

A Study of Innovation Culture: The Effect of Transformational Leadership on Employee's Performance



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ABSTRACT: The background of this research is the importance of an organization building a culture of innovation as a tool to increase the growth of an organization on the one hand, on the other hand, the growth of an organization certainly cannot be separated from employee performance and the leadership model applied in the organization. This study aims to reveal the effect of transformational leadership on employee performance with a culture of innovation as a mediating variable. This research uses a quantitative approach with a survey method. Respondent research as many as 78 employees of a private bank in the city of Magelang central Java Indonesia. The data collection technique was a questionnaire and the data was analysed with Partial Least Square (PLS). The results revealed that transformational leadership influences both directly and indirectly through innovation culture as an intervening variable on employee's performance. The results of this study emphasize the important role of a leader who applies a transformational leadership model to be able to foster a culture of innovation and improve employee performance.

KEYWORDS: transformational leadership, innovation culture, employee performance

I. INTRODUCTION

Changes in the organization's strategic environment that are very fast will make the organization face various problems and challenges that can reduce organizational performance and employee performance if the organization is unable to adapt to the waves of technological development changes, the organization must have innovative capabilities. Therefore, it is a necessity and obligation for organizations to make changes and continuous improvements by building strengths in order to continue to innovate. This change in the strategic environment will be a source of problems if the organization is late to adapt and take strategic steps. Excellent companies are usually characterized by the number of innovations they produce, largely determined by organizational culture. A strong organizational culture is a binder of togetherness at work that makes the organization productive. Organizational culture can be the identity of an organization that influences how people and employees think and act in the organization (Ancok, 2012).

(Dobni, 2008) explains that innovation culture is a multidimensional concept consisting of the intention to be innovative, the infrastructure that encourages innovation, the innovative behavior needed to influence the market and focus on value, and the environment to implement innovation. To encourage the innovation process in an organization, the organization must encourage and motivate employees to actively innovate and stimulate employees to take risks. Without the courage to take risks, innovation in the organization will be difficult to realize. Meanwhile, (Wei et al., 2013) explained that organizations can build a culture of innovation by experimenting with various ways to improve and empower organizational performance by producing new products and services to meet consumer needs.

Leaders have a very important role to determine the growth and survival of an organization. Many companies are unable to survive in the market, bankrupt and die because they are managed by leaders who do not have foresight. Company innovation is slow and even stops because leaders are satisfied with what has been achieved so far. There is no spirit to improve organizational performance through continuous innovation. Organizations must pay attention to the importance of innovation for the survival of the organization, because without innovation the company will die. Making a company into an innovative company is a must and a challenge for every company leader. The waves of change that continue to occur and the increasingly

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severe challenges of the Company to continue to move forward and exist, require leaders to be able to improve and motivate employees to bring out their creativity and improve employee performance (Sutiyatno, 2022).

Employee performance plays a very important and strategic role in the organization because the greatness, excellence, success, and failure of an organization is determined by the quality of human resources in the organization, therefore a transformational leadership figure is needed, namely leaders who inspire their members to innovate and make changes. (Jung et al., 2008) revealed that there is a positive influence between transformational leadership style and innovation in the company. So, the more transformational the leaders in the company, the more innovation will emerge in the company. Transformational leadership is a leadership model that integrates charismatic and visionary leadership that aims to change and transform people. There are four factors of transformational leadership, namely: Idealized Influence, Inspirational Motivation, Intellectual Stimulation, and Individualized Consideration. Transformational leadership is closely related to the emotions, values, standards, ethics, long-term goals, and motives of followers to meet their expectations and needs, and treats and considers them as full human beings (Northouse, 2007). Companies must continuously maintain, develop, and improve the quality of employee performance, the greatness and competitiveness of an organization is determined by the quality of employee performance (Sutiyatno, 2024). The results revealed that transformational leadership has a positive and significant impact on organizational effectiveness through its components, namely inspirational motivation, intellectual stimulation, and individual consideration (Chien-Chi et al., 2020).

An effective organization can be realized if a leader can develop and improve the performance of his employees. (Mohammad, 2019) emphasizes that employee performance can be interpreted as the employee's ability to show how well the employee is able to carry out his work effectively and efficiently and produce better output. Meanwhile, (Amalia et al., 2021) explains that employee performance is the ability of employees to show their work both in quality and quantity. (Kozioł-Nadolna, 2020) states that a leader has a strategic role in influencing innovative behavior in the company. Behavior in fostering a culture of innovation must be open to new ideas and employee initiatives for better organizational change.

