

## CONFIRMATORY FACTOR ANALYSIS ON STRATEGIC LEADERSHIP, CORPORATE CULTURE, GOOD CORPORATE GOVERNANCE AND COMPANY PERFORMANCE

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### ABSTRACT

*This study aims to conduct a representative indicator study as a basis in forming variables of Strategic Leadership, Corporate Culture, Good Corporate Governance and Company Performance in Camara Comercio Industria Timor-Leste (CCI-TL). This study involves the manager and owner of the CCI-TL as an object of research.*

*The results showed that through CFA approach, measurement model of strategic leadership, corporate culture, good corporate governance and company performance is a fit model. It can be seen from the small chi-square value. Indicators on strategic leadership, corporate culture, good corporate governance and company performance is convergently and discriminantly valid and reliable. Ability to communicate indicator gives the largest contribution to strategic leadership and clarity indicator gives the largest contribution to Corporate Culture. While for Good Corporate Governance and company performance, the indicator level of independence and financial aspect indicator (CPI) gives the biggest contribution respectively.*

**Keywords:** Strategic leadership, corporate culture, good corporate governance, corporate performance, CFA

### INTRODUCTION

Camara Comercio Industria Timor-Leste (CCI-TL) is an independent agency that serves to encourage healthy behavior businesses. It gives inspiration to constantly strive to promote the practice concept and benefits of Good Corporate Governance (GCG) to the business world in particular and the society in general. In developed countries with a relatively prosperous economy, good corporate governance has long been an issue. This issue is getting a lot of attention of the world community after a large crisis. In Timor Leste, the situation emerged after the great crisis that began in 1999 when East Timor separated from Indonesia where a lot of professional personnel left East Timor at the time. In addition, the military crisis that swept East Timor in 2006 also contributes to it. In general, practitioners and academics agree that one of the major causes of the crisis is the low awareness and understanding of the importance of implementing good corporate governance in companies in Timor Leste.

Successful implementation of good corporate governance in the management of the company is subject to the values embodied in the values of corporate culture. Nowadays many corporate culture issues are under the spotlight. It cannot be separated from the fact that there are a number of performance decline that occurs in various companies. Moeljono (2005) states that prior to implementing Good Corporate Governance, companies should first apply

the values contained in the Corporate Culture adopted and practiced them within the company. Good Corporate Governance can work if the individuals within the company internally have a value system that encourages them to accept, support and implement the Good Corporate Governance. All companies that can thrive in the long run have a strong corporate culture.

Triker (1984) describes two key elements of Corporate Governance as a way to monitor management performance and to ensure the accountability of management to shareholders and other concerned parties. Leech and Leahy (1991) states that each performance variable which is dependent variable is regressed on the independent variable(s) including governance factors. Analysis conducted is to examine three important issues related to the influence of Corporate Governance on corporate performance. First, determining the level of interest among instruments of Corporate Governance from the activities. Second, conducting exploration proposals from researchers on Corporate Governance. Third, conducting test to know whether the business activity of the company is affected by the type of Corporate Governance applied.

The above description shows that the Strategic Leadership, Corporate Culture, Good Corporate Governance and Performance are still being debated among researchers. Therefore, this research conduct a study on indicators that makes up the construct of each variable. The expected result is a valid convergent and discriminate indicator as well as reliable indicator.

## LITERATURE REVIEW

Hitt (2005:376) states that Strategic Leadership is the ability to anticipate, envision maintain flexibility, and empower other to create strategic change as Necessary. Based on the above understanding, it is said that the task of leadership in terms of strategic leadership is to determine the direction of the organization through the development and communication of vision in the future as well as to motivate and inspire members of the organization to go in that direction, so it is not surprising that the result of research on leadership has known that leadership has a very important role in the performance of the organization. Burns (2008:104) suggests some opinions on leadership as follows: (1) Visionary, (2) Ability to communicate, (3) Ability to influence informally, (4) Ability to motivate, (5) Ability to think strategically, (6) Ability to manage change, (7) Ability to resolve or reconcile conflict, (8) Ability to build confidence, (9) Ability to work in a team, (10) Ability to form deep relationship, (11) Ability to generate trust; (12) Ability to delegate, (13) Ability to build cohesion and a sense of belonging, (14) Ability to clarify ambiguities and uncertainties, (15) Ability to remain firm but fair, (16) Ability to be flexible but consistent.

