Transformational Leadership, Communication Skill and Performance of Rural Companies: Moderated by Environmental Uncertainty

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Abstract

Purpose: Establishing companies in rural areas is one solution for equitable development. However, in reality, there are still many companies in rural areas that are not yet operating optimally. This is due to many factors. This research aims to analyze how transformational leadership and communication skills play a role in improving company performance in rural areas. Additionally examined in this study as a moderating factor is environmental uncertainty.

Design/Methodology/Approach: The population in this study was 57 rural companies in Indonesia spread across Riau Province. The sampling technique used is stratified sampling. Respondents in this study are company managers. A total of 137 respondents participated in this study. The data-gathering technique employs questionnaires, which are dispersed by delivering them directly to respondents. This study employs the partial least squares method to evaluate the hypothesis.

Findings: According to data analysis, environmental uncertainty, communication abilities, and transformational leadership all have an effect on improving business performance. Environmental uncertainty moderates the impact of transformative leadership on corporate performance but not the impact of communication skills on company performance.

Implications/Originality/Values: This research contributes to the importance of transformational leaders and communication skills to improve company performance in rural areas. Environmental factors must also be considered in making decisions. To form transformational leadership, leadership training is necessary.

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**Introduction**

The disparity in development between rural and urban areas has become a problem in many countries, especially in developing countries (Kuddus et al., 2020). In order to stop urbanization, many nations have started to concentrate on rural development (Ye et al., 2022). For example, in China companies form Township.

In Indonesia, the number of rural companies (in Indonesia they are called Village-Owned Enterprises) has even increased from year to year. In 2022, totaled 60,417, and the number of legal entities 12,285 (Mahadi, 2023). However, of the number of Village-own enterprises formed, around 30 percent have not provided optimal contributions (Basri et al., 2023).

To increase the quality of companies in rural areas and achieve good performance, numerous aspects that might help enhance company performance are required. Many studies prove the importance of transformational leadership for organizational success (e.g. Muralidharan & Pathak, 2018; Buchholtz, 2021). The study by Naderi et al. (2019) posited that on social enterprises the importance of transformational leadership in improving company performance to balance social and economic missions. Furthermore, this is consistent with studies by Orabi (2016) and Almaududi & Albetris (2021), which claim that it supports the use of transformational leadership to positively influence organizational performance. However, according to Allowwad et al. (2016) and Basri et al. (2022), transformative leadership has no positive effect on organizational performance.

Communication is critical in the implementation of a development program (Gah et al. (2021). The communication skills possessed by every person in an organization can easily understand the information or work tasks presented, understand guidance and direction from the leader, can work together with fellow colleagues, good communication can establish harmonious relationships between superiors and subordinates or fellow colleagues. Work. This good communication can affect employee performance (Fuady et al., 2021). Because it all depends on how someone conveys information and someone's ability to receive the message. Previous research by Fuady et al. (2021), Ningsih (2016), and Thadi (2021) shows that good communication can affect organizational performance. However, findings by Tambingon et al., (2014) and Sari (2019) show that performance among employees is unaffected by communication in any way.

Although earlier study has yielded conflicting findings. Investigating transformational leadership's role in rural enterprises is the goal of this study. In research, Naderi et al. (2019) in social enterprises found that transformational leadership had an impact on social enterprise performance. The function of transformational leadership in rural enterprises was also examined in this study. Companies in rural areas are companies whose goals are mostly social, namely meeting the social needs of the community. The achievement of social missions depends on the creativity and innovation of the leadership. This study also examines communication skills on organizational success. To answer the inconsistent results of previous research, this study also tested the moderation of environmental uncertainty. Syabila et al. (2018) in his research explain that uncertainty is a factor in a situation faced by some managers in an organization that is difficult to predict.

