

# The Role of Transformational Leadership, Monitoring and Transparency on Performance (Study on Cities/ Regencies Government Units (SKPD) at Bakorwil IV East Java Province- Indonesia)

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## Abstract

This research aims to analyze the role of transformational leadership, monitoring, and transparency on the performance of Local Government Units among the regencies and cities at the region of Bakorwil IV East Java Province Indonesia by using quantitative approach and survey method. The research sample consists of 192 Local Government Units among the regencies and cities in East Java Province at Bakorwil IV Region. The respondents of each Local Government Unit are represented by 2 participants: one comes from the head/leader of the Local Government and the other one is from staff; thus, the total respondents are 384 people. The data are gathered through questionnaire distribution which uses 1 to 5 points of Likert scale. The data analysis technique utilizes Generalized Structured Components Analysis (GSCA). The research results indicate that: 1) transformational leadership positively and directly influences performance, 2) monitoring has positive and direct effect on performance, 3) transparency positively and directly influences performance, 4) transformational leadership has positive and direct effect on transparency, 5) monitoring positively and directly influences transparency, 6) transformational leadership directly influences performance through the mediation of transparency, and 7) monitoring directly influences performance through the mediation of transparency.

**Keywords:** transformational leadership, monitoring, transparency, performance, Regencies/Cities Governments, East Java, Indonesia, Local Government Units.

## 1. Introduction

### 1.1. Background

Public service performance is an important matter that becomes the center of attention for several parties related to the government responsibility on the public they serve. Public sector reform occurring in several places is an effort to improve public service performance which aims to achieve effective, efficient, responsive, and accountable government governance. To improve its performance, several governments have implemented NPM (New Public Management) concept. NPM is intended to modernize public sector by improving its performance through efficiency. The principles of NPM include emphasize on the leadership, control toward the government policy output, management authority decentralization, and service which is oriented to the public society. As the improvement on the efficiency and effectiveness of the local government performance is achieved, it is expected to be able to improve public service quality which then creates fair competition among the public sectors to provide quality service for the society they serve.

Some of the fundamental changes that have been taken by Indonesia government in improving public service performance are by applying local autonomy and issuing laws and regulation related to the improvement of government management. When the government performance is good, it is hoped to be able to encourage the development of local region's potentials which then result in greater local revenue (*Pendapatan Asli Daerah/PAD*) and society welfare.

Though there is public sector reform movement, local government performance in Indonesia is still not yet optimum based on the assessment conducted by State Minister for The Empowerment of States Apparatus and Bureaucratic Reform (*Kemen PAN-RB*) and State Development Audit Agency (*Badan Pengawas Keuangan dan Pembangunan/ BPKP*). The ministry and agency evaluated or assessed the performance accountability of the overall government institutions based on LAKIP (*Laporan Akuntabilitas Kinerja Instansi Pemerintahan* or Report on Accountability and Performance of Government Institution). The aim of this evaluation is to encourage the improvement on the quality of public accountability and verify the commitment on the implementation of performance-based government management. The evaluated components include performance plan, performance measurement, performance reporting, performance evaluation, and performance achievement of the local government. The evaluation criteria are AA = satisfying, A = very good, B=good, CC= quite good but needs improvement, C = not quite good and needs fundamental improvement, and D= not good.

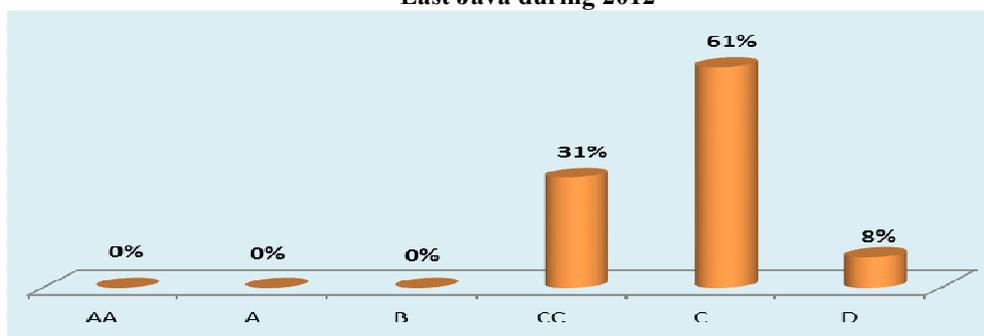
The result of *Kemenpan-RB* and *BPKP* evaluation on 438 cities and regencies governments in Indonesia in 2012 is: a) 2 local governments (0.46%) achieved B rank, b) 104 local governments (23.74%) achieved CC rank, c) 256 local governments (58.45%) attained C rank, and d) 76 local governments (17.35%)

got D rank. In this evaluation, there is no local government which attains AA and A ranks. The evaluation result concludes that the average rank of the local governments in Indonesia is C. It implies that the performance of local governments in Indonesia needs fundamental improvement and empowerment on the performance accountability among the existing local government in Indonesia.

Just similar with the other regions in Indonesia, the performance of local government in East Java also needs improvement. It is indicated by:

1. The performance accountability on local governments in East Java is conducted by *BPKP* (Financial and Development Audit Board) and *Kemen PAN-RB* (Ministry of State Apparatus and Bureaucratic Reform) based on the LAKIP (*Laporan Akuntabilitas Kinerja/* Performance Accountability Report). In 2012 there were 36 among 38 local governments in East Java that were assessed for their LAKIP by *Kemen PAN-RB*. The result of the performance accountability report in 2012 for Regencies and Cities in East Java showed that there were 8% or 3 regencies/cities which attained D predicate (poor), 61% or 22 regencies/cities which attained C predicate (quite poor or needing fundamental improvement), and 31% or 11 regencies/cities which got CC predicate (quite good and needing improvement); however, none of the regencies/cities in East Java that get B (good), A (very good), and AA (satisfying).

**Figure 1. The Evaluation Score of Performance Accountability Evaluation among Regencies/Cities in East Java during 2012**



Source: retrieved from *Kemen PAN-RB*

In general, the assessment shows that the performance accountability of regencies/cities in East Java is not yet optimal and needs improvement.

2. Performance appraisal that was done by *BPK* (*Badan Pemeriksa Keuangan/* Supreme Audit Institution) is aimed to assess the economic aspect, efficiency and effectiveness of a program in attaining its goal. Performance appraisal also checks the compliance on applicable law and regulation as well as its internal monitoring system. The report issued by *BPK* revealed that there were still some drawbacks of the local government performance on: 1) accounting and report monitoring system, 2) income and expenditure budget implementation system, and 3) internal monitoring system.

Based on the description above, it concludes that there are some problems related to the performance of local government particularly at the region of East Java. The problems are like: 1) low performance accountability, 2) lack of supporting instruments for public accountability and transparency, and 3) lack of effort to measure the response of the society regarding with the service provided by the local government.

Related to performance, Paladino (2006) mentioned that performance is dimensional; thus, performance is a variable which can be perceived as a dimension and affected by several factors. Further, Ruky (2001) stated that the factors which influence performance are technology, input quality, physical environment quality, organizational culture, leadership, and human resource management. However, Keban (2004) identified the factors which influence performance like: law and regulation clarity, human resource management, conformance between the paradigm that is adopted by an organization and the aim of performance appraisal, leader's or manager's commitment toward the importance of appraisal that influences performance. Some research described several other variables which influence performance, such as Sole's (2010) research which found that culture, politic, and logic. Barid (2012) examined the role of organization and organizational culture toward performance effectiveness among 450 local governments in Australia.

