

The Influence of Transformational Leadership and HRM Practices on Organization Performance: Organization Trust as a Mediator

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Abstract

In today's competitive world, businesses must constantly innovate and improve. As a result, the company is constantly striving to improve its performance to achieve company goals. Organizational performance is an important issue, and the antecedents of organizational performance have been explored in various studies. This study examines the mediating effect of organizational trust in the relationship between transformational leadership, HRM practices, and organizational performance. This study was measured by questionnaires, and the results of hypothesis testing were carried out with Smart PLS 3.0 on 315 respondents at PT. Taspen (Persero). The results show that transformational leadership has no direct effect on organizational performance. Meanwhile, HRM practices are directly significant to organizational performance. Organizational trust was found to mediate the relationship between transformational leadership, HRM practices, and organizational performance. The results of this study have implications for organizations that can help policy makers, especially at PT Taspen (Persero), to better understand what factors can affect organizational performance. Further research more deeply factor that influence work efficiency such as organization culture, motivation, knowledge management.

Keywords

Transformational Leadership, HRM Practices, Organization Trust, Organizational Performance.



I. Introduction

In this modern era, the company is always required to develop and excel in the competition. Therefore, the company always strives to improve the company's Performance to be able to achieve company goals. According to Agarwal and Ferratt (2019), companies with good performance seek to retain productive employees by increasing their knowledge, skills, and ability to face the future. The company will always encourage employees to develop and perform their duties optimally to achieve company goals. According to Paais (2020), leadership has a role in the transformation to create a corporate atmosphere.

The company can measure the performance included in the overall management system (individually and in groups) to produce measurable performance under company goals. However, the company's success in achieving its goals cannot be separated from the leadership's ability to manage it. The leader is an inspiration stimulant who can inspire

subordinates to go beyond self-interest alone and can influence deep and outside common subordinates (Robbins & Judge, 2015).

A transformational leadership style is a leader who inspires his followers to put aside their interests and can influence. Transformational leaders inspire their followers not only to believe in themselves but also to believe in their potential to envision and create a better future for the Organization. Transformational leaders create major changes within themselves and their organizations (Emron, 2016). In addition to understanding leadership styles, companies are asked to improve organizational performance that focuses on Human Resource Management Practices so that their implementation in organizations must begin with adequate recruitment and management. Talent for improving a company's Performance (Taamne et al., 2018).

Trust in an organization is one of the most important aspects of building a culture (John et al., 2020). Trust in an organization can be described as three things: integrity, character and leadership, trust in relationships, trust with integrity, honesty, and trustworthiness—fairness among employees. Trust in an organization is an inherent by ecology in accepting deficiencies based on positive expectations or intentions from others (Karanteng et al., 2019). When this is effectively built, it will certainly affect performance positively. However, when there is a lack of trust, organizational performance will be low. The trust given by the company to every employee can motivate them to contribute to the company's development. Employees get to motivate themselves internally to improve their organizational role (John et al. (2020).

II. Review of Literature

2.1 Transformational Leadership

Leadership has always been considered one of the most important factors in the success or failure of a company organization (Shahbazi, 2016). Leadership essentially involves directing, guiding, and influencing others, individually and in groups, to achieve common goals that the leader motivates. At the same time, the leadership style is a pattern used by leaders in carrying out their duties (Oktaviani et al., 2020). According to Khajeh (2018), there are several types of leadership styles, such as transformational leadership styles, transactional leadership styles, autocratic leadership styles, democratic leadership styles, and leadership styles participatory.

Shahbazi (2016) explains that the appropriate leadership style will impact organizational success. Transformational leader behavior allow organization to increase their performance which can be a source of competitive advantage for the organization. According to Peterson et al. (2009), a transformational leader is a leader who is active in communicating the company's vision and mission to employees, increasing trust, and realizing the potential employee in reaching the destination company. Transformational leader using ability personal which owned for promote ambition person other and will transfer to other individuals to improve performance.

