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Transformational Leadership and Organizational Innovation: The Mediating Role of Organizational Learning

Made Juliasa[1], I Nengah Aristana[1], Ade Maharini Adiandari[2], dan Ni Putu Kusuma Widanti[3]
[1]Universitas Mahasaraswati Denpasar, Indonesia
[2]Universitas Ngurah Rai, Indonesia
[3]Mahasiswa Program Doktor, Universitas Mahasaraswati Denpasar, Indonesia
Email :juliasa@unmas.ac.id

Abstract

Nowadays, innovation has become an important thing for organizations to do. The cause of this situation is the rapid development of business in the era of globalization, where business actors must always be dynamic in seeking and filling opportunities created in the market. This study analyzes the influence of transformational leadership, organizational learning, and organizational innovation. Qualitative and quantitative data were obtained from both primary and secondary sources by conducting interviews, observations, and distributing questionnaires. The population of this study was all export-oriented small and medium enterprises (SMEs) registered with the Department of Trade and Industry in Bali. The sampling technique used saturated sampling with the random sampling method, saturated sampling so that the number of samples obtained was 66 SMEs. The results of this study indicate that leadership has a significant effect on organizational learning and organizational innovation. Organizational learning has been proven to play a role as a mediator in the relationship between transformational leadership and organizational innovation.

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INTRODUCTION

Innovation has so far been an interesting concept to be studied by researchers. In addition to being assumed to be important in developing an organization (Dickel & Moura, 2016), innovation is also considered a strategy that can improve organizational performance (Naranjo-Valencia et al., 2016; Wahyono & Hutahayan, 2020). The synthesis of various existing empirical shows that organizational innovation can be carried out through two approaches, namely; internal organizational and external organizational approaches, but both are related to each other. This study builds an innovation model using dimensions and indicators from previous research results through a multidimensional perspective, involving elements of internal and external innovation (Birasnav et al., 2013; García-Morales et al., 2008; Noruzy et al., 2013; Prajogo, 2006; Ratih et al., 2016; Sarros et al., 2008; Sutanto, 2017).

Nowadays, innovation has become an important thing for organizations to do. The cause of this situation is the rapid development of business in the era of globalization, where business actors must always be diligent in finding and filling opportunities created in the market. Anticipating an uncertain environment, organizations need innovation to survive in competition (Sarros et al., 2008; Zivkovic, Snezana & Veljkovic, 2016). Innovation is perceived as an effective strategy to maintain competitive advantage so that it can provide value to customers (Birasnav et al., 2013). According to Aristana et al. (2022) and Azar & Ciabuschi (2017) explain that innovation has a very important role in efforts to improve organizational performance. However, McDermott & Prajogo (2012) found that innovation orientation (exploitative and exploratory) cannot be done separately. This finding shows that pursuing one of these two innovation orientations will not affect company performance. In the Karabulut (2015) study which measured the relationship between innovation dimensions and business performance. Where marketing innovation does not have a positive impact on business performance. Each organization has a different ability to adopt innovation, so this is a challenge in the study of organizational innovation. The research gaps found require further study, so it is deemed necessary to build an innovation model. To provide a more in-depth study and strengthen innovation, this study uses the constructs of transformational leadership and organizational learning. This construct is a strong predictor in compiling organizational innovation (Dewi et al., 2023; Sandhu et al., 2017; Rasheed et al., 2021; Sattayaraksa & Boon-Itt, 2015; Tajasom et al., 2015).

Currently, SMEs are experiencing various obstacles in their development, various problems faced requiring them to be in a complicated situation. In general, SMEs face various problems that make it difficult for them to develop, such as difficulty in developing new technology, lack of competent employees, production methods tend to be conventional, accessibility is still low, and minimal business capital (Riana et al., 2019; Yuniartini, 2013). Other obstacles faced by SMEs include the emergence of new competitors with the same products because the products are easily imitated, unstable raw material prices, changes in consumer tastes, weak management, limited production equipment, difficulty marketing products, minimal business networks, lack of professionalism in financial management, limited access to loans, not separating personal wealth from business finances, and not having an administration system (Bonita, 2013; Muchlas, 2015; Wulandari, 2012).

