

## Effects of leader-member exchange and organizational culture on work engagement and employee performance

A. Nur Insan<sup>a\*</sup> and R. Masmarulan<sup>a</sup>

<sup>a</sup>Universitas Fajar, Indonesia

<sup>b</sup>Sekolah Tinggi Ilmu Ekonomi Tri Dharma Nusantara, Indonesia

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### ABSTRACT

The objectives of this study are: (1) To determine whether the Leader-Member Exchange (LMX) and organizational culture can improve employee performance, (2) To conduct further research on employee performance by elaborating and analyzing variables that can affect work engagement, among others: members of the leadership and organizational culture. This research was conducted at a Telecommunication Company in Makassar, South Sulawesi with a sample size of 93 people. The analysis model used to determine the influence between variables was a structural model with the Partial Least Square (PLS) approach. In this study it was found that 1. LMX had no significant effect on job involvement. 2. LMX had no significant effect on worker performance. 3. Organizational culture had a significant effect on work engagement. 4. Organizational culture had a significant effect on employee performance, 5. Work management had no significant effect on employee performance. Leaders need to build high-level LMX relationships, equip workers with skills, increase employee professionalism and provide opportunities for employees, help solve the difficulties they face related to assigned tasks and make employees as friends so that they can increase their engagement and performance.

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## 1. Introduction

An organization, whether it is formal or informal, always has a person who is in charge of handling the organization's development and that one person is called as 'leader'. From the word leader itself, there emerges the term 'leadership'. Leadership has started to be applied in organizations since the birth of industrial revolution in England. Since then, industry has been developing in Britain and in a number of other countries from around the world. Leadership is the ability to influence a group of people in order to reach particular visions or goals that have been set (Robbin, 2003). The role of leadership is very significant in motivating the member of organization in increasing the energy to behave in attempting to reach the objectives of the organization. The leader motivates the employees to improve their performance, since the performance of the organization depends on the performance of the employees. Leadership is a process of attribution of cause and effect to individuals and social behaviors. Thus, leadership is related to the employees' performance. Telecommunication Company in Makassar, South Sulawesi, is a State Owned Enterprises (SOEs) that is engaged in Telecommunication. The number of Telecommunication Company's subscribers is quite large. In order to improve services to customers, it is necessary to develop high-level work management and Leader-Member-Exchange (LMX) so that leaders and employees can support and help each other so that employee performance can be further improved. However, the phenomenon that occurs in the Makassar Telecommunications Company shows the low quality of the Leader-Member-Exchange (LMX) relationship. The relationship between leaders and employees is limited to fulfilling the obligations and rights that have been stated in the formal work contract. This phenomenon

\* Corresponding author.

E-mail address: [anurinsan9@gmail.com](mailto:anurinsan9@gmail.com) (A. Nur Insan)

can reduce work engagement and have an impact on employee performance. The facts show that the Telecommunication Company in Makassar, South Sulawesi requires further research by analyzing the variables that might affect work engagement and employee performance; leader-member exchange and organizational culture. This research was conducted at the Head Office of the Makassar Telecommunications Company with the following reasons (1) To find out whether the Leader-Member Exchange (LMX) and organizational culture can improve employee performance, (2) To conduct further research on employee performance by elaborating and analyzing variables which may affect work engagement which includes: exchange of members of the leader and organizational culture.

This study further analyzes the variables that have been developed by previous researchers to create new variables. This study correlates four variables which include: LMX, organizational culture, job skills, and employee performance. Previous studies include Breevaart et al. (2015); Elmi (2013); Mariani (2010); Harris, et al. (2009) and Chen (2004). The similarity of this research with the study of Breevaart et al. (2015) LMX includes work engagement and employee performance. The difference with the research of Breevaart et al. (2015) uses the longitudinal method and links autonomy, development opportunities and social support. On the other hand, this study uses a quantitative methodology by correlating it with organizational culture. What this research has in common with Elmi's (2013) work is work engagement and employee performance. Whereas the difference is that Elmi's work correlates the variables of leadership behavior, organizational climate and intrinsic motivation, while this study links the LMX with organizational culture. What this research has in common with Mariani's (2010) research is organizational culture and employee performance. The difference is that Mariani's (2010) research deals with leadership styles and human resource development. This study focuses on LMX and job involvement. The similarities of this study with the work of Harris et al. (2009) include LMX and employee performance. The difference between this study and Harris et al. (2019) includes the correlation of empowerment, job satisfaction, and turnover intention, while this study pays more attention to work engagement. The similarities of this study with research by Chen et al. (2004) include organizational culture and employee performance. The difference between this study and Chen et al. (2004) is that there is a relationship between leadership behavior, organizational commitment and job satisfaction. The originality of this study lies in the research model that connects LMX and work engagement. Furthermore, previous research has not discussed the influence of organizational culture on work engagement.