2.2 HRM Practices

Human resource development is an important component for organizations, whether the goal is to build an organization, improve business processes, or improve knowledge, innovation, or other organizational parameters. Academics and practitioners recognize the benefits of investing in human resources in dynamic organizational environments. This is especially true in today's world, which places a premium on innovative, knowledge-based organizations. Organizations today must have effective resource practices in human

resource development. HRM practices are activities that lead to managing the HR team and ensuring that resources are managed appropriately to achieve business goals (Jackson, et.al 2011). According to Ordonez et al. (2008), the implementation of effective HRM practices in organizations is the main foundation for creating distinct advantages and is positively related to business performance. According to Pare and Trembley (2007), HRM practices that treat employees as investments and value them indicate that the organization supports them and is committed to their employees. Safuan (2016) argues that human resource management is a process that includes the main tasks of attracting employees, developing, motivating, and retaining human resources. The human resource management process includes six functions, namely training and development, performance evaluation, compensation, social relations with employees, health insurance, recruitment, and selection.

2.3 Organization Trust

Trust has become a topic important in many research disciplines. Trust can be found in philosophy, sociology, psychology, management, marketing, human-computer interaction, industrial psychology, and electronic commerce. Researchers from every discipline acknowledge trust value (Paliszkiewicz & Koohang, 2013). Trust is the "willingness" individual or group to become susceptible to other people's actions based on the hope that they will do action important certain, regardless of ability to monitor or control performance" (Mayer, Davis, & Schoorman, 1995). Trust helps employees develop effective individual, intergroup, and cross-group relationships and provides a foundation for thinking that can lead to better levels of performance and collaboration within the organization. (Jones & George, 1998; Poon, 2006). Therefore, this mindset includes a sense of obligation to cooperate with others, a high level of self-confidence and self-confidence in co-workers, a willingness to support co-workers, and a willingness to subdue personal needs for the greater good. Therefore, trust can be shown in two levels, i.e., belief in self which focuses on task orientation, i.e., competence, and the other level is trust in others which refers to relationships. Employees in high-trust organizations are more productive, energetic, and collaborative, and they stay with their current organization for a longer period than employees in low-trust organizations (Kohler, 2021)

2.4 Organizational Performance

Organizational performance is a multidimensional concept that aims to measure the success of an organization, company, or business in reaching a destination set by the company. (Richard et al., 2009). Organizational performance is the process of improving an organization's effectiveness as well as the well-being of its members through planned interventions. One of the three key points of organizational development that will lead to organizational performance is when many organizational development efforts are directed toward increasing organizational learning with the goal of influencing organizational performance (Jon & Randy, 2009). According to Elizabeth (2000), organization performance is a measure of performance success management in managing resources that can be used as indicators of the achievement of a company. Meanwhile, Lee and Huang (2012) defined organizational performance as the sum of the achievements related to organizational goals. Organizations can achieve their goals if each employee understands their roles and responsibilities, and there is continuous communication between management, leaders, and employees to set performance expectations, monitor programs, and achieve good results (Katou, 2008). Organizational performance includes effectiveness, efficiency, productivity, quality, and innovation (Tangen, 2004). Richard et al. (2015) also explain that performance organization includes three fields specific performance business that is financial performance (profit), product market performance (sales and market share), and returns share.

2.5 Transformational Leadership and Organization Performance

The achievement of organizational performance is highly dependent on how well the organization adapts to change external environment and refers to where something organization uses source power and the means provided to achieve its objectives. (Gabriella, 2020). Sanchez (2015) explains a strong relationship between transformational leadership and company performance. If the company has transformational leadership, this will allow the company to get information from its environment and stakeholders and turn it into knowledge. As a result, companies need to create new and different learning knowledge to develop products, services, or methods of production new and innovative. Learning this could share two ability studies: exploitation and exploration (Alpkan et al., 2012). The study by Arif and Aman (2018) also found that transformational leadership and organizational Performance have a strong relationship. An organization needs an environment where its leaders motivate and encourage employees who want to be more creative and effective in leading successful organizations. Therefore, we assume the following:

H1: Transformational leadership has a positive impact on organization performance

