Transformational Leadership and Employee Creativity: Role Psychological Empowerment as Mediator

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Abstract

This research aims to examine the creativity of employees in small and medium export craft businesses, especially amidst technological disruption that is affecting various sectors. This research examines the relationship between transformational leadership in increasing psychological empowerment and employee creativity. This research also aims to test and explain the role of psychological empowerment as a mediator. This research uses a quantitative research design by distributing questionnaires to 210 employees from 42 small and medium craft export businesses in Bali, Indonesia. The collected research data was then analyzed using Smart PLS 3.2.9 software. The results of this research show that transformational leadership has no significant effect on employee creativity and psychological empowerment acts as a mediator in the relationship between transformational leadership and employee creativity. The limitation of this research lies in the limited sample size. Apart from that, the survey was conducted using self-assessment, which allows bias to occur. Meanwhile, the update offered is an examination of second-order concepts for the three constructs used and explaining employee behavior.

Keyword: Transformational Leadership, Psychological Empowerment, Employee Creativity, and SME's

Introduction

Technological disruption affects various business sectors including small and medium enterprises (SMEs) (Helmy et al., 2019). This condition requires that SME management implement creative steps to ensure that all goals can be achieved (Khalili Ashkan, 2017). This situation brings about changes in the entire business management system to survive and sustainably win the competition (Rasheed et al., 2021). Previous studies state that SMEs currently still have several obstacles, namely difficulty in developing products, products produced are easy to imitate, difficulty in market access, and so on (Arsawan et al., 2022). Therefore, SMEs need creativity as an alternative solution to solve existing problems. Furthermore, creativity can be a source of increasing the competitiveness of SMEs (Amabile & Pratt, 2016; Çekmecelioğlu & Günsel, 2013). This is because creativity is a new and useful idea (Miao & Cao, 2019). Therefore, creativity is something important in increasing organizational effectiveness.

Increasing employee-based creativity requires leadership that supports it (Gu et al., 2013; Riana et al., 2020; Sintaasih et al., 2020). However, appropriate leadership approaches have not been studied thoroughly (Aristana et al., 2023; Mittal & Dhar, 2015). Therefore, the leadership applied by the leader greatly determines how employees can work effectively (Mannheim & Halamish, 2008). Following this, various studies on leadership in organizations have also developed (Nödl, 2017). Several studies state that transformational leadership has a better impact on employee behavior (Shahjehan et al., 2019). In particular, transformational leadership has a strong impact on employee creativity at work (Al Harbi et al., 2019). However, research results are still found to be inconsistent regarding this relationship. Suifan et al. (2018) explored the dimensions of transformational leadership in predicting creativity. The findings state that the transformational leadership dimension does not affect employee creativity.

Based on the gaps that occur, this research closes at least three gaps that occur. First, the role of SMEs in a country's economic growth is very large (Sulistyo & Siyamtinah, 2016). Contribution can be seen from the ability to absorb unemployment so that SME consistency needs to be maintained through employee creativity. So far, SMEs have been supported by employees who have potential abilities. If they are not utilized properly in business development, SMES may lose potential employees for various reasons, i.e. offers from big companies or choosing to quit because they feel they have no job prospects. Second, this research examines employee creativity amidst technological developments (Afsar & Umrani, 2019; Shahjehan et al., 2019). This condition makes it easier to develop ideas, but the ideas produced tend to be easily imitated. The situation requires various thoughts about how to explore original ideas from employee creativity. Therefore, this research explores psychological empowerment in employee creativity.

Third, transformational leadership in recent decades has been proven to have a major impact on organizations (Hoai et al., 2022; Maquieira et al., 2020). However, the contribution of transformational leadership to SMEs has not been explained. On the other hand, best practice shows that SMEs are

businesses that are managed simply and do not require transformational leadership (Sabuhari et al., 2020). However, on different occasions, it is confirmed that transformational leadership has an impact on the constructive psychology of an employee (Eşitti & Kasap, 2020). Therefore, there is great hope from this research that transformational leadership style can have an impact on employee psychological empowerment so that employee creativity can increase.