Based on the observation, there are some researches which have different result in interpreting the factors which influence performance. Elenkov (2002) proved that transformational leadership positively and directly influences organizational performance among Russian's enterprises. Samad (2012) also supported the prior finding as he found that transformational leadership and innovation have significant role on organizational performance. Whereas, Basru (2012) stated transformational leadership style does not influence the performance of financial management on the Local Government Units. Similar finding also occurs on a research which discusses the role of monitoring on performance. Bisbe & Otley (2004) proved that monitoring management system has positive effect on both financial and non-financial performances of an organization. Juha-Kallunki

(2012) found similar conclusion when monitoring management system increases organization performance. Yet, a different finding also emerged from Askam's (2009) research as the research confirmed that internal and external monitoring do not influence the performance of Local Government Unit. Meanwhile, another different finding is stated by Basru (2012) when he found that financial management performance of Local Government Unit is affected by external monitoring but internal monitoring does not.

The diverse findings on the role of transformational leadership and monitoring on public sector's performance emerge an opportunity to conduct this research. This research is aimed to explore the relationship among variables from the prior research. Considering that the finding is not yet consistent on the role of leadership and monitoring on organization performance, this recent research adds transparency as the intervening variable. Transparency is taken as an intervening variable as this variable is perceived to be able to significantly influence government governance. This idea is supported by Tahir (2011) as he said that: 1) transparency is the form of responsibility of government on its citizens or people that have given trust to the government, 2) transparency opens an opportunity for the people to know the applicable policy of the government which may encourage feedback or outcome on the policy that is applied by the government, 3) good transparency can result in good governance achievement and reduce corruption, collusion, and nepotism. Bushman, Piotroski, and Smith (2004) said that transparency can wipe out information asymmetry in an organization. Other research which supports the idea of transparency as an intervening variable is that there are some empirical studies which observe the relationship between transparency and performance, between transparency and leadership, as well as between transparency and monitoring. A research on the relationship between transparency and performance was conducted by Kim, Lee, and Yang (2010) at South Korea which found that organization transparency can improve performance. A research on the relationship between leadership and transparency was done by Mensah (2012) which confirmed that performance-oriented leadership style positively influences budget transparency. An empirical study on the relationship between monitoring and transparency was taken by Gavin (2009) which found that monitoring improves financial reporting transparency of private organizations in The U.S.

This research is conducted in public or government organization since in the globalization era the performance of public organization becomes the most discussed sector to achieve good government governance. The observed variables in this research are leadership (particularly, transformational leadership), monitoring, transparency, and organizational performance.

Leadership is able to influence performance as stated by Amran (2004). Leadership is one of the important factors for an organization which has significant role on the organizational performance. In the modern era with the tight competition, the practice of transformational leadership is necessary. According to Judge & Bono (2000) and Jung & Avolio (2000), transformational leadership means a leadership which is able to motivate its followers to achieve collective goal, vision and mission of an organization. Transformational leadership encourages the awareness and the interest of a group or organization, improve self-confidence, and ask its follower to gradually attain better achievement and greater growth. Bass and Avolio (1990) mentioned that transformational leadership is able to enhance its followers to be able to leadership role and surpass the predetermined standards. Based on this perspective, it implies that transformational leadership has future vision which is able to identify environmental change and transform it into the organization, initiate change, and provide motivation as well as inspiration on the individuals to be creative and innovative, build a solid team work, bring a breakthrough on work culture and management performance, including dare and responsible in leading and controlling the organization. Related to local government leadership, however, the facts say that there are some leaders who are not yet optimum in handling their tasks and functions on planning and controlling the organization, as well as on providing motivation and evaluation for several decisions.

Monitoring is also perceived to have an influence on performance (Antonio & Sonia, 2007). In fact, monitoring is less considered by local government leaders. Local government leaders even tend to ignore monitoring for some reasons. One of the causes of why monitoring is neglected is due to the lack of transparency during monitoring activity, both the content of monitoring and its time. The monitoring activity that is usually conducted tends to ignore feedback process which makes employees do not know what aspects that they should improve or enhance after the monitoring is done.

The variable which is assumed to have a role on performance other than leadership and monitoring is transparency. A research by Transparency International Indonesia in 2008 concluded that lack of transparency in local government causes corruption. In that research, it measured the corruption level based on the perception of local governments in Indonesia. The range of Corruption Perception Index is from 0 (highly corrupt) to 10 (very clean). The survey was conducted on 50 cities in Indonesia and involved 3,841 respondents. The survey result indicated that the corruption level of local governments in Indonesia was still quite high (4.42). Another research also showed the indication of lack of transparency among the local governments in Indonesia (Kristiansen, 2008; Jonathan, 2002). Further, lack of transparency is also can be found through the empirical facts since: 1) not all of the local governments are able to provide information related to government governance that is sufficient for its people in modern and transparent way such as e-government, 2) there are complaints about the difficulty to

access the e-government sites at some of the local governments' sites, 3) lack of financial data that are exposed to the public as the report which is issued for public is only in the form of summary without any detail, 4) local government budget is often revised in a year and just gets limited attention from the non-government organizations, and 5) budget revision is neither published nor available for public. The overall phenomena and research gaps above become the background of importance of local government performance that should be explored deeply. The performance of local government may be influenced by transformational leadership, monitoring, and transparency.

This research takes New Public Management (NPM) as its theoretical foundation which aims to modernize public sector by improving performance through efficiency. In NPM, leadership and monitoring factors are paramount to achieve optimum public service performance.

### 1.2. Research Conceptual Framework

Some research related to the role of transformational leadership and organizational performance has been conducted; yet, the gap among the findings still exists. Elenkov (2002) and Samad (2012) proved that transformational leadership has significant role on the organizational performance; meanwhile, Basru (2012) stated that transformational leadership does not significantly influence government organizational performance at level of Local Government Units (SKPD). The similar finding is also found in the research on the role of monitoring toward performance. Bisbe & Otley (2004) and Juha & Kallunki (2012) stated that monitoring management system has a positive effect on organizational performance. Whereas, Askam (2009) found that internal and external monitoring does not influence the performance of Local Government Units (SKPD). Further, Basru (2012) mentioned that only external monitoring which influences the performance of local government agencies but not internal monitoring. The gap of the findings from some studies related to the role of transformational leadership and organizational performance attracts the researcher to further explore the research conceptual framework of the prior research by adding transparency as the intervening variable. One of the reasons the insert transparency as the intervening variable is that there are some empirical research regarding with the positive role of transparency variable toward performance, leadership, and monitoring variables. A study on leadership and transparency is done by Mensah (2012) which finds that performance-oriented leadership style positively influences budget transparency. An empirical study on the relationship between monitoring and transparency was conducted by Gavin (2009) which found that monitoring improves financial report transparency among the private companies in the United States. A research related to the role of transparency on performance was also conducted by Berggren & Bershteyn (2007) as they found that organizational transparency is the medium to encourage organizational performance; further, a study by Kim, Lee, & Yang (2010) in South Korea also concluded the same findings. The conceptual framework of this research is described in Figure 2 below:

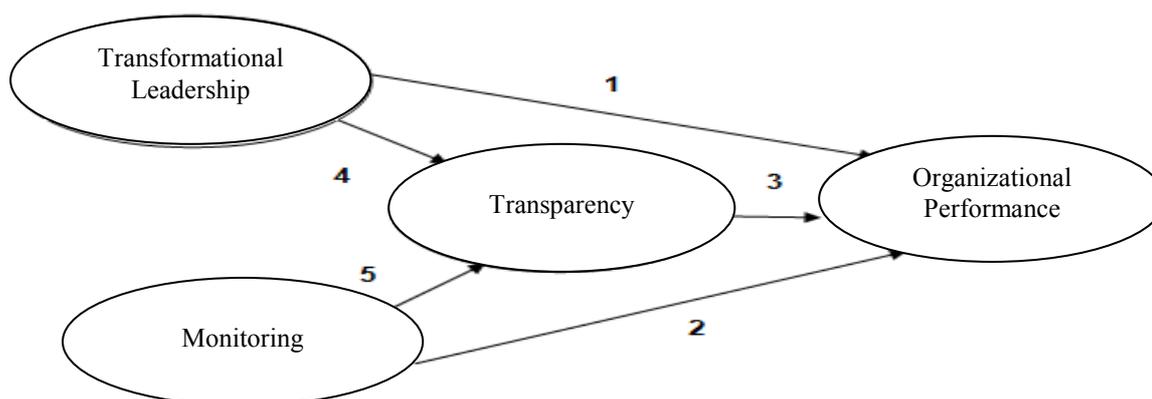


Figure 2. Research Conceptual Framework

#### Description:

1. Elenkov (2002) , Samad (2012) and Basru (2012)
2. Bisbe & Otley (2004), Askam (2009), Basru (2012) & Juha-Kallunki (2012)
3. Berggren & Bershteyn (2007) & Kim (2010)
4. Mensah (2012)
5. Gavin (2009)