According to Miller (1986), corporate culture is the values and spirits underlying the company's way of managing and organizing. These values are beliefs that are deeply held and they sometimes are not revealed. Values and spirits will be the underlying nature of the company. Robbins (1996) in Sobirin (2009: 5) states that organization is a social unit that is deliberately established for a relatively long period of time, consisting of two or more people who work together and who are coordinated to have certain work patterns that are structured, and was established to achieve the objectives or a predetermined goal together.

Moeljono (2005) states that prior to implementing Good Corporate Governance, companies should first apply the values contained in the Corporate Culture adopted and practiced them within the company. Good Corporate Governance can work if the individuals within the company internally have a value system that encourages them to accept, support and implement the Good Corporate Governance. All companies that can thrive in the long run have a strong corporate culture. Dimensions or indicators of organizational culture are as

follows: (1) The structure of the task, level of details of the methods used by the organization to carry out the task, (2) The relation of exchange law, the task of an organization to provide benefits, such as promotions and salary increases are based on other considerations such as the results achieved and so on, (3) Centralized decision, limits of important decisions on the management, (4) Pressure on the achievement, the desire of working with an organization in carrying out a good job and contribute to the goal of an organization's employees, (5) Clarity, if the working procedure in an organization is not clear, the people will not know for sure regarding their responsibility and authority. This kind of work culture is a culture with such a low value, (6) Standard, the emphasis of the organization lies in the result quality and product achieved, including the rate at which members of the organization feel involved to participate in achieving organizational goals, (7) Leadership, the desire of members of the organization to freely follow the rules of leadership to achieve success and leadership is not dominated by one or two individuals.

Good Corporate Governance begins with the emergence of the theory of the Agency as a result of the separation of the ownership of the company (principal) with the management of the company (agent). Agency theory assumes that: First, in every decision-making, all individuals tend to benefit themselves. Second, related individuals have a rational way of thinking. As a result, costs such as excessive dividends, the cost of bankruptcy, asset assessment costs for new loans and the cost of monitoring appear. Sutujo & Aldridge (2005:5-6) states that Good Corporate Governance has five goals and benefits: (1) Protecting the rights and interests of shareholders, (2) protecting the rights and interests of the members of the stakeholders and non stakeholders, (3) Increasing the value of the company and shareholders, (4) Improving the efficiency and effectiveness of the board and company management, (5) Improving the quality of the relationship the Board of Directors with the company's senior management

Eka & Subowo (2005) states that performance is a success that can be achieved by the individual in doing his job, in which the size of individual success achieved is not equal between one another. The success achieved by the individual is based on the size of the job and adapted to the type of job. Performance is closely related to the purpose or as a result from the behavior of individual work, the results expected can be a requirement of the individual performance himself. Garcia et al. (2006) states that the eight items to measure the performance are profit of the assets, profit of natural resources, and profit of sales and growth in sales of main products / services and markets. Gonzales et al. (2009) states that the four types of dimensions of performance are profitability, the company's economic performance (profit, margin, return on investment (ROI); market response, the reaction of the demand for the company's marketing efforts (sales, sales growth, market share); the position of market value defined as achieving an advantageous position in the mind of the consumer (customer satisfaction, image, reputation for customer loyalty, and new product success.

## RESEARCH METHOD

The data required in this study were obtained by the researcher through primary data in the form of questionnaires and secondary data in the form of documentation. The questionnaire used in this study is enclosed questionnaire where each question has been accompanied by an alternative answer already prepared. Respondents simply choose the answer that has been provided. Each question has a 5 (five) answer choice based on a Likert scale. The study was conducted in the CCI-TL involving 100 managers and company owners as respondents.

Strategic Leadership (SL) is an exogenous latent variables measured from 5 (five) indicators namely Visionary (SL1), ability to think strategically (SL2), ability to manage change (SL3),

Expertise in influencing informally (SL4), and ability to communicate (SL5). Corporate culture (CC) is an exogenous latent variables measured from 6 (six) indicators namely task structure (CC1), relationship benefits law (CC2), centralization of decision (CC3), pressure on achievement (CC4), Clarity (CC5) and Standard organization (CC6). Good corporate governance (GCG) is an exogenous latent variables measured from 5 (five) indicators namely Level of transparency (GCG1), Level of Accountability (GCG2), Level of Responsibility (GCG3), Level of Independence (GCG4) and Level of Fairness (GCG5). Company performance (CP) is an exogenous latent variables measured from four (4) indicators namely Financial Aspect (CP1), Customer Aspect (CP2), Internal Business Aspect/ Profitability (CP3), and Learning and growth Aspect (CP4).