This research has an urgency to find the right formulation to develop innovation in SMEs which will later become a competitive advantage for SMEs facing new normal conditions and post-Covid 19 Pandemic. This research has relevance to the suitability of basic research, because of the explanation of the findings regarding innovation, which is useful for anticipating the phenomenon of the new normal era. In the future, the results of this study will be the basis for being applied to the development of innovation in SMEs according to the needs of stakeholders in developing SMEs in the future. Based on the description of the background above, the problems developed by this study can be formulated, do transformational leadership, organizational learning, and influence on organizational innovation?

METHOD

Research Design

This study uses a quantitative approach by testing and analyzing the influence of each variable used in the research model through hypothesis testing. This study also uses qualitative data in the form of respondents' perceptions of the statements in the questionnaire and information obtained through direct interviews with respondents. The qualitative and quantitative data were obtained from both primary and secondary sources by conducting interviews, observations, and distributing questionnaires. The population of this study was all export-oriented small and medium enterprises (SMEs) registered with the Department of Trade and Industry in Bali. The sampling technique used saturated sampling with the random sampling method where sampling was taken by providing equal opportunities for each member of the population to become a member of the sample (Sugiyono, 2017). There were 66 SMEs used as samples, while the respondents were SME leaders. Furthermore, managers were given many statements according to the research variables used. The questionnaire will be distributed directly to each SME address and also sent indirectly through the media (Email, WhatsApp, and other media) in the form of a Google form to respondents. The characteristics of the respondents who contributed to this study can be seen in Table 1.

Table 1. Respondent Characteristics

Characteristics		Frequency	Percent
Gender	Male	27	40,91
	Female	39	59,09
Age (in years)	17-26	16	24,24
	27-36	33	50,00
	37-46	13	19,70
	47-56	4	6,06
Education	High School	39	59,09
	Diploma	11	16,67
	Bachelor	6	9,09
	Postgraduate	10	15,15
Masa Kerja (in years)	1-5	3	4,54
	6-10	42	63,64
	11-15	21	31,82
N		66	100

Source: Data collection

Measurements

This study uses five variables, consisting of one exogenous variable, two endogenous variables, and one moderating variable. The exogenous variables consist of transformational leadership, the endogenous variables consist of organizational learning and organizational innovation. The questionnaire was compiled using a five-point Likert scale (1 strongly disagree - 5 strongly agree) containing statements about the variables used in the study.

Transformational leadership (X) is a type of leadership that inspires and can motivate subordinates. Transformational leadership consists of 7 previous research statements adopted from

previous studies (Aristana et al., 2023; Sudibjo & Prameswari, 2021), namely; explaining the vision and mission, inviting cooperation, showing creativity, appreciating organizational behavior, being responsible, providing opportunities, and motivating employees.

Organizational learning (Y1) is the process of developing new knowledge and insights from the experiences of employees to influence behavior and improve the company's capabilities. Organizational learning consists of 5 previous research statements adopted from previous research (Tippins & Sohi, 2003), namely: information acquisition, information dissemination, shared interpretation, declarative memory, and procedural memory.

Organizational Innovation (Y2) is the ability to introduce new products and processes to the market to adapt to changes in the market, technology, and competition. The organizational innovation variable consists of 3 items, referring to research (Aristana et al., 2022; Gupta et al., 2016; Madrid-Guijarro et al., 2009; Sintaasih et al., 2020), namely: product innovation, process innovation, and management innovation.

