Influence of Paternalistic Leadership Style on Management Innovation With Demography as a Moderation Variable

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ABSTRACT

Purpose: This study aims to see how the implementation of paternalistic leadership style influences the factors Demographics as moderator.

Design/Methodology/Approach: This research takes place in two Islamic banks, namely BRI and Mandiri, which are still within the scope of the former Madiun district, namely Ponorogo, Madiun, and Magetan with a total of 104 employees as respondents. The data were processed and analyzed using the technique Moderated Regression Analysis (MRA).

Findings: The results showed that the paternalistic leadership style had a positive effect on management innovation. In addition, this study proves that demographics play a moderating role in strengthening the influence of paternalistic leadership on management innovation. In this study, it was also found that the demographic factor that played a major role in moderating the influence of paternalistic leadership on management innovation was the level of education.

Keywords: Paternalistic Leadership Style; Management Innovation; Demographics; Islamic Banking

INTRODUCTION

The potential role of management innovation for strategic change, organizational renewal, and effectiveness has been noted by experts in various disciplines. For example, economic research shows management innovation is economically and socially important because it can impact productivity and employment (Edquist, Hommen, and McKelvey, 2001; Sanidas, 2005). Management innovation is how the process of managing innovation in a company or organization to be efficient for the creation of a sustainable competitive advantage for the company or organization. The important role of management innovation is that it is necessary to recognize that new ideas must continue to flow all the time in anticipation of an increasingly fast, diverse, and dynamic world development.
In a company or organization, management innovation is needed because many new ideas will continue to be born in a company or organization. The existence of these ideas must be arranged and arranged systematically so that order occurs. This innovation, which must be carried out systematically, efficiently, and sustainably, requires a system to organize these ideas in a more structured manner. The challenges of corporate innovation today are not only in the form of creating new products or services, but companies are also required to innovate management (Birkinshaw, Hamel, and Mol., 2008). Birkinshaw et al. (2008) defines management innovation as the creation and implementation of new management practices, management processes, and management structures that are closely related to future organizational goals. Hamel (2006) reveals that in management innovation, companies are required to abandon management processes, management practices, management structures that are no longer appropriate to meet company demands, company needs, and demands stakeholder. Birkinshaw et al. (2008) revealed that the success of management innovation in the company is largely determined by the leadership factor that plays a role in encouraging the creation and implementation of management innovation in the company. Birkinshaw et al. (2008) also added that leaders with their leadership are expected to change the motivation or behavior of subordinates to be willing to participate in management innovation activities, because management innovation activities that are fully supported by company management have been proven to increase the company's management innovation capabilities.

Innovative and accountable corporate governance ideally cannot be separated from company regulations and the prevailing organizational value system. The values contained in each individual in the organization are indirectly strongly influenced by the prevailing leadership environment. With the right and applicable leadership in a company, it will answer the company's problems in terms of being innovative and accountable.

The right leadership style in a company will improve employee performance and maximize existing resources. The opinion expressed by (Yukl, 2005) is that in large organizations, the effectiveness of a leader depends on the strength of the influence of the leadership style on superiors, colleagues, and its influence on subordinates. Paternalistic leadership is very suitable to be applied in Indonesia because Indonesian culture does not carry individualism but collectivism.

Culture in an area greatly influences how a person behaves as well as a leader. Characters who are considered to be able to provide good examples and can be used as role models will be well received by the environment. This applies to where a company is located. Each
company will place the right leader to be able to adapt to the environment in which the company stands. Local culture will reflect how the behavior, habits, and actions of a person in a society in a particular culture. Java is a culture that has many people.

Javanese culture thrives and spreads throughout Indonesia. Especially the culture of East Java, where this research will be conducted. The former residency of Madiun is one in the division of cultural areas in East Java, namely Mataraman. Mataraman culture has a culture that tends to be influenced and follow Javanese culture in Yogyakarta and Solo. Manners, "tepo seliro" or tolerance is still very thick seen in the Mataraman culture as well as in the people of Yogyakarta and Solo. How the people in Java Mataram still hold the culture of respecting elders, respecting their ancestors, and still holding onto traditions that have been passed down from generation to generation in terms of mutual cooperation. With a region that still has a strong community with its culture, it must be led by a leader who has a leadership style in accordance with the existing culture.