This study aims to reveal the role of innovation culture as a mediating variable in influencing the relationship between transformational leadership and employee performance.

II. METHOD

The study used a quantitative research approach with a survey method. The object of research is a private bank in Magelang. Respondents in the study totaled 78 employees consisting of 52 male employees and 26 female employees. The data collection technique is a questionnaire. The transformational leadership questionnaire was adopted and modified from (Blanchard, 2007). Meanwhile, the innovation culture questionnaire was developed and modified from (Ravasi, 2016). The employee performance questionnaire was developed and modified from (Koopmans et al., 2014).

Partial Least Square (PLS) was used to analyze the data, Confirmatory Factor Analysis was used to evaluate validity. Meanwhile, Indicators are measured by a loading factor $> .050$. Average Variance Extracted (AVE) should be $\geq .50$. Meanwhile, Reliability was measured based on Cronbach's alpha and Composite Reliability (CR) that must be greater than $> .70$.

The characteristics of employee respondents include age, educational background, and length of service. Employees who have an undergraduate education are 6 people or 7.69%, undergraduate as many as 12 people or 15.38%, diploma level as many as 22 people or 28.20%, and high school as many as 29 people or 37.18%, and the remaining 9 people have a junior high school education background or 11.54%. Employee tenure ranges between 0-10 years around 42 people or 53.84%, between 10-15 years around 23 people 29.48%, and above 15 years around 13 people or 16.66%.

III. RESULT

Below are presented the results of the analysis to determine reliability and validity (Table 1).

Table 1. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Behav	0.867	0.872	0.904	0.655
Climate	0.864	0.866	0.902	0.647
ContPerfS	0.931	0.933	0.941	0.572
CountWBS	0.903	0.904	0.922	0.595

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EmplPerf	0.969	0.970	0.971	0.556
Idealized	0.882	0.885	0.909	0.587
Individual	0.938	0.941	0.947	0.620
InnoCult	0.976	0.977	0.978	0.594
Inspirational	0.982	0.982	0.984	0.847
Intellectual	0.852	0.853	0.894	0.629
Processes	0.870	0.877	0.906	0.658
Resources	0.851	0.853	0.900	0.692
Success	0.878	0.880	0.911	0.673
TaskPerfS	0.899	0.900	0.920	0.623
TransLead	0.983	0.985	0.984	0.648
Values	0.902	0.907	0.925	0.672

Construct Validity Measurement

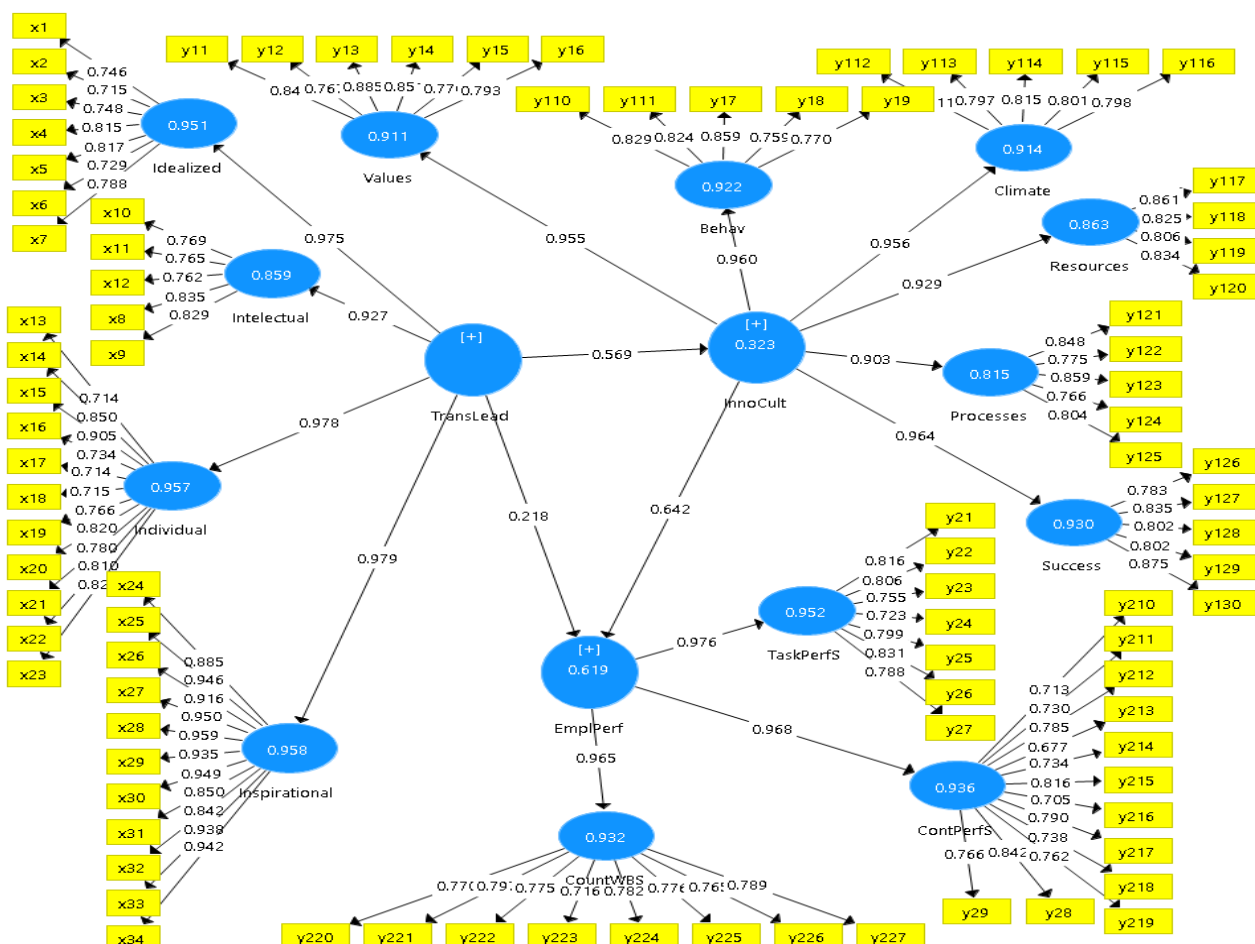
Measurement of instrument validity is done through two orders. Based on the results of the analysis, the first order, the constructs to be used proved to be valid with loading factors every construct $p < .05$. Similarly, the validity measurement for the second order explains that all manifests proved to be valid loading factors $p < .05$, it explains that the instruments are valid.

