



Strengthening Employee Performance in Indonesian SMEs: The Key Impact of Transformative Leadership, Internal Motivation, and Self-efficacy

Heru Susilo^(✉), Endang Siti Astuti, Zainul Arifin, Mukhammad Kholid Mawardi,
Riyadi, and Wiyata

Department of Business Administration, Brawijaya University, Malang, Indonesia
heru_fia@ub.ac.id

Abstract. According to research that has already been conducted in this field, the leadership style is a crucial factor in improving the creative self-efficacy and motivation of workers who are employed by small and medium companies (SME). This research was conducted in the United Kingdom. The objective of this study is to assess the effect that transformational leadership, as the most important predictor of the intrinsic effect of employee motivation and creative self-efficacy, has on the inventiveness and performance of workers while they are at work. Specifically, the study will look at how transformational leadership affects creative self-efficacy and employee motivation. A quantitative method was utilized in this investigation by way of the administration of questionnaires to a sample population consisting of 110 individuals who were employed by 25 SMEs in the city of Malang. An analysis of the data was carried out with the use of SEM-PLS so that the hypotheses could be validated and tested, and so that the outer model could be established. The findings indicate that transformational leadership has an effect that is both favorable and considerably impacting on the creative self-efficacy (CSE) and motivation of individuals. In addition, an employee's degree of motivation has a favorable and significant influence not just on the amount of original work they do but also on their overall performance. On the other hand, the impact of creative self-efficacy on the creativity and performance of employees was completely insignificant from a statistical point of view. The results of the research indicate that there is a significant correlation between employee creativity (EC) and performance.

Keywords: Transformational Leadership · Employee Creativity · Employee Performance · Creative Self-Efficacy · Intrinsic Motivation

1 Introduction

The area of individual behavior in organizational contexts has been the subject of several studies, which has resulted in the development of social cognitive theory. This theory offers a comprehensive framework that clarifies the complex relationships between people, their environment, and behavioral patterns [1, 2]. This theoretical method has been

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A. F. Wijaya et al. (Eds.): AICoBPA 2022, ASSEHR 764, pp. 358–372, 2023.

https://doi.org/10.2991/978-2-38476-090-9_29

used by researchers to investigate a number of topics, including transformational leadership [3], self-efficacy [4], and motivational variables [5]. The social cognitive theory places a strong emphasis on the importance of cognitive processes because they serve as the main mechanism through which outside forces influence individual behavior [2]. The self-regulatory mechanism, a cornerstone of social cognitive theory, has shown useful in analyzing employee situations to foster creativity [6, 7], improve performance [8,] and facilitate career advancements [9], eventually contributing to organizational successes.

One key factor that might influence employee behavior is the leadership style used inside the firm. The four unique leadership behaviors of inspiring motivation, idealized influence, personalized concern, and intellectual stimulation make up transformational leadership, according to Bass [10] and Burns [11]. Due to its creative approach to team member motivation, this leadership style has attracted a lot of attention [15, 16]. According to the social cognitive theory, transformational leadership may increase employees' potential, values, and creative capacities [17–19], eventually increasing their intrinsic motivation [20]. This is because it places a strong focus on individual goals and employee welfare. This suggests that internal drive influences transactional leadership in a moderating way. In fact, enhancing EC has been greatly aided by intrinsic motivation [21, 22].

The social cognitive theory highlights the crucial role of motivation in individual behavior. Schunk et al. [5] propose that motivation is a process that triggers and maintains goal-oriented activities. Expectancy, which represents an individual's belief in their ability to attain a specific outcome, and reinforcement value, denoting the appeal of the outcome, are two predominant variables that foster individual motivation [23]. Leaders must acknowledge that employees are unique agents capable of steering their thoughts and actions to establish an environment conducive to learning [1, 24].