2.6 HRM Practices and Organization Performance

Many studies explain that HRM practices have an important role in influencing organization performance (Leghari, 2014). This is also in line with Rana and Malik (2017), they stated that HRM Practices have a significant and positive relationship with organizational performance. HRM practices are important predictors of organizational performance. HRM practices include recruitment, selection, assessment, and training (Shipton et al., 2005). HRM practices include recruitment, selection, assessment, and training (Shipton et al., 2005). As the business environment changes and the demands and desires of employees increase, organizations must constantly change HRM practices. Employee engagement should be fostered, leading to improved performance for the organization and increased welfare and development for employees to influence employee behavior and promote business goals. Organizations must model internally consistent HRM practices (Jiménez & Valle, 2005). Positive training and development in organizations affects employees and improves their performance (Abdullah et al., 2009). Based on an understanding of HRM practices towards performance internal organization literature, we propose that:

H2: HRM practices have a positive effect on organizational performance

2.7 Organization Trust and Organization Performance

Trust in organizations has been shown to influence subordinates' attitudes and work behavior (Brockner, Siegel, Daly, Martin & Tyler, 1997). Trust toward the organization can improve performance and have positive impact on employee. Employees support or are committed to the organization when employees feel trust is relatively high (Dirk & Ferrin, 2001; 2002). If an employee can trust the organization for which she or he works, she or he can trust her or his future in it, even if other employees and supervisors are unable to provide adequate support for the development of strong interpersonal trust. Thus, if employees could trust the organization without knowing each decision maker and key actor personally, the organization would be more efficient (Kramer, 1999). Impersonal trust is based on roles, systems, and reputation, whereas interpersonal trust is based on interpersonal interaction between individuals within a specific relationship, which together form an intra-organizational trust climate (De Jong et al., 2017; Holtgrave et al., 2020). Following a character-based perspective and the acknowledgment that managers are

responsible for multiple tasks which have a major influence on employee organizational commitment, such as performance evaluation, guidance, and assistance with job responsibilities and training, can it be assumed that employees will trust managers whom they consider trustworthy in these activities. This idea implies that when employees have a high level of trust in their leader, they will also have a higher level of the trust level of organizational performance. Based on an understanding of trust organization on organizational Performance, then we propose that:

H4: Trust Organization has a positive impact on organizational performance

2.8 The mediating effect of Organization Trust

The level of trust in an organization can affect the successful implementation of HRM practices (Whitener, 1997). Therefore, the effectiveness and success of HRM policies and practices will depend on employees' trust in the organization's management (Whitener, 1997). At the same time, human resource management (HRM) practices such as training and development, promotion, compensation, job security, recruitment and selection, and performance evaluation have been shown to influence the development of trust (Whitener, 2001). Employee trust will affect their perception of the accuracy and fairness of HRM practices. Employees are concerned about procedural and distributive justice and the fairness of HRM practices that determine outcomes such as promotions, rewards, and training. When the implementation of practice is considered procedurally fair and the associated benefits are equitably distributed, HRM practices can positively impact the development of employee trust in the organization and management.

H4: Organization trust mediate the effect of transformational leadership on the performance organization

H5: Organization trust mediate the effect of HRM Practices on organizational Performance

III. Methodology

This research uses a quantitative approach. All data and information were collected from respondents using a questionnaire. Then the results will be explained to answer the research questions. The current study aims to test the hypothesis. Hypothesis testing studies explain the nature of certain relationships or establish differences between groups or the independence of two or more factors in a situation (Sekaran, 2003). This study examines the effect of transformational leadership and HRM practices (compensation, training, planning). career, employee engagement, performance evaluation) on organizational performance mediated by organizational trust. The method used is a survey. Information was collected from respondents using a questionnaire to determine the relationship between the independent variable, the dependent variable, and the mediating variable. The survey was conducted with a cross-sectional or one-shot time horizon. This study was conducted in the entire population sample (Rindfleish A et al., 2008). The unit of analysis of this research is the employees of PT Taspen (Persero) who are at the managerial level from various units at the head office and branch offices in Indonesia.

