

-RESEARCH ARTICLE-

## THE INFLUENCE OF TRANSFORMATIONAL LEADERSHIP AND INNOVATION ON ORGANIZATIONAL AND INDIVIDUAL OUTCOMES: EVIDENCE FROM INDONESIA

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### —Abstract—

In today's dynamic business environment, companies seeking to maintain or improve their effectiveness are increasingly looking to innovate. In previous literature, the significant association among transformational leadership and innovation has proven by researchers. However, there is a lack of research which explains the role of transformational leadership and innovation in enhancing both, organizational and individual outcomes. Thus, the current study seeks to assess the impact of transformational leadership on employee performance and competitive advantage through innovation. In order to test the research hypotheses, the data is collected from 170 respondents using proportionate stratified random sampling. The collected data is then analyzed using the PLS-SEM technique with the help of SmartPLS 3.2.8 software. The findings of the study confirm the relationship between transformational leadership

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and innovation. Likewise, the direct effect of innovation on competitive advantage and employee performance is also found to be significant. Finally, the hypothesis of indirect effect of transformational leadership on competitive advantage and employee performance is also supported by the results of the analysis. The research implications, limitations and future research directions are explained in the concluding section of the paper.

**Keywords:** Transformational Leadership, Innovation, Competitive Advantage, Employee Performance, Theory of contingency leadership

## 1. INTRODUCTION

In today's global market, gaining a competitive advantage (CA) has become a major concern for businesses. When operating under these conditions, there is bound to be persistent transformation as a consequence of the fast change in technology to fulfill demand of customers and the increased intensity of international competition. Business organisations face challenges from powerful rivals as well as unstable performance in a rapidly changing environment (Öz, 2019). Several studies assert that the capacity of business executives to implement transformational leadership (TL) in day-to-day business tasks results in the achievement of a CA (Yamin, 2020). As a result, the decisions made by the leader have a significant impact on the overall CA. TL is a critical issue that a large number of organisations are grappling with right now. Within organisations, leaders' actions and practices influence the formation of organisational intentions, the accomplishment of strategic missions, and the success of strategic activities. The role of transformational leaders in terms of the design and application of action plans results in more than just standard CAs for the organisation. In order to gain a CA over other organisations, leadership must be able to anticipate and manage change (AlOwais, 2019). Therefore, innovation is considered an effective tool that a company must use in order to accelerate the rate and process of organizational growth and development.

Organizational leadership and the ability to innovate have been linked in numerous studies published over the years. For this reason, it is critical to understand how organisations can encourage the contribution of leadership to the facilitation of innovation if they wish to be successful in a highly competitive environment (AlOwais, 2019; Hui, 2018). It's natural to inquire into which style of leadership is best for achieving a specific goal, such as promoting innovation, as more and more companies incorporate leadership model concepts into their operations (Isthofaina et al., 2020). However, as Giddens (2018) notes, TL is also seen as an important part of demonstrating creative behaviour and acting as role models of innovation. Because of this, they can help their followers think more creatively through the process of intellectual stimulation (Hui, 2018).

Personal and organisational change, as well as helping followers exceed their own expectations when it comes to their performance and accomplishments, are also highlighted in the leadership theory (Giddens, 2018). Both TL's direct and indirect role in promoting innovative behaviour within organisations can have a significant impact. According to this definition, the leader recognises the need for change, sets an inspiring vision to guide it through inspiration, and then implements the change with full support from group members (Jameel et al., 2019). Efforts by individuals, teams, and organisations to create a new product, process, or service that may be needed by the market can be considered innovation in organisations (also known as disruptive innovation). Thus, innovation can be viewed as the culmination of a wide range of activities and practices carried out at all levels of an organization (Kahn, 2018).

In today's rapidly changing and challenging market environment, innovation is regarded and valued as a core competency for organisations seeking to maintain or improve their effectiveness (Irani, 2019). There has been a paucity of research that explores how transformational leaders invest in and promote processes that encourage followers to perform and develop CA, despite the significant relationship between innovation outcome and TL found in past studies (AlOwais, 2019; Hui, 2018; Isthofaina et al., 2020). Therefore, the present research aims to assess the role of TL on employee performance and CA through innovation.