Sustainability in the business domain is determined by a confluence of factors, including leadership style, employee motivation, and the capacity for innovation. Studies have revealed that employees constitute a crucial source of innovation, accounting for up to 80% of a company's successful implementation of innovative solutions [25]. Creative self-efficacy, defined as one's confidence in generating creative outcomes, has been recognized as a vital catalyst for sustained employee innovation [26]. Michael et al. [27] established a strong correlation between CSE and employees' creative performance. Within the framework of social cognitive theory, Bandura [1] elucidated that self-efficacy can shape an individual's emotional response to tasks, thereby facilitating their successful completion. Consequently, self-efficacy embodies an individual's ability to perform behaviors necessary for achieving specific outcomes [24].

In the framework of social cognitive theory, Wood and Bandura [24] established the triadic reciprocal model to examine the complex dynamic between persons, in this case MSME actors, and their surroundings. Berry et al. [28] emphasized MSMEs' critical role in adapting to fluctuating industrial and economic circumstances, such as those experienced during the COVID-19 pandemic. As shock absorbers within the industrial and economic landscape, MSMEs tend to proliferate when formal sector employees face dismissals during crises [29]. Tambunan [29] highlighted the variations in MSMEs' crisis mitigation strategies between the 1997–1998 and 2007–2008 financial crises.

The present research aims to scrutinize the resilience of MSMEs in Indonesia, focusing on Malang City, as they confront the challenges posed by the COVID-19 pandemic. The government's enforcement of Community Activities Restrictions has led to significant business model and strategy changes, fostering adaptation during the pandemic. A study conducted by Statistics Indonesia between October 12–23, 2020, revealed that 61.70% of MSME actors encountered employment-related difficulties during the pandemic, with the majority unable to address these problems effectively [30]. This research endeavors to understand the ability of MSME actors to manage employees by employing social cognitive theory variables and to assess the explanatory power of these constructs in elucidating MSME resilience in the face of the COVID-19 pandemic.

Drawing from literature discussing leadership's role in promoting employee performance (EP), this study focuses on two key aspects:

1. The significance of transformational leadership in the development of intrinsic motivation and the promotion of creative self-efficacy among employees as a means of increasing employee creativity.
2. The intermediary role of employee creativity in influencing employee performance.

2 Methods

2.1 Data Collection and Measurements

The researcher conducted data collection and measurements in seven steps.

1. First, using a five-point Likert scale ranging from “strongly disagree” to “strongly agree,” have participants rate their agreement with a series of items. These answers will be used as a starting point for cataloging and quantifying the study's variables..
2. Design questionnaire statement items according to the current research concept to effectively measure the variables under investigation.
3. Assess transformational leadership using a detailed twenty-item scale developed by Podsakoff et al. [69]. This scale will aid in thoroughly evaluating leadership qualities.
4. Measure intrinsic motivation using a focused four-item tool created by Shahzadi et al. [70]. This instrument will help capture the core of individual drive and commitment.
5. Evaluate creative self-efficacy and employee creativity separately, employing scales with three and four items respectively, as designed by Jaishwal & Dhar [60]. These scales will provide insights into personal creative confidence and innovative contributions.
6. Utilize a precise four-item indicator crafted by LePine et al. [71] to assess employee performance. This metric will enable a targeted analysis of individual work-related achievements.
7. Analyze the collected data, maintaining a focus on the variables identified and measured in the study, such as transformational leadership, intrinsic motivation, creative self-efficacy, employee creativity, and employee performance.

2.2 Data Analysis

Utilizing SmartPLS software for data processing, the study employed a causal modeling strategy that combines iterative principal component analysis and regression [72] maximize the proportion of a model's explained variance that can be attributed to dependent

latent variables. As a popular statistical tool, SmartPLS is suitable for all data scales, has minimal assumptions, and supports relationships without strong theoretical foundations [73–75]. SmartPLS is employed for hypothesis development, complex situation predictions, and providing features that facilitate multivariate data analysis Drawing on construct measures and data from prior research conducted in comparable contexts; the survey instrument was carefully designed. An acceptable threshold exceeding 0.50 was employed to evaluate the validity, utilizing average variance extracted (AVE). Reliability in SmartPLS was assessed by adhering to the standardized indicator's loading of 0.70, as suggested by Hair et al. [75], and through Cronbach's alpha and composite reliability.