IV. Result and Discussion

The questionnaire was distributed in May 2022, distributed online to employees of PT Taspen (Persero), and obtained 321 samples of respondent data. From the data obtained, only 315 respondents stated that they were eligible for further analysis. This is caused by respondents who did not fill out the questionnaire completely. Profile of respondents in a study based on type, gender, age, marital status, class, occupation, work unit, length of service, and last education. Respondents in the study consisted of 54.6% men and 45.4% women. Based on education, most of the respondents have a bachelor's degree, as many as 202 people (64.1%). Respondents in Groups IX-XII are implementers, which are 52.4%. The rest are office groups XIII-XVI spread across the head office or branch offices. Details regarding the respondent's profile are described in the table below:

Table 1. Demographic Respondent

Category	Frequency	Percentage	Category	Frequency	Percentage
Type Sex			Work Unit		
Man	172	54.6%	Headquarters	58	18.4%
Woman	143	45.4%	Branch office	257	81.6%
Age			Working Time		
< 30 Years	126	40%	1-5 Years	80	25.4%
30- 50 Years	111	35.2%	6-10 Years	81	25, 7%
>50 Years	78	24.8%	10-25 Years	74	23.5%
Education			>25 Years		
Senior High School	37	11.7%		80	25.4%
D3	49	15.6%	group		
Bachelor	202	64.1%	IX-XII	162	52.4%
Master	27	8.6%	XIII	70	22.2%
Marital Status			XIV	41	13%
Not married	85	27%	XV	22	7%
Marry	230	73%	XVI	19	6%

Source: Data Processing with SPSS

4.1. Validity Test

This study uses SmartPLS to test the validity of the indicators used in each variable. For example, the results of the validity test are evaluated from the value of the outer loading of the five variables in a study. This indicator is considered valid if it has an outer loading above 0.70. However, if there is a score of 0.60-0.70 it can still receive a score for AVE communalities and 0.50 (Gozali, 2006).

Table 2. The Results of Validity Test

No	Indicator Code	Outer Loading	Validity Results
Leadership Transformational			
1	TL 1	0.717	Valid
2	TL 2	0.739	Valid
3	TL 3	0.766	Valid
4	TL 4	0.852	Valid

5	TL 5	0.857	Valid
6	TL 6	0.829	Valid
7	TL 7	0.829	Valid
8	TL 8	0.809	Valid
9	TL 9	0.742	Valid
10	TL 10	0.607	Invalid
HRM Practice (HRM Practices)			
1	HR 1	0.674	Invalid
2	HR 2	0.763	Valid
3	HR 3	0.441	Invalid
4	HR 4	0.730	Valid
5	HR 5	0.762	Valid
6	HR 6	0.698	Invalid
7	HR 7	0.789	Valid
8	HR 8	0.808	Valid
9	HR 9	0.757	Valid
10	HR 10	0.767	Valid
11	HR 11	0.725	Valid
12	HR 12	0.809	Valid
13	HR 13	0.779	Valid
14	HR 14	0.715	Valid
15	HR 15	0.656	Invalid
16	HR 16	0.734	Valid
17	HR 17	0.724	Valid
18	HR 18	0.724	Valid
19	HR 19	0.703	Valid
Organizational Trust			
1	OT 1	0.745	Valid
2	OT 2	0.703	Valid
3	OT 3	0.596	Invalid
4	OT 4	0.730	Valid
5	OT 5	0.742	Valid
6	OT 6	0.819	Valid
7	OT 7	0.785	Valid
8	OT 8	0.754	Valid
9	OT 9	0.839	Valid
10	OT 10	0.755	Valid
11	OT 11	0.778	Valid
12	OT 12	0.821	Valid
Organizational Performance			
1	OP 1	0.812	Valid
2	OP 2	0.818	Valid
3	OP 3	0.877	Valid
4	OP 4	0.909	Valid
5	OP 5	0.883	Valid

Source: Data Processing with SmartPLS

Based on the table above, the value of the first outer loading shows that six indicators have an outer loading value below 0.70. The indicator is TL10, HR1, HR3, HR6, HR15, and OT 3. So, as a result, the sixth indicator will be deleted from the instrument model in testing this. So that will conduct revision indicator with those with outer loading scores above 0.70.

Table 3. Discriminant Validity Fornell Lecker Criterion

	HRM practice	Organizational Performance	Organization Trust	Transformational Leadership
HRM practice	0.758			
Organizational Performance	0.650	0.837		
Organization Trust	0.831	0.628	0.772	
Transformational Leadership	0.730	0.501	0.713	0.794

Source: Data Processing with SmartPLS

Discriminant validity is assessed using Fornell's larcker criteria and the Cross-loading test. The Fornell-Larcker criterion postulates that the AVE construct must be higher than all its squared correlations (Henseler, 2018). Table 2 show that the model has proven to discriminant validity. Table 3 shows that the model has been tested for discriminant validity. The HRM practice AVE (0.758) is higher than the squared correlation (0.650, 0.832 and 0.730). organizational performance AVE (0.837) is higher than the squared correlation (0.650, 0.628 and 0.501). Organizational trust AVE (0.772) is higher than the squared correlation (0.628). Transformational leadership AVE (0.794) is higher than the squared correlation (0.730, 0.501, 0.713).