Data Analysis

Inferential analysis techniques are used to test the empirical model and hypotheses proposed in this study. The analysis technique used is structural equation modeling (SEM) based on partial least squares (PLS), PLS is a powerful analysis method (Hair et al., 2010) with the help of the Smart PLS 3.2.9 application program. The stages of testing carried out are 1) evaluation of the Measurement Model or Outer Measurement Model (convergent validity, discriminant validity, and composite reliability) and 2) Evaluation of the Structural Model or Inner Model (R-Square, Q-Square predictive relevance (Q2), Effect size, and hypothesis testing).

RESULTS AND DISCUSSION

Measurement of outer model

Initial analysis was conducted to test the quality of the data using structural model evaluation with several provisions following (Hair et al., 2018). First, convergent validity with the provision that the outer loading value is greater than 0.6 (OL> 0.6). The analysis shows that all item values for each variable used have a value greater than 0.6 (see Table 2). Second, discriminant validity has the provision that the AVE root has a value greater than 0.5 (√AVE> 0.5). Based on the analysis, the AVE root value is greater than 0.5 (see Table 3). Third, composite reliability with the criteria of Cronbach's alpha and composite reliability values has a value greater than 0.7 (CA & CR> 0.7). The analysis shows that all CA and CR values are greater than 0.7. Therefore, these results are considered free from random error problems.

Table 2. Analysis Instruments

Variables/Items	OL	VIF	CA	rho_A	CR	AVE
Organizational Innovation			0,925	0,937	0,953	0,870

INO1	0,926	3,278				
INO2	0,953	4,445				
INO3	0,919	3,467				
Organizational Learning			0,899	0,901	0,925	0,712
LO1	0,863	3,469				
LO2	0,829	2,231				
LO3	0,865	2,659				
LO4	0,869	3,552				
LO5	0,791	1,793				
Transformational Leadership			0,877	0,896	0,904	0,576
TL1	0,716	1,596				
TL2	0,811	3,032				
TL3	0,716	2,192				
TL4	0,661	1,537				
TL5	0,746	1,923				
TL6	0,870	3,784				
TL7	0,771	2,422				

Source: Analysis data

Table 3. Correlation of the constructs Constructs

Variables	IO	KT	PO
Organizational Innovation	0,933		
Transformational Leadership	0,461	0,759	
Organizational Learning	0,479	0,369	0,844

Source: Analysis data

Based on the analysis, the AVE root value is greater than 0.5 (see Table 3). Third, composite reliability with the criteria of Cronbach's alpha and composite reliability values has a value greater than 0.7 (CA & CR> 0.7). The analysis shows that all CA and CR values are greater than 0.7. Therefore, these results are considered free from random error problems.

Measurement of inner model

After measuring the outer model, the analysis is continued with the measurement of the inner model (Hair et al., 2018). Like the previous test, the measurement of the inner model is carried out in several stages. First, the analysis begins by assessing the R-square (R^2) to determine the feasibility of the research model and reveal the relationship between exogenous and endogenous variables. According to Hair et al. (2013) the R^2 value is divided into three categories 0.67 (strong), 0.33 (moderate), and 0.19 (weak). The analysis results are shown in Table 4 where the average R^2 value is 0.229 in the weak category.

Table 4. Construct of feasibility of research model

Variables	R^2	R^2 Adjusted	Q^2
Organizational Innovation	0,323	0,301	0,261

Organizational Learning	0,136	0,122	0,089
Average	0,229	0,212	0,175

Source: Analysis data

Second, the predictive ability of the research framework is measured by measuring the Q-square predictive relevance. Stone (1974) stated that the Q^2 value has a better prediction if it has a value close to 1. The results show that the predicted value is good because it is greater than zero. The prediction is continued by calculating the Goodness of Fit (GoF) value, based on the calculation, the GoF value is 0.406. These results indicate that the accuracy of the model measurement is good. Third, in the stage of testing the effect size (f2), the aim is to provide detailed predictions between independent and dependent variables (Cohen et al., 1998). According to Hair et al. (2018), it has three classifications, namely, weak (0.02 - 0.15), moderate (range 0.15 - 0.35), and strong (greater than 0.35). Based on the findings of the analysis, the average value is 0.396. Therefore, in detail, it provides a strong relationship between variables.