The descriptive analysis results provided insights into various aspects, including the demographic characteristics of respondents who completed the distributed questionnaires. The first characteristic was gender. The study's respondents included a higher number of males, at 83 (75.45%), compared to females, at 27 (24.55%). In terms of age distribution, 17 respondents (15.45%) fell within the 20–25 age range, 41 respondents (37.27%) were between 26–30 years old, 27 respondents (24.55%) belonged to the 31–35 age group, and 25 respondents (22.73%) were in the 36–40 years age bracket. Concerning the duration of service, 28 employees (25.46%) had been with their company for 3–5 years, 73 employees (66.36%) had worked for 6–8 years, and nine employees (8.18%) had a tenure of nine years or longer.

2.3 Measurement Model Validation

In this comprehensive study, researchers utilized a quantitative approach to assess the validity and reliability of the data collected meticulously. The Partial Least Squares Structural Equation Modelling (PLS-SEM) was employed to test the hypotheses by the recommendations of Hair et al. [75]. These esteemed scholars underscored the importance of composite reliability and Cronbach's alpha as key reliability indicators. They further advocated for all items to exhibit a Cronbach's alpha value of at least 0,70 to be considered reliable.

While examining the data from this investigation, it was determined that all variables surpassed the recommended 0,7 threshold for Cronbach's alpha values. The variables under consideration were transformational leadership (0,971), motivation (0,890), CSE (0,990), EC (0,895), and EP (0,915). Furthermore, the research disclosed that transformational leadership (0,973), motivation (0,919), CSE (0,994), EC (0,927), and EP (0,941) each showcased a robust composite reliability exceeding 0,8.

These robust values were deemed acceptable, signifying that the reliability of the study was well-founded. Consequently, the conclusions drawn from this research are supported by a strong foundation of quantitative analysis and comply with the guidelines set forth by Hair et al. [75]. The findings contribute significantly to the growing body of literature on the subject and offer valuable insights into the relationships between transformational leadership, motivation, creative self-efficacy, team member creativity, and employee performance.

To ascertain the validity of the data in this investigation, the research team meticulously examined the relationship between various indicators and their corresponding underlying constructs, grounded in the principle of dimensional unity. The discriminant validity of each variable was assessed by calculating the average variance extracted

(AVE) and the correlation coefficient values between the variables, following the guidelines proposed by [74]. The findings revealed that all variables demonstrated exceptional AVE values exceeding the benchmark of 0.5. Specifically, transformational leadership exhibited an AVE of 0.643, highlighting the effectiveness of Podsakoff et al.'s [69] twenty-item scale in capturing leadership qualities. Motivation displayed an AVE of 0.695, indicating that the four-item tool by Shahzadi et al. [70] successfully captured individual drive and commitment. Creative self-efficacy (CSE) achieved an AVE of 0.981, demonstrating the robustness of Jaishwal & Dhar's [60] three-item scale in measuring personal creative confidence. Employee creativity (EC) yielded an AVE of 0.760, showcasing the potency of the four-item scale by Jaishwal & Dhar [60] in evaluating innovative outputs. Finally, employee performance (EP) attained an AVE of 0.798, confirming the efficacy of LePine et al.'s [71] four-item indicator in assessing work-related accomplishments. Chin [24] suggests that an AVE value, representing the commonality of each latent variable, is considered satisfactory when all values surpass 0.50. Consequently, the constructs examined in this research demonstrated exceptional validity, reinforcing the reliability and robustness of the findings.

Establishing discriminant validity in the model is crucial, as it ensures the integrity and robustness of the research findings. Discriminant validity evaluates the extent to which indicators within a model are associated with their respective constructs, rather than with other constructs present in the model. A widely-accepted method for assessing discriminant validity is the Fornell and Larcker criterion, which provides a rigorous and reliable framework for this evaluation.