## **2. Literature review and development of conceptual framework**

### *2.1. Leader-Member Exchange (LMX)*

In 1973, Leader-Member Exchange (LMX) started to develop. Initially, LMX was known as vertical-dyad linkage theory, (Graen & Cashman, 1975). A leader built specific relationship with members individually so that the interaction between them becomes a determinant reflecting the how the leader treats his / her members. The theory of LMX constitutes the taking of a particular role between the leader and members and comes from the theory of social exchange (Blau, 1964; Graen & Uhl-Bien, 1995; Kahn et al., 1964). The rationale of LMX is that the leader builds exchange relationship that is separated with each member, in which two parties take the same roles as member and leader. Leader-Member Exchange constitutes the relationship between leader and members in an organization in a different level. Based on the theory of LMX, a leader will build specific exchange relationship with a number of members who are chosen to be as assistant (Yuki, 2001). In the high level of LMX relationship, a leader listens to the members, spends time talking with the members and helps improve the members' skills (Graen et al., 1982). The training that has been mentioned can improve the work satisfaction and productivity. The relationship quality in high level LMX is related to organizational commitment, employees' performance and the clarity of members' roles (Liden et al., 1997). Leader-member exchange can improve the employees' performance. The study of Breevaart et al. (2015) found that leader-member exchange has significant influence on employees' performance. It emphasizes the importance of leader's having a good relationship with his/her employees, since it is related to the work involvement of the employees and the study of their work. High-level LMX relationship is indicated by mutual obligations, meaning that employees appreciate the relationship with the leader and perform an extraordinary work. Besides, high level of LMX relationship produces trust, appreciation, affection, influence, high level of interaction with the members so that it can improve work engagement and employees' performance in an organization (Liden et al., 1997). It can give perceptions to the employees that they receive support from the leader and the organization.

The leader acts as the agent of the organization to guide and evaluate the employees' contribution. On the other hand, low-level Leader-Member Exchange (LMX) only demonstrates interaction based on obligations and rights that have been written on the formal contract. It indicates that the relationship between the leader and members is restricted to formal relationship or professional relationship. A leader pushes the members to work well so that they can give positive contribution to the organization. Leadership is related to organizational culture. A leader creates organizational culture when he/she is the founder of the organization. Otherwise, organizational culture creates a leader when the leader is the successor of the previous leader (Denison, 1990, 1996, 2000). The concept of organizational culture has developed since 1980s, it was adopted from the culture anthropology which is the archetypal assumptions that was embraced by a group of people after studying and believing the truth from the archetypal assumption. The archetypal assumption needs to be taught to all of the members of organization. Organizational culture is a system, value and assumption that is realized by the members of organization (Denison, & Mishra, 1995).

## 2.2 Organizational Culture

The system of values is a set of key characteristics that is highly appreciated by organization and having the power to shape employees' behaviors as the reflection of the organizational culture. Based on its characteristics, organizational culture can be divided into strong and weak culture. The strong culture is the main value of an organization that is held intensively and embraced widely. The more members accept values, the more commitment the members hold to the values and it can give a significant influence to the behaviors of the members due to the high level of togetherness and intensity. On the other hand, the culture of members whose consistency level is low is not strong and the range of the culture that has been agreed is not wide so that the goals to achieve through the tradition that has been agreed will be hard to be reached. In fact, there are organizations that possess strong organizational culture, but there are also organizations that have weak organizational culture since each organization implements organizational culture that is different from one another. In addition, there is also working culture which is the willingness that binds each individual in an organization to move and work in accordance to the rhythm of the culture. And it depends on the founder of the organization that establishes the organizational culture.

