalty in PNM Mekaar Business Unit, Probolinggo Region**

The transactional leadership pattern is considered by the leader as someone who is aware of his/her position and has little trust or confidence in his/her subordinates (Apkarep, Enock, & Alisa, 2019). Transactional leaders are classic and bossy and leaders want subordinates to work according to what the leader dictates (Baig, et al., 2019). Transactional leaders retain decision-making rights and feel that the given remuneration to employees, serves as motivation. Transactional leaders are characterized as leaders who are arbitrary, controlling, power-oriented and closed-minded (Apkarep, Enock, & Alisa, 2019).

Transactional leaders emphasize compliance in making decisions with strict demands on regulatory compliance. The decision-making process of authoritarian leaders is coercive over decisions and control over the performance of subordinates. Transactional leaders make choices based on personal ideas and do not take suggestions from subordinates.

Transactional leadership involves absolute control so that subordinates are not given trust (Book, Anthony, & Jungsun, 2019). Transactional leaders do not develop employee self-actualization by providing reward motivation as an increase in loyalty (Rehman, Anam, & Naveed, 2019).

### **H3: The influence of organizational climate moderates the transformational leadership style on employee loyalty at PNM Mekaar Business Unit, Probolinggo Region**

(Rizan, Warokka, Wibowo, & Febrilia, 2020) explained that transformational leaders allow decision-making to be shared between leaders and groups. Criticism and praise are given objectively and a sense of responsibility, are developed within the group. (Pathriranage, 2019) described transformational leaders always involve members.

(Bassem, Maamari, & Majdalani, 2017) explained that leadership style has a very large impact on organizational climate. Awareness and understanding of the convenience offered by the leadership changes the mindset of employees through the organizational climate in order to encourage employee loyalty.

Employees have the perception that adopting the superior's leadership style will be beneficial for loyalty and effectiveness. According to research of (Fernandez, Silvia, Luisa, & Gabriel, 2018) namely parties who have a high level of loyalty tend to have a good relationship with the company as the trusted party will fulfill all its obligations and as expected both in terms of quality and timeliness.

The transformational leadership style believes in developing employees because leaders believe that employees can maintain the good name of the company or organization (Rehman, Anam, & Naveed, 2019). According to (Book, Anthony, & Jungsun, 2019) a transformational leadership style where leaders tend to believe in subordinates thereby encouraging members of the organization or employees to behave loyally over the given various delegations.

### **H4: The influence of organizational climate moderates the transactional leadership style on employee loyalty at PNM Mekaar Business Unit, Probolinggo Region**

Transactional leadership involves absolute control so that subordinates are rarely given trust (Book, Anthony, & Jungsun, 2019). Transactional leaders are unable to develop pride of achievement, refusal of personal development, employee self-actualization is not optimal (Rehman, Anam, & Naveed, 2019).

According to (Jayanti & Lela, 2019) stated that leadership style is a manifestation of trust in employees. The study explains that leadership style is one of the factors related to loyalty in this study, namely because it involves the loyalty of company employees. In a research journal conducted by (Wahyudi & Subanidja, 2022) said that leadership style has such a big impact on loyalty. The existence of employee loyalty to a company is shown by following the rules in the company.

Leadership style concerns the willingness of leaders to behave in a certain way because of the belief that employees will provide various potentials. Employee loyalty is the foundation of an organization and must be built and proven.

## CONCLUSIONS AND RECOMMENDATIONS

Transformational leadership style has a positive effect on employee loyalty. From the test results, it can be said that the transformational leadership style has a significant positive effect on employee loyalty. Based on the results of this test, the hypothesis of the influence of transformational leadership style on employee loyalty is accepted

Transactional leadership style has a positive effect on employee loyalty. From the test results it can be said that the transactional leadership style has a significant positive effect on employee loyalty. Based on the results of this test, the hypothesis of the influence of transactional leadership style on employee loyalty is accepted.

Organizational climate has a positive effect on moderating transformational leadership style on employee loyalty. From the test results it can be said that organizational climate strengthens the influence of the position of transformational leadership style on employee loyalty. Based on the test results, the organizational climate hypothesis strengthens the positional influence of the transformational leadership style on employee loyalty is accepted.

Organizational climate has a negative effect on moderating transactional leadership style on employee loyalty. From the results of these tests it can be said that the organizational climate weakens the effect of the transactional leadership style position on employee loyalty. Based on the test results, the hypothesis of organizational climate strengthening the effect of transactional leadership style positions on employee loyalty is rejected.

Recommendations for further research using other research variable objects besides companies in the financial sector, for example agencies or companies in other sectors such as goods and so on. Future researchers can add other variables according to previous research, for example employee performance and so on.

The limitations of this research are:

- Research data from questionnaire distribution is limited to the choices of strongly disagree to strongly agree so that researchers do not have the ability to control thoroughly descriptively when giving answers according to the experienced conditions.
- Limited information search for supporting theory considering that service objects are more dominant.
- The difficulty in collecting data on employees who have worked for more than one year is due to high employee turnover due to the pandemic causing quite a number of current employee respondents to have working tenure of less than one year.

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