Starting with a conservative approach, the discriminant validity is calculated by comparing the square root of the average variance extracted (AVE) values to the correlations of the latent variables. The maximum correlation that any given construct has with any other variable must be less than or equal to the square root of the AVE for that construct. This criterion is met if the square root of the construct is larger than the square root of the correlations, which indicates a stronger relationship between the construct and its indicators [73].

When a construct exhibits a higher affinity with its corresponding indicators than with any other construct, the model demonstrates a high degree of discriminant validity [73]. The research findings' reliability is significantly bolstered by confirming that each construct adheres to this criterion. The discriminant validity assessment in this study reveals a strong and well-defined structure, with each construct displaying a higher correlation with its indicators than with other constructs in the model. This outcome underscores the model's high degree of discriminant validity and reinforces the credibility of the study's findings, providing a solid foundation for further analysis and interpretation.

2.4 Hypothesis Testing

The statistical study used a partly sequential model. The results showed that transformational leadership affects motivation, with an R² coefficient of determination of 0.505, supporting the first hypothesis. With $\beta = 0.710$ and a p-value of 0.050, this supported a strong positive correlation between transformative leadership and motivation.

The results of the study were consistent with the second hypothesis, showing a substantial and favorable relationship between transformative leadership and CSE ($\beta =$

0,456; p-value 0,050). The analysis showed a significant relationship between employee motivation and creativity ($\beta = 0,861$; p-value 0,050), supporting the third hypothesis. The fourth hypothesis was also confirmed, with $\beta = 0,578$ or p-value 0,050 demonstrating a substantial correlation between EP and motivation.

Due to the lack of a significant correlation between CSE and EC ($\beta = 0,045$; $p > 0,050$), the fifth hypothesis was disproved. The sixth hypothesis was disproved as a consequence of the study of the relationship between self-creativity and EP, which produced a marginally positive result ($\beta = 0,044$; p-value $> 0,050$).

The mediating function of motivation in the connection between transformational leadership and employee creativity was also examined in this study. The findings were consistent with the seventh hypothesis, as it was shown that when motivation mediated the association between transformational leadership and EC $\beta = 0,611$ or p-value 0,050, a favorable and significant impact was seen. The eighth, on the other hand, was disregarded since there was insufficient proof that CSE significantly moderated the link between transformative leadership and EC $\beta = 0,021$ or p-value $> 0,050$.

The research confirmed the ninth hypothesis by showing that motivation had a positive and substantial mediating effect on the relationship between transformative leadership and EC $\beta = 0,410$ or p-value 0,050. The mediating role of CSE in the connection between transformative leadership and EP was positive and significant, with a $\beta = 0,611$ or p-value 0,050, supporting the eleventh hypothesis.

As EC demonstrated a favorable and substantial mediating influence in the association between motivation and performance ($\beta = 0,295$ or p-value 0,050), the research accepted the eleventh hypothesis. The EC's mediating influence on the link between CSE and EP was found to be positive but not statistically significant ($\beta = 0,016$ or p-value $> 0,050$), hence the twelfth hypothesis was also disproved.

This thorough investigation reveals that when motivation serves as a mediator for EC, transformational leadership has a considerable influence. CSE does not effectively mediate this link in any way. The information highlights the significance of motivation in the interaction between EC and transformative leadership as well as its mediating function in the relationship between TL and employee performance. However, CSE by itself does not appear to be a reliable predictor of employee success. These results show that, rather than depending simply on creative self-efficacy, businesses should concentrate on creating motivation and transformational leadership to increase EC and performance (see Fig. 1).