Organizational culture has two functions which include: 1. differentiating one organization from another. 2. build member identity. 3. Establish a commitment to something that is broader than individual interests. 4. Organizational culture is a social unifier that helps unite the organization by providing employees with the right standards. 5. Organizational culture serves as a reference that provides meaning and control that guides and shapes employee attitudes and motivates employees to work (Robbins, 2003). Based on its function, organizational culture can be said to be very important for the sustainability of the organization, especially if the response is the organization's efforts to overcome any problems in adapting to external developments and changes and integration with the internal strength of the organization. Organizational culture plays an important role because it is new to employee actions that can improve employee performance (Schein, 2004). Chen, (2004); Mariani (2010) found that organization has a significant effect on employee work. Organizational culture affects behavior in three aspects, organization, organization, leadership style (Amstrong, 1995). This means that the culture and leadership of the organization play an important role in an organization so that it can increase work engagement and worker performance. Job involvement is a strong feeling to do a job and anything related to work (Bakker et al., 2003)

## 2.3 Work Engagement

Work engagement is a personal commitment of an employee toward his/her work. Work engagement constitutes strong willingness of an employee to establish one's self and act positively in order to support their performance in an organization, (Halbesleben, 2010). Employees with high level of work engagement are enthusiastic in working so that it can improve their performance or work. Workers' performance constitutes an achievement and contains several things such as having a particular target to achieve, planning the time of achieving some goals and setting visions to make efficiency and effectivity. Employees' performance is an achievement that can be considered as success in performing a particular task. Employees' performance functions as an interaction between ability and motivation:  $kk = f(A \times M)$ . If there is something inadequate such as members' inability, members' performance can be influenced in negative ways. Due to the facts, they need opportunity to work so that the workers' performance can be  $(kk=f(A \times M \times O))$ , (Robbins, 2003). It means that employees constitute the function of ability, motivation and opportunity. Workers' performance is the result that can be measured through a specific measure (standards) by considering the quality, quantity and punctuality of working. Quality deals with the quality of the work made. And quantity is in relation to the amount of the work produced in a certain period of time and punctuality is regarding the conformity of time based on planning.

## 2.4 Conceptual framework

The conceptual framework of this research is described through Fig. 1 as follows:

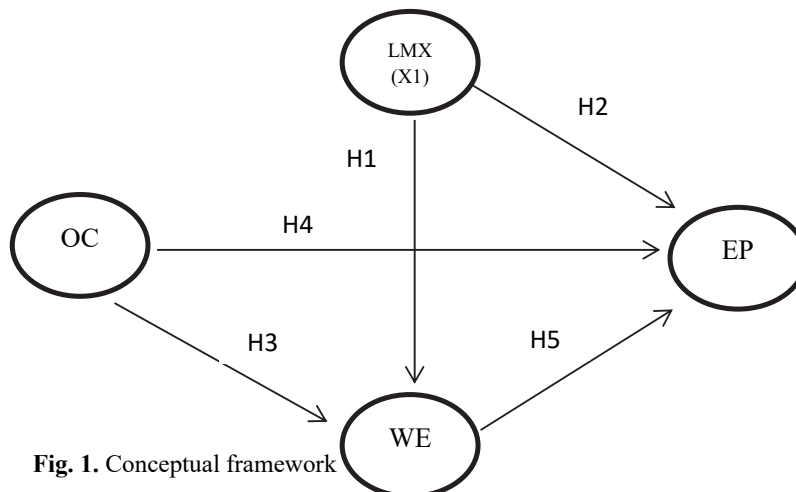


Fig. 1. Conceptual framework

In accordance with the conceptual framework that is based on empirical analysis and literature review and based on research problems that have been mentioned earlier, the research proposes the following hypotheses:

Hypothesis 1: Leader-Member Exchange (LMX) affects work engagement (WE) significantly.

Hypothesis 2: Leader-Member Exchange (LMX) affects workers' performance (WE) significantly.

Hypothesis 3: Organizational culture (OC) affects work engagement (WE) significantly.