### 1.3. Research Hypotheses

Leadership is one of the paramount issues in organization as leadership can provide significant influence on the organizational performance. In the modern era which the competition becomes tighter and tighter, an

organization needs transformative leadership in which a leaders should have future vision and be able to identify environmental changes, as well as be able to transform those changes into the organization, pioneering the changes, giving motivation and inspiration toward the individuals he/she leads to make them more creative and innovative, as well as building solid team work. A leader should also be able to present new change (a breakthrough) in the work and performance spirit of the management, including dare and responsible in leading and controlling the organization (Jung & Avolio, 2000).

Some of the prior research which explored the role of transformational leadership and performance were conducted by Elenkov (2002) & Samad (2012). Detelin S. Elenkov's (2002) research proved that transformational leadership directly and positively influences organizational performance among Russia enterprises. Further, Samad (2012) stated that transformational leadership and innovation has significant role or organizational performance of the companies in Malaysia.

Based on the theoretical review, we propose the following hypothesis:

*Hypothesis 1. : Transformational leadership directly and positively influences performance*

Robbins & Coulter (2007) define monitoring as the process of observing, comparing, and improving performance. Effective monitoring will help an organization to improve its performance based on the predetermined plan in achieving the overall organization's goals. Empirical studies of Bisbe & Otley (2004) and Juha & Kallunki (2012) prove that monitoring management system has a positive influence on performance.

Based on the literature review, we propose the following hypothesis:

*Hypothesis 2. : Monitoring directly and positively influences performance.*

Smith (2004) argues that transparency indicates the level of activity to resolve asymmetric information problems at organizational level so that it improves management performance. The empirical research conducted by Kim, Lee & Yang (2010) found that organizational transparency can improve its performance among the companies in South Korea. The similar research result can also be found in Berggren & Bernshteyn's (2007) study as they found that organizational transparency is the medium to encourage organizational performance.

Based on the prior research and review of literature, we deliver the following hypothesis:

*Hypothesis 3. : Transparency directly and positively influences performance*

Leadership style can influence individual and organizational effectiveness. Herman (1999) stated that particular leadership style practiced by a leader can affect the way he can retain his control on policy and arrange policy agenda which then also influence the characteristic of decision making process. Transformational leadership is a leadership which is oriented to performance and emphasizes on high standard, firmness, and innovation. A leader tries to inspire his followers with his vision and relies on the core values. Besides, multi-dimensional and contextual behaviors of a leader occur in particular problem solving and decision making. Those positive behaviors help to identify the blind spots during the management implementation and make the organization becomes more transparent. Prior research related to leadership and transparency was done by Mensah (2012). Mensah (2012) found that performance-oriented leadership style positively influences budget transparency.

Based on the theoretical review and prior research above, this research proposes the following hypothesis:

*Hypothesis 4. : Transformational Leadership directly and positively influences transparency*

Monitoring in management is basically an effort to prevent fraud or misdirection risk on the goals that are is going to be achieved by an organization. According to Black & Porter (2000) monitoring is the main characteristic in the organization activity that is conducted at the end of the activity on each function including planning, organizing, and leading. A research conducted by Gavin (2009) concluded that monitoring increases transparency on financial report among the private businesses in The U.S. Based on the review above, it leads to the following hypothesis:

*Hypothesis 5. : Monitoring directly and positively influences transparency*

A research conducted by Mensah (2012) found that performance-oriented leadership style positively influences budget transparency; further, Kim, Lee, & Yang (2010) proved that organizational transparency is able to improve company's performance in South Korea.

Based on the prior research above, it leads to the following hypothesis:

*Hypothesis 6. : Transformational Leadership directly influences performance through the mediation of transparency.*

Related to monitoring, transparency, and performance, Gavin (2009) stated that monitoring can improve transparency. Also, Berggren & Bernshteyn (2007) mentioned that organizational transparency is medium to encourage organizational performance.

Based on the studies above, this research proposes a hypothesis below:

*Hypothesis 7. : Monitoring directly influences performance through the mediation of transparency.*

## 2. Research Method

### 2.1. Research Design

Based on the problem formulation, the type of this research is explanatory research which aims to attain better understanding on the causality relationship among variables through hypotheses testing. The design of this research refers to positivistic paradigm. This approach is often called as mainstream/quantitative approach which observes based on the observable, repeatable, measureable, testable, and predictable empirical phenomena. In quantitative research, this research is also called as confirmatory research which focuses to confirm the applicability of a theory on particular research objects both for explaining or predicting it (Solimun, 2010). This research uses four variables which are divided into two independent variables (transformational leadership and monitoring), one intervening variable (transparency), and one dependent variable (performance).

### 2.2. Population and Sample

This research is conducted at local governments in the region of Bakorwil IV East Java Indonesia. Bakorwil IV of East Java Province includes 6 regencies and 1 city. The research location consists of Bangkalan Regency, Sampang Regency, Pamekasan Regency, Sumenep Regency, Gresik Regency, Sidoarjo Regency, and Surabaya City. The population of this research includes all of the Local Government Agencies (SKPD) among the cities/regencies governments located in Bakorwil IV of East Java Province which are as many as 371. This research utilizes proportional random sampling based on Slovin's formula:

$$n = \frac{N}{1+Ne^2}$$

Description:

n= number of sample

N= number of population

e= tolerable deviation standard (5%)

Based on the calculation result from the Slovin's formula, the sample involved in this research is 192 respondents. In the process of questionnaire distribution, it considers the proportion aspect by using this formula: Number of cities/regencies  $n = \frac{\text{Number of SKPD in cities/regencies}}{N} \times \text{number of sample}$

The overall number of SKPD

This formulation aims to attain sample which represents the information of population.

Next, the Local Government Units chosen as the research location is the units which are frequently conduct public service such as Education Authorities, Public Health Office, Social Service Department, Cooperation, SME, and Industry Department, Trade Department, Demographic Service Department, Labor Department, Youth and Sport Department, Agriculture, Plantation, and Forestry Department, Marine and Fishery Department, Public Works Department, Transportation Department, Local Development Agency, Environmental Agency, Library and Archive Office, Food Sustainability Office, Public Hospital Service, Local Government Secretariat, Council Secretariat, and Districts. The reason of choosing the units which provide public service is to know further about the performance and quality of the public service that has been conducted by each of the observed organization. The respondents of each organization are two: one is the leader; and, the other is the staff so that the overall number of respondents is 384 people.

### 2.3. Variable Measurement Technique

All of the variables in this research are measured by using 5 points of Likert's scale. The respondents were asked to indicate their ideas based on the provided written statements in the questionnaire. Commonly, Likert's scale has five points (Davis and Consenza, 1993) as the range of the answers indicate the following expression: 1 = strongly disagree, 2= disagree, 3 = quite agree, 4 = agree, and 5 = strongly agree.