Encouraging employee creativity and empowerment is also very important (Amundsen & Martinsen, 2015). All of this emphasizes that every employee has the potential to be more creative, as long as the work environment provides support (Knezovic & Musrati, 2018). However, creative employees can adapt their abilities and skills through new ideas to solve problems that occur (M. Kim & Beehr, 2018). So a leader in increasing employee creativity needs to build a work environment that is more empowering for employees. This is the reason why some researchers prioritize empowerment as a factor that drives employee creativity (Hao et al., 2018). One form of empowerment that emphasizes an individual approach is psychological empowerment. Following previous studies, psychological empowerment shows a mediating effect in the relationship between transformational leadership and employee creativity ((Fong & Snape, 2015; Namasivayam et al., 2014; Randolph & Kemery, 2011). However, psychological empowerment is predicted to have an impact on creativity. However, research is needed on perceptions of age, education, and experience on employee creativity which have not been discussed in previous research (Palalic et al., 2017).

This research was conducted on SMEs with several considerations. First, in developing countries like Indonesia, SMEs are the driving force of the community's economy. Apart from that, SMEs also have a very large role in absorbing unemployment. This makes a high contribution to the country. Therefore, increasing employee creativity is an alternative to increasing sustainable competitiveness (Aristana et al., 2023; Riana et al., 2020; Sintaasih et al., 2020). Second, SMEs are currently expected to be able to compete amidst an ever-changing business environment, e.g technological developments, changes in market tastes, production methods, and so on. So exploring employee creativity can be a solution to developing processes, products, and management (Aristana, Wisnawa, et al., 2022). Third, an empowerment process is needed to increase employee creativity (Chenji & Sode, 2019; Yang et al., 2019). This is important because most employees are embarrassed to express their ideas. Fourth, creativity has been measured from management elements, e.g. leadership, technology, satisfaction, knowledge, and others. Based on these four reasons, the following are important questions that require further investigation.

RQ1: Does transformational leadership influence employee psychological empowerment and creativity?

RQ2: Does psychological empowerment affect employee creativity?

RQ3: Does empowerment act as a mediator in the relationship between transformational leadership and employee creativity?

This research was designed to determine the determinants of employee creativity and test the role of psychological empowerment as a mediator. Theoretically, these findings can expand the literature on employee behavior in organizations and can certainly provide a practical approach. Where transformational leadership theory can be adopted in SME management and fill gaps, specifically in SME management in Indonesia as a developing country. Therefore, business actors pay more attention to and apply a transformational leadership style to increase organizational effectiveness.

Literature Review Dan Hypotheses Development

Social Exchange Theory

Social exchange theory is a popular theory for understanding employee behavior in the workplace (Cropanzano & Mitchell, 2005). This theory explains that individuals can develop behavior following their expectations about the future (Mahmood et al., 2021). The main premise of social exchange theory is the process of combining social resources and material resources (Sheehan et al., 2013). In certain leadership studies, there is more emphasis on interaction with subordinates (Lehmann-Willenbrock et al., 2015). Social exchange theory also explains how a leader provides inspiration, motivation, idealism, and knowledge in providing direction (Aristana et al., 2022; Gundry et al., 2014). All of this can be done through an interaction process. Leaders interact with subordinates through consultation in various fields, providing autonomy, and eliminating bureaucracy (M. Kim & Beehr, 2018). Apart from that, this social interaction makes it easier for leaders to carry out psychological empowerment (Nohe & Hertel, 2017). Social exchanges that occur in organizations cause employees to desire to demonstrate positive behavior including creativity (Bantha & Nayak, 2020; Slåtten et al., 2011). So social exchange theory can comprehensively explain the relationship between transformational leadership, psychological empowerment, and employee creativity.

Transformational leadership

Transformational leadership was developed (Burns, 1978), and this concept was expanded (Bass, 1985). Transformational leadership is perceived to be able to generate awareness and acceptance in encouraging vision, mission, and goals in building work teams (Rasheed et al., 2021; Shafi et al., 2020). Arsawan et al. (2022) the ability of transformational leaders to provide motivation and ideal behavior can build external networks. Transformational leaders can influence and increase subordinates' commitment to work to achieve organizational goals (Pio, 2022). Transformational leaders are believed to have the ability to change organizations by empowering employees (Grošelj et al., 2021). Khan et al. (2020) and Islam et al. (2021) changes carried out by transformational leaders start from changing the ethics, attitudes, and processes of followers by building economic and social exchange relationships in the work environment. Transformational leadership is stated to pay attention to employees' needs for achievement, this helps subordinates to face high work demands (Ågotnes et al., 2021). This thinking follows the four sub-dimensions of transformational leadership, idealized influence, inspirational motivation, intellectual stimulation, and individual consideration (Bass, 1985; Singh et al., 2020). Idealized influence is a leader's ability to influence subordinates by acting as a role model (Eliyana et al., 2019; Shafi et al., 2020). Inspirational motivation is when a leader's behavior inspires subordinates by showing meaning in the work they do and always showing better performance (Khan & Hashim, 2020). Intellectual stimulation is a leader's behavior in

encouraging subordinate creativity, to present new ideas and present new ways to solve problems (Buil et al., 2019; Maquieira et al., 2020). Individual consideration refers to the behavior of a leader who gives each subordinate personal attention and provides support to overcome the problems faced (Islam & Asad, 2021; Yue et al., 2019).

