The Effect of Leadership Style Towards Corporate Culture and the Implementation of Green Management and Its Performance

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ABSTRACT

The purpose of the study is to provide empirical evidence about the correlation between leadership style, culture of organization, implementation of green management, and company performance. Leadership is the key to running a firm. Leaders with the appropriate leadership style can shape corporate culture and impact a firm's performance. This research has shown that the transformational leadership style can significantly impact corporate culture, as opposed to the transactional leadership style. How much each style plays a role on the firm depends on the conditions of the firm, and one leadership style will tend to be more dominant than the other. Another finding is that corporate culture significantly impacts a firm's performance. It shows that corporate culture plays an important role in firms, whether they are large scale or small scale firms (SMEs), in that they make sure members of an organization have the same perspective and values and are able to ensure optimum corporate performance.

KEYWORDS

Corporate Culture, Green Management, Leadership Style, Organizational Performance, SME

1. INTRODUCTION

Since the establishment of the Kyoto Protocol in 1998, environmental damage has become a global issue. Everyone realized how severe environmental damage had been and began to be aware of the importance of environmental sustainability. Environmental degradation may be caused by natural disasters such as volcanic eruptions, earthquakes, and floods or caused by humans through processes like deforestation, carbon monoxide

emission and excessive use of chemical substance. The industrial sector is currently the largest contributor for environmental degradation.

SMEs are a unique phenomenon. On one hand, the industry can provide job opportunities and contribute up to 23% towards the National Gross Domestic Product (Ministry of Cooperatives and Small and Medium Enterprises, 2012). On the other hand, SMEs have also caused major damage to the environment due to the limited human resource, financing, and technological devices they are privy to. Various evidence supports the claim, 60-70% of environmental damage cases in Europe can be traced back to SMEs (European Commission, 2010 in Hoogendoorn *et al*, 2014). In the UK, SMEs produced up to 60% of the country's carbon dioxide (CO_2) emissions. Similar conditions occur in France where SMEs resulted in air pollution, excessive water and energy consumption (40 - 45%) and contributed to 60-70% of the total industrial waste in the country (Daddi et al 2010; Iraldo et al 2010). Indonesian SMEs, particularly the tapioca, tofu, batik, and livestock industries have produced 2.3 million tons of water pollutant and 0.96 million tons of methane that is equal to 24 million tons of CO_2 (Ministry of Environment, 2014).

Implementation of green management, particularly in SMEs, may prevent further damage to the environment. The implementation of green management, also known as environmental process, refers to any effort, behavior, application or practice that involve management system to eliminate amount of pollutant during business activities (Agan et al.,2013). The implementation of green management in SMEs will reduce production cost, environmental degradation and energy consumption (Andish Technological Institute, 2010). Other studies have shown that environmental-friendly business activities minimizes energy consumption up to 56%, pollutants up to 53%, raw materials up to 46%, water 42%, increase recycling up to 49% and also enabled the industry to sell raw materials up to 23% to other factories (European Commission, 2012).

On the other hand, the implementation of green management has positive impact towards financial performance of a company (Azorin, et al., 2009). Environmental process creates opportunities for an eco market and enhances a company's position in the market (Constantinos et al, 2010). Not only does the implementation of green management prevent or eliminate environmental degradation, it also improves performance and image of a company in front of the stakeholders.

The culture of an organization is a process to develop its members' mentality (Hofstede, 1983) where similar values will determine how members take actions with the purpose overcoming internal integration and external adaptation issues the organization encounters (Schein, 1982). Based on the concept, the implementation of green management in a company depends on particular culture developed by the company. In recently developed companies, the culture of an organization heavily depends on owner's (founding fathers') and CEO's values, where the latter will decide how the culture affects the members in transactions (transactional leadership style) or transformations (transformational leadership style).

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