



The Impact of Employee Creativity and Transformational Leadership on Innovation Work Behavior in the Banking Sector

Irwan Eka Wijaya Arsyad^{1*}

¹ Postgraduate School Universitas Airlangga, Indonesia

Received: August 22, 2024

Revised : August 25, 2024

Accepted : August 28, 2024

Online : September 11, 2024

Abstract

This study examines the role of transformational leadership in promoting an innovative work environment and work behavior in the rural bank industry. The research was conducted at Bank UMKM, a company that holds a significant market share in the region's rural bank industry. A survey was conducted with 671 employees across the company's branches. The findings reveal that all hypotheses, except Hypothesis 1, were accepted. Transformational leadership positively affects employee creativity, indirectly influencing innovation work behavior. Additionally, the relationship between transformational leadership and innovative work behavior is strengthened by the presence of trust in supervisors. Although transformational leadership did not have a direct impact on innovative work behavior, the research highlights the significance of cultivating an inventive work environment and the influence of trust in supervisors in encouraging innovation within the rural bank business.

Keywords: *Innovative Work Behavior, Trust in Supervisors, Transformational Leadership, Rural Bank Industry, Employee Creativity*

INTRODUCTION

The research on competitive advantage and innovation in manufacturing, trading, and service companies is well-documented, but there is limited study on its application in the context of rural banks. This research is important because rural banks face unique challenges due to government regulations and the need to provide optimal services to the community. Rural banks are vital in overseeing financial matters and assisting micro, small, and medium companies (MSMEs) (Yuniarti, 2011). Typically, MSMEs seeking credit facilities may be feasible but not yet considered bankable, so rural banks in remote or isolated areas need to educate them to become bankable (Sutrisno & Lestari, 2006). These banks are considered highly flexible in meeting the needs of MSMEs in remote villages (Herry et al., 2007). Therefore, rural banks need to be resilient in the face of global economic crises, as they are vital in providing financing to the MSME sector across various regions (Azhari et al, 2022). Moreover, their simple service procedures, quick processes with easily adaptable credit schemes, and wide presence in both urban and rural areas set them apart from commercial banks (Prayitno, 2018).

In this study, the researcher seeks to thoroughly examine business process reengineering with a focus on the influence of transformational leadership on the behavior of employees about innovative work. Transformational leadership, as noted by Gupta et al. (2004), is a distinctive style that is essential for surmounting challenges and obstacles encountered during various stages of organizational development. This leadership approach empowers leaders to effectively coordinate their organizations and tackle challenges encountered during organizational growth (Chen, 2007). Furthermore, the leadership style significantly influences a leader's capacity to identify new opportunities for enhancing organizational performance (Pihie et al., 2014).

In addition to these aspects, the researcher also explored the concept of creativity within organizational settings, taking into account individual traits and circumstances that contribute to creativity, as highlighted by Oldham and Cummings (1996). Specifically, the study focuses on employee creativity at the individual level, involving the generation of innovative ideas, contributions to existing knowledge, and the development of inventive solutions (Amabile & Pillemer, 2012).

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Corresponding author's email: arsyaad.irwan75@gmail.com

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LITERATURE REVIEW

Bennis (1966) defines organizational change theory as the interplay between an organization's capacity for change and the driving forces behind that change. March (1981) further posits that change entails a shift towards a different and improved state. Ahmad and Cheng (2018) elaborate that organizational change centers around three dimensions: change content, change context, and change process. The successful execution of change is highly dependent on the change process itself, which is considered essential, if not more important, than the actual substance or context of the change.

Prior studies indicate that fostering a good atmosphere is crucial for fostering innovation and creativity in a setting that promotes the active participation of employees (Chen & Hou, 2016). An innovation climate refers to an environment where individual ideas are highly regarded, enabling both individuals and organizations to flourish (Diesel & Scheepers, 2019). Organizational members will have increased confidence in their ability to contribute to the organization's service vision through their innovative efforts. This aligns with the concept of employee voice, where employees can leverage their voices to enhance creativity and generate new ideas based on collected input. Consequently, employees are more inclined to accept vulnerability as a result of heightened positive anticipations of transformative leader behaviors and actions. Furthermore, when employees perceive transformational leadership, they emulate their leaders in articulating their viewpoints and concepts; in the presence of an innovative environment, employees are more inclined to translate these ideas into inventive results.

