

Examining the Impact of Two Leadership Patterns on Creativity via Psychological Empowerment in Indonesian Service and Banking Sectors

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ABSTRACT

With the lens of sensemaking theory, this research aims to examine the effect of transformational and transactional leadership on employee creativity with psychological empowerment acting as a mediator. This research used quantitative methods with primary data sources. Data was collected by designing in such a way and distributing questionnaires via online. The sample size in this research was 157 respondents who work in various industries such as services, manufacturing, educational institutions, and banking. The data analysis used multiple linear regression and mediating testing procedure by Preacher and Hayes. The results showed that transformational leadership, transactional leadership, and psychological empowerment had a significant positive effect on creativity. Transformational and transactional leadership have a significant positive effect on psychological empowerment. Psychological empowerment succeeded in being mediator for the two different leadership styles in nature, that are transformational and transactional leadership, influencing on creativity. This research contributes to the development of literature on two types of leadership at once, namely transformational and transactional. So far, transactional leaders are considered to have a negative effect on outcome variables. However, this research is able to reveal the same capability between transformational and transactional in improving employee performance particularly in emerging country context.



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INTRODUCTION

Many factors lead organization to win the competition, one of which is employee creativity. Creativity is the capability to create something new or see new relationships between existing elements. Innovation in the organization can be reached when its members have qualified creativity, this can lead the organization to make changes in order to build capability fitting with the uncertain environment (Manresa et al., 2018). However, the creativity also not the only main focus in developing and improving organizational performance (Bendak et al., 2020). One factor that is also related to employee creativity is the style of leadership in the organization. Good leadership and being able to influence his/her subordinates will guide employees in the organization to work optimally, and if employee performance is optimal then the performance of organization as a whole will lead to the achievement of organizational goals (Annisa & Arita, 2022; Azim et al., 2019).

The traditional view of leadership is about leader rewarding employees for the work accomplished. This view is often called transactional leadership (Kark et al., 2018; Ma & Jiang, 2018). However, the focus on leadership has expanded over time, followed by changes in employee behavior. Identification and research on employee behavior because of well treated by their leaders, it make employees more concerned about the results of their work as they have leaders who can change behavior and mindset of its employees to be empowered and directed. This is now known as transformational leadership (Shafi et al., 2020).

According to Khan (2017), transactional leadership is a type of leadership that emphasizes transactions or normative exchanges that occur between members and leader. Meanwhile, Antonakis and House (2014) explain transformational leadership can bring its members to achieve more than what is targeted and go beyond challenges that are considered difficult to overcome. However, some experts and studies also state that transactional leadership can not encourage employee creativity (Afsar et al., 2017; Chua et al., 2022). It may happen because employees only want to get rewards that have been promised by their superiors and do not care about the factors needed to think creatively and innovatively. Tung (2016) implied that transactional leader burdens employees with a set of negative and unexpected psychological state that will decrease their capability to be more creative.

To overcome the inconsistency of the research results above, the authors apply self-concept (Shamir et al., 1993) and sensemaking theory (Brown et al., 2015) approaches to explain the influence of transformational and transactional leadership on creativity mediated by psychological empowerment. The theories of self-concept and sensemaking helps explain role of leadership in changing beliefs and perspectives of employees when receiving influence from their leaders in both transformational and transactional styles. Although the two types of leadership have different patterns of driving influence, employee's self-concept perspective treats it as a positive thing that seeks to advance the organization. Stimulus encouragement with a clear organizational mission and a sense of empathy for employee competency development for the transformational type (Dust et al., 2014), and encouragement for work responsibilities for the exchange of management and employee rights for the transactional type (Afsar et al., 2016), all of

these mechanisms change the view of employees to give a positive response to the organization in the form of productivity and satisfactory performance achievements.