### 2.4. Data Collection Technique

Data collection technique used in this research is survey method. The process conducted by the researches to obtain primary data is by distributing questionnaire. Questionnaire provides a list of questions that are designed to reveal the intended result. The questionnaire is distributed to the Local Government Units from April to June 2014.

### 2.5. Validity and Reliability Tests

The questionnaire that is used in this research was tested before it was distributed by checking its validity and reliability. Validity and reliability tests of the research instrument took 30 trial samples. Validity and reliability tests were conducted by using Pearson correlation and Cronbach Alpha Coefficient. The research instrument is valid if the Pearson's Product Moment Correlation ( $r \geq 0.30$ ); further, it is reliable if the Cronbach alpha ( $\alpha \geq 0.60$ ). The result of both validity and reliability tests indicate that all of the question items are valid and reliable.

### 3. Analysis and Result

#### 3.1. Descriptive Statistic Analysis

Descriptive statistical analysis is proceeded to describe the respondents of this research as well the variables of this research. The gathered data are then tabulated into a model and discussed descriptively. In this research, the respondent's answers are divided into five categories by using Likert scale. Each of the scale has different interpretation starting from strongly disagree to strongly agree. The next step is to describe each of the research variables from the respondent's answers based on the average value. The average score of the two respondents' answers who represent each of the Local Government Unit is taken as the score which reflects their unit. The description result of the research variable is presented below.

##### 3.1.1. Transformational Leadership Variable

Transformational leadership variable in this research is reflected in 4 indicators including charisma, inspirational motivation, intellectual stimulation, and individualized consideration.

**Table 1 Perception Description of Local Government Units on Transformational Leadership**

INDICATOR		MINIMUM	MAXIMUM	MEAN	DEVIATION STANDARD
X1.1	Charisma	2.63	5.00	3.8183	0.43102
X1.2	Inspirational Motivation	2.50	5.00	3.8609	0.43079
X1.3	Intellectual Stimulation	2.17	4.83	3.7776	0.43140
X1.4	Individualized Consideration	2.25	5.00	3.8032	0.52560
<b>X1</b>	<b>Transformational Leadership</b>	<b>2.39</b>	<b>4.79</b>	<b>3.8153</b>	<b>0.38952</b>

Table 1 demonstrates that based on the perception of the SKPD, the mean score of transformational leadership in the observed SKPD is 3.82. This score is not quite high. It indicates that transformational leadership implementation is not yet optimum at the SKPD. Particularly, SKPD perceives that inspirational motivation indicator (X1.2) is more frequently implemented by the leader of the observed unit since the mean score of this indicator is 3.86 which is greater than the other indicators.

##### 3.1.2. Monitoring Variable

Monitoring variable is reflected in two indicators namely internal and external monitoring.

**Table 2. Perception Description of Local Government Units on Monitoring**

INDICATOR		MINIMUM	MAXIMUM	MEAN	DEVIATION STANDARD
X2.1	Internal monitoring	2.81	4.94	3.8091	0.41479
X2.2	External monitoring	2.67	4.83	3.7910	0.44417
<b>X2</b>	<b>Monitoring</b>	<b>2.81</b>	<b>4.72</b>	<b>3.7994</b>	<b>0.39575</b>

In overall, the analysis result of the Table 2 demonstrates that the monitoring activity is not yet optimum since the mean score of the unit is 3.80. The mean score almost reaches 4 which is interpreted as not quite high category. Specifically, internal monitoring (X2.1) achieves greater response from the SKPD since its mean score is 3.81 which is greater than the mean score of external monitoring.

##### 3.1.3. Transparency Variable

Transparency variable in this research is reflected into two indicators including rules and procedures and information access

**Table 3. Perception Description of Local Government Units on Transparency**

INDICATOR		MINIMUM	MAXIMUM	MEAN	DEVIATION STANDARD
Y1.1	Rules and Procedures	2.50	5.00	3.8549	0.44026
Y1.2	Information Access	3.00	5.00	3.8356	0.40002
<b>Y1</b>	<b>Transparency</b>	<b>3.00</b>	<b>5.00</b>	<b>3.8451</b>	<b>0.38431</b>

In overall, the result indicates that transparency is not yet optimally implemented as shown by the mean score of the perception which reaches only 3.85. This score is less than 4 which is categorized into not quite high category. In particular, rules and procedures indicator obtains greater score from the SKPD which is 3.85 as compared to the information access indicator which is only 3.85.

### 3.1.4. Performance Variable

Performance variable is reflected in three indicators namely economic, efficiency, and effectiveness.

**Table 4. Perception Description of Local Government Units on Performance**

INDICATOR		MINIMUM	MAXIMUM	MEAN	DEVIATION STANDARD
X1.1	Economic	3.00	4.75	3.7884	0.37619
X1.2	Efficiency	2.67	4.75	3.7518	0.38217
X1.3	Effectiveness	2.80	4.90	3.8615	0.42780
<b>X1</b>	<b>Performance</b>	<b>2.98</b>	<b>4.69</b>	<b>3.8004</b>	<b>0.34717</b>

In overall, the analysis results presented in Table 4 indicates that the performance is not yet optimum based the mean score of the perception which only achieves 3.80. This score is not quite high category since it is less than 4. In particular, effectiveness indicator attains the highest score compared to the other two indicators since effectiveness gets 3.86.

### 3.2. Generalized Structured Component Analysis / GSCA Model Analysis

Inferential statistical analysis method aims to test the empirical model and the hypotheses of the research. This research utilizes Generalized Structured Component Analysis (GSCA) which is developed by Hwang *et.al.* (2004). The analysis steps are presented as follow:

#### 3.2.1. GSCA Assumption Test

Linearity assumption test in this research is observed through the Curve Fit which aims know whether this applied model is linear. It is intended to check whether the constructs relationship estimation is linear or not. The linearity relationship test among the latent variables is presented in Table 5.

**Table 5 . Linearity Assumption Test Result Using Curve Fit**

No	Inter-Variables Relationship		Linearity Test Result			
	Independent Variable	Dependent Variable	Testing Criteria	F	Sig	Description
1	Transformational Leadership	Performance	Linearity	72,916	0.000	Linear
2	Monitoring	Performance	Linearity	108,645	0.000	Linear
3	Transparency	Performance	Linearity	63,622	0.000	Linear
4	Transformational Leadership	Transparency	Linearity	57,793	0.000	Linear
5	Monitoring	Transparency	Linearity	111,701	0.000	Linear

Based on the table above, the linearity score of the linearity test result indicates significant result ( $p < 0.05$ ); thus, it concludes that the model is linear. All of the tests results demonstrate that the overall relationships among research variables in the structural model are linear. Hence, the linearity assumption on GSCA analysis is met as the requirement to conduct further analysis.

#### 3.2.2. Measurement Model Test

Research measurement model test aims to assess the indicators of the research variables which reflect a construct and latent variables that cannot be measured directly. The analysis on the indicators that are used is intended to provide the meaning of a symbol addressed to the latent variables. The empirical analysis is aimed to validate the model and construct reliability which reflects the parameters of the latent variables which are built based on the theories and empirical studies. There are three criteria to assess the measurement model, including:

1. Convergent validity
2. Discriminant validity
3. Internal Consistency

Measurement model test toward the indicators which reflect the construct or latent variables is described as follow:

##### 3.2.2.1. Convergent Validity Test

Convergent validity test describes the correlation measurement between reflective indicators' score and its latent variable's score. If the loading  $\geq 0.40$ , it is assumed as valid.