Hypothesis 4: Organizational culture (OC) affects workers' performance (WP) significantly.

Hypothesis 5: Work engagement (WE) affects workers' performance (WP) significantly.

### 3. Methodology

This research was conducted at a telecommunications company in Makassar, South Sulawesi with a total sample of 93 people consisting of managers, assistant managers and employees. Data analysis and partial least square (PLS) were carried out by Tenenhaus (2008). PLS is an alternative approach that shifts from a covariance-based to variant-based SEM approach. First, the model determines the relationship between latent variables (structural model). Second, the external model determines the relationship between latent variables and the measurement model. Third, the weight relationship is determined where the case value of the latent variable can be estimated (Yasin et al., 2019). The external variables of this study are the Leader-Member Exchange (LMX) and organizational culture. Internal variables involve work involvement and worker performance. The variable that has not been analyzed in previous studies is the influence of organizational culture on work engagement.

### 4. Results

Here is the reliability test.

**Table 1**

Composite Reliability Result of each Variable

Variable	Composite Reliability
Organizational culture (X2)	0.901
Employees' performance (Y2)	0.668
Leader Member-exchange (X1)	0.6121
Work Engagement (Y1)	0.836

**Table 2**

The Cronbach's Alpha results of each valuable

Variable	Composite Reliability
Organizational culture (X2)	0.891
Employees' performance (Y2)	0.642
Leader Member-exchange (X1)	0.686
Work Engagement (Y1)	0.788

Based on the Composite Reliability and Cronbach's Alpha values which are above the standard value (0.6), all variables are declared valid. Fig. 2 is the picture of statistical examination with Partial least Square (PLS) analysis instrument.

**Table 3**

Hypothesis Test Results

Hypothesis	Variables	Coefficient	t-Statistics	P-value	Critical value	Hypothesis Test Results
H1	X1 Y1	-0.192	0.706	0.240	> 0.05	Not significant
H2	X1 Y2	-0.074	0.265	0.396	> 0.05	Not significant
H3	X2 Y1	0.266	1.681	0.047	< 0.05	Significant
H4	X2 Y2	0.239	1.836	0.033	< 0.05	Significant
H5	Y1 Y2	0.136	0.599	0.275	> 0.05	Not Significant