Construct Reliability Measurement

Measurement of instrument reliability is also carried out through first order and second order, based on the results of the analysis the instruments have acceptable reliability, internal reliability with coefficient Cronbach's Alpha $> .7$; CR > 0.7 , and AVE > 0.5 .

Measurement of Structural Model

The result of analysis can be described as the figure 1 below.



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Hyphothesis Testing

The results of hyphothesis testing can be seen in the table below:

Table 1. The Result of Hyphothesis Testing

	Dependence	Endependence	Coefficient	t _{val}	P
Direct Effect	Innovation Culture (InnoCult)	Transformational Leadership (TransLead)	0.569	6.699	< 0.0001
	Employees' Performacee (EmplPerf)	Innovation Culture	0.642	8.787	< 0.0001
		Transformational Leadership	0.218	2.100	0.036
Indirect Effect	Employees' Performacee	Transformational Leadership	0.365	4.859	< 0.0001
Total Effect	Employees' Performacee	Transformational Leadership	0.583	5.879	< 0.0001

Based on figure one and table one above, transformational leadership has a significant effect on innovation culture with coefficient .569 and $p < .05$. Meanwhile, organizational culture significantly affects employee performance with coefficient .642 and $p < .05$ and transformational leadership directly affects employee performance with coefficient .218 and $p < .05$. Meanwhile, organizational culture has a significant effect on employee performance with coefficient .642 and $p < .05$ and transformational leadership has a direct effect on employee performance with coefficient .218 and $p < .05$. Then, transformational leadership indirectly affects employee performance with coefficient .365 and $p < .05$. The effect of transformational leadership both directly and indirectly on employee performance with coefficient .583 and $p < .05$.

IV. DISCUSSION

Transformational Leadership on Innovation Culture

Based on the results of the study, empirically transformational leadership affects the culture of innovation in a company. These results explain that a leader who applies a transformational leadership style has an important role in fostering organizational culture. The results of the study are in line with (Gemasari et al., 2024) found that transformational leadership affects innovative work behavior. Leaders in an organization have a strategic role to encourage the emergence of new ideas to build innovation.