**Literature Review**

**Attribution Theory**

Understanding a person's reaction to the happenings around them can be achieved by an
understanding of the explanations they have for the things that happen to them, as described by attribution theory. Heider's 1958 hypothesis states that internal and external factors influence human behavior. Personal forces include ability, effort, and tiredness, whereas external pressures include rules and weather. According to this research, one's ability to communicate is an internal force, while one's surroundings are an external force affecting behavior. People behave differently when they focus on their internal traits rather than their external ones. This study shows that intrinsic attribution, such as communication and leadership skills, affects achievement behavior. Environmental uncertainty is an external factor that may affect organizational effectiveness.

**Organizational Behavior Theory**
The study of how individuals interact with one another in groups is known as organizational behavior. The organizational behavior theory can be utilized to its full potential in order to optimize the amount of human resource production achieved by group members (Robbins & Judge, 2015). Organizational behavior studies examine how organizational structure affects behavior. Organizational behavior studies how individuals, groups, and systems affect human conduct (Sutisna, 2020). Leaders' behavior, especially decision-making, affects organizational leadership. Transformational leaders influence and motivate their followers, which maximizes human resource productivity.

**Transformational Leadership's Effect on Company Performance**
The theory of organizational behavior serves as the foundation for the application of transformational leadership. The study of the influence that individuals, groups, and institutions have on the behavior of people working in organizations is the focus of organizational behavior theory (Sutisna, 2020). Transformational leadership is able to have an impact on its followers in realizing the planned vision and mission (Kuswaeri, 2016). The ability to raise the requirements of subordinates to a higher level than what they need is another trait that is required of transformational leaders. Additionally, transformational leaders must be able to combine their own future vision with that of their team members (Purwati & Wijaya, 2019).

Transformational leadership is actively involved in improving performance, particularly corporate performance. Transformational leaders who can enhance a company's success are needed when organizations must respond to market changes, including new technologies, industry trends, and increased competition. Transformational leaders in rural companies can help companies develop new strategies and implement them effectively to face new challenges. Previous studies by Said Almaududi (2021), Ari and Akram (2018), and Orabi (2016) revealed that transformational leadership improved organizational performance. A hypothesis can be formed based on the preceding description.:

**H1: Transformational Leadership influences company performance**

**The Effect of Communication Skills on Company Performance**
Implementation of communication in organizational management can improve organizational performance. Good communication skills are demonstrated by the establishment of harmony between subordinates and superiors, information is conveyed and received well and interactions occur within the organization. The better communication that exists can improve the performance of the organization (Putri & Sariyathi, 2017).

Manager communication skills are needed in various situations to improve organizational performance. One of them is when facing change, managers who are able to communicate well can help the organization deal with the changes it faces in an effective way. Managers can explain these changes clearly and provide support to employees in dealing with these changes. A study by Khalil et al (2021) shows that communication skills have a significant and good effect
on how well an organization does its job. Based on what has been said, a hypothesis can be made about how communication skills affect the success of businesses in rural areas:

**H2: Communication skills influence company performance**

**Environmental Uncertainty Moderation**

Environmental Uncertainty is a situation where there is uncertainty as a form of individual inability to predict the environment accurately (Setiawan, 2012). The transformational leadership style can increase the success of the company's performance if in the organization a leader can have a positive influence on subordinates, leaders, and the organization. changing conditions in the organization's strategic environment with dynamics, development, complexity, and a very high level of competition (Kuswaeri, 2016).

When there is uncertainty or a lot of change in the environment, A moderating element that alters the relationship between transformative leadership and corporate performance is environmental uncertainty. Such as when market changes such as changes in consumer needs or changes in technology can affect company performance. In this case, the Company can do better if it has transformational leaders who can understand market trends and take the lead when facing change. Based on the above outline, it is thought:

**H3: Environmental uncertainty moderates the influence of transformational leadership and company performance**

Whenever the Company is confronted with a significant amount of environmental unpredictability, the Company will need communication skills that are easy to convey and receive as information to accelerate the Company's growth. This is supported by Fuady et al., (2021) show that communication skills have a positive and significant influence in improving performance. Environmental uncertainty is an important variable that links the organizational environment with organizational structure, processes, and performance (Siddique et al., 2018). This means that environmental uncertainty can strengthen communication. Based on the above outline, it is thought:

**H4: Environmental uncertainty moderates the influence of communication and company performance**

**Research Method**

The population of this research is rural companies (in Indonesia they are called Village-Owned Enterprises) located in Bengkalis Regency, namely 136 companies. Questionnaire survey techniques were utilized as the primary data collectors for this study. Research questionnaires were distributed directly to respondents. Respondents in this study were company managers, namely leaders, secretaries and heads of business units.