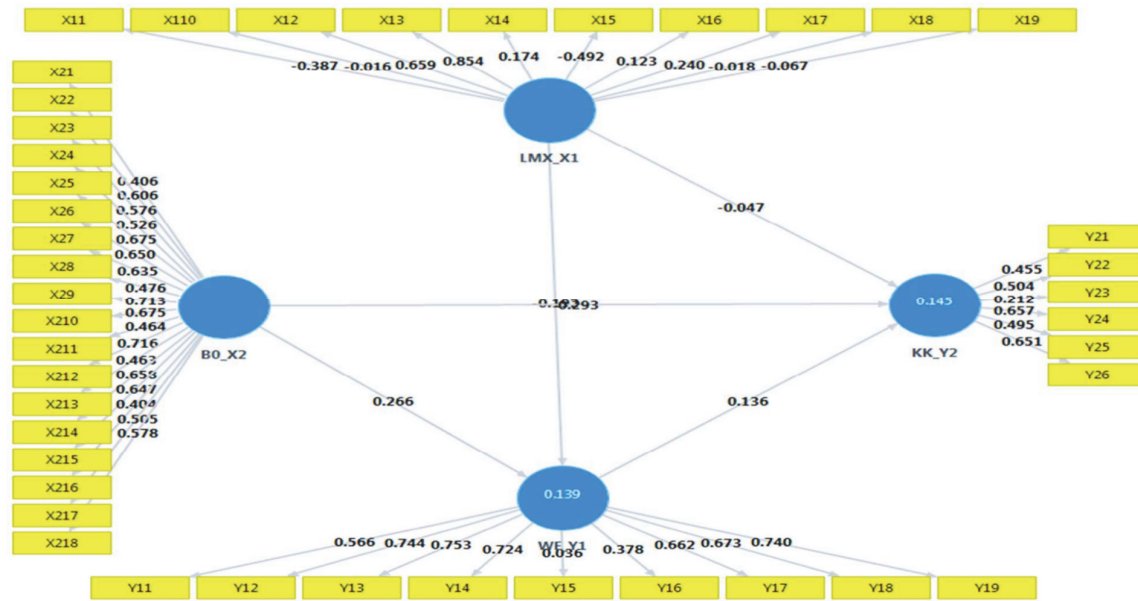


Fig. 2. PLS Result

5. Discussions

5.1 LMX had no significant effect on job involvement

First, LMX does not affect work engagement significantly and the relationship goes in the negative way. It can be scrutinized from the t-value in the statistics which is 0.240 and it has probability level as much as 0.240, which is greater than the standard probability value; 0.05. It indicates the low level of LMX relationship in Telecommunication Company in Makassar. It means that LMX relationship between the leader and members is based on obligations and right written on the formal contract and it affects work engagement. Here, the members or workers are involved in outgroup, meaning that the quality of relationship between leader and members is low. Work engagement has a positive attitude that a worker possesses toward the organization's values (Robinson, 2004). The findings of this research can be a guideline for leader to give the members skills so that their performance can be better. In high level of LMX relationship, the leader and members have high level of trust, appreciation, affection, influence and interaction so that it can enhance work engagement This research is different from the study of Breevaart, (2015) that found LMX affects work engagement significantly. The leader of every organization needs to build high-level LMX whether it is formal or informal

5.2 LMX has no significant effect on worker performance.

LMX does not affect workers' performance significantly and the relationship goes in the negative way. This can be seen from the coefficient demonstrating -0.074 with t- score as much as 0.265, and has probability level as much as 0.396 which is greater than the standard probability score which is 0.05. This shows that the quality of LMX relationship in Telecommunication Company in Makassar, South Sulawesi is low. It means that the rapport of the leader and members is limited to formal relationship which is professional relationship and not an informal one. This research includes the leaders (manager, manager assistant) in Telecommunication Company in Makassar, South Sulawesi in which the majority is Javanese people who are friendly, gentle, not temperament and acting rationally. But, in facts, there are also Javanese people who are temperament and acting irrationally, and most of them have low level of education. On the other hand, the members in which the majority is Bugis Makassar who are known as brave, temperament, and irrational people, but in fact, not all of Bugis people have those traits, there are a lot of Bugis people who are nice and rational. This becomes the main factor why the leaders are reluctant to build informal relationship with the employees since the leaders fear if there is any misunderstanding with the employees. Thus, the employees become out-group. In facts, if the leader can build high level of LMX relationship, and take the members as assistant so that they can support, help each other in every occasion so that they can establish formal and informal relationship, at the end, the members' performance in the organization can be improved. The leaders are suggested to run workshops to improve the skills of the employees since it is the regulation from the head office that can affect the workers' performance, but the leader attempts to keep formal relationship and do not build informal relationship with the workers. This research supports the study of Harris (2009) finding that LMX does not affect workers' performance significantly.

### *5.3 Organizational culture has a significant effect on work engagement*

Organizational culture affects work engagement significantly and shows positive relationship. This can be seen from the coefficient which is 0.266 with t score of 1.681 and probability level of 0.047 that is smaller than the standard score of probability which is 0.05. These facts show that organizational culture in Telecommunication Company in Makassar, South Sulawesi is good and strong enough so that work engagement is improved. Workers with high level of work engagement have full involvement and strong eagerness to work. It goes hand in hand with the statement of Robinson (2004) that work engagement is a positive attitude of the workers to the organization's values.

Organizational culture affects work engagement significantly. The most influential indicator to work engagement is organizational indicator that always prioritizes the adherence to the procedure. In this case, organizational culture in Telecommunication Company in Makassar, South Sulawesi is good and strong so that it can become a guideline for the employees to take action, it shows that employees follow all of the rules applied in Telecommunication Company and always prioritize adherence to the procedure so that it can affect the work engagement. The implementation of cultural values can be the source of competitive excellence. In addition, strong organizational culture can increase work engagement. Welch (2005) and Christian, et al. (2011) explained that work engagement is an individual's commitment to work. Organizational culture is a system, values and assumptions that are understood by the members of an organization (Schein, 2004). The value system has a set of key characteristics that are appreciated by organization. The value system has the strength to shape the attitude of the workers as the reflection of the organizational culture. With strong organizational culture, workers' performance can be improved. The implementation of cultural values effectively becomes the source of competitive excellence (Schein, 1992).