Psychological Empowerment

In recent times, empowerment has become a topic of discussion among writers, with empowerment even stated as a weapon to increase organizational effectiveness (Kaur Bagga et al., 2022). Empowerment theory has been discussed previously by (Conger & Kanungo, 1988; Spreitzer, 1995; Thomas & Velthouse, 1990) until Cheong et al. (2019) defined psychological empowerment as a form of intrinsic motivation that is explained through four cognitions: meaning, competence, self-awareness, and impact. The four dimensions are related, so that not fulfilling one can reduce the perception of empowerment. The conceptualization of empowerment dimensions is explained in several previous studies (e.g. Grošelj et al., 2021; F. Khan et al., 2022; Maan et al., 2020), as follows:

Meaning is explained as the value an employee feels towards a job or task.

Competence is described to the extent that employees believe they have the knowledge, skills, and attitudes to carry out organizational activities.

Seft-determination explains that employees can make choices to initiate and regulate their own behavior.

The impact is explained as self-perception in influencing the work environment.

Based on the explanation above, the empowerment literature focuses on psychological empowerment which leads to a cognitive perspective (Cheong et al., 2019; Helmy et al., 2019; Shahzad et al., 2018). So, psychological empowerment is measured by adopting from previous research.

Employee Creativity

Creativity refers to the ability to create new thoughts and constructive outcomes to problems. The ability to produce creative results requires determination to face organizational and environmental challenges (Fritze et al., 2019). Creativity is defined as the generation of employees with new and useful ideas regarding products, procedures, and processes (Riana et al., 2020). Therefore employee creativity requires new knowledge, new information, and new skills. Arici & Uysal (2022) and Ucar et al. (2021) stated employee creativity is a complex behavior that includes social and intellectual competencies. To be creative, an employee must think differently, see things from different perspectives, and combine previously unrelated subjects into something new and better (Soomro et al., 2020). Skills increasingly enable employees to find new ideas and opportunities that contribute to innovation (Tantawy et al., 2021).

Hypothesis Development

Transformational leadership and psychological empowerment. Psychological empowerment is explained as a process of increasing task motivation which is reflected in four cognitions (competence, impact, meaning, and self-determination) of subordinates which can be seen from the individual's orientation toward their function (Stanescu et al., 2021). Next, it leads to an assessment of the weight given to individuals in jobs based on beliefs, principles, and standards. Huertas-Valdivia et al. (2022) and Saleem et al. (2019) psychological empowerment can increase efforts to stay in the organization. Whether the implementation of psychological empowerment of subordinates can be carried out efficiently really depends on the role of the leader (Mufti et al., 2020). According to Saira et al. (2020), transformational leadership has a close relationship with psychological empowerment. Cheong et al. (2019) and Shahzad et al. (2018) transformational leaders significantly increase psychological empowerment. In general, transformational leaders can generate employee strength through empowerment, so that they can improve their work results (Nurjanah et al., 2020). Based on empirical studies, hypothesis 1 is formulated as follows:

H1: Transformational leadership plays a positive and significant role in psychological empowerment

Employee creativity is one of the keys to a company/organization. Employee creativity can be built through a leader who can facilitate the creative needs of each employee. In Shafi et al. (2020) research, it was found that transformational leadership has a positive and significant relationship with employee creativity. This research was conducted on employees working in call centers in India. Elkhwesky et al. (2022) found that green transformational leadership has a positive influence on green creativity. This research was conducted in the technology industry in Taiwan. Homan et al. (2020) conducted research involving employees from various Faisalabad city organizations with research results showing that transformational leadership influences self-efficacy. Shafi et al. (2020) and Afsar et al. (2019) found that companies whose leaders apply transformational leadership and invest in developing it positively foster employee creativity. Based on empirical studies, hypothesis 2 is formulated as follows:

H2: Transformational leadership plays a positive and significant role in employee creativity