H1: Transformational leadership positively influences innovative work behavior

Transformational leaders serve as charismatic role models in the organization, continually inspiring employees to prioritize ethical conduct over convenience. Research indicates that active engagement in pro-environmental behavior (PEB) positively impacts society (Chan & Hsu, 2016), leading employees to participate based on their belief in its moral imperative. Additionally, the inspirational motivation aspect of transformational leaders empowers them to motivate subordinates by presenting an enticing vision of the future. Consequently, employees are inclined to view their contributions to PEB as beneficial not only for the company's competitive advantage (Martínez García de Leaniz et al., 2018) but also for their personal development. Intellectual stimulation, another dimension of transformational leadership, encourages employees to question existing assumptions and seek innovative solutions. This fosters a mindset shift towards being more responsive to governmental and market demands for environmentally friendly products. Moreover, the personal consideration exhibited by transformational leaders, through nurturing employee skills and fostering strong leader-employee relationships (Van Dierendonck et al., 2014), motivates subordinates to proactively engage in PEB, despite it not being explicitly part of their duties.

H2: Transformational leadership has a positive effect on employee creativity

The differentiation between employee creativity and innovative work behavior is of utmost importance. Creativity is a fundamental component of the process of innovative work behavior, however, it does not contain all facets of such behavior. While creativity is essential, innovative work behavior encompasses more, including the promotion and implementation of ideas (Venkatsamy & Lew, 2024). Knowledge Sharing is fundamental to fostering creativity. Studies indicate that individuals who possess specialized knowledge in a certain field are more inclined to produce original and imaginative ideas and put them into practice through their inventive work

behavior (Bhatti et al., 2020). Within an organizational context, Knowledge Sharing is perceived as a social transaction that surpasses the transmission of information. The cultivation of a collaborative culture not only amplifies individual creativity but also channels it towards practical innovative work behavior (Muhammed & Zaim, 2020). This theory offers a thorough viewpoint on how and why Knowledge Sharing can serve as a catalyst for transforming individual creativity into collective inventive results.

H3: Employee creativity has a positive effect on innovative work behavior

Establishing a strong emotional trust among employees is crucial for them to feel comfortable recognizing vulnerabilities and navigating challenging situations. When employees believe that their leaders are honest, competent, and genuinely interested in their well-being, they are more likely to innovate without worrying about potential repercussions from their leaders (Zhou & Hoever, 2014). Trust fosters open communication, encourages employees to share their thoughts and opinions, and makes them more willing to disclose information and admit mistakes. On the contrary, when trust is compromised, employees become suspicious and hesitant, affecting their willingness to share information and collaborate effectively (Vally et al., 2019). Consequently, low levels of trust in superiors can lead to avoidance behaviors and hinder employees' ability to perform innovatively (Anderson et al., 2014).

H4: Trust in the supervisor enhances the impact of transformational leadership on innovative work behavior