## 2. LITERATURE REVIEW

### 2.1 Theoretical Framework

Theory of contingency in leadership describes how leadership effectiveness varies according to different situations or how the effect of leadership behaviour on outcomes varies depending on the situation (Vidal et al., 2017). In accordance with the multiple-linkage model, the interacting effects of a manager's behaviour and situational variables determine the performances of individuals or work units. Both, the motivational pattern of a leader (e.g., TL) and the context in which performance is delivered influence the effectiveness of a performance (Giddens, 2018). Leaders instill a sense of what is important in the organisational reality among their subordinates or point out directions to show employees the purpose of their work, thereby stimulating their desire to achieve the defined goals. As a result, the personality and charisma of a leader have an impact on the behaviour of their followers. Leaders have the potential to influence the productive outcomes of their employees' creative thinking, and leadership is also a significant predictor of innovative behaviour (Hui, 2018). Based on the contingency theory of leadership, the researchers in this study hypothesize that the link between leaders and subordinates' performance and organisational CA will be transferred through mediating variables such as innovation, which are discussed further below.

## 2.2 Transformational Leadership

Since the inception of the TL concept, research on it has developed into a widely accepted theory of organisational behaviour (Feranita et al., 2020). “Transformational leaders look for potential motives in followers, seek to satisfy higher needs in followers, and engage the whole person of the follower” (Giddens, 2018). TL is comprised of intellectual inspiration, individualised attention, idealised stimulus, and inspiring determination (Isthofaina et al., 2020). TL has been defined as a set of actions that authorize employees to enhance performance, explains employees' beliefs, values, and attitudes, and that are not only “enforcement-oriented” (Andriani et al., 2018). Essentially, TL refers to those who are proficient in organising employees within groups to help them jointly excel their egocentricities in order to advance the interests of the group, as well as adapting employees into becoming believers and inspiring them to grow through a number of TL subdimensions that include “charisma” (later renamed idealised influence), “intellectual stimulation”, individualised consideration, and “inspirational motivation” (Feranita et al., 2020). Leadership in transformation involves developing a conceptual vision, communicating it through enclosing and applying metaphors, modelling the vision by "walking the talk," and consistently playing, as well as forming a strong level of commitment to the vision (Andriani et al., 2018). TL inspires employees to realize remarkable results by giving meaning to their actions. They back the targets of employees as well as the goals and objectives of the larger organization (Giddens, 2018), and they provide the followers with mentoring, support, and coaching.

## 2.3 Competitive Advantage

The importance of CA to an organisation has been recognised by experts and researchers who have paid close attention to this topic. Attempts are being made by businesses to position themselves in a way as to gain a sustainable CA. This is done by supplementing quality in order to capitalise on opportunities and mitigate risks, as well as to avoid or fix asset liability that exists within the organization (Öz, 2019). CA can be defined as a process that allows businesses to compete today without jeopardising their ability to meet the prerequisites needed to compete in the future and to remain competitive. It is critically important for the majority of organisations to recognise that achieving lasting CAs across divisions will be the most difficult task of the twenty-first century (Distanont, 2020). With the rapid increase in worldwide competition, achieving and maintaining CA is becoming increasingly difficult for individual businesses. CA is no longer reliant on assets and physical resources, as it was previously the case. At the moment, it is more compelling to focus on the mental capital in the first step (Yasa et al., 2020). The notion that information should be explicitly recognised as a critical asset for competitiveness is, by no means, a recent development (Distanont, 2020).

In today's competitive environment, organisations may have to deal with a certain amount of instability in order to survive. The most important goal of a company is to deal with these kinds of changes because it ensures its long-term viability. Information

is the most valuable source of CA within an organisation because it allows them to discover new opportunities while also enabling them to resolve problems. According to [Anwar \(2018\)](#), if a company needs to have significantly better information than their competitors, they can combine ordinary capabilities and assets in special and unique ways, which would result in providing their customers with better value as compared to their competitors. Sustainable CA is gained through unique values that are aimed at formulating a strategy that no other competitor is able to duplicate. According to [Yasa et al. \(2020\)](#), no cooperative has an unlimited number of resources. Given these constraints, effective management of existing assets is required, which leads to the establishment of long-term advancement assets beyond the day-to-day management of existing assets in order to generate significant benefits ([Papadas et al., 2019](#)).