### *5.4 Organizational culture has a significant effect on employee performance*

Organizational culture has significant influence to the workers' performance with positive relationship. This can be scrutinized from the positive coefficient which is 0.239 with t score of 1.836 and probability level of 0,033; smaller than the standard probability score which is 0,05. This finding supports the theory that organizational culture can improve workers' performance (Matondang, 2004). This research is also hand in hand with the study of Mariani (2010); Chen (2004) stating that organizational culture affects worker's performance significantly. It shows that organizational culture has an important role in an organization since it plays a role as a guideline in taking action so that it can help improve the work of members of an organization. It is believed that organizational culture is the main determinant of the workers' success (Kotter & Heskett 1992). Based on the explanation above, it can be interpreted that workers' performance is the result of the implementation of organizational culture. The good implementation of organizational cultural values can improve the workers' performance. Organizational culture is a process of turning a set of input into output that goes hand in hand with the visions and missions of an organization (Ndraha, 2005).

### *5.5 Work management has no significant effect on employee performance*

Work Engagement does not significantly affect workers' performance but it shows positive relationship. This can be seen from the positive coefficient which is of 0.136 with t-score of 0.599 and probability level of 0.275, greater than the standard probability score which is 0.05. It indicates that work engagement of workers in Telecommunication Company in Makassar, South Sulawesi is fair or not too high and not too low. That kind of work engagement is caused by the quality of the relationship between the leader and the workers which is only restricted to formal relationship so that it can influence workers' performance. One of the strategies of the company to increase the performance of the workers in the future is that the leader must establish high level of work engagement and prioritize excellent service and innovate so that they can compete in adapting to the changing world. Workers with high level of work engagement are enthusiastic in working and benefit their work and willing to give the best to the organization by putting the best effort for the development of the organization. This research differs from the work of Kahn (1990) and Elmi (2013) stating that work engagement significantly affects workers' performance. Work engagement is a condition in which a person can commit to an organization emotionally and intellectually (Lockwood 2005); Halbesleben, 2010).

## **6. Conclusion**

Some conclusions derived from this research include: 1. LMX does not affect work engagement significantly. It indicates that the relationship quality between leader and workers is low and the workers go to out-group. 2. LMX does not affect workers' performance, significantly. It can be interpreted that leader needs to establish formal and informal relationship, pay attention to the workers and give them skills so that their performance can be improved. 3. Organizational culture affects work engagement significantly. Also, it shows that organizational culture in Telecommunication Company in Makassar is good and strong so that it can influence the work engagement. 4. Organizational culture affects workers' performance significantly, showing that organizational culture in Telecommunication Company in Makassar good and strong and becomes a guideline for the workers to take actions in work. Additionally, the employees adhere all of the rules being implemented at the company as a form of good organizational culture so that it can improve the work or performance of the employees. 5. Work engagement does not significantly affect the performance of the employees. It indicates that employees of Telecommunication Company have fair personal commitment in performing their tasks so that it influences the workers' performance.

Suggestions for further researches regarding human resources are first, the researchers conduct reviews on variables which are not significant and different from the ones in the previous researches in order to understand the theories related to the influence of LMX to work engagement and workers' performance. Second, leaders need to build high level of LMX relationship, equipping the workers with skills, improve members' professionalism and paying attention and opportunities to the workers, stating the difficulties they face in relationship with the tasks given and consider employees as friends so that they can improve their work engagement and performance. The quality of relationship in LMX is related to the work satisfaction, workers' performance and organizational commitment (Liden et al., 1997); Breevaard et al. (2015). Leaders need to build high level of work engagement since the employees with the trait are enthusiastic in working so that their performance can be improved. Third, in order to make this research can be conducted continuously, it is suggested that the top leader give opportunities to the future researchers to get wide access to information and actual data needed so that scientific activities always develop.

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