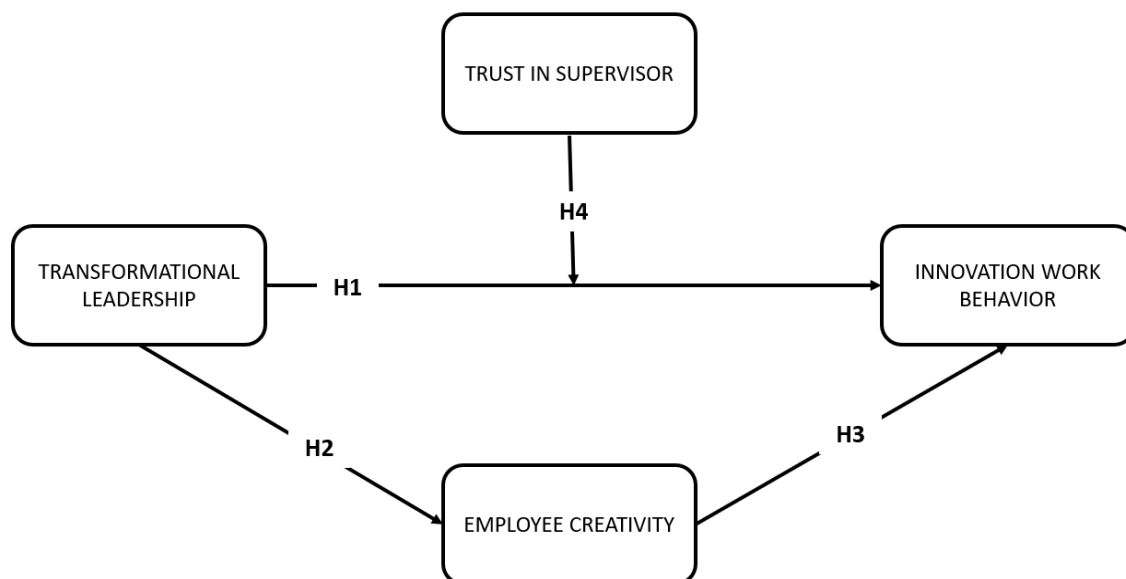


Figure 1. Research Model

RESEARCH METHOD

This study employs a quantitative research methodology to examine the correlation between transformational leadership, employee creativity, trust in the supervisor, and innovative work behavior. Based on Figure 1 above, shows the researcher's proposal to analyze transformational leadership as an independent variable in a direct relationship to innovative work behavior as a dependent variable and when mediated by employee creativity and moderated by trust in the supervisor.

Type of Research

The research to be undertaken is explanatory in nature, employing a quantitative method. Its primary objective is to examine and provide an explanation for the occurrence of the event under study. Explanatory study, as defined by [Sugiyono \(2006\)](#), is a type of research that aims to elucidate the causal relationship between variables that impact the hypothesis. The study acquired the data sources directly. This study utilizes primary data as the main source of information. The data included in the study are derived from the monthly performance report of Bank UMKM.

Data Analysis Technique

The hypothesis testing used in this study uses smartPLS (Partial Least Square). Data collection instruments A quantitative study was done to investigate the stated hypothesis, and primary data sources were acquired by distributing questionnaires and gathering responses. The questionnaire was split into two sections. The initial phase involves gathering socio-demographic data, while the subsequent phase has 39 inquiries categorized into four distinct factors. The initial 16 questions pertain to transformational leadership. In addition, there are four questions used to assess variables related to employee creativity. Next, the survey proceeded with a series of 10 questions pertaining to trust in the supervisor, followed by 9 questions concerning innovative work conduct. The literature has provided support for inquiries pertaining to creativity and performance. The questions are assessed using a 5-point Likert scale, where 1 corresponds to "strongly disagree" and 5 corresponds to "strongly agree".

Sample Characteristics

An operational definition is a clear and specific description of how a variable is measured, allowing researchers to assess the quality of the measurement. The sample technique encompasses all branches of Bank UMKM. The target population consists of the 671 workers working at the Bank UMKM's branch in 2023. The number of employees in Bank UMKM is projected to be 671 by 2023. The questionnaire form includes employee age, education level, and the questions in the questionnaire. Table 1 presents the dimensions and questionnaire items that will be presented to the complete population.

FINDINGS AND DISCUSSION

We will utilize descriptive data analysis to outline the responses for each variable provided by the participants, aiding in our understanding of the inclinations in the participants' responses for each research variable. Our study will employ Structural Equation Modeling (SEM), beginning with confirmatory factor analysis to assess its dimensions. Additionally, the SEM model will be evaluated for its suitability. Subsequently, after data processing and result attainment, we will engage in discussion and draw conclusions based on the analysis.

Moving forward, the next stage involves a full model Structural Equation Model (SEM) analysis, following an assessment of the level of unidimensionality of the latent variable forming indicators. At this stage, we will carry out suitability tests and statistical tests based on the results of data processing.