In some cases, CA can be a dynamic process that can withstand today's competitive demands while not affecting the firm's ability to meet those demands in the future. Modern organisations recognise the importance of viable human assets practices in order to achieve long-term CA in their markets ([Kaleka et al., 2017](#)). Work environments with a high level of execution help employees develop their abilities and capacities in a way that encourages the development of problem-solving skills as well as innovative work behaviours. Corporations in the current economic climate require employees who are not only physically fit, but also have a strong sense of purpose as well as social abilities ([Kryscynski et al., 2021](#)). CA is derived from interconnected activities that contribute to individuality. Core competencies, competencies, and capabilities are all components of CA ([Nikolskaya, 2018](#)). Both, among scholars and within the business community, there has been an increased interest in sustainability. The firm is responsible for the uniqueness and, as a result, the plausibility of longer-term legitimacy of a competitive plan of action.

The level of sustainability is influenced by a company's ability to accurately set up its internal assets, which can include both tangible and intangible resources, in such a way that they collectively maximise the value of the cooperation. According to [Mahdi et al. \(2019\)](#), in a knowledge-based economy, the value of collaboration is based not only on the goods and services that are produced, but also on the human capital that is created. According to the resource-based view of the corporation, sustainable CA is achieved through the continuous improvement of existing assets and capabilities, as well as the development of new assets and capabilities in response to rapidly changing market conditions ([Moravcikova et al., 2017](#)). Employees create unique resources through their abilities because every employee possesses a set of skills that distinguishes them from their coworkers ([Nikolskaya, 2018](#)). This individual capability is fostered through the use of specific components and assets that allow a company to perform at a higher level than before ([Udriyah et al., 2019](#)).

## 2.4 Innovation

There is no universally accepted definition of innovation because of the wide range of viewpoints and backgrounds propounded by researchers in this field. Nevertheless, the notion of innovation has been studied for a long time. When Schumpeter coined the term "innovation" in 1949, he meant new ways of using a company's existing resources in order to create new things, such as brand-new products or manufacturing methods, new suppliers or raw material sources, or the use of recently developed markets and new methods of management, such as lean management (Arundel, Bloch, & Ferguson, 2019). Developing new ideas is what defines the process of innovation, according to Oeij et al. (2019). For entrepreneurs, innovation is a critical tool for increasing their company's competitiveness and wealth by utilising existing resources or developing new ones, including development using new knowledge, as discussed by Kahn (2018). In the words of Biemans (2018), innovation refers to the development of new products or services for use in an organisation that are embraced by its employees and are considered successful. According to Dziallas et al. (2019), if a new product or process has been improved and used commercially for the first time, it's an innovation. In light of these definitions, the current study characterizes innovation as something new and different that has been developed using existing knowledge and which responds to the needs of our customers.

Many aspects of today's business competition, such as product development and marketing, are heavily dependent on innovation. Increasing its share of the market by introducing new or improved products before their competitors are able to can help the company attain a CA. As a result of their ability to innovate, a number of organisations have been successful and thrived (Frishammar et al., 2019). Due to their ability to create products that no one else can, do things in a better way or introduce services that are more reliable and cost-effective, companies can gain a CA when they innovate (Schot et al., 2018). Long-term CA can be built by acquiring knowledge, technological skills, and experience in the areas of creativity and development, as well as by introducing new ideas in the form of product innovation, business process improvement and/or new business models. As a result, there is a positive effect on the national economy as a whole, not just the company. (Morkovkin et al., 2020). From goods and services that are significantly different from the typical products in their respective domains, or from products and services that are less expensive than those of their competitors, CAs can be generated (Timur et al., 2017). Moreover, according to Timur et al. (2017), factors that contribute to competitive advantage include the ability of a company to increase the efficiency of its production processes, produce goods and services that are of superior quality, and provide customers with high levels of satisfaction with the products and services that the company has to offer.

Based on above discussion, it is hypothesized that:

H1: TL has a significant relationship with innovation.

H2: Innovation has a significant relationship with organizational CA.

H3: Innovation has a significant relationship with employee performance.

H4: TL has a significant indirect effect on organizational CA through innovation.

H5: TL has a significant indirect effect on employee performance through innovation.