The conceptualization of psychological empowerment is explained as a psychological condition experienced by workers (Begum et al., 2022). This condition determines every employee's ability to contribute to their organization (Saira et al., 2020). Some organizations have difficulty achieving the goals they want to achieve due to inappropriate empowerment (Sowa-Kofta & Poławski, 2023). This is because psychological empowerment plays an important role in achieving economic and social goals (Knezovic & Musrati, 2018). Therefore, empowering employees is key so that they can contribute to various activities. Several studies have found that psychological empowerment increases employee creativity (Safari et al., 2020; Yang et al., 2019). However, Maan et al. (2020) found different results, where psychological empowerment was not proven to increase creativity. However, the latest studies by Bantha & Nayak (2020) and Mufti et al. (2020) show that employees who feel empowered show more creative abilities. Based on empirical studies, hypothesis 3 is formulated as follows:

H3: Psychological empowerment plays a positive and significant role in employee creativity

Conger & Kanungo (1988) thought about empowerment, then Thomas & Velthouse (1990) psychological empowerment as a unity of cognition i.e. meaning, competence, self-determination, and impact. According to social exchange theory, leaders who can take a personal approach are proven to be able to increase empowerment. Transformational leaders provide employees with opportunities to experience increased meaning (Javed et al., 2020; Shahzad et al., 2018) In addition, transformational leadership inspires employees to develop new abilities to be able to carry out tasks creatively (Elkhwesky et al., 2022; Hughes et al., 2018) So, employees who are psychologically empowered have an understanding of the meaning of work. So that employees take the time to understand problems from various perspectives, and then look for solutions to the problems they face (A. Mahmood et al., 2019). Conceptually, it can be seen that employees who are psychologically empowered have self-confidence in carrying out the assigned tasks (Aristana et al., 2023; Pellegrini et al., 2020). Thus, employees with high psychological empowerment have the freedom to express their creativity at work (Chenji & Sode, 2019; Knezovic & Musrati, 2018; Liu et al., 2019). Based on empirical studies, hypothesis 3 is formulated as follows:

H4: Psychological empowerment plays a positive and significant role in employee creativity

Research Concept Framework

This research measures the influence of transformational leadership on employee creativity, as well as the role of psychology as a mediator. So the research conceptual framework is presented in Figure 1.
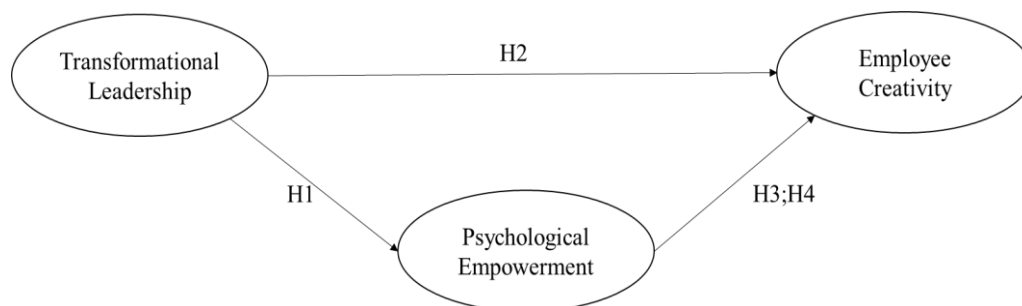

Figure 1. Research Concept Framework

Method Research

This research uses a quantitative approach that aims to test a hypothesis framework or assess the relationship between variables with data obtained from surveys, statistics, and structural modeling (Appolloni et al., 2023). In the context of social sciences, the methodology is broadly structured, however, a precise explanation is needed regarding the field of analysis (Sovacool et al., 2018). Therefore, achieving research objectives with a quantitative approach is relevant because hypothesis testing uses structural equations. This research analyzes the influence shown by transformational leadership, psychological empowerment, and employee creativity from the perspective of SME employees in Indonesia. Exploration was carried out on model building using the second-order concept. The targets for data collection were UKM employees in nine districts/cities in Bali.

Population and Sampling

The population involved in this research was 42 export-oriented craft SMEs. The sampling frame uses a saturated sampling technique where the entire population is involved as a sample. Meanwhile, research respondents were selected by recruiting five employees in each UKM. This selection is based on the opinion that they are employees who participate in routine activities. So it can be seen that the number of respondents involved was 210 respondents. The questionnaire was designed using Google Forms and distributed using email or WhatsApp from each target employee. Distribution will be carried out in November 2023–January 2024. Respondents are presented in Table 1.