The questionnaire for the study was split into two parts. Each instrument was tested using a 5-point Likert Scale that went from "Strongly disagree" to "Strongly agree."

### Table 1: Operational Definition and Variable Measurement

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Indicator</th>
</tr>
</thead>
</table>
| Company performance | Mangkunegara (2009) says that performance is how well and how much work workers do in line with their responsibilities. | (1) Profit rate  
(2) Revenue growth rate  
(3) Productivity level  
(4) Capital increase  
(5) Loyalty (Loyalty)  
(6) Employee Satisfaction |
Transformational leadership is defined as the capacity to inspire and encourage followers to achieve results that are superior to those anticipated (Robbins & Judge, 2015).

Communication Skills

According to Robert Bacal in Wandi et al., (2019), communication is a vital aspect of the management process; via effective communication skills, harmonic cooperation may be formed to achieve goals.

Environmental Uncertainty

Environmental uncertainty is a situation in which the organization or manager does not have sufficient information about the state of the environment, which will cause difficulties in predicting changes that will occur in the environment (Syabila et al., 2021).

Result And Analysis

Descriptive Statistics Results

Variable descriptive statistics can be explained in Table 2

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Means</th>
<th>std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational Leadership (X1)</td>
<td>137</td>
<td>19.00</td>
<td>35.00</td>
<td>29.5766</td>
<td>3.04071</td>
</tr>
<tr>
<td>Communication Skills (X2)</td>
<td>137</td>
<td>18.00</td>
<td>30.00</td>
<td>25.0146</td>
<td>2.42834</td>
</tr>
<tr>
<td>Environmental Uncertainty (Z)</td>
<td>137</td>
<td>7.00</td>
<td>15.00</td>
<td>12.2482</td>
<td>1.23539</td>
</tr>
<tr>
<td>Company Performance (Y)</td>
<td>137</td>
<td>34.00</td>
<td>60.00</td>
<td>47.7737</td>
<td>5.43409</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>137</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed PLS data for 2022

Table 2 demonstrates that descriptive statistics reveal that each variable’s standard deviation does not surpass the average value, indicating homogeneity and solid data.

Outer Model Evaluation Results

Validity Test Results

When checking the outer model, the initial step is to perform validation testing. For the purpose of evaluating the outer model in this investigation, both convergent validity and discriminant
validity were applied. Convergent validity and discriminant validity are used to test the validity of the questionnaire tool that was used to get the needed data. If these three conditions are met, then this measurement model meets the requirements and can be used in study. Table 3 shows the results of studies of convergent and discriminant validity.