### 3. METHODOLOGY

This research adopts an explanatory approach. The descriptive research pattern intends to explain the position of the variables being studied as well as the relationship and influence among variables through hypothesis development and testing (Stokes et al., 2017). According to Liamputtong (2019), the population is the research subject and a generalization consisting of a research object/subject with specific qualities and characteristics applied by the researcher to be observed and deduced. Therefore, the target population for the study are all the permanent employees of Jawa Pos. Using proportionate stratified random sampling technique, the data from 170 respondents is collected. Such a technique is carried out for each unit/department of the company. According to Hair Jr (2017), the appropriate sample size for PLS-SEM is between 100-200, and the minimum sample size is five times the number of indicators. Thus, the sample size of the study seems to be appropriate. Data collection was carried out using questionnaires distributed to selected respondents. The questionnaire contains a list of questions related to the things analyzed and researched based on the specific research objectives. TL and innovation were measured using five and four items respectively (Zhang et al., 2018). The construct of CA was assessed using five items (Syahchari et al., 2020). Similarly, employee performance was measured using four items (Diamantidis et al., 2019). The 5-point Likert scale was used to measure each item of the questionnaire. The options on the questionnaire included strongly disagree (1), disagree (2), neutral (3), agree (4), strongly agree (5). Inferential statistical analysis was used to test the effect of each variable. The inferential statistical analysis technique used in this study is the Partial Least Square Structural Equation Model or PLS-SEM using SmartPLS 3.2.8. This form of cause-and-effect relationship requires an analytical tool that can explain the connection simultaneously.

#### 3.1 Results of Analysis

Analysis of the data was carried out using SmartPLS 3.2.8. PLS was used to show the relationship between all latent constructs while dealing with measurement errors in the structural model (Dash et al., 2021). Due to its explanatory nature, PLS was chosen for this study. As Hair Jr (2017) suggested, the structural model should be investigated before the measurement models. An SEM software called SmartPLS employs the PLS technique. To test linear and additive causal models, SEM is used as a second-generation multivariate data analysis method (Dash et al., 2021). PLS is a variation of SEM that emphasises variance analysis. There are no assumptions about the data distribution in

PLS, which is a soft modelling approach to SEM (Sarstedt et al., 2019). As a result, it's an excellent choice for situations involving several problems at once (Shmueli et al., 2019). Non-parametric predictors are assumed in PLS, which focus on variances. When the sample size is small or large, PLS is considered reliable. Consistent data presentation is guaranteed by ensuring that parameter estimation is consistent with sample size. Due to its high level of complexity, it has the ability to predict the future. Using PLS is also particularly beneficial when there is a lack of theory. PLS is a better choice when the model specification is not known. This allows for both formative and reflective constructs to be included in the same model.

### 3.2 Measurement Model

A convergent validity test was carried out at the beginning of the analyses to determine its validity. The loadings of the items, the average variance extracted (AVE), and the composite reliability (CR) were all critically examined in this test. Table I shows the results of the study. The loadings of items were greater than 0.6 according to the table above, which was in accordance with the value recommended by Hair Jr (2017). In terms of the AVE threshold, the AVE should be greater than 0.5. (Hair Jr, 2017). This study found acceptable AVEs in the range of 0.507 and 0.552, indicating that the results were valid. A further finding was that the CR value was consistent with the value suggested by Hair Jr (2017), ranging from 0.803-0.849.

**Table 1: Assessment of Measurement Model**

Construct	Items	Loadings	Cronbach's Alpha	CR	AVE
CA	CA1	0.758	0.737	0.803	0.507
	CA2	0.713			
	CA3	0.748			
	CA4	0.701			
	CA5	0.745			
Employee Performance	EP1	0.738	0.717	0.824	0.540
	EP2	0.794			
	EP3	0.778			
	EP4	0.725			
Innovation	Inn1	0.727	0.713	0.817	0.552
	Inn2	0.783			
	Inn3	0.750			
	Inn4	0.756			
TL	TL1	0.787	0.787	0.849	0.530
	TL2	0.748			
	TL3	0.756			
	TL4	0.738			
	TL5	0.801			

Once the convergent validity test had been completed, the next step was to determine the discriminant validity of the data. In the past, Fornell and Larcker in 1981 had used this test to conduct their research. Many critics of the Fornell–Larcker criterion argue that it is not justifiable in detecting the lack of discriminant validity in general research scopes because it is not justified in detecting the lack of discriminant validity when the research scope is broad (Ali et al., 2018). Alshurideh et al. (2019), on the other hand, recommended an alternative approach to checking for discriminant validity, which they called the Heterotrait–Monotrait (HTMT) ratio of correlations. Additionally, they demonstrated the effectiveness of HTMT through the use of a Monte Carlo simulation study. Because of the robustness of the power technique, the current study also tested for discriminant validity using the same method as previously described. HTMT values greater than 0.85 or 0.90 (Ali et al., 2018) are considered to be indicative of the presence of discriminant validity, according to the rule of thumb used for the test. According to Table II, the results of the HTMT test met or exceeded the HTMT0.85 and HTMT0.90 requirements. Table III shows the HTMT results (Ali et al., 2018), indicating that the measurement model had adequate internal consistency and discriminant validity.