Data Analysis

Data collection was carried out in two stages, first, the questionnaire was distributed to 30 respondents to test the instrument through validity and reliability testing using IBM SPSS 21. The instrument was declared valid if it had a calculated r value greater than 0.3 (r > 0.3), and declared reliable if it has a Cronbach Alpha value greater than 0.6 (CA > 0.6). After the instrument was declared valid and reliable, data collection continued to the second stage, namely collecting data according to the set targets. The collected data was analyzed using structural equation modeling with Smart PLS 3.2.9.

Characteristics (N = 210)		Frequency	Percent
Gender	Male	91	43,33
	Female	119	56,67
Age	≤ 20 Years	5	2,38
	21 - 30 Years	36	17,15
	31 - 40 Years	112	53,33

	41 - 50 Years	50	23,81
	> 50 Years	7	3,33
Education	High School	141	67,15
	Diploma	28	13,33
	Bachelor	31	14,76
	Postgraduate	10	4,76
Experience	1 - 10 Years	6	2,86
	11 - 20 Years	132	62,86
	21 - 30 Years	72	34,28
	N	210	100,0

Table 1. Demografi Responden
Resource: Author calculation

Measurement

This research construct was adopted from previous research, specifically adopted from studies on SMEs. This study used a five-point Likert scale (1 strongly disagree to 5 strongly agree). Transformational leadership is explained as leadership that inspires subordinates to achieve SME goals. Transformational leadership has four dimensions with 12 statement items adopted from previous research (Aristana et al., 2023; Maquieira et al., 2020).

1. Idealized influence is measured using indicators using future mission, values & beliefs, and inspired loyalty.
2. Inspirational motivation is measured using indicators of communicative culture, integration, and consistency.
3. Intellectual stimulation is measured using indicators of continually improving, understanding a group's needs, and thinking of new ways.
4. Individualized consideration is measured using indicators considering personal feelings, best thinking, and the benefits of achieving goals.

Psychological empowerment is explained as increasing psychological responses to SME approaches and practices. Psychological empowerment is measured through four dimensions, namely meaning, competence, self-determination, and impact with 12 statement items adopted from previous research (Aggarwal et al., 2020; Alotaibi et al., 2020; Javed et al., 2020).

1. Meaning is measured using the indicators occupation, meaningful, and work activities were meaningful.
2. Competence is measured using indicators of confidence in abilities, self-confidence, and appropriate skills.
3. Self-determination is measured using indicators of autonomy, decision-making, and opportunities.

4. Impact is measured using the indicators of impact on the organization, control over the organization, and responsibility for the organization.

Employee creativity is explained as the ability of employees to produce new and useful ideas for SMEs. Employee creativity is measured through four dimensions, namely, person, process, pressure, and product with 9 statement items adopted from previous research (Amber et al., 2022; Riana et al., 2020).

1. Person is measured using indicators of intelligence, knowledge, and personality
2. The process is measured using indicators of thinking ability and elaboration ability
3. Pressure is measured using indicators of employee passion and desire
4. Products are measured using indicators to generate new ideas and product combinations.

Result

Measurement of the outer model

The analysis begins by testing the quality of the data using a measurement outer model which consists of several stages. First, a convergent validity test provided that the outer loading value is above 0.6 (Hair et al., 2017). Based on the test results, it shows that the outer loading value is greater than 0.6. Second, testing discriminant validity is carried out to determine the validity of indicators by comparing the square root coefficient of variance extracted ($\sqrt{AVE}$) values between constructs. The recommended condition is that the AVE and $\sqrt{AVE}$ values are greater than 0.5 (Hair et al., 2017). From the measurement results, it is known that the AVE and $\sqrt{AVE}$ values are greater than 0.5. Thus it can be explained that all data is valid for use (see Table 2 and Table 3).

Construct	CA	rho_A	CR	Item	CFA
Transformational Leadership	0,931	0,938	0,941		
Idealized Influence	0,790	0,791	0,878	II1	0,839
				II2	0,804
				II3	0,875
Inspirational Motivation	0,873	0,879	0,922	IM1	0,914
				IM2	0,854
				IM3	0,910
Intellectual Stimulation	0,864	0,870	0,917	IS1	0,909
				IS2	0,854
				IS3	0,897