A leadership model rooted in local culture which if implemented properly will lead to organizational effectiveness, namely the paternalistic leadership model of Irawanto (2008). The role of the leader can affect job satisfaction, morale, quality of work life, and also the level of achievement of a company in achieving the goals to be achieved depending on the leadership whether the leadership directs human resources, facilities, time, and natural resources effectively and efficiently, and also integrated into the management process.

Research has established that paternalistic leadership is commonly practiced in collectivist cultures (Ansari et al., 2004; Aycan, 2006; Cheng et al., 2004; Scandura and Dorfman, 2004; Westwood, 1997). Of course, paternalistic leadership can be implemented in Indonesia, which incidentally is a country with a collectivist culture. This is common in an organization or company characterized by high levels of bureaucracy, where a degree of formalization is expected in every aspect and at every level of the organization, and where the importance of maintaining a reciprocal relationship between leaders and employees is legitimizing within the boundaries of the formal organization.

Research on paternalistic leadership in Taiwan, conducted by Bor-Shiuan Cheng and his colleagues (Pellegrini and Scandura, 2008) and based on cultural values associated with Chinese society. Many researchers conducted the same research because of their similarity with Chinese society, other ethnicities in Southeast Asia will be responsive to paternalistic leadership: as is the case in Indonesia (Irawanto, 2008), Malaysia (Ansari et al., 2004) and the Philippines (Restubog and Bordia, 2004). 2006). Paternalistic leadership has a positive impact on the psychological aspects of employees in carrying out their duties, whether it will also guarantee the achievement of
management innovation in credible and accountable governance.

Today, especially in Indonesia, there are many sharia-based companies. Indonesia as a country that has the most Muslim population in the world makes sharia-based companies immediately get a positive response. Not only banking companies that are sharia-based, but also tourism companies, insurance companies, housing developers, property, and car rental or rental companies that are sharia-based. Sharia-based companies have begun to be familiar to the Indonesian people, especially in the banking world. The growing development of Islamic banking in Indonesia is a contribution to success in capturing market opportunities for Islamic bank customers.

Based on the Central Bureau of Statistics (BPS) 2010, Indonesia's population is 220 million. While the Muslim population is ± 87.2% and 10% of the Muslim population is a potential market share. Otherwise, the number of potential customers is 8.7 million. This study will examine the effect of paternalistic leadership style on management innovation in improving innovative and accountable corporate governance. As well as looking at employee demographics as a moderator of the influence of paternalistic leadership on management innovation in improving innovative and accountable corporate governance.

Previous empirical research (Xiao Fu et al., 2012, Lin Chun-Pei and Zhuang 2014, Li Yi et al., 2014) revealed that leaders with a paternalistic leadership style have a positive effect on management innovation. Paternalistic leadership style can motivate employees to participate in management innovation activities. Management innovation is a proactive step that must be taken by the management of a company or organization.

Previous research related to paternalistic leadership, management innovation, and demographics such as research conducted by (Cheng, Chou, 2004; Irawanto, 2008; Xiao Fu, 2012; Lin Chun-Pei and Zhuang, 2014), has not touched the banking sector, especially banking sharia-based. Moreover, in the environment of researchers, paternalistic leadership is not as popular as other leadership styles such as transformational and transactional leadership, and researching its influence on management innovation has been widely studied previously as done by (Vaccaro et al., 2012; Walker et al., 2010; Avolio and Bass, 1994; Avolio, 1999; Elenkov, 2002).

Approach to understanding demographic variables as a moderator between paternalistic leadership styles refers to the understanding of research first. Baron and Kenny (1986) suggest that in choosing a moderating variable in a relationship, it is based on the results of theoretical or rational thoughts and considerations, whether a variable is possible to be used as a moderating variable.