CFA is a part of the *Structural Equation Modeling* method. According to Raykov and Marcoulides (2000), CFA is not a method to find the structure factor, but it is a method to confirm the existence of a specific factor structure. One of the advantages of Confirmatory Factor Analysis is the level of flexibility when applied to a complex hypothetical model. Estimation methods used in Confirmatory Factor Analysis is a *maximum likelihood* factor which can determine the optimal value of the *factor loading*. Confirmatory Factor Analysis (CFA) is a multivariate analysis used to test a concept that is built using multiple measured indicators (Tabachnick and Fidell, 1996 in Ferdinand, 2002). A valid indicator is said to be convergent if the loading value on standard regression weight is greater than 0.5 or  $CR > 1.96$  or  $p < \alpha = 0.05$ ; it is said to be discriminantly valid if the value of  $p < \alpha = 0.05$  in covariance estimation. Whereas, it is said to be reliable if the value of  $CR > 0.7$ .

## RESULT AND DISCUSSION

### Convergens Validity dan Reliability

The result test of convergent validity and reliability with complete AMOS program can be seen in the table 1 at next page.

Table 1 shows the value of loading and the composite reliability of each indicator in variable constructs. All loading values on Strategic Leadership (SL) indicator are all greater than 0.5 that is visionary (SL1) (0.692), ability to think strategically (SL2) (0.666), ability to manage change (SL3) (0.571), expertise in influencing informally (SL4) (0.643), and ability to communicate (SL5) (0.912). Corporate culture (CC) namely the task structure (CC1) (0.788), the relationship benefits law (CC2) (0.845), centralization of decision (CC3) (0.772), Pressure on achievement (CC4) (0.591), Clarity (CC5) (0.888) and Standard Organisation (CC6) (0.578). Good Corporate Governance (GCG) namely the level of transparency (GCG1) (0.515), Performance Accountability (GCG2) (0.515), Level of Responsibility (GCG3) (0.683), Level of Independence (GCG4) (0.801) and Level of Fairness (GCG5) (0.779). Company performance (KP) namely financial aspect (CP1) (0.843), customer aspect (CP2) (0.754), Internal Business Aspect / Profitability (CP3) (0.829), and learning and growth aspect (CP4) (0.770). As for the reliability, latent variable of Strategic Leadership (SL) gives the CR value of 0.829 which is above its cut-off value of 0.7 so that it can be said that Strategic Leadership (SL) is reliable.

Latent variable of Corporate Culture (CC) gives the CR value 0.885 which is above its cut-off value of 0.7 so that it can be said that Corporate Culture (CC) is reliable. Good Corporate Governance (GCG) gives the CR value of 0.797 which is above its cut-off value of 0.7 so that it can be said that Good Corporate Governance (GCG) reliable. Company performance (CP) gives the CR value of 0.876 which is above its cut-off value of 0.7 so that it can be said that Company Performance (CP) is reliable.

**Table 1. Convergent Validity and Reliability Indicators on Variables of Strategic Leadership, Corporate Culture, Good Corporate Governance, and Performance Corporate**

Variable	Indicators	Convergent Validity		Reliability		Composite Reliability
		Loading Factor	p-value	Loading Factor	p-value	
<i>Strategic Leadership (SL)</i>	Visionary (SL1)	0.692	0.000	0.160	0.000	0.829
	Ability to think strategically (SL2)	0.666	0.000	0.259	0.000	
	Ability to manage change (SL3)	0.571	0.000	0.252	0.000	
	Expertise in influencing informally (SL4)	0.643	0.000	0.314	0.000	
	Ability to communicate (SL5)	0.912	0.000	0.072	0.015	
<i>Corporate culture (CC)</i>	Task structure (CC1)	0.788	0.000	0.240	0.000	0.885
	Relationship benefits law (CC2)	0.845	0.000	0.155	0.000	
	Centralization of decision (CC3)	0.772	0.000	0.200	0.000	
	Pressure on achievement (CC4)	0.591	0.000	0.498	0.000	
	Clarity (CC5)	0.888	0.000	0.113	0.000	
	Standard Organisation(CC6)	0.578	0.000	0.403	0.000	
<i>Good corporate governance (GCG)</i>	Level of transparency (GCG1)	0.515	0.000	0.352	0.000	0.797
	Level of Accountability (GCG2)	0.515	0.000	0.180	0.000	
	Level of Responsibility (GCG3)	0.683	0.000	0.245	0.000	
	Level of Independence (GCG4)	0.801	0.000	0.145	0.000	
	Level of Fairness (GCG5)	0.779	0.000	0.158	0.000	
<i>Company Performance (CP)</i>	Financial Aspect (CP1)	0.843	0.000	0.156	0.000	0.876
	Customer Aspect(CP2)	0.754	0.000	0.197	0.000	
	Internal Business Aspect/ Profitability (CP3)	0.829	0.000	0.132	0.000	
	Learning and growth Aspect (CP4)	0.770	0.000	0.310	0.000	