### Table 3: Validity test

<table>
<thead>
<tr>
<th></th>
<th>KT</th>
<th>KK</th>
<th>KL</th>
<th>KB</th>
</tr>
</thead>
<tbody>
<tr>
<td>KT1</td>
<td>(0.857)</td>
<td>0.152</td>
<td>-0.145</td>
<td>0.076</td>
</tr>
<tr>
<td>KT2</td>
<td>(0.907)</td>
<td>0.072</td>
<td>-0.091</td>
<td>0.022</td>
</tr>
<tr>
<td>KT3</td>
<td>(0.877)</td>
<td>-0.180</td>
<td>0.049</td>
<td>0.101</td>
</tr>
<tr>
<td>KT4</td>
<td>(0.892)</td>
<td>-0.004</td>
<td>-0.112</td>
<td>0.061</td>
</tr>
<tr>
<td>KT5</td>
<td>(0.917)</td>
<td>0.255</td>
<td>0.071</td>
<td>-0.133</td>
</tr>
<tr>
<td>KT6</td>
<td>(0.887)</td>
<td>-0.105</td>
<td>0.159</td>
<td>-0.115</td>
</tr>
<tr>
<td>KT7</td>
<td>(0.898)</td>
<td>-0.050</td>
<td>0.065</td>
<td>-0.003</td>
</tr>
<tr>
<td>KK1</td>
<td>-0.058</td>
<td>(0.796)</td>
<td>-0.189</td>
<td>0.162</td>
</tr>
<tr>
<td>KK2</td>
<td>0.030</td>
<td>(0.795)</td>
<td>0.165</td>
<td>-0.032</td>
</tr>
<tr>
<td>KK3</td>
<td>-0.114</td>
<td>(0.740)</td>
<td>-0.056</td>
<td>0.087</td>
</tr>
<tr>
<td>KK4</td>
<td>0.071</td>
<td>(0.786)</td>
<td>-0.249</td>
<td>0.076</td>
</tr>
<tr>
<td>KK5</td>
<td>0.098</td>
<td>(0.849)</td>
<td>0.293</td>
<td>-0.198</td>
</tr>
<tr>
<td>KK6</td>
<td>-0.037</td>
<td>(0.874)</td>
<td>0.009</td>
<td>-0.067</td>
</tr>
<tr>
<td>KL1</td>
<td>-0.085</td>
<td>-0.209</td>
<td>(0.801)</td>
<td>0.310</td>
</tr>
<tr>
<td>KL3</td>
<td>0.059</td>
<td>-0.156</td>
<td>(0.885)</td>
<td>-0.062</td>
</tr>
<tr>
<td>KL4</td>
<td>0.019</td>
<td>0.376</td>
<td>(0.812)</td>
<td>-0.238</td>
</tr>
<tr>
<td>KB1</td>
<td>-0.143</td>
<td>-0.039</td>
<td>0.053</td>
<td>(0.810)</td>
</tr>
<tr>
<td>KB2</td>
<td>-0.134</td>
<td>-0.082</td>
<td>0.112</td>
<td>(0.824)</td>
</tr>
<tr>
<td>KB3</td>
<td>0.025</td>
<td>-0.239</td>
<td>-0.077</td>
<td>(0.808)</td>
</tr>
<tr>
<td>KB4</td>
<td>-0.139</td>
<td>0.489</td>
<td>-0.115</td>
<td>(0.523)</td>
</tr>
<tr>
<td>KB5</td>
<td>0.413</td>
<td>0.005</td>
<td>-0.312</td>
<td>(0.603)</td>
</tr>
<tr>
<td>KB6</td>
<td>0.215</td>
<td>0.096</td>
<td>-0.271</td>
<td>(0.615)</td>
</tr>
<tr>
<td>KB7</td>
<td>0.128</td>
<td>0.279</td>
<td>-0.157</td>
<td>(0.673)</td>
</tr>
<tr>
<td>KB8</td>
<td>-0.271</td>
<td>0.041</td>
<td>-0.038</td>
<td>(0.670)</td>
</tr>
<tr>
<td>KB9</td>
<td>-0.423</td>
<td>0.073</td>
<td>0.193</td>
<td>(0.670)</td>
</tr>
<tr>
<td>KB10</td>
<td>0.171</td>
<td>0.060</td>
<td>0.062</td>
<td>(0.788)</td>
</tr>
<tr>
<td>KB11</td>
<td>0.002</td>
<td>-0.186</td>
<td>0.262</td>
<td>(0.663)</td>
</tr>
<tr>
<td>KB12</td>
<td>0.207</td>
<td>-0.313</td>
<td>0.179</td>
<td>(0.681)</td>
</tr>
</tbody>
</table>

In this study, each construct (variable) is made up of more than one way to measure it. In table 4, the output data show that each construct's loading factor value is above 0.5 and has a p-value of less than 0.05. Development studies are permitted to continue to make use of a loading factor of 0.5, as stated by Hair et al. (2010). The indicator's association with its own construct is stronger than its correlation with the other block's constructs, as shown by cross-loading. Even though there is a stronger association between the indicator and the other block structures, this remains the case. This indicates that the criteria for discriminant validity have been satisfied.