There is research on; the influence of paternalistic leadership style on
demography (Chu Paoching, 2009; Irawanto 2012); the influence of paternalistic leadership style on management innovation (Xiao Fu, 2012; Lin Chun-Pei, Zhuang, 2014; Li Yi et al., 2012), the researcher suspects that demographics may be a moderating variable between paternalistic leadership and management innovation. This study focuses on the paternalistic leadership style of Cheng, Chou et al. (2004) and developed by Irawanto (2011) in Indonesia with the reason that paternalistic leadership can provide a sense of comfort which ultimately makes the performance of employees increase who are ready to face the dynamics of change which in this context is a company in the field of Islamic banking. This refers to the opinion of several researchers such as (Geyer and Strayes, 2003; Kirkbride, 2006) who revealed that environmental changes in the banking industry are very fast and dynamic.

Based on the description above, the researcher is interested in conducting research related to the influence of paternalistic leadership style on management innovation, moderated by demographic factors as moderating variables. BRI Syariah and Bank Mandiri Syariah were chosen as research objects because the two Islamic banks are government-owned Islamic banks, which have rapid developments in building sharia-based banks in Indonesia.

METHODS

When viewed based on the level of explanation, this research belongs to the associative category or relationship which aims to determine the relationship between two or more variables (Sugiyono, 2003). In addition, based on its objectives, this research is classified as descriptive research. According to Istijanto (2005), descriptive research aims to describe something. This study aims to reveal information that describes the problem of human resources. Not only that, this type of research can also produce a conclusion that is input for decision making. This research takes place in two Islamic banks, namely BRI and Mandiri, which are still within the scope of the former Madiun district, namely Ponorogo, Madiun, and Magetan with a total of 104 employees as respondents. The data were processed and analyzed using the technique Moderated Regression Analysis (MRA).

RESULTS

The Effect of Paternalistic Leadership on Management Innovation

The results of the analysis of the influence of paternalistic leadership on management innovation show a positive and significant effect. It is proven by testing hypothesis 1, namely that paternalistic leadership style (X) has an effect on management innovation (Y) is accepted. This can be seen from the t-count value of 10.731 with a probability of 0.000. The results of these tests show the probability of
significance ($\alpha= 5\%$). With the results of data analysis which states
that paternalistic leadership has a positive effect on management
innovation, it indicates that the better the application of the
paternalistic leadership style, the better the management innovation at
the Islamic bank ex-resident of Madiun. The results of testing the
coefficient of determination that the magnitude of the contribution to
innovation paternalistic leadership style of management can be seen
through the coefficient of determination ($R^2$) that is equal to 0.530
(53.00%). This means that the diversity of the paternalistic leadership
style variables is 53.00%, or in other words the contribution of the
paternalistic leadership style to management innovation is 53.00%,
while the remaining 47.00% is the contribution of other variables not
discussed in this study.

The Effect of Variables Demographic Moderating on Leadership
Paternalistic to Management Innovation

The results of the analysis of the influence of demographic
moderating variables on paternalistic leadership to management
innovation show a significant strengthening effect. It is proven by
testing the hypothesis that demographics (M) moderating the effect of
paternalistic leadership style (X) on management innovation (Y) is
accepted. This can be seen from the results of the moderation test in
model 1, the contribution of paternalistic leadership style to
management innovation is 53.00%, while the remaining 47.00% is the
contribution of other variables not discussed in this study. The
calculated F value is 115,164 with a probability of 0.000. The results
of these tests show the probability < level of significance ($\alpha= 5\%$).
This means that there is a significant influence of paternalistic
leadership style on management innovation.

In model 2, the demographic variables have been included in the
regression analysis. Demographics are also able to predict
management innovation well. This can be seen from the demographic
contribution to management innovation which increased from 53.00%
to 54.8%. This contribution is quite significant, which can be seen
from the calculated F value of 4,011 with a probability of 0.048 (<
level of significance ($\alpha= 5\%$)).