### Discriminant Validity

The result test of discriminant validity with complete AMOS program can be seen in the following table:

**Table 2. Discriminant Validity Of Variables Of Strategic Leadership, Corporate Culture, Good Corporate Governance, And Performance Corporate**

Covariannce (p –value)	Variabel Laten			
	Strategic Leadership (SL)	Corporate Culture (CC)	Good Corporate Governance (GCG)	Company Performance (CP)
Strategic Leadership (SL)	-	0.003 (0.903)	0.074 (0.205)	0.114 (0.123)
Corporate Culture (CC)		-	0.090 (0.081)	0.163 (0.152)
Good Corporate Governance (GCG)			-	0.140 (0.116)

Table 2 shows the estimated covariance and the p-value on variable constructs. P value in Strategic Leadership (SL) with Corporate culture (CC) is 0.903, Strategic Leadership (KS) with Good Corporate Governance (GCG) is 0.205, Strategic Leadership (SL) with company performance (KP) is 0.123. Corporate culture (CC) with company performance (KP) is 0.152. Good Corporate Governance (GCG) with firm performance (KP) is 0.116. This shows that discriminant validity among variable constructs is met. The following Figure is the construct relationships between variables to test the discriminant validity.

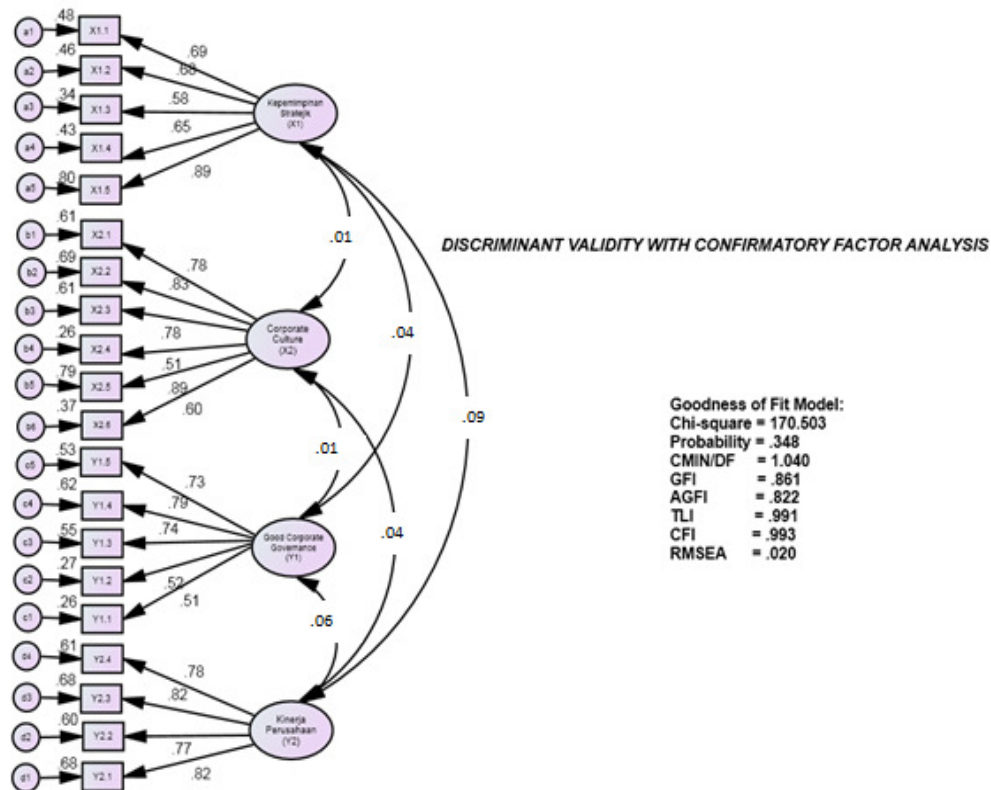


Figure 1. Relation among Strategic Leadership, Corporate Culture, Good Corporate Governance And Company Performance