3 Discussion

This investigation examined the effects of transformational leadership on workforce motivation and CSE in the context of MSMEs, uncovering two essential routes. The research results indicated a positive link between transformational leadership and motivation and creative self-efficacy. Motivation is a driving force for human behavior and is shaped by leadership styles [19]. Several earlier studies have highlighted the impact of transformational leadership on innovation, suggesting that such leadership can stimulate creativity and a desire for new ideas [41]. Transformational leadership has been shown to positively affect drive, as individuals under this type of leadership tend to be more

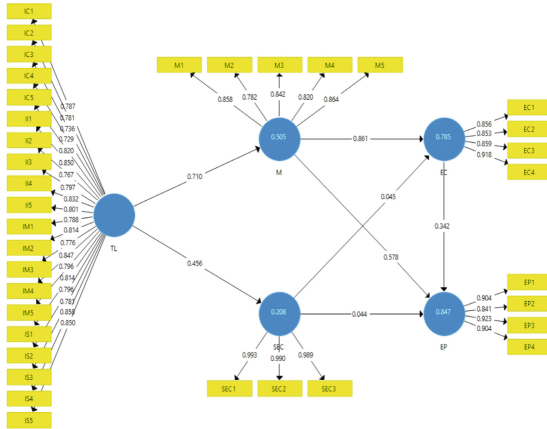


Fig. 1. Structural model output.

motivated to pursue goals and achieve success [44]. Dedication is another key factor that is positively influenced by transformational leadership. Leaders who are able to inspire and motivate their followers can instill a sense of commitment and loyalty, leading to increased dedication to the organization and its goals [76–78]. The consistency between these findings and past research further emphasizes the significant role transformational leadership plays in shaping employee outcomes and fostering organizational success.

By implementing transformational leadership, leaders of micro, small, and medium-sized enterprises (MSMEs) provide their employees with increased attention and support to manage internal and external changes. According to Hater and Bass [79], transformational leaders’ subordinates experience high levels of satisfaction and motivation due to their focus and adaptability. This is consistent with social cognitive theory, which posits that transformational leaders enhance individual considerations, thereby leading leaders to address the requirements of every employee. Consequently, employees can increase their potential and creativity, feeling empowered and motivated to accomplish [80].

In the context of MSMEs, transformational leaders significantly contribute to the advancement of employee creativity by offering substantial benefits. The encouragement and motivation derived from this leadership approach inspire employees to delve into unexplored intellectual territories, thereby boosting their creativity [52]. As a result, transformational leadership is linked to the development of creative self-efficacy, which reflects an individual’s self-assurance in their capability to produce inventive outcomes [18]. This connection is further supported by studies conducted by [26, 58, 59]. Prior research has shown that various leadership styles play a crucial role in fostering creative workers [48]. Additionally, investigations by [60] and [47] have emphasized the significance of effective leadership in nurturing the creativity of employees. Transformational leadership employs a strategy connected to self-regulation, a primary factor in promoting specific team member behaviors. This suggests that MSME employees might think independently by increasing their CSE [33].

The results of the study illuminated the profound influence of intrinsic motivation on the creativity and performance of team members. The notion that human behavior is

governed by self-regulatory mechanisms, with self-efficacy being the most efficacious factor, is of particular importance [24], as it is grounded in social cognitive theory. This theory emphasizes that individuals with the motivation and conviction to achieve their objectives will devote substantial time and resources in their endeavors [56].

The proposition that intrinsic motivation plays an essential role in fostering creativity [52, 53] is supported by empirical research, such as the study conducted by Coelho et al. [81]. In a similar vein, Kim et al. [82] also found that intrinsic motivation significantly influences creative outcomes. These separate scholarly investigations consistently emphasize the critical function of intrinsic motivation within the creative process, further substantiating its centrality in driving innovation. These studies demonstrated that intrinsic motivation promotes behavior and significantly influences the creativity of team members. Internal factors play a crucial role in shaping creativity [56], with highly motivated employees viewing complex procedures, protocols, and established standards as obstacles to overcome [59].

Motivation among team members affects both creativity and performance. A strong sense of motivation can inculcate a vigorous work ethic in employees, inspiring them to perform effectively. This study's findings are consistent with previous investigations into the effects of intrinsic motivation on employee performance [83–86]. These cumulative insights enrich the existing corpus of knowledge in this field by providing a more comprehensive comprehension of the intricate interplay between motivation, creativity, and performance.