**Table II: Assessment of HTMT Criterion for Discriminant Validity**

	<b>Competitive Advantage</b>	<b>Employee Performance</b>	<b>Innovation</b>	<b>Transformational Leadership</b>
Competitive Advantage				
Employee Performance	0.605			
Innovation	0.788	0.541		
Transformational Leadership	0.721	0.563	0.669	

### 3.3 Structural Model

According to Ali et al. (2018), the R<sup>2</sup> value is a measure of how good a structural model is at predicting outcomes. Similarly, Hair Jr (2017) state that R<sup>2</sup> can be used to determine the coefficient of determination and the level of significance of the path coefficients (beta values) in a regression model. The R<sup>2</sup> of innovation, CA, and employee performance for the generated results was 0.30, 34, and 15, respectively, indicating that TL can explain 30 per cent of the variance in innovation. A similar proportion of the variance in CA can be explained by TL and innovation (34 per cent). In the same way, TL and innovation could account for 15% of the variance in employee performance over time. Following that, the current study calculates the path coefficients of the structural model and perform a bootstrap analysis to determine the statistical significance of the

results. According to the study findings, TL has a significant relationship with innovation ( $b = 0.541$ ,  $p < 0.05$ ), as shown in [Table III](#) and [Figure I](#). Furthermore, it was discovered that innovation has a positive relationship with both CA ( $b = 0.585$ ,  $p < 0.05$ ) and employee performance ( $b = 0.388$ ,  $p < 0.05$ ). As a result of this study, the indirect effect of TL on CA ( $b = 0.316$ ,  $p < 0.05$ ) and employee performance ( $b = 0.210$ ,  $p < 0.05$ ) through innovation has been confirmed once more. As a result, hypotheses H1, H2, H3, H4, and H5 are supported.

#### 4. DISCUSSION

Given the increasing importance of leadership within business firms, researchers have been motivated to investigate the complex, inner mechanisms that underpin the role of leadership. The emphasis on innovation has prompted academics to identify leadership as one of the antecedents of innovation. However, a theoretical gap exists in prior literature regarding the indirect effect of TL on the individual and organizational outcomes. Therefore, the present research aims to assess the role of TL on employee performance and CA through innovation.

The findings of the study revealed the positive relationship of TL with innovation. It means that TL facilitates in enhancing organizational innovations. These findings are consistent with the study of [Hui \(2018\)](#), who explained that the transformational leaders have the ability to develop innovation facility in the organization. Likewise, the relationships of innovation with organizational CA and employee performance are found to be significant. It inferred that innovation is a vital predictor in enhancing CA and employee performance. These results are in line with prior literature ([AlOwais, 2019](#); [Hui, 2018](#)). These authors claimed that innovation in an organization results in organizational as well as individual outcomes. In addition, the study results revealed the significant indirect effect of TL on organizational CA. These findings are also consistent with the findings of [Mai \(2021\)](#), who found the intervening role of innovation in enhancing organizational outcomes. Finally, the significant indirect effect of TL on employee performance through innovation is also confirmed by the analyses of the study and is supported by evidence from past studies on the subject ([Ardi, 2020](#)).

#### 5. CONCLUSION

Drawing on the contingency theory of leadership, the present study aims to identify the process through which organizational and individual outcomes may be enhanced by TL. More specifically, the main objectives of the study are to analyze i) the direct effect of TL on innovation, ii) the direct effect of innovation of organizational CA and employee performance and iii) the indirect effect of TL on organizational CA and employee performance through innovation.