A successful leader to drive innovation is one who develops and values diversity by inviting people from different fields of knowledge to work together on a project. Diversity can generate new ideas to realize innovation as an organization's competitiveness. If an organization wants to survive and grow in the face of global competition, then a leader must be able to create innovation. (Żywiołek et al., 2022) found transformational leadership not only drives employee performance but also employee creativity. Creativity can be defined as the cognitive and behavioral processes used when generating and developing new ideas, while innovation can be explained as a process used when implementing new ideas (Hughes et al., 2018). So, leaders create a work culture that supports creativity, encourages their people to find solutions independently when they face problems, explores complex challenges by reframing problems and problem solving. The attitude in fostering a culture of innovation must be open to new ideas and opinions and employee initiatives for better organizational change.

Intellectual stimulation as one of the dimensions of transformational leadership plays an important role to explore and develop the capacity of followers to think critically and build creativity. Leaders prioritize a culture of continuous innovation and believe that inclusiveness fosters the best conception of innovation. Innovation is a form of change of something, either incremental, or radical that must be managed properly. (Nilasari et al., 2022) found that employee creativity is significantly influenced by transformational leadership with mediation of perceived organizational support. So transformational leadership has a very important role to develop employee creativity. On the other hand, the intellectual stimulation dimension in transformational leadership plays an important role in triggering employees to think of new ideas to encourage innovation. (Afsar & Umrani, 2020) state that a leader who applies a transformational leadership model is an ideal leader who can inspire, motivate and build innovative work behavior and culture.

(Zhang et al., 2018) found that the innovation climate in an organization is influenced by the transformational leadership model. Transformational leaders are able to foster a culture of critical and creative thinking to face challenges. They encourage change, open their organizations to welcome different ideas, and adopt new knowledge and technological

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development. Transformational leaders are agents of change in organizations, encouraging cultural shifts that successfully enable the innovation process. However, different findings based on the results of research (Widianingsih et al., 2024) transformational leadership has no significant effect on innovative work behavior and (Tanga et al., 2024) found organizational innovation is not influenced by the transformational leadership model.

Transformational leadership has a positive impact on organizational culture. The results of this study confirm that a leader can build an organizational culture to improve employee performance (Rizki et al., 2019). Meanwhile, (Lee et al., 2020) revealed that creativity and innovation can be built by applying a transformational leadership style. A culture of innovation can develop in an organization if leaders can create a work atmosphere that encourages people in the organization to freely express new ideas and ideas, innovation can come from anyone, not just the monopoly of leaders. Every leader must believe that every human being has the ability to become an innovator. (Geisler, 2010) found a positive relationship between transformational leadership and innovative work behavior. However, (Ancok, 2012) states that a very important thing to think about is the implementation and realization of innovation from new ideas. The manifestation, among others, is in the form of the organization's ability to implement ideas that provide added value (value added ideas), as well as the organization's ability to harmonize systems and processes in accordance with the needs of environmental changes.

(Usman et al., 2022) found that transformational leadership has no effect on innovation, however, innovation culture and transformational leadership have a significant effect on organizational performance. Leaders create a work culture that supports creativity, encourages their subordinates to find solutions independently when they face problems, explores various complex challenges by reframing problems and problem solving. The attitude in fostering a culture of innovation must be open to new ideas and opinions and employee initiatives for better organizational change. A leader should trust employees to realize the positive impact of a culture of innovation.

Innovation Culture on Employee's Performance

Based on the results of the study, it was found that innovative culture affects employee performance. These findings explain that employee performance can increase if the organization has a culture of innovation. Thus a leader must build an innovative culture so that employees can express their new ideas freely to improve their performance. A corporate culture that encourages innovation and creativity can facilitate continuous progress in the organization's products, services, and procedures. (Widianingsih et al., 2024) revealed that employee performance is significantly influenced by innovative work behavior. However, organizational culture affects employee performance. So with a quality organizational culture will have an impact on employee innovation behavior. Innovative behavior will be reflected in how they do their work constructively, creatively, objectively, and rationally to improve organizational performance and leadership styles can create an innovative culture. Meanwhile, (Zulhelmi et al., 2019) revealed that innovative leadership behavior has a positive effect on performance. An innovative leader is a creative visionary. They can help improve organizational performance by introducing unique solutions to overcome various obstacles and encouraging creative behavior in the people they manage.

(Sutiyatno et al., 2022) explain that building innovation is a very important determinant of an organization's performance. Leaders have a strategic role in creating innovative behavior within the company. Behavior in developing an innovative culture must be open to new ideas and opinions as well as employee initiatives to improve their performance and better organizational change. Organizational culture and marketing innovation affect company performance.