				IC1	0,806
Individualized Consideration	0,812	0,811	0,889	IC2	0,886
				IC3	0,864
Psychological Empowerment	0,932	0,935	0,942		
Meaning	0,733	0,742	0,850	MN1	0,873
				MN2	0,811
				MN3	0,737
Competence	0,896	0,897	0,935	COM1	0,935
				COM2	0,910
				COM3	0,884
Self-Determination	0,850	0,855	0,909	SD1	0,873
				SD2	0,898
				SD3	0,861
Impact	0,765	0,765	0,865	IP1	0,877
				IP2	0,751
				IP3	0,846
Employee Creativity	0,916	0,942	0,935		
Person	0,900	0,903	0,938	PERSON1	0,887
				PERSON2	0,937
				PERSON3	0,914
Process	0,897	0,897	0,951	PROCESS1	0,952
				PROCESS2	0,953
Pressure	0,777	0,777	0,900	PRESSURE1	0,906
				PRESSURE2	0,903
Product	0,806	0,809	0,911	PRODUCT1	0,922
				PRODUCT2	0,908

Table 2. Construct Validity and Reliability
Resource: Author calculation

Variable	AVE	√AVE	EC	PE	TL
Employee Creativity	0,628	0,792	1,000		
Psychological Empowerment	0,576	0,759	0,762	1,000	
Transformational Leadership	0,575	0,759	0,689	0,879	1,000
Average	0,593				

Table 3. Discriminant Validity
Resource: Author calculation

Next, the third stage calculates the value between the indicator and the construct by measuring composite reliability with the condition that Cronbach Alpha (CA) and Composite Reliability (CR) are greater than 0.7 (Hair et al., 2018). The findings show that all constructs have CA & CR values greater than 0.7 (see Table 2).

Measurement of Inner Models

After all the outer model criteria are met, the next test is carried out to measure the inner model. First, R-square (R2) analysis to assess the feasibility of the research model and reveal the correlation shown between exogenous and endogenous variables. According to (Hair et al., 2017), R2 has three criteria: strong (0.67), medium (0.33), and weak (0.19). The test results are shown in Table 4. Based on the test results, it is known that the two models have different values. The creativity model has a value of 0.582 with medium criteria and the psychological empowerment model has a value of 0.772 with strong criteria. The average value of 0.677 indicates that the relationship between constructs is 67.72 percent and the other 32.28 is influenced by other variables not discussed in this research. So in the future consider including other constructs.

Variable	R2	R2 Adjusted
Employee Creativity	0,582	0,575
Psychological Empowerment	0,772	0,770
Average	0,677	0,673

Table 4. Research model's feasibility
Resource: Author calculation

Second, calculate quadratic predictive relevance (Q2) to predict the research framework. According to Stone (1974), the predicted value is better if it has a value close to 1. The calculation results show a Q2 value of 0.905 (very good). Therefore, it can be concluded that the research framework has excellent observation capabilities. Based on this, the model formed has a relationship between constructs of 90.5 percent, and the remaining 9.5 percent is said to be an error factor. Third, the Goodness of Fit (GoF) calculation was obtained at 0.629. These results show that the overall model measurements have very strong accuracy. This refers to Hair et al. (2018) GoF is categorized into three clusterings: strong (0.38 – 1), moderate (0.25 – 0.37), and weak (0.00 – 0.24). The fourth stage is testing the effect size (f2), this test aims to determine detailed predictions between the independent and dependent variables (Cohen et al., 1998). Effect size has three classifications, namely; strong (range > 0.35), moderate (range 0.15 – 0.35), and weak (range 0.02 – 0.15) (Cohen et al., 1998; Gentle et al., 2011). From the analysis results it was found that the average f2 value was 0.751 (see Table 5). So the relationship pattern can be predicted to be strong.

Variable	β	Mean	STDEV	T Statistics	P Values
TL -> PE	0,879	0,880	0,023	38,635	0,000
TL -> EC	0,691	0,689	0,067	10,333	0,000
PE -> EC	0,684	0,679	0,124	5,522	0,000
Average	0,751				

Table 5. Effect Size (f2)
Resource: Author calculation

Hypothesis Testing

The final test is to investigate the direct and indirect effects, shown in Table 6 and Figure 2.