In this study, we proposed that employee creativity can be influenced by both transformational and transactional leadership styles. This is evidenced by previous study Bai et al. (2016) which states that there is a positive and significant influence between transformational leadership and employee creativity. Similarly, research conducted by Khalili (2016) also shows a positive and significant relationship between transformational leadership and employee creativity in developing country firms. Furthermore, research by Mittal and Dhar (2015) produced a positive and significant relationship between transformational leadership and professional staff creativity in Indian IT SMEs. Employee creativity can also be driven by transactional leadership. This is evidenced by previous research Herrmann and Felfe (2014) that is showing a positive and significant relationship between transactional leadership and employee creativity. Another study conducted by Sanda and Arthur (2015) also showed a positive relationship between transactional leadership and employee creativity. Especially in the context of developing countries, transactional leadership is considered more suitable to be applied because of the characteristics of subordinates who are oriented towards short-term profits and the ability of transactional leaders to focus on completing work (Feranita et al., 2020).

Based on sensemaking theory, employees respond and act on encouragement they receive from the leaders. Regardless of the typical pattern of transformational and transactional styles, in fact these two types of leadership have the same goal, namely to force subordinates to perform and achieve organizational goals. This effort is captured and responded to by employee sensemaking. When getting a boost of influence from the leader, it will increase the perception of good development from employees. In a reciprocity mechanism, in turn employees will try to meet the expectations of leaders through certain performance achievements (Brown et al., 2015). Eventually, this preferable performance will contribute to the progress of employees in thinking creatively in their work. With this understanding, the authors proposed psychological empowerment as a mediator between the effects of transformational and transactional leadership on creativity (Bai et al., 2016; Kark et al., 2018). This is also a solution mechanism to overcome several research results that are still contradictory between the relationship of transformational, transactional leadership, and employee creativity (Chua et al., 2022).

Furthermore, psychological empowerment is also an important factor in increasing employee creativity. According to Zimmerman (1995), psychological empowerment is defined as a motivational construct embodied in four cognitions: meaning, competence, self-determination, and value. With these four constructs, it can reflect an active orientation in the work role of an employee. So that employees feel wanted and able to form roles and work contexts (Peterson and Speer, 2000). This thought is in line with the thinking of Spreitzer (1996) who said that psychological empowerment is the key to self-managed work teams and other creative worker engagement groups. Previous research by Mubarak and Noor (2018) shows that there is a positive and significant relationship between psychological empowerment and employee creativity. Another study by Sun et al. (2012) shows that there is a positive and significant relationship between psychological empowerment and creative behavior. Then, research by Yang et al. (2019)

also shows that there is a positive and significant relationship between psychological empowerment and creative engagement activities. Therefore, this research aims to examine the mechanism of the effect of two different leadership styles (transformational and transactional) on employee creativity which is mediated by psychological empowerment. This research also seeks to prove that in the context of the Asian country, Indonesia, the effects of transactional leadership are believed to still have a positive influence on employee creative behavior. We applied the sensemaking theory approach to explain the direction of the relationships that occur in the model.

RESEARCH METHOD

The sample was taken from professional or creative worker working in various service and banking industries spread across 78 companies. This research took respondent conveniently with non-probability sampling to obtain data variants and generalizes results of the study regard to service and banking industries in Indonesia. The authors targetted sample size of 300 respondents with consideration of the formula for taking a minimum sample size from Bougie and Sekaran (2010). In multivariate analysis that examines relationship between variables, the minimum sample size is 10 times of total variables used in research model. So, that the minimum sample size in this research is 40 respondents (4 variables x 10) but we are optimistic that it can obtain more respondents than with this minimum threshold.

Data collection techniques were carried out by designing and distributing questionnaires. Questionnaires can be distributed in various ways, such as personally, electronically, or by e-mailing respondents. This research specifically distributed questionnaires via online by utilizing the social network from LinkedIn. The scale for measuring questionnaire was using Likert scale ranging from strongly disagree (1) to strongly agree (5). In this study, transformational leadership uses 21 items from Podsakoff et al. (1990). The sample measures were, "My supervisor can be a good example for me", "My supervisor pays attention to my personal needs related to work", "My supervisor challenged me to tackle an old problem in a new way". Transactional leadership has 15 items adopted from Avolio and Bass (2002). The sample measures were, "My supervisor gives me rewards for my work achievements", "My supervisor gives me the opportunity to make decisions about existing problems", "My supervisor recognizes my own achievements in work". Psychological empowerment uses 12 items from Spreitzer (1996). The sample measures were, "The work I do is very meaningful to me", "I master the skills necessary for my job", "I believe that I made a big impact on the departments in the companies I worked for". Lastly, employee creativity was measured by 12 items from Zhou and George (2001). The sample measures were, "I'm not afraid to take risks about my jobs", "I make new suggestions for improving the quality related to my work", "I always come up with creative solutions in problem solving efforts".