(Aboramadan et al., 2020) in their research found marketing innovation to be an intervening variable in the relationship between organizational culture and bank performance. However, (Firdaus et al., 2023) revealed other results that organizational culture has no effect on employee performance and Organizational culture has no effect on employee performance (Pamungkas et al., 2023). Leaders who are able to spur innovation do not make one employee the only source of ideas. Leaders must be able to create an atmosphere that allows each employee to be motivated to express their ideas. So employees are the determining factor for increasing the productivity and competitiveness of an organization. So a leader can improve can develop organizational culture as a means to improve the performance of organizational employees (Mutiarra et al., 2023).

Employee performance is influenced by culture of control and commitment (Pratiwi et al., 2024). Similarly, (Wei et al., 2013) found that a perceived innovative culture affects employee job satisfaction, organizational dynamism, and the performance of a company. According to study findings (Espig et al., 2022), "innovation culture is a multidimensional concept that includes the intention to be innovative," the availability of infrastructure to support innovation, the existence of operational-level behaviors needed to influence market orientation and values, and environmental conditions for implementing innovation, creativity, and workforce strength. The socialization process, where employees learn the basics of the company's values, is one factor that influences innovation, as are the principles, procedures and tactics that help companies formally encourage innovation and creativity. (Dobni, 2008) explains that innovation culture can be explained as a multidimensional

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concept that includes the desire and intention to be innovative, the availability of infrastructure to encourage the birth of innovation, the operational behaviors needed to influence the market and focus on value, and the environment that supports innovative culture.

(Diansyah & Putri, 2022) found that the transformational leadership model and organizational culture affect employee performance. Leaders who are able to build a culture of innovation and are able to influence their subordinates so that they realize the meaning of their lives and want their lives to be more meaningful, will make them always try to think and work to create the best they can do. Their creativity and innovation will emerge and there will be a sense of ownership of what they do. They will be proud of their work.

Transformational Leadership on Employee's Performance

The results revealed that transformational leadership has a direct effect on employee performance. These results emphasize that improving employee performance is inseparable from the role of a transformational leader. So, transformational leadership plays a very important role in improving employee performance. Transformational leadership is able to inspire and motivate its followers by building emotional connections so that they can work better and more creatively. (Dwivedi et al., 2020). Transformational leadership plays a very important role in encouraging employees so that they can improve performance and exceed expectations and put the company's interests at the top priority and transformational leadership has a significant effect on job performance and organizational commitment (Almaududi Ausat et al., 2022). Meanwhile, (Nugroho, 2025) found employee performance, organizational climate, and organizational commitment were influenced by transformational leadership. Through motivation that can inspire followers, transformational leaders with the influence of individual consideration can foster perceptions of themselves as a leader who can support and care for subordinates to improve their performance. (Afsar & Umrani, 2020) revealed that the transformational leadership model pays serious attention to employee welfare, helps solve problems, is open to new ideas, and improves employee performance.

Leadership effectiveness can be evidenced by its capacity to manage and execute change, and develop organizational capabilities and performance (Amiri et al., 2020). Change is one of the important factors to adjust and align the interests of the organization with developments in the external environment. The leader's job is to facilitate and support new ideas from all employees. (Anand, 2021) reveals the influence of transformational leadership on employee engagement and job performance. Transformational leaders have an important role for their followers and inspire them to improve their performance. In addition, (Suzana et al., 2024) explains that employee performance is influenced by transformational leadership. Meanwhile, employees who are able to offer innovative and creative ideas will be able to bring sustainable growth to the Company. Similarly, (Widianingsih et al., 2024) found that employee performance is positively and significantly influenced by transformational leadership.

Namun demikian, (Firdaus et al., 2023) found different results that transformational leadership style has no effect on employee performance and employee performance, likewise, (Pamungkas et al., 2023) also found that transformational leadership has no effect on employee performance. So, these results increase that the duties and responsibilities of a transformational leader are to arouse employee morale by providing intellectual challenges is a strategic step to stimulate the birth of innovative ideas.

A transformational leader is a leader who is able to spur innovation in a company that develops cooperation with various parties in the company to enrich new ideas to produce an innovation. Transformational leadership with characteristics of idealized influence, inspirational motivation, intellectual stimulation, individualized stimulation has a significant effect on employee performance. These four dimensions can encourage employees to work hard wholeheartedly, and be loyal to the organization, so as to improve the quality and quantity of their performance results. So, it can be explained that the more effective the application of transformational leadership will have an impact on the higher employee performance. (Azzaakiyah et al., 2023). Employee performance is directly influenced by the transformational leadership model as well as the effect on organizational culture (Mutiarra et al., 2023).