The test result of measurement model using complete AMOS program can be seen in the following table:

**Table 3. The Test Result of Measurement Model of Strategic Leadership and Corporate Culture on Company Performance through Good Corporate Governance**

<i>Criteria</i>	<i>Cut – Off Value</i>	<i>Result</i>	<i>Remarks</i>
Chi – Square	Expected to be small	170.503	$\chi^2$ with df = 164 is 194.883 Good
Significance Probability	$\geq 0,05$	0,348	Good
RMSEA	$\leq 0,08$	0,020	Good
GFI	$\geq 0,90$	0,916	Good
AGFI	$\geq 0,90$	0,872	Fair
CMIN/DF	$\leq 2,00$	1,040	Good
TLI	$\geq 0,90$	0,991	Good
CFI	$\geq 0,90$	0,993	Good

Resource: processed appendix

The table above shows that 6 (six) criteria used to assess the appropriateness of a model states good. It can be said that the model is acceptable which means that there is a match between the model and the data.

## DISCUSSION

Strategic Leadership (SL) consists of 5 indicators with each contribution as a visionary (SL1) (0.692), ability to think strategically (SL2) (0666), ability to manage change (SL3) (0571), Expertise in influencing informally (SL4) (0643), and the ability to communicate (SL5) (0912). Strategic Leadership (SL) gives the CR value of 0.829 which is above its cut-off value of 0.7 so that it can be said that Strategic Leadership (SL) is reliable. This shows that the ability to communicate (SL5) is a strong indicator in measuring strategic leadership.

Corporate culture (CC) namely the task structure (CC1) (0788), The relationship benefits law (CC2) (0845), centralization of decision (CC3) (0772), Pressure on achievement (CC4) (0591), Clarity (CC5) (0888) and Standard Organisation (CC6) (0578). Corporate Culture (CC) gives the CR value 0.885 which is above its cut-off value of 0.7 so that it can be said as Corporate Culture (CC). This shows that the clarity (CC5) is a strong indicator of measuring corporate culture.

Good Corporate Governance (GCG) namely the level of transparency (GCG1) (0515), level of accountability (GCG2) (0515), level of responsibility (GCG3) (0683), level of independence (GCG4) (0801) and level of fairness (GCG5) (0779). Good Corporate Governance (GCG) gives the CR value of 0.797 which is above its cut-off value of 0.7 so that it can be said that Good Corporate Governance (GCG) is reliable. This shows that the level of independence (GCG4) is a strong indicator to measure good corporate governance.

Company performance (CP) namely financial aspect (CP1) (0843), customer aspect (CP2) (0754), Internal Business Aspect/ Profitability (CP3) (0829), and learning and growth aspect (CP4) (0.770). Company performance (CP) gives the CR value of 0.876 which is above its

cut-off value of 0.7 so that it can be said that Company performance (CP) is reliable. This shows that the Financial Aspects (CP1) is a strong indicator in measuring the Company performance (CP).

Strategic Leadership, Corporate Culture, Good Corporate Governance and performance of each company have a valid and reliable indicator. So it needs further study regarding the direct and indirect influence between these variables.

## CONCLUSION

The results showed that through the CFA approach, the measurement model of strategic leadership, corporate culture, good corporate governance and company performance is a fit model. It can be seen from the 6 (six) criteria used to assess the appropriateness a model that state good. Indicators on strategic leadership, corporate culture, good corporate governance and company performance is convergently and discriminantly valid and reliable. It can be seen from the loading values which are all larger than 0.5 and are statistically significant ( $P < 0.05$ ), and the value of reliability construct is more than 0.7. Ability to communicate indicator gives the largest contribution to strategic leadership and for corporate culture, clarity indicator gives the largest contribution. While on Good Corporate Governance, the level of independence indicator gives the largest contribution and the indicator on the financial aspect gives the largest contribution to company performance.



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