The authors used instrument testing and structural model to analyze the data. Feasibility of the data analysis was tested with normality and multicollinearity. Confirmatory Factor Analysis (CFA) and Cronbach's Alpha analysis were used to test validity and reliability of the instrument. The authors applied simple regression analysis, multiple, and mediating effects to test causality on the relationship between variables in the model (Preacher and Hayes, 2004). All analyzes use the software tool of SPSS version 25.

RESULT AND DISCUSSION

The authors tested normality using One-Sample Kolmogorov-Smirnov and obtained p-value of $0.069 < 0.05$ with a total of 157 data sample size. This value indicates that the data is normally distributed and there are no outlier data issues because $p\text{-value} > 0.05$. Whereas about multicollinearity, the authors conducted a diagnostic collinearity test on the residual regression model which included independent variables of transformational leadership, transactional leadership, and psychological empowerment. Each of these independent variables obtained Tolerance value of 0.461; 0.550; 0.622 and VIF value respectively 2.171; 1.819; 1,608. The results show that overall Tolerance values > 0.10 and VIF values < 10 , so it can be concluded that there is no multicollinearity problem in the residuals of the regression model in this study. Beside assumption test to check the collinearity issue, we also conduct testing for measurement model that is consist of validity and reliability tests as shown in Table 2.

Table 1. Respondent Profiles

Characteristic	Frequency (n=157)	Percentage (%)	Characteristic	Frequency (n=157)	Percentage (%)
<i>Sex:</i>			<i>Work position:</i>		
Male	86	54.8	CEO/general manager	5	3.2
Female	71	45.2	Manager/assistant manager	28	17.8
<i>Ages: (years old)</i>			Officer/supervisor	32	20.4
< 25	103	65.6	Staff/lines	92	58.6
26 – 30	29	18.5	<i>Tenure: (year)</i>		
31 – 40	15	9.6	< 1	53	33.8
41 – 50	5	3.2	1 – 3	60	38.2
> 50	5	3.2	3 – 5	19	12.1
<i>Education background:</i>			5 – 10	11	7
High school	29	18.5	> 10	14	8.9
Diploma/vocational	11	7	<i>Income per month: (IDR)</i>		
Bachelor	102	65	< 3,500,000	60	38.2
Master	13	8.3	3,600,000 – 5,000,000	27	17.2
Doctor	2	1.3	5,100,000 – 6,500,000	16	10.2
<i>Marital status:</i>			6,600,000 – 8,000,000	16	10.2

Characteristic	Frequency (n=157)	Percentage (%)	Characteristic	Frequency (n=157)	Percentage (%)
Married	47	29.9	> 8,000,000	38	24.2
Single	110	70.1			

Source: Primary data processed, 2023

Table 1 shows that descriptive analysis focuses on profiles and demographics of the respondents. There are seven categories presented along with the frequency of dominant values for each, namely male sex category as many as 86 (54.8%), < 25 years old age was 103 (65.6%), bachelor degree background was 102 (65%), single marriage status was 110 (70.1%), staff/lines job positions was 92 (58.6%), 1-3 years of tenure was 60 (38.2%), and < Rp. 3,500,000 income per month was 60 (38.2%). In addition, the number of respondents obtained was 157, it is still below target sample size of 300, but already above the minimum limit for statistical analysis. So, response rate of respondents in this study was 52.33%. This value is considered sufficient for further analysis.