4.2. Reliability Test

The reliability test was conducted to test the consistency of the research instrument if it was measured again in other studies. The purpose of using the reality test is to determine the accuracy, stability, and consistency over time. The value of Cronbach's Alpha and composite reliability in the rules must be greater than 0.7. However, a value of 0.6 is still acceptable (Cooper and Schindler, 2008). Cronbach'S Alpha test and composite reliability of each variable can be seen in the table below:

Table 4. Cronbach's Alpha, Composite Reliability and AVE

	Cronbach's Alpha	Composite Reliability	AVE
HRM practice	0.947	0.953	0.700
Organizational Performance	0.9 13	0.9 53	0.631
Organization Trust	0.932	0, 937	0.596
Transformational Leadership	0, 926	0, 939	0.574

Source: Data Processing with SmartPLS

Based on table 4 above, it can be seen that all of the variables cronbach alpha values are between 0.913 to 0.947, greater than 0.70. This means that all indicators in the variables are very reliable. In addition, it was found that the mean of variance extract (AVE) for all variables was 0.574 to 0.700, which satisfies the rule that the AVE threshold value must be above 0.50 (Henseler, 2015).

4.4. R-Square

Table 5. Results of R-Square

Latent Constructs	R Square Nilai
Organizational Performance	0.448
Trust Organization	0, 714

Source: Data Processing with SmartPLS

R-square shows goodness and fit model through PLS results for each variable. R-square measures the specific effect of the independent latent variable having a substantive effect on the latent dependent variable. For example, if the latent variable has an R² score of 0.67, it indicates a good model, and an R² value of 0.33 indicates a moderate model. R² of 0.19 indicates a weak model (Urbach et al., 2010). Table 5 above shows the R² value is 0.448 for the organizational performance variable, which can explain the variance of organizational performance of 44.8% and shows moderate results. The value of 0.714 for the trust organization variable is 71.4% and shows a good score.

4.5. Hypothesis Testing

The coefficient value in the inner model shows the level of significance in testing the hypothesis. This study uses a nonparametric bootstrap technique with 315 samples to test the proposed model with an alpha value of 5 percent. Table 6 is a summary that shows the results of a direct relationship between variables in the study. The result from the PLS-SEM bootstrap output shows a positive relationship between transformational leadership and organizational performance ($\beta = -0.010$, $t = 0.109$, $p > 0.05$) and between HRM Practices and organizational performance ($\beta = 0.420$, $t = 3.640$, $p < 0.05$). Results show that hypothesis H1 is rejected and H2 accepted. Meanwhile, there is a positive relationship between transformational leadership and organization trust ($\beta = 0.229$, $t = 4.141$, $p < 0.05$) between HRM practices and organization trust ($\beta = 0.664$, $t = 12.250$, $p < 0.05$) and between organization trust to organizational performance ($\beta = 0.286$, $t = 3.183$, $p < 0.05$). With thereby, this study accepts H3, H4, and H5.

Table 6. Summary of the Direct Effect

Hypothesis	Connection	Path Coefficient	Standard Deviation	T-Statistics	P Values	Results
H1	TL → OP	-0.010	0.090	0.109	0.914	Not Supported *
H2	HRP → OP	0.420	0.115	3.640	0.000	Supported *
H3	TL → OT	0.229	0.055	4.141	0.000	Supported *
H4	HRP → OT	0.664	0.054	12.250	0.000	Supported *
H5	OT → OP	0.286	0.054	3.183	0.002	Supported *

Table 7 shows that organizational trust mediates the relationship between transformational leadership and organizational performance ($\beta = 0.065$ $t = 2.677$ $p < 0.05$) and organization trust mediate the relationship between HRM practices and organizational performance ($\beta = 0.190$ $t = 2.952$ $p < 0.05$).