### Reliability Test Results

Cronbach's alpha coefficient and composite reliability (CR) are being utilized in this investigation to conduct reliability tests. According to Ghozali (2011), the reliability test criteria are Alpha > 0.7 construct (variable) has reliability and Alpha 0.7 does not. Table 4 provides reliability test results.

### Table 4: Reliability Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Composite Reliability</th>
<th>Cronbach's Alpha</th>
<th>Decision</th>
<th>R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational leadership</td>
<td>0.964</td>
<td>0.957</td>
<td>Reliable</td>
<td></td>
</tr>
<tr>
<td>Communication Skills</td>
<td>0.918</td>
<td>0.893</td>
<td>Reliable</td>
<td></td>
</tr>
<tr>
<td>Environmental Uncertainty performance</td>
<td>0.872</td>
<td>0.779</td>
<td>Reliable</td>
<td></td>
</tr>
<tr>
<td>R Square</td>
<td>0.919</td>
<td>0.903</td>
<td></td>
<td>0.418</td>
</tr>
</tbody>
</table>

Cronbach’s alpha and composite reliability scores were more than 0.7, indicating that all variables
were reliable.

**Inner Model Evaluation Results**

R Square illustrates how much an exogenous component explains an endogenous variable's variability. The preceding table 4 shows R-Square value of 0.41. Environmental uncertainty, communication skills, and transformational leadership influence 41% of performance variables. The remaining 59% is probably influenced by other variables not observed in this study.

**Results of Hypothesis Testing and Discussion**

Hypothesis testing verifies research hypotheses. Path coefficients and p-values in the overall impacts of simultaneous variable data processing can be utilized to test hypotheses concurrently or collectively. Calculating a hypothesis' significance level allows for statistical acceptance or rejection. This study's significance threshold is 5%. Therefore, the hypothesis is considered to be true if the p-value is equal to or lower than 0.05, but it is considered to be false otherwise. The results of the tests are shown in Table 6 and Figure 1.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path Coefficient</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational Leadership</td>
<td>0.301</td>
<td>&lt;0.001</td>
</tr>
<tr>
<td>Communication Skills</td>
<td>0.252</td>
<td>0.001</td>
</tr>
<tr>
<td>Transformational Leadership*environment uncertainty</td>
<td>0.186</td>
<td>0.012</td>
</tr>
<tr>
<td>Communication Skills * environment uncertainty</td>
<td>-0.044</td>
<td>0.304</td>
</tr>
</tbody>
</table>

**Figure 1: Structural Equation Model**

**The Influence of Transformational Leadership on Company Performance**

The results of the tests presented in table 6 show that hypothesis 1 (H1) is supported by a coefficient value of 0.301 and a p-value that is less than 0.001 (less than 0.05). It is clear from this that transformational leadership has the potential to have a big and beneficial impact on the performance of companies located in rural locations. The more the leader is able to inspire and motivate his followers to achieve greater results than planned, the more the company's performance will improve and vice versa, the less able it is to influence it, the lower the performance of company managers will be.
This research supports organizational behavior theory and its findings, as the study itself reveals. (Robbins & Judge, 2015), which connects the business as a type of organization that is influenced by an individual's behavior., especially in decision making by a leader. In organizations, transformational leadership is very supportive to maximize the output of human resources from group members by influencing and giving encouragement to their followers Ari and Akram (2018) found that it is the duty of leaders to foster and enhance performance in any organization. Therefore, leaders play a crucial role in these exercises to inspire and enable staff to generate novel ideas that boost the efficiency and effectiveness of the business. These results are in line with this research.