Table 2. Validity^a and Reliability Results

Variables and Items ^b	Factor Loading				Reliability ^c
	1	2	3	4	
Transformational Leadership (11 items are valid)		0.554- 0.846			(0.940)
Transactional Leadership (5 items are valid)				0.589- 0.707	(0.826)
Psychological Empowerment (4 items are valid)			0.542- 0.865		(0.903)
Employee Creativity (12 items are valid)	0.518- 0.840				(0.943)

Note. Total variance explained for 4 factors 72.215%.

^aRotated component matrix.

Extraction method: Principal component analysis.

Rotation method: Varimax with kaiser normalization.

^bRotation converged in 6 iteration.

^cCronbach's Alpha are in parentheses and bold number.

Source: Primary data processed, 2023

Result of validity test also showed Kaiser-Meyer-Olkin (KMO) value of 0.909 (KMO > 0.50) and Bartlett's Test value indicated by Chi-Squares of 4093.175 significant at 0.000, $p < 0.05$. KMO value > 0.50 and Bartlett's Test which is significant at 0.000 confirms that there is no issue in sample adequacy for further processing in factor analysis. To obtain reduction factor that satisfies four predetermined factors and there are no cross-loading issues, the authors have deleted several items in each variable that having loading factor below 0.50. After these steps, the authors can conclude that measurement of the study is validated. Beside that, all of variables in

the model are considered to be reliable because Cronbach's Alpha value in each variables has exceeded 0.70.

Table 3. Summary of Linear Regression Analysis Result

Model	Unstandardized				F ^c	R2 ^d
	Beta Coeff.	Error	t	Sig.		
TFL → EEC	0.306	0.079	3.879	0.000***	35.857***	0.318
TCL → EEC	0.234	0.076	3.083	0.002**	-	-
PSE → EEC	0.555	0.062	8.956	0.000***	80.209***	0.341
TFL → PSE	0.564	0.060	9.406	0.000***	88.471***	0.363
TCL → PSE	0.440	0.063	6.995	0.000***	48.929***	0.240
TFL → PSE → EEC ^a	0.241	0.070	3.439	0.001**	-	-
TCL → PSE → EEC ^b	0.242	0.061	3.957	0.000***	-	-

Note. N = 157

TFL = Transformational Leadership; TCL = Transactional Leadership; PSE = Psychological Empowerment; EEC = Employee Creativity

^{a,b}The indirect effect was tested with the procedures from Preacher and Hayes (2004). Sig. value in the table means the indirect effect of independent variable when it is regressed together with mediating variable affects its dependent. If p-value < 0.05, then a partial mediating effect exists.

^cF value is the result of ANOVA output which predicts at the level of model goodness.

^dRSquare is expressed in percentage form to determine the extent to which independent variable affects on its dependent.

*p < 0.05; **p < 0.01; ***p < 0.000

Source: Primary data processed, 2023

As shown in Table 3, all relationship directions are supported statistically and psychological empowerment has a partial mediating role in the relationship between transformational-transactional leadership and employee creativity. The F-value which is the output of the ANOVA analysis is significant in all regression models. This implies that the structural model built is considered well enough. Apart from that, the RSquare value also ranged from 0.24 to 0.36, the highest in the regression model tested. This shows that the independent variable has the ability to explain the dependent by 24-36%, while the remaining percentage is explained by other factors outside the estimated model.

Discussion

Based on Table 3, transformational leadership, transactional, and psychological empowerment have a positive and significant effect on creativity (beta coefficient respectively are 0.306; 0.234; 0.555) significant at p < 0.01 and p < 0.000. So, hypotheses 1, 2 and 3 are supported. This finding is in line with Chaubey et al. (2019) who also succeeded in explaining the direct influence of transformational leadership on creativity but in the context of automotive manufacturing companies. Transformational leadership has been proven to encourage

employees to think creatively from mentoring efforts, individual considerations, and exemplary action stimuli by leaders (Mahmood et al., 2019). Transactional leadership was also able to encourage employee creativity. Hussain et al. (2017) emphasized that although transactional drive mechanism is different from transformational type, transactional leader type is able to stimulate creativity and innovative behavior by fostering employee perceptions of responsibility because a contractual relationship has been created between management and employees. This relationship includes contingent rewards attached to employee rights when they have carried out their roles according to the leader expectations (Pieterse et al, 2009). In direct effect, psychological empowerment has also been shown to encourage creativity. When employees feel empowered, they will be more optimistic and confident to improve competence, quality and speed of completing tasks in creative ways (Chenji and Sode, 2019; Permadi et al., 2024; Safari et al., 2020).