Table 5. Effect size

Relationship between variables	β	Mean	Deviation	T Statistics	P values
KT -> PO	0,369	0,389	0,115	3,201	0,001
KT -> IO	0,461	0,474	0,092	5,001	0,000
PO -> IO	0,357	0,347	0,113	3,160	0,001
Average	0,396				

Source: Analysis data

Hypothesis Testing

The final stage is hypothesis testing to determine the direct and indirect impacts shown between variables. To assess the relationship shown by looking at the path coefficient value, t-statistics, and p-value can be seen in Table 6 and Figure 2.

Table 6. Hypothesis Testing

Relationship between variables	β	Mean	Deviation	T Statistics	P values	Information
Direct Influence						
KT -> PO	0,369	0,375	0,117	3,140	0,001	Supported
KT -> IO	0,329	0,340	0,104	3,164	0,001	Supported
PO -> IO	0,357	0,352	0,114	3,134	0,001	Supported
Indirect Influence						
KT -> PO -> IO	0,132	0,133	0,064	2,044	0,021	Supported

Source: Analysis data

Based on the analysis, it shows that transformational leadership has a positive and significant effect on organizational learning with a path coefficient value of 0.369, t-statistics of 3.140, and p-value of 0.001 (H1 Supported). In addition, transformational leadership also has a significant positive effect on organizational innovation with a path coefficient value of 0.329, t-statistics of 3.164, and p-value of 0.001 (H2 Supported).

Organizational learning has a significant positive effect on organizational innovation with a path coefficient value of 0.357, t-statistics of 3.134, and p-value of 0.001 (H3 Supported). The indirect effect

shows that organizational learning acts as a mediator of the relationship between transformational leadership and organizational innovation with a path coefficient value of 0.132, t-statistics of 2.044, and p-value of 0.021 (H4 Supported).