Table III: Hypotheses Testing

Hypothesis	Relationship	Original Sample	Standard Deviation	T Statistics	P Values	Supported
H1	TL -> Innovation	0.541	0.039	13.878	0.000	Yes
H2	Innovation -> CA	0.585	0.041	14.290	0.000	Yes
H3	Innovation -> EP	0.388	0.060	6.435	0.000	Yes
H4	TL -> Innovation -> CA	0.316	0.042	7.572	0.000	Yes
H5	TL -> Innovation -> EP	0.210	0.041	5.168	0.000	Yes

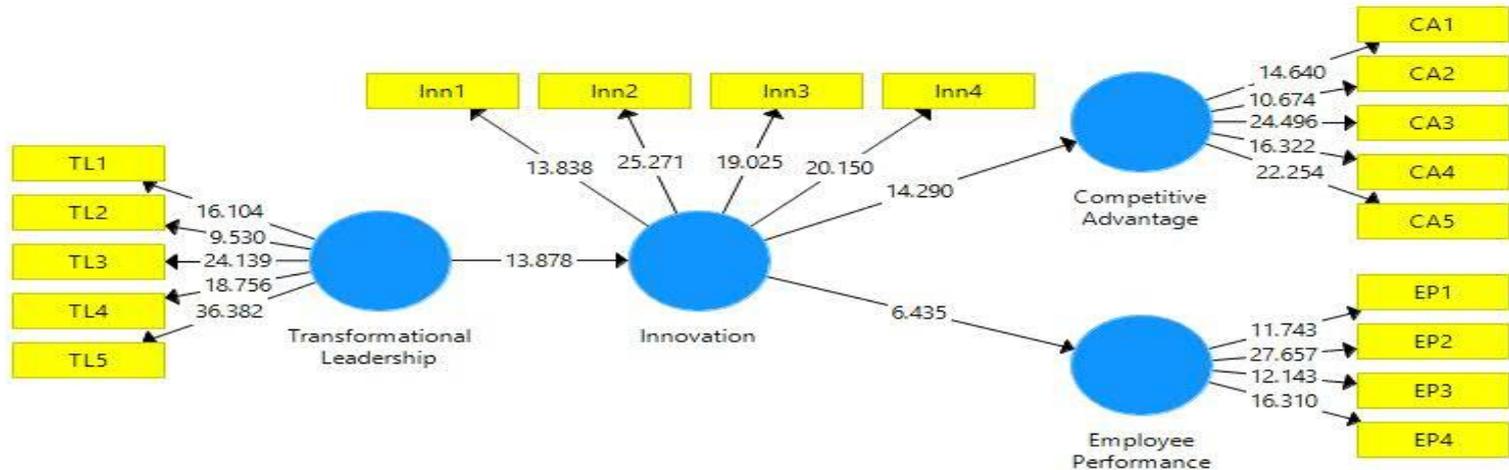


Figure 1: Structural Model Assessment

The findings of the study supported all the hypotheses of the research, confirming the intervening role of innovation in enhancing organizational and individual outcomes by encouraging the development of TL in an organization.

## 6. RESEARCH IMPLICATIONS

The findings of the current study have implications for both theory and practice. When it comes to predicting organisational and individual outcomes through innovation, this study looked at the role of TL. It also attempted to incorporate the contingency leadership theory into the study's context. Because of the positive impacts that TL has on innovation, which in turn leads to increased organizational CA and improved employee performance. According to the TL approach, organizational members would be encouraged and motivated to be creative, and in doing so, generate innovative solutions to difficult problems that they encounter in their daily lives. The evidence pertaining to the intervening role of the innovation is extremely important in terms of its practical use and application. It contributes towards the contingency theory of leadership by explaining the direct effect of TL on innovation and its indirect effect on organizational CA and employee performance. The findings of the study confirm the role of TL in enhancing organizational as well as individual outcomes.

## 7. LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

Despite the fact that the research objectives were met, the current study has a number of limitations that necessitate further investigation and must be taken into consideration when interpreting and generalising the research outcomes. First and foremost, this study uses a cross-sectional sampling approach, which does not allow for the identification of a causal relationship between the variables. The longitudinal method of data collection is thus recommended for investigating the dynamic relationship between leadership and innovation outcomes in a business setting. Second, this research was carried out in the Indonesian province of Jawa Pos, and therefore may not hold true for other province or country contexts. To gain a better understanding of the complex mechanisms from various perspectives, future studies may include additional sectors and/or comparisons of results from different types of media organisations, as well as consideration of other factors (e.g., barriers, a lack of clear benefits, temporary features).

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