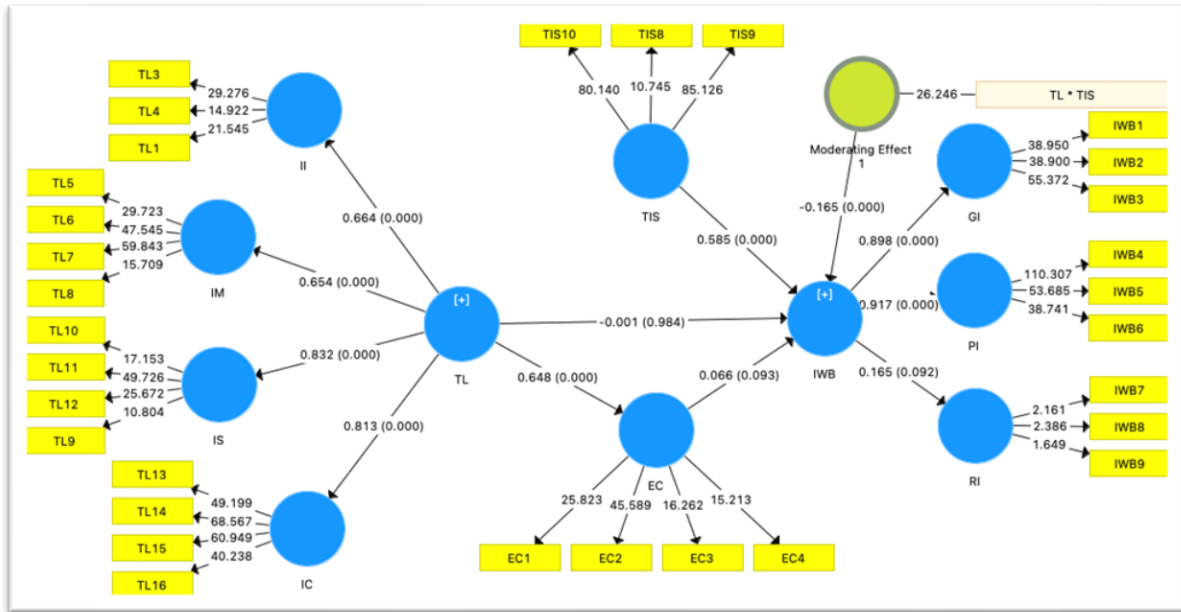


Figure 2. Model Testing Results

This validity test is performed to assess the validity of the data collected throughout the research, utilizing the questionnaire as the measuring instrument. The test of the model hypothesis demonstrates that this model is consistent with the data or aligns with the data utilized in the research, as evidenced by the subsequent table:

Table 1. Reliability and Validity Test

	Cronbach's Alpha	rho_A	Composite Reliability	Average Extracted (AVE)	Variance
EC	0,724	0,792	0,819	0,533	
GI	0,765	0,767	0,864	0,680	
IC	0,856	0,857	0,902	0,698	
II	0,527	0,542	0,759	0,514	
I'M	0,762	0,787	0,848	0,585	
IS	0,665	0,697	0,798	0,502	
IWB	0,774	0,856	0,816	0,390	
Moderating Effect 1	1,000	1,000	1,000	1,000	
PI	0,809	0,816	0,888	0,725	
RI	0,752	0,809	0,854	0,664	
THIS	0,759	0,860	0,853	0,666	
TL	0,843	0,863	0,871	0,309	

This study examines the influence of transformational leadership on innovative work behavior, as well as the variables that mediate and moderate this relationship. Based on the data shown in Figure 2, it is evident that hypothesis 1 is not substantiated. This indicates that transformational leadership has a detrimental effect on innovative work behavior. In contrast, hypothesis 2 is validated, highlighting a positive relationship between transformational leadership and employee creativity. These findings are consistent with prior research and emphasize the positive influence of transformational leadership on fostering a culture of innovation. Furthermore,

hypothesis 3 is confirmed, indicating a positive association between employee creativity and innovative work behavior. The study underscores the importance of work engagement and knowledge sharing in driving creativity and translating it into actionable innovative work behavior. Hypothesis 4 has been validated, indicating that transformational leadership towards innovative work behavior is positively influenced by trust in the supervisor. The results of this study are consistent with the findings of a previous research conducted by [Ryu and Hong \(2020\)](#). Their study showed that there is a strong and favorable relationship between receiving constructive comments on performance and having trust in supervisors, and the feeling of fairness in performance appraisal. Moreover, trust in the Supervisor serves as a partial mediator in the connection between constructive performance feedback and the perception of fairness of performance rating.

CONCLUSIONS

The Bank UMKM study found that, save from Hypothesis 1, which proposed a detrimental direct effect of transformational leadership on innovative work behavior, all other hypotheses were corroborated. The study discovered that transformational leadership has a beneficial indirect impact on innovative work behavior. This is achieved through the promotion of employee creativity and the enhancement of the connection between transformational leadership and innovative work behavior by fostering trust in the supervisor.

The study suggests that in the rural bank industry, transformational leadership plays a significant role. However, its implementation should be gradual and aligned with the existing culture. There is a need to change employees' mindsets to emphasize the importance of change and transformation to create an innovative work environment, ultimately improving performance.

The practical implication for management is that leaders should embrace change. With the concept of transformational leadership, it is crucial for top management and supervisors to have a strong commitment to the company, be adaptable to the evolving environment and technology, and then instill this mindset in their staff.

LIMITATION & FURTHER RESEARCH

If the environment is open to gradual transformation, it will lead to a visible and more significant improvement in company performance. Delving into these areas can provide deeper insights into utilizing transformational leadership for innovation and organizational success.

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