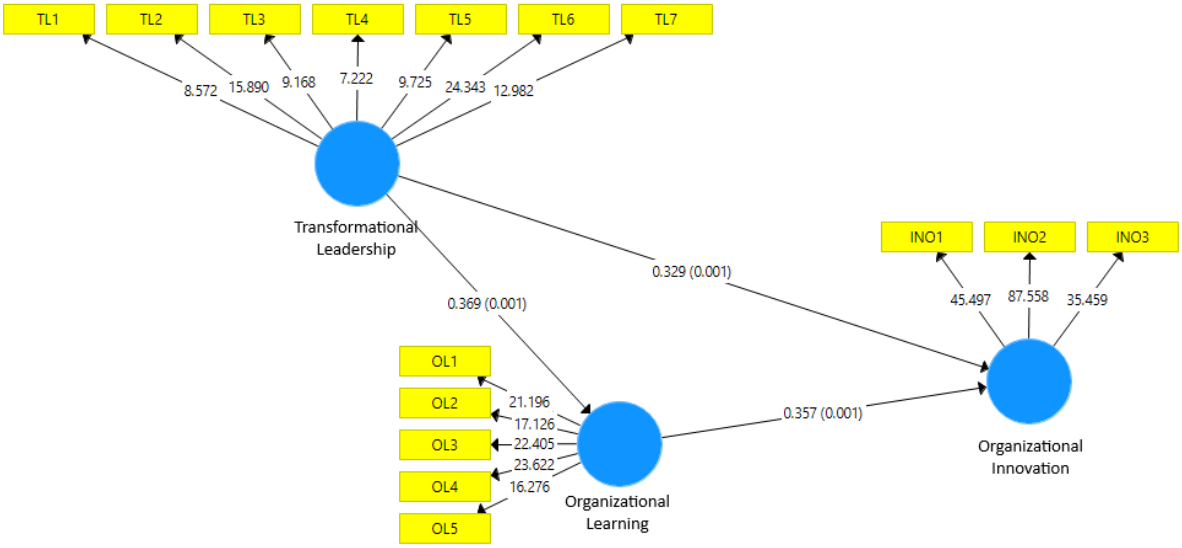

Figure 1. Model Bootstrapping Smart PLS

Discussion

Changes in business management patterns in developing countries such as Indonesia. This situation requires leaders to be able to adopt an appropriate leadership style. In essence, leaders are not only oriented toward current organizational achievements, but leaders must also pay attention to factors that can ensure that the company can compete sustainably, e.g. innovation. This study explores transformational leadership in increasing innovation. The findings show that transformational leadership has a positive impact on innovation. This shows that the better the implementation of transformational leadership, the more innovation increases. The results of this study support previous studies (Aristana et al., 2022; Chaar & Easa, 2021; Chen et al., 2016; Gumusluoglu & Ilsev, 2009). specifically, transformational leadership encourages SMEs to develop products, processes, and management. So, it can be concluded that transformational leadership can help SMEs maintain their existence through innovation (Aristana et al., 2024).

Transformational leadership has a significant influence on organizational learning. These results indicate that the better the implementation of the transformational leadership style, the better the organizational learning in SMEs. These results support the findings of previous studies, which state that transformational leadership affects learning (Begum et al., 2020; Khan et al., 2020; Noruzy et al., 2013). This is inseparable from the characteristics of transformational leadership, which challenges the status quo and can build a vision and mission for the future (Elshanti, 2017). Because after all, vision is very important for organizational learning. In addition, transformational leadership can motivate its followers through more fundamental trust and empowerment, so that for them learning is not something

scary and vulnerable. Learning that develops in the organization ultimately provides new knowledge, which can help the organization grow through innovation in various sectors such as products, processes, and management (Sintaasih et al., 2020).

Organizational learning is an important thing in developing organizational innovation. Where organizational learning becomes a process of improving steps through better knowledge and understanding. In this study, learning has a significant impact on organizational innovation. This finding supports previous studies (Gomes et al., 2022; Gomes & Wojahn, 2017; Liao et al., 2017) where organizational learning facilitates the development of organizational innovation. In addition, in addition to having a direct impact on the development of innovation. The acquisition of knowledge can enable employees to find new ideas in carrying out routine activities. In addition, knowledge facilitation is the key to driving SME performance through innovation. Organizational learning also plays a role as a mediator of the influence of transformational leadership on organizational innovation. This finding supports the research of Liao et al. (2017), where organizational learning is stated as a mediator of transformational leadership and organizational innovation. In other words, organizational learning can trigger the relationship between leadership and innovation in SMEs. Although this study was conducted on SMEs, which generally have relatively low learning intensity. However, the learning carried out has an important impact on SME management. So, this research consistently emphasizes the important role of organizational learning in producing knowledge to support organizational development, especially SMEs.

CONCLUSION

This study aims to analyze the influence shown by transformational leadership, organizational learning, and organizational innovation on SMEs. The results of the study indicate that transformational leadership affects organizational learning and innovation. Likewise, organizational learning shows an effect on innovation and organizational learning also acts as a mediator. So it can be concluded that all constructs measured in this study contribute to increasing organizational innovation. Thus, to develop SMEs, innovation is needed in the fields of products, processes, and management and based on the results of the study it is determined by transformational leadership and organizational learning.

Like previous studies, this study also has limitations. First, the sample used in this study is export SMEs as a source of information. So, it is recommended to use a larger sample to generalize the research results to be implemented in different businesses. Second, this study was conducted using the perception of managers. In the future, use the employee perspective so that the research results can be compared to produce findings that are closer to the phenomena that occur in SMEs. Besides, this study is a cross-sectional study where the results obtained still need further testing. So that longitudinal research can be a solution to find out SME problems in depth.

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