In model 3, not only the paternalistic leadership style variable is
included in the regression analysis, but the demographic variables and
their interactions. Interaction between leadership style variables and
demographics can predict management innovation well. This can be
seen from the interaction contribution of paternalistic leadership style
variables and demographics on management innovation increased
from 54.8% to 56.7%. This contribution is quite significant as can be
seen from the calculated F value of 4.404 with probability 0.038
(<level of significance ($\alpha= 5\%$)). Based on these models can be
concluded that the demographic variables become a moderator variable between paternalistic leadership style and management innovation. in addition, the demographics able to strengthen the relationship between paternalistic leadership style to innovation management.

The results of the demographic moderation test state that demographic factors can strengthen the influence of paternalistic leadership on management innovation, so further analysis of demographic factors is needed. From the results of the test, Kruskal Walis it can be concluded that the demographic factor that plays a major role in strengthening the influence of paternalistic leadership on management innovation is the level of education. This can be proven from the effect of education level on management innovation resulting in a chi-square value of 31,737. With these results, a more in-depth analysis needs to be carried out in order to see which level of education further strengthens the influence of paternalistic leadership style on management innovation.

The sub-group moderation test shows that the level of upper education has a stronger influence on the influence of paternalistic leadership style on management innovation. This is evidenced by the coefficient of determination (R2) which is 0.610 (61.00%). The diversity of paternalistic leadership style variables is 61.00%, or in other words the contribution of paternalistic leadership style to management innovation by considering the moderating variable of higher education is 61.00%. Employees who have higher education make employees more ready to work because of more mature theory and better knowledge than employees with low education. So that with paternalistic leadership, employees who have a high level of education will have better management innovations than those with low education in Islamic banks ex-residents of Madiun. The level of education as a moderating variable in this case also does not play a role in the influence of paternalistic leadership on management innovation.

DISCUSSION

The effect of paternalistic leadership style on management innovation is moderated by demographics. Where demographics can strengthen the influence of paternalistic leadership style on management innovation. The demographics used in this study were gender, age, education level, and length of work. The results in this study are in line with the research conducted by Suseno in 2010 which stated that gender can be a moderating variable of the influence of leadership style on work commitment. In addition, his research also found that age moderates the influence of leadership style on organizational commitment. Where the two demographic factors, namely gender and
age can strengthen the influence of paternalistic leadership style on organizational commitment.

Not only two demographic factors have been shown to strengthen the influence of leadership style on organizational commitment. Still in the research conducted by Suseno in 2010 also found that the level of education and length of work are also demographic factors that can moderate the influence of leadership style on organizational commitment. However, several other studies have yielded different conclusions, such as that conducted by Najwa in 2015 where gender does not have a moderating role in the influence of leadership style on employee performance.

CONCLUSION

Based on the discussion on the research on the influence of paternalistic leadership style on management innovation by looking at demographic factors in Islamic Banks ex-Karisidenan Madiun, the conclusions are as follows:

1. Paternalistic leadership has an impact on increasing management innovation of Islamic bank employees in ex-residents of Madiun. This means that if the paternalistic leadership style is implemented properly in the Islamic bank ex-resident of Madiun, the management innovation will increase.

2. Demographics have been shown to play a role in moderating the influence of paternalistic leadership on management innovation. Demographic moderation in this case is strengthening. With the demographics, the influence of paternalistic leadership on management innovation becomes stronger. So with the application of a good paternalistic leadership style and demographic factors taken into account, management innovation will be carried out very well in the Islamic bank ex-resident of Madiun.

RECOMMENDATION

Suggestions for Islamic Banks in Ex-Madiun Residency

1. Recruitment of human resources who are employed as employees in Islamic banks ex-residents of Madiun should pay more attention to demographic factors, especially education level factors.

2. Islamic bank leaders are more open to paternalistic leadership in order to create an innovative and accountable company.

Suggestions for Further Researchers Further

1. Researchers are advised to increase the number of samples and expand the research area. Not only in two Islamic banks with six branch offices, but all Islamic banks in all areas of the ex-residence of Madiun. If this can be done, it will obtain higher and better generalization level research results.
2. Further researchers are advised to conduct research on an ongoing basis in order to obtain additional information and descriptions of the phenomena in research.

3. Further researchers are advised to add variables that have an influence on management innovation, apart from the influence of paternalistic leadership and demographic moderation.

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