Relationship Variable	β	Mean	STDEV	T Statistics	P Values	Supported?
Direct Effect						
TL -> PE	0,879	0,880	0,023	38,635	0,000	Yes
TL -> EC	0,090	0,091	0,130	0,695	0,251	No
PE -> EC	0,684	0,679	0,124	5,522	0,000	Yes
Indirect Effect						
TL -> PE -> EC	0,601	0,598	0,115	5,242	0,000	Yes

Table 6. Hypotheses Testing
Note: TL (Transformational Leadership), PE (Psychological Empowerment) and EC (Employee Creativity).
Resources: Author Calculation

Table 6 shows that transformational leadership has a positive and significant effect on psychological empowerment with a path coefficient of 0.879 a t statistic of 38.635 and a p-value of 0.000 (H1 supported). Transformational leadership has a positive and insignificant effect on employee creativity with a path coefficient of 0.090 a t statistic of 0.695 and a p-value of 0.251 (H2 unsupported). Psychological empowerment has a significant positive effect on employee creativity with a path coefficient of 0.684 a t statistic of 5.522 and a p-value of 0.000 (H3 supported). Psychological empowerment acts as a mediator in the influence of transformational leadership on employee creativity with a path coefficient of 0.601 a t-statistic of 5.242 and a p-value of 0.000 (H4 supported). Meanwhile, mediation criteria are determined using Variance Accounted For (VAF). Based on the calculations carried out, it is known that the VAF value is 0.870 or 87 percent. So psychological empowerment plays a fully mediating role in the influence of transformational leadership on employee creativity.
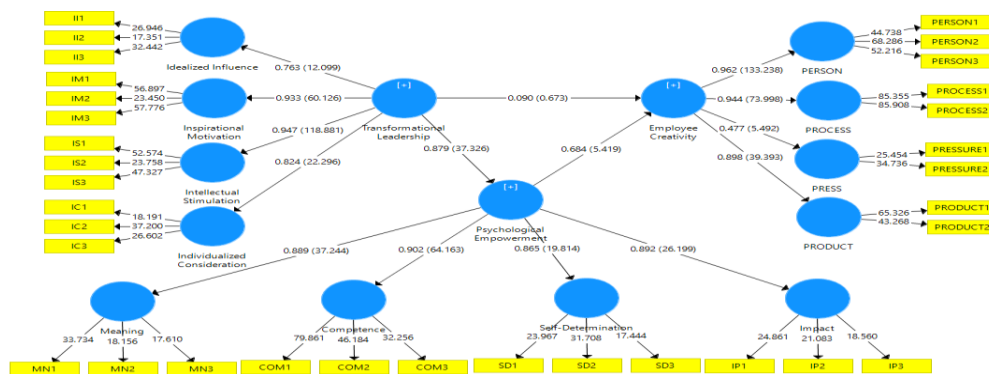

Figure 2. Bootstrapping Model Smart PLS

Discussion

Economic growth is certainly the hope of developing countries like Indonesia. For this reason, many organizations need leaders who can lead at all levels. Apart from that, leaders are required to have visionary abilities and be able to empower their followers. This research tests whether transformational leadership affects psychological empowerment so that it ultimately encourages employee creativity to achieve the desired performance. Seeing the continuously developing business environment, this has become a necessity to achieve sustainable competitive advantage. The study seeks to expand the study of SME literature and is the first study to develop and test transformational leadership and creativity in Indonesian SMEs with the second-order concept.

First, our findings show that transformational leadership has a positive and significant effect on psychological empowerment. These findings illustrate that transformational leadership can empower employees' psychology and develop a more conducive work environment. To survive amidst competition and be able to excel, contributions from all SME employees are needed (Nguyen, 2020). Organizational leaders need to have a deep awareness and understanding of the impact of transformational leadership on empowerment. SME leaders must adopt a transformational leadership style, as a way to empower employees psychologically through meaning, competence, self-determination, and impact on an employee. This condition is as explained in social exchange theory, where individuals can develop their behavior if everything meets their expectations (Krath et al., 2021; Middleton et al., 2019). These expectations can be accommodated by implementing transformational leadership in the organization. This cannot be separated from transformational leaders being able to inspire followers to maximize their abilities.

Second, the results of this study highlight how transformational leadership has an insignificant positive effect on creativity. These findings certainly show something different in that the creativity of SMEs employees is not determined by a certain type of leadership, especially transformational leadership. So, these findings do not support research results (Minh-Duc & Huu-Lam, 2019) in the hotel sector. So far, transformational leadership is considered a type of leadership that supports employee creativity (Mittal & Dhar, 2015), as well as encouraging the implementation of innovative behavior (Afsar et al., 2019). However, the results of this research are in line with research (Kim &Lee, 2011) on the semiconductor industry which is still volatile with the environmental situation, including technology. These differences in results provide insight into a better understanding of transformational leadership and employee creativity. The effectiveness of transformational leadership in increasing creativity is proven in businesses that have professional management. Meanwhile, businesses with simple management still need adjustments, just like SMEs.

