

Fostering Employee Performance Through Innovative Work Behavior: The Roles of Work Flexibility and Transformational Leadership

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ABSTRACT: This study aims to examine the effects of work flexibility and transformational leadership on employee performance with innovative work behavior as a mediating variable. Using a quantitative survey approach, data were collected from 80 employees of the Regional Public Drinking Water Company Tirta Amertha Buana in Tabanan Regency, Indonesia. Structural Equation Modeling (SEM) with SmartPLS 3 was employed for data analysis. The results reveal that work flexibility significantly enhances employee performance and has a strong positive influence on innovative work behavior. Although transformational leadership does not directly impact employee performance significantly, it strongly influences innovative work behavior, which in turn mediates the relationship with performance. The findings underscore the strategic importance of fostering innovation through flexible work arrangements and transformational leadership, especially in public sector organizations aiming for higher efficiency and service quality. This study contributes both theoretically and practically by emphasizing innovative work behavior as a crucial mechanism in achieving employee performance improvements.

KEYWORDS: Work Flexibility, Transformational Leadership, Innovative Work Behavior, Employee Performance

I. INTRODUCTION

Employee performance is a critical indicator of a company's success in facing increasingly competitive global markets. Factors influencing employee performance include work flexibility, leadership style, and innovative work behavior. Work flexibility, encompassing adjustments in work timing, location, and methods, is considered vital in fostering effective and innovative working conditions (Mandalahi et al., 2024; Hediningrum, 2023). Likewise, transformational leadership, focused on inspiring and motivating employees, significantly enhances creativity and productivity (Alharbi & Aljounaidi, 2021; Ekhsan & Setiawan, 2021). Additionally, innovative work behavior refers to an individual's ability to generate, share, and implement new ideas that significantly contribute to company growth (Arifin et al., 2024; Putri et al., 2023).

Nevertheless, previous studies have shown inconsistent findings regarding the effects of work flexibility and transformational leadership on employee performance. Some studies indicate a positive significant relationship between work flexibility and employee performance (Mandalahi et al., 2024), whereas others found no significant relationship (Eshak, 2021). Similarly, studies on the relationship between transformational leadership and employee performance have yielded mixed results; some found a positive significant relationship (Anwar et al., 2023), while others reported a non-significant or even negative relationship (Hadi, 2018).

The identified research gap due to these inconsistencies highlights the importance of further investigation, incorporating innovative work behavior as a mediating variable to clarify these relationships. Prior research suggests that innovative work behavior potentially clarifies the relationship between work flexibility and transformational leadership and their impact on employee performance (Putri et al., 2023; Rahman et al., 2020).

The urgency of this study is reinforced by empirical data from the Regional Public Drinking Water Company Tirta Amertha Buana, Tabanan Regency, which shows relatively lower performance compared to other regional drinking water companies in Region IV. Initial surveys indicate that many employees have not fully benefited from work flexibility, and various issues related to transformational leadership exist, such as insufficient attention from leaders to employee problems and limited opportunities for employees to propose innovative ideas (Yamin & Pusparini, 2022).

This study aims to provide theoretical contributions by clarifying and detailing the mediating role of innovative work behavior in the relationship between work flexibility, transformational leadership, and employee performance. Practically, it

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offers strategic recommendations for companies, particularly Perumda Air Minum Tirta Amertha Buana, to enhance work flexibility policies and leadership practices to improve employee performance. The novelty of this research lies in integrating innovative work behavior as a mediating variable within the specific context of regional drinking water companies in Tabanan Regency, which has not been explored in previous studies. Consequently, this research enriches the literature on human resource management and provides practical implications for specifically enhancing employee performance within regional enterprises. The objective of this study is to examine the direct and indirect effects of work flexibility and transformational leadership on employee performance, mediated by innovative work behavior at the Regional Public Drinking Water Company Tirta Amertha Buana, Tabanan Regency.

II. LITERATURE REVIEW

A. Theoretical Foundation

This research draws upon several theoretical frameworks, including Organizational Behavior Theory, Goal Setting Theory, Psychological Perspective Theory, and Maslow's Hierarchy of Needs Theory. Organizational Behavior Theory explores how individual, group, and structural dynamics impact organizational behavior to enhance organizational effectiveness (Robbins & Judge, 2019). Goal Setting Theory emphasizes the motivational effects of setting clear, specific, and challenging goals, driving employees towards improved performance (Locke & Latham, 2002). Psychological Perspective Theory, particularly the Stimulus-Organism-Behavior-Consequences (S-O-B-C) model, highlights how stimuli such as leadership style and workplace flexibility influence employee behavior and subsequently organizational outcomes (McKenna, 2020). Maslow's Hierarchy of Needs Theory suggests that employee motivation and performance are driven by fulfilling hierarchical needs, from basic physiological needs to self-actualization. These theories provide a comprehensive lens to understand the complex relationship between work flexibility, leadership, and employee performance, offering valuable insights into how organizations can optimize their human resource management practices to enhance overall performance.