The convergent validity test result is presented in Table 6

**Table 6. Convergent Validity Test Result**

No	Variable	Indicator	Loading	Description
1	Transformational Leadership	Charisma (X1.1)	0.865	Valid
		Inspirational Motivation (X1.2)	0.850	Valid
		Intellectual Stimulation (X1.3)	0.871	Valid
		Individualized Consideration (X1.4)	0.844	Valid
2	Monitoring	Internal Monitoring (X2.1)	0.928	Valid
		External Monitoring (X2.2)	0.914	Valid
3	Transparency	Rules & Procedures (Y1.1)	0.920	Valid
		Information Access (Y1.2)	0.909	Valid
4	Performance	Economic (Y2.1)	0.894	Valid
		Efficiency (Y2.2)	0.905	Valid
		Effectiveness (Y2.3)	0.838	Valid

Table 6 describes that the estimation loading values of each indicator are greater than 0.40; thus, it concludes that the convergent validity test is valid.

### 3.2.2.2. Discriminant Validity Test

On the discriminant validity test, an instrument is valid if the  $\sqrt{AVE}$  is greater than the correlation coefficient between the respected variable and other variables. The result of the discriminant validity test can be viewed in Table 7.

**Table 7. Discriminant Validity Test Result**

	$\sqrt{AVE}$	Transformational Leadership (X1)	Monitoring (X2)	Transparency (Y1)	Performance (Y2)	Description
Transformational Leadership (X1)	0.735	1	0.651	0.481	0.528	Valid
Monitoring (X2)	0.848	0.651	1	0.607	0.609	Valid
Transparency (Y1)	0.836	0.481	0.607	1	0.500	Valid
Performance (Y2)	0.774	0.528	0.609	0.500	1	Valid

Table 7 describes that all of the research variables have the  $\sqrt{AVE}$  which is greater than the correlation coefficient between the respected variable and other variables. Therefore, the research instrument passes discriminant validity test.

### 3.2.2.3. Internal Consistency Reliability Test

In the internal consistency reliability test, an instrument is reliable if its alpha is greater than 0.60. The reliability test of this research is presented in Table 8.

**Table 8. Reliability Test Result of the Research Instrument**

Research Variable	Alpha	Description
Transformational leadership (X1)	0.876	Reliable
Monitoring (X2)	0.820	Reliable
Transparency (Y1)	0.801	Reliable
Performance (Y2)	0.849	Reliable

Table 8 indicates that all of the variables have the alpha which is greater than 0.60; hence, the research instrument has a good internal consistency reliability.

### 3.2.2.4. Structural and Overall Models Goodness-of-Fit Evaluation

Goodness-of-fit test on GSCA analysis consists of structural and overall model fit which is evaluated through FIT, AFIT, GFI (Unweighted least-squares) and SRMR (Standardized root mean square residual) values. The analysis result by using GSCA method attains fit model which is presented in Table 9.

**Table 9. Structural and Overall Models Goodness-of-Fit Evaluation**

FIT MODEL	
FIT	0.629
AFIT	0.624
GFI	0.983
SRMR	0.223
NPAR	27

The FIT and AFIT values are 0.629 and 0.624 respectively which indicate that transformational leadership, monitoring, and transparency affect organizational performance as many as 62%; while the other 38% is

influenced by variables other than those three. The GFI score is 0.983 which is greater than its cut-off value (0.90) which indicates that the model is good. The SRMR score is 0.223 which is also greater than its cut-off value (0.008) which shows that the SRMR is not quite good. Though the SRMS is not quite good, it still meets the requirement of Goodness-of-Fit.

### 3.2.3. Hypotheses Testing

#### 3.2.3.1. Hypothesis Testing and Path Coefficient of the Direct Effect

Hypothesis testing and path coefficient of the direct effect among transformational leadership, monitoring, transparency, and performance can be observed from the path coefficient and its critical point (CR\*) which are significant at  $\alpha = 0.05$ . The test result on the direct effect can be seen in Table 10.

**Table 10. Path Coefficient of the Direct Effect and Hypothesis Testing**

No	Direct Effect	Path Coefficient	C.R. (t-test)	Conclusion
1	Transformational leadership (X1) → Performance (Y2)	0.201	2.24*	Significant
2	Monitoring (X2) → Performance (Y2)	0.370	4.36*	Significant
3	Transparency (Y1) → Performance (Y2)	0.178	2.26*	Significant
4	Transformational leadership (X1) → Transparency (Y1)	0.149	2.22*	Significant
5	Monitoring (X2) → Transparency (Y1)	0.511	7.55*	Significant

Note: \*= significant at  $\alpha = 0.05$

Based on the analysis above, the hypothesis testing result is presented below:

#### **H1: Transformational leadership directly and positively influences performance**

The analysis result demonstrates that the direct effect path coefficient of transformational leadership on performance is 0.201 with critical path of 2.24\*. It indicates the significant role of transformational leadership on the performance of Local Government Unit (SKPD). It shows that hypothesis 1 is accepted. The analysis result reveals that the implementation of transformational leadership can improve the performance of SKPD.

#### **H2: Monitoring directly and positively influences performance**

The analysis result shows that the path coefficient of the direct effect of monitoring on organizational performance is 0.370 with critical path of 4.36\*. It means that there is a significant role of monitoring toward performance. The result proves that hypothesis 2 is accepted. The analysis result indicates that effective monitoring on SKPD will improve SKPD's performance.

#### **H3: Transparency directly and positively influences Performance**

The analysis result demonstrates that the direct effect path coefficient of transparency on performance is 0.178 with critical path of 2.26\*. It implies that there is significant role transparency on performance. The analysis result proves that empirically Hypothesis 3 is accepted. It indicates that good transparency in public service governance at SKPD will increase the performance of SKPD.

#### **H4: Transformational leadership directly and positively influences Transparency**

The analysis result shows that the direct effect path coefficient of transformational leadership on transparency is 0.140 with critical path of 2.22. It means that there is a significant effect of transformational leadership on transparency. The analysis result indicates that Hypothesis 4 is accepted. The result demonstrates that the implementation of transformational leadership can improve the transparency of SKPD.

#### **H5: Monitoring directly and positively influences transparency.**

The analysis result shows that the direct effect path coefficient of monitoring on transparency is 0.511 with critical path of 7.55\*. It means that there is a significant effect of monitoring on transparency. The analysis result indicates that Hypothesis 5 is accepted. The result demonstrates that the implementation of effective monitoring can improve the transparency of SKPD.

#### **H6: Transformational leadership directly influences Performance through the mediation of Transparency**

The analysis result indicates that the direct effect path coefficient of transformational leadership on transparency is 0.149 with critical path of 2.22\*. It means that there is a significant effect of transformational leadership on transparency. The direct effect coefficient of transparency on performance is 0.178 with critical path of 2.26\*. It shows that there is a significant effect of transparency on performance. The analysis result also demonstrates that there is a significant role of transformational on the performance of Local Government Units since the coefficient is 0.201 with the critical path of 2.24\*. It indicates that there is indirect effect of transformational leadership toward performance through transparency. The analysis result above shows that there Hypothesis 6 is empirically proven and accepted. Further, the result also demonstrates that transparency mediates the relationship between transformational leadership and Local Government Units' performance.

#### **H7: Monitoring directly influences Performance through the mediation of Transparency**

The analysis result shows that the direct effect coefficient of monitoring on transparency is 0.511 with the critical path of 7.55\*. It means that there is a direct and significant effect of monitoring on transparency. The

direct effect coefficient of transparency on performance is 0.178 with the critical path of 2.26\*. It implies that there is a significant role of transparency on performance. The analysis result also indicates the significant role of monitoring on performance as the coefficient is 0.370 with the critical path of 4.36\*. The analysis result reveals that there is an indirect role of monitoring on Local Government Units performance through transparency. The analysis result concludes that monitoring directly influences performance through the mediation of transparency. The result means that transparency mediates the relationship between monitoring and Local Government Units performance.

