

Chapter 5

Transformational Leadership and Performance: Self-Efficacy and Work Engagement as Moderating Variables

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ABSTRACT

This research seeks to examine the effect of transformational leadership on performance with self-efficacy and work engagement as the mediating variables. The sample is local government financial managers in Surakarta City, Central Java Province, Indonesia, with 438 usable questionnaires. The study predicts and finds that transformational leadership positively affects performance. In particular, transformational leadership increased the ability to achieve higher performance. Further, the study also shows that self-efficacy and work engagement mediated the relationship between transformational leadership and performance. The findings highlight the importance of leadership style to achieve higher performance. Thus, leaders with transformational leadership are better able to motivate their employees to achieve better performance.

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INTRODUCTION

The state financial management covers planning, implementation, accountability, and supervision. The accountability of state financial management is communicated through financial statements. In this regard, the Indonesian Government has reformed its public sector accounting practices by adopting new public management (Suparman, Siti-Nabiha, & Phua, 2015), i.e., implementing the accrual-based accounting system, to enhance the information quality of its financial reporting, accountability, and transparency of public sector financial management. Thus, accrual accounting improves accountability in public sector entities (Connolly & Hyndman, 2006).

The preparation and presentation of financial statements to achieve accountability and transparency in state/ local financial management indicate the performance of financial management units (The Law of Republic of Indonesia No. 17 of 2003). Financial statements are prepared to provide relevant information on financial positions and all transactions to evaluate the performance of reporting entities (Government Regulation No. 71 of 2010). Governments' financial statements are the component of the performance reports of governmental agencies that inform their performance (Presidential Regulation Number 29 of 2014).

Based on the audit reports of the Audit Board of the Republic of Indonesia (*BPK – Badan Pemeriksa Keuangan*) in 2015 of 112 local governments to implement the accrual-based Governmental Accounting Standards, local governments have not effectively facilitated accrual-based financial reporting (BPK RI, 2016). Numerous problems related to policies, information technology, and human resources to support financial reporting indicate the argument (BPK RI, 2016). Governments did not fully implement the accrual basis (Paulsson, 2006), and consequently, the results were unsatisfactory (Anessi-Pessina & Steccolini, 2007). The implementation of accounting and budgeting system changes from cash basis to accrual basis in central, provincial, and municipal governments is lengthy (Hoek, 2005) and gradual (Hyndman & Connolly, 2011).

The most significant factors in the accrual-based accounting implementation in Indonesia are leadership commitment and political parties' supports to motivate the heads of Regional Work Units (*SKPD – Satuan Kerja Perangkat Daerah*) to adopt accrual accounting basis in preparing financial statements (Suparman et al., 2015). The heads of *SKPD* have the authority to use resources in their organizations (Isa, Saleh, & Jusoh, 2011) that require transformational leadership (Bass, Avolio, Jung, & Berson, 2003) to better guide entities in adopting accrual-based accounting.

Transformational leadership positively affects team and employees' performance (Dionne, Yammarino, Atwater, & Spangler, 2004; Piccolo & Colquitt, 2006; Weller, Süß, Evanschitzky, & von Wangenheim, 2019). Further studies also find that self-efficacy (Afsar & Masood, 2017; Liao & Chuang, 2007; Walumbwa & Hartnell,

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