B. Work Flexibility

Work flexibility refers to managerial policies or practices designed to provide employees greater autonomy regarding work timing, duration, and location (Mandalahi et al., 2024). Flexible working provides employees with opportunities to decide when, where, and how they complete their work (Hediningrum, 2023). Work flexibility involves practices allowing employees to adapt their work processes, aligning job tasks more closely with individual preferences and needs (Eshak, 2021). Previous studies have shown that work flexibility positively and significantly influences employee performance (Yamin & Pusparini, 2022). However, other research reported contrasting results, indicating no significant relationship (Mandalahi et al., 2024; Hediningrum, 2023; Eshak, 2021; Yamin & Pusparini, 2022).

Hypothesis 1: Work flexibility positively affects employee performance.

C. Transformational Leadership

Transformational leadership is characterized by leaders inspiring and motivating employees to exceed normal performance expectations and achieve higher levels of personal and professional growth (Alharbi & Aljounaidi, 2021). Such leadership fosters an environment where employees feel encouraged to achieve their best and experience significant personal development (Ekhsan & Setiawan, 2021). Several studies have found that transformational leadership positively and significantly impacts employee performance (Anwar et al., 2023; Ferozi & Chang, 2021). In contrast, other research indicated a non-significant negative relationship (Mangkunegara & Huddin, 2016; Udin, 2023).

Hypothesis 2: Transformational leadership positively affects employee performance.

D. Innovative Work Behavior

Innovative work behavior is described as the complex actions employees undertake to generate, share, and implement new ideas within the workplace (Arifin et al., 2024). Employees working under flexible conditions often experience greater freedom and comfort, leading to increased innovative behavior (Futri et al., 2023). Previous research has confirmed that work flexibility positively influences innovative work behavior (Rahman et al., 2020; Yamin & Pusparini, 2022).

Hypothesis 3: Work flexibility positively affects innovative work behavior.

Transformational leaders are pivotal in encouraging creative and innovative thinking across the organization. They facilitate a culture conducive to developing and implementing new ideas (Anwar et al., 2023). Several studies have confirmed the significant positive impact of transformational leadership on innovative work behavior (Futri et al., 2023; Situmorang et al., 2023). Conversely, other studies reported non-significant results (Mangkunegara & Huddin, 2016; Udin, 2023).

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Hypothesis 4: Transformational leadership positively affects innovative work behavior.

E. The Mediating Role of Innovative Work Behavior

Innovative work behavior enhances organizational competitiveness and employee performance by fostering creativity and implementing new, beneficial processes (Arifin et al., 2024). Empirical studies have demonstrated the positive and significant influence of innovative work behavior on employee performance (Futri et al., 2023; Rahman et al., 2020). Conversely, other research found no significant influence (Yamin & Pusparini, 2022). Considering innovative work behavior as a mediating variable, previous studies have demonstrated its effectiveness in mediating the relationship between work flexibility and transformational leadership with employee performance (Futri et al., 2023). Some studies found that innovative work behavior mediated the relationship between work flexibility and employee performance (Arifin et al., 2024), while others reported its mediating effect between transformational leadership and employee performance (Situmorang et al., 2023).

Hypothesis 5: Innovative work behavior positively affects employee performance.

Hypothesis 6: Innovative work behavior mediates the relationship between work flexibility and employee performance.

Hypothesis 7: Innovative work behavior mediates the relationship between transformational leadership and employee performance.