The Effect of Communication Skills on Company Performance
The study tests' findings, as shown in table 6, indicate that the coefficient value is 0.052 and the p-value is 0.001. These findings demonstrate that the p-value (0.001) is less than 0.05, allowing acceptance of hypothesis 2 (H2). This shows that Communication Skills can have a significantly positive influence on company performance, meaning that the more communication skills are easy to understand and the information or work assignments are easier to convey, understand guidance and direction from leaders, can work together with fellow colleagues, good communication can be established. harmonious relationship between superiors and subordinates or co-workers. This good communication can affect employee performance (Fuady et al., 2021). On the other hand, if you are unable to understand the information and tasks presented, it will reduce the performance of managers.

This study's findings are also consistent with attribution theory. Because internal influences (personal attributes like ability, effort, and exhaustion) and External influences (environmental factors such as legislation and weather) have an impact on human behavior, companies as a type of organization are influenced by communication capacities. Human behavior can be influenced by both internal and external forces, including communication skills and the environment. It has been suggested that internal and external attributions can affect how subordinates are treated by superiors, as well as how individuals feel about their performance and their attitudes. This study is consistent with previous studies.Princess and Sariyathi (2017); Fuady et al. (2021); Wandi et al. (2019); and Kurniawan (2015)AndTambingon et al. (2014) demonstrate the impact that communication abilities

Environmental Uncertainty as a moderating effect of Transformational Leadership on Company Performance
According to the findings of the study tests, the coefficient value is 0.186 and the p-value is 0.012. Because the p-value (0.012) is less than 0.05, hypothesis 3 (H3) can be accepted. This illustrates that the influence of transformative leadership on performance can be greatly influenced by environmental unpredictability, which implies that it can strengthen the influence of Transformational Leadership on company success.

According to (Waldman et al. 2001); (Bacha (2010); (Chen et al. 2019) Unpredictability in the environment can boost the impact of transformational leadership on company performance. (Jansen et al., 2009) also emphasized that in an uncertain environment, leaders must encourage and implement swift responses to unforeseen market dynamics. Transformational leadership enables businesses to actively launch the investigation of new prospects and knowledge. Transformational leadership pushes firms to challenge the status quo and overcome organizational inertia, forcing people to shift from self-interest to the common aim of organizational change (Bass & Avolio, 1993).

The study's findings are compatible with the core ideas of the research, attribution theory and organizational behavior theory, which state that internal factors (personal characteristics such as
ability, effort, and exhaustion) and external forces (environmental characteristics such as rules and weather) interact to shape human behavior. The ability of leaders to forecast their environment is the same. Meanwhile, transformational leadership, when related to organizational behavior theory, is very supportive of optimizing the output of human resources from group members because this leader can influence and motivate his followers.

**Environmental Uncertainty as a Moderating Effect of Communication Skills on Company Performance**

According to Table 6, the outcomes of the study experiments show that the coefficient value is -0.044 and the p-value is 0.304 (>0.05), indicating that hypothesis 4 (H4) is not accepted. This demonstrates that environmental uncertainty cannot attenuate the significantly favorable influence of communication capabilities on firm performance, and so cannot strengthen the influence of communication capabilities on company success. This is due to a breakdown in organizational communication between individuals. Weak communication was caused by health protocols that had to be enforced during Covid-19, resulting in subpar corporate performance. Other environmental changes may result in a leader's inability to acquire information, creating

**Conclusion**

According to research, transformational leadership and communication abilities have an impact on rural businesses. Environmental uncertainty moderates the influence of transformational leadership on company success but does not mitigate the association between communication skills and firm performance in rural locations.

Researchers found several limitations. The research object in this study only used companies in the Bengkalis Regency area, so this research cannot be generalized to a wider area. For this reason, further research is recommended to expand the research area. This study has a R square value of 0.41 or 41%, implying that there is still 59%, the remainder of which is likely influenced by additional variables not seen in this study.

This research has a contribution to companies in rural areas to improve leadership skills and communication skills to encourage organizational success. Companies must also pay attention to their surroundings in order to reduce current uncertainties that may have an impact on their performance.

**Reference**