### 3.2.3.2. Checking the Path Coefficient of the Mediation Role

Checking the path coefficient of the mediation role is aimed to detect the position of the intervening variable in the research conceptual model. The mediating variable lies between independent and dependent variables which have the either of the following characteristics: 1) complete mediation, 2) partial mediation, and 3) non mediating variable. The checking method uses GSCA analysis twice as one involves the mediating variable while the other one does not. The checking method on mediating variable using coefficient approach is conducted in the following steps: a) checking the direct influence of the independent variable on dependent variable of the model by involving mediating variable, b) checking the direct influence of the independent variable on dependent variable of the model without involving mediating variable, c) checking the role of independent variable on mediating variable, and d) checking the role of mediating variable on dependent variable (Hair, *et.al.*, 2010; Solimun, 2011). In general, the path coefficient test of the mediating variable is presented in the Table 11.

**Table 11. Path Coefficient of the Mediation Role**

No	Relationship among Variables	Mediating Variable	Path Coefficient				Description
			A	B	c	d	
1	Transformational leadership (X1) → Performance (Y2)	Transparency (Y1)	0.201*	0.529*	0.149*	0.178*	Partial Mediation
2	Monitoring (X2) → Performance (Y2)	Transparency (Y1)	0.370*	0.618*	0.511*	0.178*	Partial Mediation

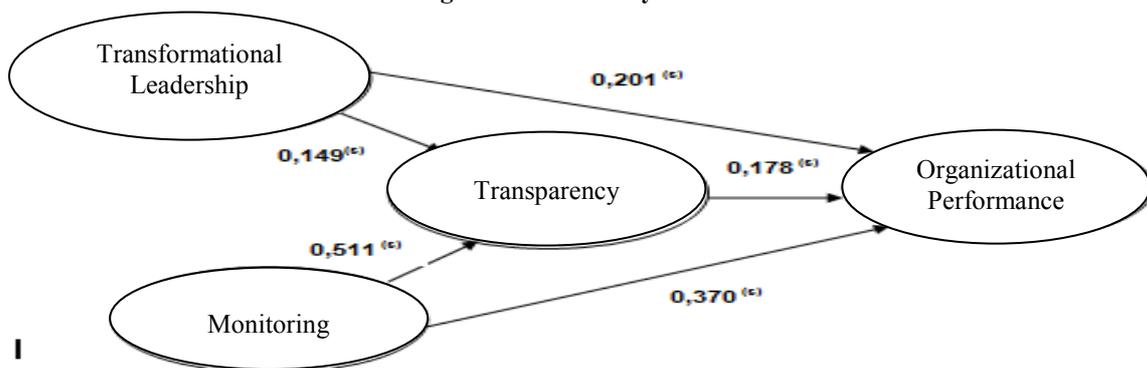
description \*= significant at  $\alpha = 0.05$

Based on the analysis result above, it proves that transparency is a mediation variable of the relationship between transformational leadership and performance as well as between monitoring and performance which is categorized as partial mediation.

### 3.2.4. Path Analysis Model

Based on the analysis result, it leads to a path model of the relationship among the variables of this research as presented in Figure 3.

**Figure 3. Path Analysis Model**



description: s = is significant; CR= significant at  $\alpha = 0.05$

Figure 3 demonstrates the direct effect of the independent variables like 1) leadership significantly influences performance, 2) monitoring significantly influences performance, 3) transparency significantly influences performance, 4) transformational leadership significantly influences transparency, and 5) transparency significantly influences performance; meanwhile, there are also two indirect effects like 1) transformational leadership influences performance through transparency and 2) monitoring influences performance through transparency.

### 3.2.5. Mean and Loading Factor Test

The assessment on the perception of Local Government Units through the mean score is taken to reveal the actual condition of each indicator as perceived by the Local Government Unit. The highest mean represents priority indicator that should be handled based on the Local Government Unit perception. Next, the loading factor is checked to reveal the strongest indicator to measure particular variable. The greatest score of loading factor represents the strongest independent variable as respective indicator has dominant contribution to reflect

its dependent variable. The result of the mean score and loading factor of each indicator are presented in the following table.

**Table 12. Mean Score and Estimate Loading**

Research Variable	Research Instrument		Mean		Estimate Loading
			Indicator	Variable	
Transformational leadership (X1)	Charisma	X1.1	3.82	3.81	0.865
	Inspirational Motivation	X1.2	3.86		0.850
	Intellectual Stimulation	X1.3	<b>3.78</b>		<b>0.871</b>
	Individualized Consideration	X1.4	3.80		0.844
Monitoring (X2)	Internal Monitoring	X2.1	<b>3.81</b>	3.80	<b>0.928</b>
	External Monitoring	X2.2	3.79		0.914
Transparency (Y1)	Rules & Procedures	Y1.1	<b>3.85</b>	3.85	<b>0.920</b>
	Information Access	Y1.2	3.84		0.909
Performance (Y2)	Economic	Y2.1	3.79	3.80	0.894
	Efficiency	Y2.2	<b>3.75</b>		<b>0.905</b>
	Effectiveness	Y2.3	3.86		0.838

Note: \* = highest loading factor

The description of transformational leadership variable shows that inspirational motivation becomes the main consideration as perceived by the Local Government Units which attains 3.86 point as its mean score. The mean score of inspirational motivation is the highest among the other three indicators. The strongest indicator to measure transformational leadership variable is intellectual stimulation as the loading factor (0.871) is the highest among four indicators of transformational leadership. It means that, in transformational leadership, intellectual stimulation is the dominant factor as a leader wants to achieve supporting condition to develop innovation and creativity. Leader encourages his followers to generate new ideas and creative solutions for overcoming the emerging problems. Thus, a leader can empower his followers to attain strong self-efficacy. Besides, the dominant factor of transformational leadership in government organizations that are observed in this research is inspirational motivation as the leader of public organization should be able to inspire and motivate his followers in optimizing their performance to achieve organization's vision, mission, and goals. Further, a leader of a government unit must be able to boost the team-work spirit among his followers and peer workers.

The description of the monitoring variable shows that internal monitoring indicator becomes the main consideration as perceived by the Local Government Units since the mean score of internal monitoring indicator is 3.81; also, internal monitoring indicator is the strongest indicator to measure monitoring variable as the loading factor is 0.928. This research finds that monitoring on the process of planning, implementation, and reporting still becomes the focus of monitoring activity. Effective internal monitoring is expected to be able to improve the accountability and transparency of the government governance process.

The description of the transparency variable indicates that rule and procedure indicator becomes the main consideration for Government Units as the mean score of rule and procedure indicator achieves 3.85; further, rule and procedure indicator is the strongest indicator to measure transparency variable since the loading factor is 0.920. It means that, in the observed Local Government Units, the proper implementation of rule and procedure by all of the involved parties should be comprehended and monitored by all of the organization's members. Firm and clear rules about transparency in government governance will result in the accurate and timely access of information regarding with government policy which is paramount for decision making in several sectors.

The description on Local Government Units performance variable shows that effectiveness becomes the main consideration as perceived by Local Government Units since the mean score of effectiveness variable is 3.86. However, the strongest variable to measure Local Government Unit performance is efficiency with the loading factor of 0.905. It implies that the dominant factor which influences the performance of Local Government Units is efficiency. Efficiency should highly consider the input and output. An activity is called efficient if the activity is able to achieve its goal with minimum cost (input) and optimum expected result (output). In the government governance, it is highly expected that the organization can be efficient in utilizing its minimum existing resources for achieving optimum result. The dominant factor of the organization performance is effectiveness. It implies that the level of achievement on the programs and activities that have been done, the function of activities and compliance on the rules related to the effectiveness of public service providers become priority.