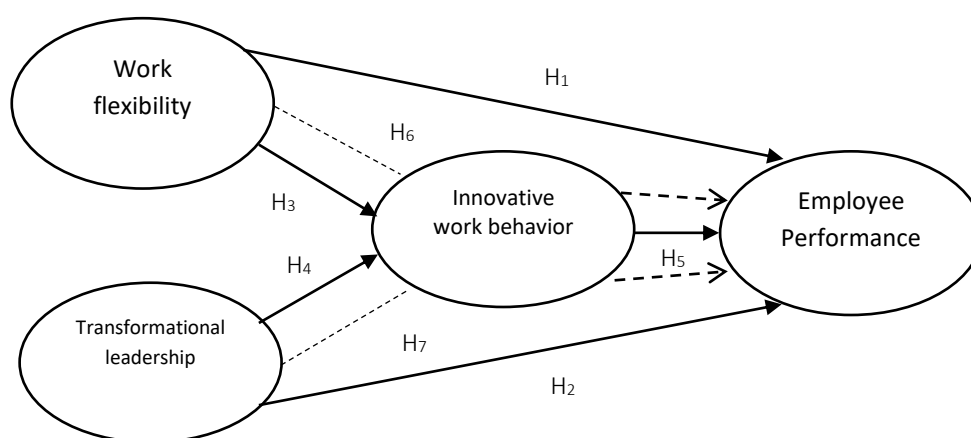


Figure 1. Research Conceptual Framework

III. METHODOLOGY

This study employs a quantitative research design utilizing a detailed survey approach to thoroughly examine the hypothesized relationships derived from the theoretical and empirical literature. The targeted population for this research consists of all employees working at the Regional Public Drinking Water Company Tirta Amertha Buana located in Tabanan Regency, totaling 80 individuals. Due to the relatively small size of this population, a census sampling method was implemented, ensuring that every employee was included as a respondent. This method guarantees a high degree of representativeness and comprehensiveness of the collected data, thus enhancing the reliability of the research findings. Primary data collection was executed through the distribution of structured questionnaires developed from previously validated measurement scales specifically designed to assess four key constructs: work flexibility, transformational leadership, innovative work behavior, and employee performance. The questionnaire was administered directly to the respondents, with clear instructions provided to avoid misunderstandings and ensure accurate responses.

Measurement items for all variables were operationalized using a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5), facilitating precise quantification of respondents' perceptions and attitudes. To ensure the accuracy and consistency of the measurement instruments, rigorous validity and reliability testing were conducted using Confirmatory Factor Analysis (CFA) and Cronbach's Alpha coefficients. Structural Equation Modeling (SEM) with Partial Least Squares (PLS) was utilized for data analysis via Smart-PLS 3 software. SEM-PLS was selected because of its capability to handle complex structural relationships involving direct and indirect effects, particularly suitable for mediating variables, even with relatively small sample sizes. The analytical procedure included two crucial stages: first, evaluating the measurement model (outer model) to ascertain the validity and reliability of the constructs; second, assessing the structural model (inner model) to test the proposed hypotheses comprehensively, covering direct and indirect relationships, thus providing robust and insightful conclusions regarding the studied variables.

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IV. RESEARCH RESULT AND DISCUSSION

A. Result

This section presents the findings of the study based on the data collected from 80 employees of the Regional Public Drinking Water Company Tirta Amertha Buana in Tabanan Regency. The results were analyzed using Structural Equation Modeling (SEM) with the SmartPLS 3 software. The analysis includes the assessment of the measurement model (outer model) and the structural model (inner model) to test the validity, reliability, and hypothesized relationships between work flexibility, transformational leadership, innovative work behavior, and employee performance.

The research questionnaire that had been developed was then pilot tested with 30 respondents to ensure the instrument's validity and reliability. A summary of the validity and reliability test results is presented in the following table.

Table 1. Instrument Test

No.	Construct	Indicator	Correlation Coefficient	Description	Cronbach Alpha	Description
1.	Work flexibility	X _{1.1}	0,814	Valid	0,721	Reliable
		X _{1.2}	0,746	Valid		
		X _{1.3}	0,840	Valid		
2.	Transformational leadership	X _{2.1}	0,787	Valid	0,708	Reliable
		X _{2.2}	0,830	Valid		
		X _{2.3}	0,662	Valid		
		X _{2.4}	0,622	Valid		
3.	Innovative work behavior	Y _{1.1}	0,850	Valid	0,739	Reliable
		Y _{1.2}	0,689	Valid		
		Y _{1.3}	0,693	Valid		
		Y _{1.4}	0,757	Valid		
4.	Employee performance	Y _{2.1}	0,495	Valid	0,727	Reliable
		Y _{2.2}	0,804	Valid		
		Y _{2.3}	0,626	Valid		
		Y _{2.4}	0,717	Valid		
		Y _{2.5}	0,806	Valid		

Source: Data Processing (2025)

Based on Table 1, all items across the four research variables work flexibility, transformational leadership, innovative work behavior, and employee performance have correlation coefficients above 0.60, indicating that each item is valid for measuring its respective construct. The lowest correlation (0.495) is still within acceptable limits for exploratory research. Additionally, the Cronbach's Alpha values for all variables exceed 0.70, which confirms that each instrument is reliable and has good internal consistency. Thus, the measurement instruments used in this study are both valid and reliable for further analysis.