Transformational Leadership on Employee's Performance through Innovation Culture as Intervening Variable

The results of the study found that the culture of innovation can play a role as a mediating influence of transformational leadership on employee performance. So a culture of innovation is a very important factor in improving employee performance, a transformational leader must instill an innovation mindset as a priority in building a culture of innovation. Transformational leadership is proven to not only improve the performance of followers but also facilitate the emergence of creativity and innovation of followers. The culture of control and commitment can mediate the effect of transformational leadership on employee performance. (Pratiwi et al., 2024). In contrast, (Widianingsih et al., 2024) revealed conflicting results, namely Innovative work behavior has not been able to mediate the effect of transformational leadership style

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on employee performance. Innovative work behavior is not able to be an intervening variable in the relationship between transformational leadership and employee performance. (Firdaus et al., 2023) found that transformational leadership and organizational culture have no effect on employee performance mediated by job satisfaction. Similarly, (Tanga et al., 2024) revealed that employee creativity is unable to mediate the effect of transformational leadership on organizational innovation. Likewise, organizational culture has no effect on organizational innovation with the mediating variable of employee creativity.

Successful leaders are highly dependent on their ability to actively respond to change and proactively drive change, so a leader should have an innovative spirit and be able to empower and drive employee performance by developing an innovative culture. Transformational leadership and organizational culture affect employee performance. (Pangarso et al., 2021). A strong organizational culture is a binder of togetherness at work that makes the organization productive and innovative. Organizational culture can be the identity of an organization that influences people to think and act to generate new ideas and improve company performance. Transformational leadership has a significant effect on performance with the intervening variable of work environment. The results of other relevant research (Mutiara et al., 2023) found that transformational leadership affects employee performance with the support of work motivation as a mediating variable. A transformational leader not only acts as an inspirer but also a motivator for his followers to always improve their performance.

Transformational leaders have the ability to clearly communicate the vision of the organization. They have a personal character that creates confidence in their followers. They empower their followers by creating an organizational culture that encourages high performance. Transformational leaders understand the importance of inspiring their team members to think creatively, innovatively, and embrace change. They view the problem-solving process as an opportunity for growth and a challenge to achieve success. (Vega et al., 2020) revealed that the relationship between the transformational leadership model and employee performance was successfully mediated by job satisfaction. In addition, (Pratiwi et al., 2024) stated that the culture of control and commitment can mediate the effect of transformational leadership on employee performance. Transformational leadership can drive innovation and help their organization to improve its competitiveness. Leaders who can improve employee morale and employee performance. Leaders who encourage innovation and open communication can foster a work environment where employees feel free to express new ideas. (Gunawan & Abadiyah, 2021) revealed that transformational leadership and organizational climate affect organizational performance both directly and through the variable organizational commitment as a mediating variable. A culture of innovation can develop in an organization if leaders can create a work atmosphere that encourages people in the organization to improve their performance and they can freely express new ideas and ideas, innovation can come from anyone not only the monopoly of leaders.

CONCLUSIONS

This study aims to find the effect of transformational leadership on employee performance with the mediating variable of innovation culture. The results revealed that transformational leadership affects both directly and indirectly on employee performance through innovation culture as an intervening variable. Based on the results of the study, it was found that transformational leadership has a significant effect on innovation culture, while innovation culture affects employee performance and transformational leadership directly affects employee performance and indirectly through the intervening variable of organizational culture.

The results confirm the important role of innovation culture in a company therefore a leader must develop and instill the values of innovation culture to improve employee performance. In addition, the results of this study also explain that organizational culture plays an important role in mediating the relationship between transformational leadership and employee performance.

IMPLICATION

The results of this study empirically interpret the important role of the transformational leadership model in improving employee performance both directly and indirectly through the culture of innovation. This means that organizational culture in an organization as one of the determinants of organizational competitiveness has an important role in improving employee performance. However, the greatness and strength of an organization is highly dependent on employee performance as the spearhead of a company. The theoretical implication of the research results is the need to construct a theory that includes the values of organizational culture and employee performance in transformational leadership to complement the existing dimensions of transformational leadership. The practical implication is that a leader can apply a transformational leadership model to improve employee performance by building an organizational culture in his company.

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LIMITATION

This research has some limitations and offers suggestions for future research. This study only investigates one intervening variable of innovation culture to improve employee performance. In addition, this research is only limited to one research object with a limited sample.

RECOMMENDATIONS

The future research can also add the scope of objects with a larger population. Therefore, it is suggested to involve more variables independent dan variable intervening.

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