A significant finding in this investigation is the negligible impact of CSE on EC and performance, which contradicts results by Diliello et al. [87], Jaussi and Dionne [88], and Wang et al. [47]. The lack of creative self-efficacy's influence on team member creativity and performance in this study might be attributed to MSME employees with creative skills needing to demonstrate heightened creativity in their tasks consistently. Shafi et al. [19] argue that EC and proactive problem-solving at work relies heavily on the environment rather than internal factors. The creative process is intricate and prolonged, necessitating continuous learning [58], suggesting that a team member's confidence in their creative thinking might not be the primary driver of creativity. Kim [89] found that leaders should also consider creative role identity when cultivating team member creativity, as it affects the creative thinking process.

Intriguingly, this study's results also showed that CSE did not significantly impact team member performance, which is consistent with the findings of Christensen-Salem et al. [90] and supports Walumbwa et al. [91] and Malik et al. [92] in their claim that belief in creativity is not a decisive factor for organizational success, as success depends on the execution of generated ideas.

Although there was no correlation between CSE and employee performance, the research identified a positive and significant relationship between EC and performance, which aligns with prior studies [93–96]. Creative employees offer ideas and innovations essential for organizational development and progress [22]. Proper idea implementation necessitates creativity for accurate decision-making. Creative thinking enables employees to overcome challenges when executing their ideas, making EC a subtle yet essential

competitive advantage for organizations [53]. Employees who consistently engage in creative thinking are driven to provide innovative ideas and solutions to business problems, ultimately aiming to enhance company profitability.

According to the idea behind this research, MSMEs' ability to successfully use specialized resources for performance depends on a number of factors, including creativity and motivation. To further understand the connection between transformational leadership, EP, and creativity, we looked at the mediating roles of motivation and CSE. It was discovered, however, that only motivation mediates the connection between transformative leadership and EC. For this reason, it is crucial that the motivation variable be included in the theory and research model on transformational leadership that addresses performance determinants, as it serves as a mediator between the two. Employee performance was not linked to CSE, however there was a mediation effect between motivation and performance through EC.

4 Conclusion

With an in-depth exploration of workplace dynamics and the factors contributing to cultivating employee creativity, this investigation presents invaluable insights into the intricate web of intrinsic motivational processes that govern these aspects. By seamlessly integrating social cognitive theory with a transformational leadership approach, the study accentuates the significance of advancing theoretical frameworks in the realm of human resource management. This research particularly concentrates on the interplay between leadership, motivation, performance, and creativity.

As a result, the investigation contributes meaningfully to the existing knowledge base by weaving together a tapestry of diverse empirical findings. This synthesis ultimately deepens our comprehension of these vital components, shedding light on the complex mechanisms that underpin human resource management, and elucidating the multifaceted nature of leadership, motivation, performance, and creativity in the workplace.

Existing literature has highlighted the necessity for increased focus and curiosity among researchers in investigating the role of human resources in cultivating creativity within Small and Medium Enterprises (SMEs). This is crucial for boosting their competitiveness and overall performance. This study tackles these gaps by exploring the influence of transformational leadership style on Micro, Small, and Medium Enterprises (MSMEs), especially in Indonesia.

This research enriches the theoretical comprehension of motivation and creativity by shedding light on their varying impact depending on the leadership style. The study was conducted with a sample of employees from Indonesian MSMEs, known for their swift transactions and dynamic growth. The results indicated that creative self-efficacy (CSE) and team member creativity significantly influenced team member performance. This research has its limitations. The study's cross-sectional nature restricts its timeframe, limiting the ability to establish causal relationships between the variables. Additionally, the study depends on primary data collected through questionnaires rather than integrating a more diverse set of actual data. The study offers a valuable addition to the scholarly conversation surrounding human resource management, leadership, motivation, and creativity, particularly in the context of MSMEs in rapidly evolving economies

like Indonesia. Future research may build upon these insights to examine the implications of these relationships in various contexts and settings, ultimately enhancing the generalizability of the findings.

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