## 4. Discussion

### 4.1. *The Role of Transformational Leadership on Performance*

Transformational leadership influences performance. It means that transformational leadership can affect the performance improvement of the Local Government Units. This finding supports Bass & Avolio (1994) finding which mentioned that transformational leadership positively influences organizational performance. Further, it also confirms Bass & Steidlmeier (1998) result which said that transformational leadership model is able to improve the performance of a number of small and big organizations sustainably. This research is also consistent with the research of Detelin S. Elenkov (2002) and Samad (2012) which prove that transformational leadership directly and positively affect organizational performance. However, this finding is not similar with Basru's (2012) result which possibly due to the different focuses of this research. Basru (2012) focused on organization's financial performance; while this research measured performance both in financial and non-financial aspects.

This research was conducted at public sector organizations which have bureaucratic characteristic. Leadership is one of the paramount elements in implementing government management to be effective and efficient. The finding of this research proves that transformational leadership is not yet optimally implemented on the observed organizations. Transformational leadership can be reflected by four characteristics: charisma, inspirational motivation, intellectual stimulation, and individualized consideration. The most influencing characteristic on transformational leadership is intellectual stimulation. It implies that a leader tries to create a condition which facilitates the development of innovation and creativity among the organization's members. It can improve self-efficacy of the organization's members which encourages creative ideas to enhance individual performance among the government officers which then results in better organizational performance.

Different from the fact that is found at empirical finding, the dominant characteristic of transformational leadership as perceived by the officers of Local Government Units is inspirational motivation. Inspiring leader is a leader who focuses on the commitment and effort to achieve organization's vision, mission, and goals by providing motivation, enhancing team-work spirit, encouraging enthusiasm and optimism of his peer workers and followers. The leaders of those Local Government Units comprehend the vision and mission of the organization so that they can well communicate those values to their followers. The vision and mission of organization becomes the guideline for implementing organization's strategy and programs. Organization leader defines the achievement target of the program or activity and can encourage his followers to achieve the target. Well comprehension on organization's vision and mission among the organization members is able to encourage motivation and optimism and enhance the awareness on the importance of achieving optimum performance based on the organization's values and goals.

Based on the research result and theoretical support, government needs to develop supporting atmosphere in the Local Government Units environment for generating creativity and innovation. A leader can encourage his followers to be more prudent and logical in solving the emerging problems as well as stimulate his followers to see a problem from several perspectives to attain more effective solution. Through the practice of empowering leadership and managerial approach, it is expected to be able to improve the ability and confidence of the organization members so that the organization can create more optimum public service performance.

### 4.2. *The Role of Monitoring on Performance*

Monitoring influences performance. This result implies that good monitoring will result in the improvement of Local Government Unit's performance. This result supports the finding Bisbe & Otley (2004) and Juha-Kallunki (2012) which proves that effective monitoring management positively influences organizational performance. This finding is on the contrary of Askam's (2009) finding which states that both internal and external monitoring do not influence the performance of Local Government Units. Further, Basru (2012) found that the performance of Local Government Units is influenced by external monitoring but not internal monitoring. The difference on the finding of Askam (2009) and Basru (2012) can possibly due to different research location and the focus of performance assessment. The finding of this current research is relevant with Robbins & Coulter's (2007) statement which says that monitoring is a process of observing, comparing, and refining organizational performance.

The finding of this research implies that monitoring runs quite good among the Local Government Units that are observed; yet, it needs further improvement to achieve better accountability and transparency in the process of government governance. Monitoring is a mechanism to reduce information asymmetry or reduce uncertainty (Shield, 1998). Good monitoring helps the implementation of policy and program to be more effective and efficient which the directly influences organizational performance. In this research, the most influencing factor which affects monitoring is internal monitoring. Internal monitoring focuses on the implementation of public service programs/activities as the core of government service. Monitoring and evaluation on planning and implementation stages are done by management as a step to assure that the implementation of the program is relevant with the predetermined planning. Besides, it is also an act to prevent abuse and error during the implementation of the program or activities. Report evaluation is intended to compare

between implementation and planning as well as to measure organizational performance. If there is an abuse or mistake that is found during evaluation stage, then clarification and correction should be conducted. The evaluation stage results in recommendation that should be followed up by the respective units.

Based on the research result, government organization is expected to be able to improve its monitoring, both internal and external monitoring for advancing its accountability and transparency in the government process. Thus, the government organization will be able to run and manage government governance effectively and efficiently by utilizing the existing resources.

#### **4.3. The Role of Transparency on Performance**

Transparency influences performance. It implies that the practice of transparency in the government governance can improve the performance of Local Government Units (SKPD). This finding supports the concept mentioned by Smith (2004) which found that transparency indicates the level of activity to overcome asymmetric information in an organization so that it is able to improve organizational performance. This research is also relevant with Kristiansen's (2006) finding which proved that transparency enhances efficiency of the public service. The result of this research also supports prior research by Kim, Lee & Yang (2010) which stated that transparency in an organization is able to improve performance among the business enterprises in Korea. The similar result can also be found in Berggren & Bernshteyn (2007) which mentioned that organizational transparency can be a medium to encourage organizational performance.

The result demonstrates that transparency exists in the Local Government Units' governance to provide public service. It is proven on most of the observed organizations as those organizations provide quite sufficient information in the government governance process for delivering public service though it is not yet optimum. For instance, the issue of bulletin report and website which inform the arrangement, implementation, and the result of the public service activity program is the example of the government transparency. However, the transparency practice among the observed Local Government Units still needs improving to achieve greater organizational performance.

The dominant factor which affects transparency in this research is the existence of the rule and procedure of transparency on the government governance. Clear rule and procedure of transparency will be very helpful for the government officers to implement transparency in public sector. The breakthrough conducted by some of the local governments related to public sector transparency is the implementation of e-government. Information technology utilization to establish e-government service is aimed to improve transparency, efficiency, and effectiveness of the government governance. e-government utilization will ease the society to achieve public service and reduce the bureaucracy which is the source of complaints for most of the society. The positive effects perceived by the society regarding with e-government service are better time efficiently, as well as reduced effort and cost in achieving public service. Based on the experience of the Surabaya Local Government, the use of e-government can reduce the budget allocation in government establishment.

Referring to the research result, it is expected that the local governments are able to improve transparency by developing sufficient information access during government service establishment. The ease of information access can be in the form of transparency, easiness, and accuracy on the information related to local government service. Besides, the e-government program implementation among the existing Local Government Units is also expected. An optimum public service by utilizing e-government program is expected to be able to improve the transparency of public service which then improve the efficiency and effectiveness of local government performance.

#### **4.4. The Role of Transformational Leadership on Transparency**

Transformational leadership influences transparency which means that the implementation of transformational leadership can enhance the transparency on the government governance among the observed Local Government Units. The research result supports prior research finding from Mensah (2012) which found that performance-oriented leadership style positively affects organizational transparency. The finding of this research is also relevant with Burn (1985) as he stated that transformational leadership is a process to where a leader and his followers achieve greater morality and motivation. Transformational leadership can encourage positive behavior which helps to identify the blind spots during the implementation of management as well as makes the organization become more transparent.

The finding of this research demonstrates that the implementation of transformational leadership in the Local Government Units is not yet optimum; thus, the units should develop a leadership style which is able to transform the values adopted by the organization's members so that the units will be able to achieve the vision, mission, and goals of the organization. Further, it can also nourish trust among the members. A leader who involves his members to implement the program as what has been planned will foster loyalty among the members as they feel trusted and acknowledged by their leader. As there is a solid team work, it will cultivate transparency among the team members to overcome the problems that emerge in their work.

#### **4.5. The Role of Monitoring on Transparency**

Monitoring influences transparency. It means that intensive monitoring will improve the transparency of government governance in the observed Local Government Units. This finding supports and confirms Black & Porter's (2000) finding as they said that monitoring is the main characteristic of organization activity which is conducted at the end of a series of activities for planning, organizing, and leading. Besides, this finding is also relevant with Gavin's (2009) finding as Gavin mentioned that monitoring improves transparency, mainly for the financial statement of the private business in The U.S.