Third, psychological empowerment shows a positive and significant influence on employee creativity. These findings reveal that psychological empowerment increases employee creativity and makes employees more productive in generating new ideas. To be more competitive in the competition, SMEs need psychological empowerment to explore employee creativity (Matsuo, 2022; Safari et al., 2020; Yang et al., 2019). As explained by Spreitzer (1995), psychological empowerment is a form of intrinsic motivation through four cognitions, namely meaning, competence, self-determination, and impact.

Therefore, empowerment is very important to encourage employees to work according to their abilities. Besides that, employees who feel psychologically empowered believe that the work they do is important, has confidence, has autonomy, and has an impact on the organization (Alotaibi et al., 2020). In this way, employee creativity can become the main commodity to achieve competitive advantage for SMEs. These findings support previous research (Bantha & Nayak, 2020; Mufti et al., 2020).

Fourth, psychological empowerment mediates the relationship between transformational leadership and employee creativity. These results further expand the findings of Yang et al. (2019) and Mubarak & Noor (2018) by determining the mediating role of psychological empowerment between leadership and employee creativity. Besides that, these findings show that organizations, in this case leaders, should empower employees to produce creativity. Another explanation for the mediating role of psychological empowerment is that employees who are given intrinsic motivation are more creative in their work. Specifically in this research, leaders in export SMEs better understand that creativity is the only way to achieve and maintain competitiveness. It is important for them to further develop the relationship that exists between transformational leadership, psychological empowerment, and employee creativity. Therefore, this research provides recommendations for SMEs to strive to provide them with opportunities to use the capabilities they have. In addition, this opportunity further increases the role of transformational leadership in SMEs in helping each employee to increase self-confidence, involvement in creative work, and complete tasks more efficiently.

When employee creativity is strengthened by psychological empowerment, at the same time we explore the idea that individual perceptions of transformational leadership and psychological empowerment have differences. Employee creativity will increase when individuals feel psychologically empowered (Bantha & Nayak, 2020). While employee creativity is not determined by the leadership applied, transformational leadership has a strong relationship with psychological empowerment. The findings of this research support previous research where transformational leadership can increase psychological empowerment (Pradhan et al., 2017; Shahzad et al., 2018).

Finally, the empirical model that the researchers developed tested psychological empowerment as a mediator in the relationship between transformational leadership and employee creativity. The research findings fill the gaps in previous research, by examining the overall psychological empowerment, especially employee creativity in SMEs. This research model can provide input and provide additional empirical information related to psychological empowerment and employee creativity in SMEs.

Managerial Implications

The challenge for organizations today is to achieve sustainable competitive advantage. One of the keys to achieving this is to foster employee creativity. Therefore, SME leaders must have an understanding of how leadership style is related to employee creativity. Although this is a phenomenon that occurs in developing countries such as Indonesia, leadership styles in SMEs do not yet determine how employees work. However, leadership style is needed by

employees in terms of direction and empowerment. This is proven that transformational leadership influences increase psychological empowerment. These results provide evidence that this leadership style encourages employees with intrinsic motivation. Generally, employees who feel empowered by their superiors tend to demonstrate their cognition, e.g. meaning, competence, self-determination, and impact. Furthermore, psychological empowerment can also help the role of leaders to foster employee creativity. Thus, psychological empowerment is the best way to increase employees' creative abilities so that they become effective solutions to the problems they face, including increasing the leadership role of SMEs.

Limitations and Directions For Future Research

Like previous studies that have been conducted, this research still has limitations that require attention. As for the limitations of this research, firstly, the sample group involved is still very limited to only one province in Indonesia, namely Bali. Due to time and cost problems arising from this research. So further study is needed to be able to apply it to other business fields and geographical areas of SMEs in Indonesia. Second, the instrument was prepared using a self-assessment approach by respondents. Although various efforts have been made to reduce and control the effects of bias that appear in general. However, it is still possible for the relationship to increase due to which the general method variance cannot be fully controlled. Finally, causal relationships between variables need to be explained more carefully. So future research needs to be carried out using longitudinal and experimental research designs that aim to evaluate transformational leadership, psychological empowerment, and employee creativity. These findings were obtained from SMEs in the Bali-Indonesia region, so these findings are still limited so their application to different business contexts or perhaps on a larger scale cannot yet be fully adopted. A more comprehensive study is needed involving more samples, not only in the SME export sector.

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