From the result, transformational and transactional leadership have positive and significant impact on psychological empowerment (beta coefficient respectively are 0.564; 0.440) both significant at $p < 0.000$. So, hypotheses 4 and 5 are accepted. According to the perspective of self-concept and sensemaking theory, two different types of leadership are able to encourage perceptions of empowerment by employees. Despite the emphasis on transformational type that inspire and seek to assist subordinates individually (Lai et al., 2020) and transactional type that focus on the responsibilities and obligations of management and employees, employees still respond positively to these two types of influence (Farrukh et al., 2019). Schermuly and Meyer (2020) also found that transformational leader behavior creates psychological empowerment. The same thing is also shown by type of transactional leader with his/her ability to emphasize encouragement of contractual relationships that are mutually binding and beneficial so as to trigger employees to feel psychologically empowered (Afis & Armida, 2020; Jong & Faerman, 2021).

This study succeeded in proving the mediating role of psychological empowerment on the influence of transformational and transactional leadership on creativity (beta coefficient respectively are 0.241; 0.242) both significant at $p < 0.01$ and $p < 0.000$. Therefore, hypotheses 6 and 7 are statistically supported. This result is similar to the study of Ma and Jiang (2018) who found a full mediating effect of psychological empowerment on transformational, transactional, and creative behavior. The things that are different from this study compared to Ma and Jiang (2018) are: 1) the object of research in large Chinese companies, 2) the theoretical perspective used in Ma and Jiang (2018) is theory of organismic integration while this study used lens of self-concept and sensemaking theory, 3) Ma and Jiang's study (2018) found that transformational leader did not have a significant effect on creativity, but this study actually found a positive and significant relationship between transformational and employee creativity. Psychological empowerment is able to act as a mediator because two types of leaders with unique encouragement patterns are able to change the perspective of employees so that they are aware of fulfilling the expectations of leaders in a positive reciprocal relationship (Gilbert & Kelloway, 2018). It is such employees' effort that trigger them to contribute creatively in the workplace (Cheong et al., 2016).

CONCLUSION

This research contributes to the development of literature on two types of leadership at once, namely transformational and transactional. So far, transactional leaders are considered to have a negative effect on outcome variables. However, we suspect that the relationship is more appropriate in Western context. In fact, in the context of Eastern country, Indonesia, transactional leaders have been proven to be able to encourage employee creativity. This research is able to reveal the different relationships mechanism between transactional leaders and creativity when faced with different cultural characteristics. Furthermore, from self-concept and sensemaking perspective, this theory also helps explain how transformational and transactional leaders influence creativity through psychological empowerment. This theory emphasizes the positive reciprocal relationship between management and employees. The distinctive drives of the two leadership types change mindset of employees as they receive a series of influencing power that promote high performance to the benefit of both employees and organization.

The practical implication, in the context of Eastern countries, leaders can more freely practice the two types of transformational and transactional leadership because both of them will be positively responded to by employees. This can be realized if transformational and transactional leaders are able to foster perceived psychological empowerment of their employees. Employees will feel empowered when transformational and transactional types can encourage effective two-way communication and the influence of these two leadership types can be conveyed properly to them. When psychological empowerment exists, employees will be more motivated to work and more easily generate creative ideas for organizational advancement.

This study is not without drawbacks that should be considered. Generalization of this research is limited to the context of service and banking industry. Other types of industries with larger sample sizes are needed to broaden understanding. This research has not considered the role of culture and sub-culture which are acknowledged to exist and have an influence on dynamics in the workplace. Creativity in this study is still measured by self-report. Future research can use secondary data such as employee performance report in measuring creativity so as to increase objectivity.

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