Table 7. Summary of the Indirect Effect

Hypothesis	Connection	Path Coefficient	Standard Deviation	T-Statistics	P Values	Results
H3	TL → OT → OP	0.065	0.024	2,677	0.008	Supported *
H4	HRP → OT → OP	0.190	0.064	2,952	0.003	Supported *

Source: Data Processing with SmartPLS

Based on the results and discussion of the study on the effect of transformational leadership and HRM practices on organizational performance mediated by organization trust at PT Taspen (Persero). The insignificant effect of transformational leadership directly on organizational performance. This is not in line with Sanchez's (2015) research which explains that there is a significant relationship between transformational leadership and organization performance. According to researchers, transformational leadership engages in actions that earn the trust of their followers (Podsakoff et al., 1990). Meanwhile, Mayer et al. (1995) stated that transformational leadership behaviors such as individual consideration, intellectual stimulation, and individual motivation have an influence on the development of trust. Mayer et al (1995) stated that when followers believe in having integrity, abilities, or virtues they become more comfortable when engaging in behaviors that put them at risk. By treating each employee as an individual and paying attention to their unique needs, abilities and concerns from individual, a transformational leader will instill trust. However, transformational leadership is not directly significant to organization performance through organizational trust. This is evidenced by direct testing so that it can be concluded that the mediating influence of organizational trust is more effective than direct.

There is a direct positive relationship between HRM practices and organizational performance, so the results of this study are in line with Rana and Malik (2017). They stated that HRM practices have a significant and positive relationship with organizational performance. HRM practice is an important predictor of organizational performance. Effective HRM practices include recruitment, selection, assessment, and training (Shipton et al., 2005). However, the effect of HRM practices on organizational performance does not have a direct relationship through organizational trust. This shows that the direct influence or mediation has a positive effect on organizational performance.

There is significant directly influence organization trust on organizational performance. The result of the study this in line with Dirk and Ferrin (2001; 2002), who stated that employees support or committed to the organization when employees feel trust is relatively high. If an employee can trust the organization for which she or he works, she or he can trust her or his future in it, even if other employees and supervisors are unable to provide adequate support for the development of strong interpersonal trust. Thus, if employees could trust the organization without knowing each decision maker and key actor personally, the organization would be more efficient (Kramer, 1999). Impersonal trust is based on roles, systems, and reputation, whereas interpersonal trust is based on

interpersonal interaction between individuals within a specific relationship, which together form an intra-organizational trust climate (De Jong et al., 2017; Holtgrave et al., 2020).

V. Conclusion

Based on results and discussion study about the influence of transformational leadership and HRM practices on organizational performance mediated by organization trust at PT Taspen (Persero). The analysis is as follows:

1. The purpose of this study was to determine the variables that can affect organizational performance at PT Taspen (Persero). Measurement of transformational leadership using a 10-item questionnaire, HRM Practices 19 item questionnaire, organizational performance 6 item questionnaire, and organizational trust using a 12-item questionnaire.
2. Based on the validity test, there were six indicators that were deleted by the variable _ because the outer loading value was below 0.70, namely TL10 (0.607), HR1 (0.674), HR3 (0.441), HR6 (0.698), HR15 (0.566) and PL 3 (0.5896). So that the research will be conducted using variable items with a loading factor above 0.70.
3. The insignificant effect of the transformational leadership variable directly on organizational performance, so the first hypothesis is rejected.
4. There is a positive influence relationship between HRM practices and organizational performance directly, so the second hypothesis is accepted.
5. The influence of transformational leadership on organizational performance has an indirect relationship through organizational trust. This is evidenced by direct testing with a score coefficient of -0.010 or negative, while indirect testing with a coefficient of 0.065 so that it can be concluded that the mediation of the influence of trust organization is more effective than direct. So, this shows that the third hypothesis is accepted.
6. The effect of HRM practices on organizational performance has an indirect relationship through organizational trust. Direct test with a coefficient of 0.420 while the indirect test is 0.190. This shows that the direct influence or mediation has a positive effect on organizational performance. This shows that the fourth hypothesis is accepted.
7. There is a significant effect of the organizational trust variable directly on organizational performance, so the fifth hypothesis is accepted.

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