This research proves that the activity of monitoring in the Local Government Unit influences transparency during of the government governance though it still needs improvement to achieve government governance accountability. Based on the perception of the Local Government Unit, the dominant monitoring which becomes the focus of monitoring is internal monitoring. Based on Government Regulation Num. 60 of 2008 about Internal Control System, internal monitoring is the whole process of auditing, reviewing, evaluating, monitoring, and other inspecting activities toward the implementation of organization tasks and function in order to provide sufficient assurance that the activities have been conducted based on the applicable measurement, effectively and efficiently for leader's importance to achieve good government governance.

#### **4.6. The Role of Transformational Leadership on Performance through Transparency**

The result of this research confirms the role of transformational leadership on performance through transparency. It implies that transparency is able to mediate the role of transformational leadership on the performance of Local Government Unit. Transformational leadership inspires the followers/ team members to achieve organization's vision, mission, and goals with ethical and moral standards as well as action-oriented which make organization more transparent in government governance so that it will enhance the performance of the Local Government Unit.

Organization performance in this research is reflected on several factors including economics, efficiency, and effectiveness. The most influencing factor that affects performance is efficiency. Regarding to efficiency, efficient allocation of human resource and proper use of time and funding on each program/activities is highly demanded. Based on the perception of the Local Government Unit, the observed Local Government region tends to focus more on the quality of the public service since the main product of public organization is public service. Public service is an effort to fulfill the right of people (citizens). To ensure the quality of public service, central government issued Law and Regulations which regulate public service standard such as *Undang-Undang* No. 25 of 2009 about Public Service. Those public organizations have tried to arrange better public service such as building e-government, e-procurement, e-payment, etc. In order to motivate local government institutions for delivering good public service, Ministry of State Apparatus Empowerment and Bureaucratic Reform gives *Citra Pelayanan Prima* award.

#### **4.7. The Role of Monitoring on Performance through Transparency**

This research proves the role of monitoring on the performance of Local Government Units through transparency. This finding implies that transparency is able to mediate the role monitoring on performance. Monitoring in public organization is aimed to: a) provide sufficient assurance on the compliance, economic, efficiency, and effectiveness of task and function achievement of the public organization; b) provide early indicator and improve risk management effectiveness to establish the task and function of public organization, and c) maintain and improve the quality of government governance related to the task and function of public organization based on Government Regulation Num. 60 in 2008. Effective monitoring results in greater transparency of public organization. Transparency in government governance is the manifestation of responsibility toward the society related to the applicable policy that has been taken so that the society will be able to participate by providing feedback. Local government has also utilized e-government to ensure the transparency implementation; besides, e-government also reduces the implementation of public service as well as saves the expenditure for public service. e-government for some of the observed local governments has brought positive effect since those local governments can run their public service activates in a more effective and efficient performance. However, there are some constraints to develop e-government such as financial constraint, as well as technological and human resource constraints to manage e-government. The implementation of e-government is expected to be widely spread to all of the Local Government Units for better performance of the government itself in providing public service.

### **5. Conclusion**

The research result can be concluded as follow:

1. Transformational leadership directly and positively influences performance. It means that transformational leadership has some characteristics like: a) having a future vision and able to identify environmental changes, b) able to transform the changes into organization, c) pioneering changes and providing motivation

- as well as inspiring individuals workers to be more creative and innovative, d) building solid teamwork, and e) bringing new changes on the work ethic of the management performance which can improve the performance of Local Government Units among Regencies and Cities at the region of Bakorwil IV, East Java Province.
2. Monitoring directly and positively influences performance. The research result shows that good internal and external monitoring in the process of planning, implementing, and reporting activities and budget can improve efficiency and effectiveness in government governance. Good government governance can improve the performance of Local Government Units' performance among the Regencies and Cities at the region of Bakorwil IV, East Java Province.
  3. Transparency directly and positively influences performance. Transparency in government governance which indicates the level of activities that reduce information asymmetry in an organization is able to improve the performance of Local Government Units among Regencies and Cities at the Region of Bakorwil IV, East Java Province.
  4. Transformational leadership directly and positively influences transparency. It indicates that transformational leadership in a public organization is able to encourage positive behavior which improves transparency on the governance of Local Government Units among Regencies and Cities at the region of Bakorwil IV, East Java Province.
  5. Monitoring directly and positively influences transparency. It indicates that intensive monitoring will improve transparency on the government governance of the Local Government Units among Regencies and Cities at the region of Bakorwil IV, East Java Province.
  6. Transformational leadership directly influences performance through the mediation of transparency. Transformational leadership is able to inspire officers/team to achieve vision, mission, and goals of the organization which highly consider ethic and morality as well as action-oriented that make the organization more transparent in its governance. Further, it will improve the performance of the Local Government Units among Regencies and Cities at the region of Bakorwil IV, East Java Province.
  7. Monitoring directly influences performance through the mediation of transparency. It demonstrates that effective monitoring in an organization can result in greater transparency which then improves the performance of the Local Government Units among Regencies and Cities at the region of Bakorwil IV, East Java Province.

This research provides theoretical implication which enriches knowledge in management particularly in organizational performance and transformational leadership, as well as monitoring and transparency. The result supports several theories such as 1) Hood's (1991) New Public Management (NPM) theory which states that NPM aims to modernize public sector by improving performance through efficiency and effectiveness, 2) Parker's (1993) performance theory which perceives performance from economy, efficiency, and effectiveness (3E), 3) transformational leadership theory from Bass & Avolio (1994) which mentions that transformational leadership will positively influence organizational performance, and Bass & Steidlmeier's (1998) statement which says that transformational leadership model is able to improve organizational performance, 4) Monitoring theory proposed by (Robbins & Coulter (2007) which states that monitoring is a process of observing, comparing, and refining organizational performance. Further, the practical implications of this research are 1) the leadership style implemented by Local Government Units at the local government level should be a leadership style which has a vision for the future, able to identify environmental change, encouraging assertiveness, innovativeness, and positive behavior which can enhance the transparency of government governance. Leadership development can be regularly conducted through leadership training; 2) related to organization monitoring, there should be greater effectiveness of monitoring on the Local Government Units in several processes including planning, implementation, and accountability of the activities to improve organization's effectiveness and efficiency. Monitoring that is developed should not only focus on bureaucratic process related to the compliance on the existing regulation but also on the achievement of organization's goal based on the vision and mission. Monitoring should also emphasize on preventive action by refining the monitoring system, law, and regulation; 3) transparency in public organization governance should be improved by providing information regarding with local government's activity and finance that are sufficient for public exposure by modernizing and becoming more transparent through e-government. The utilization of information technology in government organization can shorten the delivery time of public service as well as reduce the expenditure of the public service. Besides, there should be law and regulation which regulate information distribution for public related to the provided service that is handled by government. Good transparency will provide an opportunity for society to know the policy that is applied by government which than encourage feedback on the applicable policy; 4) to achieve greater performance of the Local Government Unit, there should be a continuous development on the performance planning, performance measurement, performance evaluation, and performance achievement of the local government.

The limitations of this research are 1) it is conducted on Local Government Units at the region on

BAKORWIL IV East Java Province – Indonesia which then cannot be generalized to other organizations due to diverse characteristics of the organizations, 2) the instrument used in this research is closed questionnaire which cannot fully control the honesty and accuracy of the answers provided by the Local Government Units' officers whether it reflects the true facts or not, and 3) this research is not yet able to measure the bias from those who do not want to participate in this research. Based on those limitations, it leads to the following suggestions: 1) for further research, it may explore deeper the other variables which affect public organization performance such as organization strategy, and law as well as legal issues, 2) further research may also develop the indicators involved in public organization performance such as by utilizing Balance Score Card, and 3) further research can observe similar theme but wider region or different local government to confirm the consistency of the findings.

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