Table 2. Outer Loading

Construct	Indicator	Outer Loading
Work flexibility (X ₁)	Time flexibility (X _{1.1})	0,891
	Timing flexibility (X _{1.2})	0,821
	Place flexibility (X _{1.3})	0,789
Transformational leadership (X ₂)	Idealized influence (X _{2.1})	0,795
	Inspirational motivation (X _{2.2})	0,712
	Intellectual stimulation (X _{2.3})	0,784
	Individualized consideration (X _{2.4})	0,806
Innovative work behavior (Y ₁)	Idea exploration) (Y _{1.1})	0,864
	Idea generation) (Y _{1.2})	0,856
	Iidea championing) (Y _{1.3})	0,845

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Construct	Indicator	Outer Loading
Employee performance (Y ₁)	Idea implementation) (Y _{1.4})	0,915
	Quantity of work (Y _{2.1})	0,732
	Quality of work (Y _{2.2})	0,802
	Punctuality (Y _{2.3})	0,829
	Effectiveness (Y _{2.4})	0,734
	Independence (Y _{2.5})	0,811

Source: Data Processing (2025)

Table 2 shows that all indicator variables have outer loading values above 0.70, indicating strong contributions to their respective latent constructs. For the work flexibility variable, the indicator time flexibility (0.891) shows the highest loading, suggesting it is the most dominant aspect perceived by respondents. In the transformational leadership construct, individualized consideration (0.806) has the highest loading, highlighting its crucial role in shaping transformational behaviors. Regarding innovative work behavior, idea implementation (0.915) demonstrates the strongest factor loading, indicating that turning ideas into action is a key manifestation of innovation among employees. Finally, for employee performance, punctuality (0.829) and independence (0.811) emerge as the most influential indicators. These findings confirm that all indicators are reliable measures of their constructs and meet the recommended threshold for convergent validity in reflective measurement models.

Table 3. Structural Model Evaluation Results (Inner Model)

Structural Model	Endogenous Variables	R-square	Information
1	Innovative work behavior	0,392	Moderat
2	Employee performance	0,683	Baik

Calculation: $Q^2 = (1 - [(1 - R_1^2) (1 - R_2^2)])$

$Q^2 = (1 - [(1 - 0,392) (1 - 0,683)]) = 0,807$

Source: Data Processing (2025)

The R-square (R^2) value for innovative work behavior is 0.392, indicating that 39.2% of the variance in innovative work behavior can be explained by the exogenous variables (work flexibility and transformational leadership). This reflects a moderate explanatory power. Meanwhile, the employee performance variable has an R-square of 0.683, meaning that 68.3% of the variation in employee performance is explained by innovative work behavior, work flexibility, and transformational leadership—an indication of a strong model. Furthermore, the predictive relevance (Q^2) value is calculated at 0.807, which is far above the minimum threshold of 0.35. This indicates that the structural model has a high predictive relevance, demonstrating that the model not only fits well statistically but also has strong potential for predicting future observations in similar settings.

Table 4. Results of Direct Effect Hypothesis Testing

No.	Relationship between variables	Path Coefficient	T-Statistics	p-value	Information
1.	Work flexibility – Employee performance	0,286	2,039	0,042	H ₁ accepted
2.	Transformational leadership – Employee performance	0,265	1,651	0,101	H ₂ rejected
3.	Work flexibility – Innovative work behavior	0,796	2,002	0,011	H ₃ accepted
4.	Transformational leadership – Innovative work behavior	0,703	3,372	0,001	H ₄ accepted
5.	Innovative work behavior – Employee performance	0,403	3,950	0,000	H ₅ accepted

Source: Data Processing (2025)

The results of direct effect hypothesis testing indicate that work flexibility has a significant positive impact on employee performance ($\beta = 0.286$, $T = 2.039$, $p = 0.042$), supporting H₁, which implies that flexible working arrangements can enhance productivity. However, transformational leadership does not significantly influence employee performance directly ($\beta = 0.265$, $T = 1.651$, $p = 0.101$), leading to the rejection of H₂ suggesting that its effect may operate through other variables. Work flexibility significantly boosts innovative work behavior ($\beta = 0.796$, $T = 2.002$, $p = 0.011$), confirming H₃, while transformational leadership also has a strong and significant effect on innovative work behavior ($\beta = 0.703$, $T = 3.372$, $p = 0.001$), supporting H₄. Finally,

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innovative work behavior significantly contributes to employee performance ($\beta = 0.403$, $T = 3.950$, $p = 0.000$), validating H5. These findings underscore the pivotal role of innovation as a bridge between workplace conditions, leadership, and performance outcomes.

Table 5. Results of Indirect Effect Hypothesis Testing

No.	Relationship between variables	Path Coefficient	<i>T-Statistics</i>	<i>p-value</i>	Information
1.	Work flexibility – Innovative work behavior – Employee performance	0,339	2,611	0,024	H ₆ accepted (<i>T-statistic</i> > 1,96)
2.	Transformational leadership – Innovative work behavior – Employee performance	0,283	2,357	0,019	H ₇ accepted (<i>T-statistic</i> > 1,96)

Source: Data Processing (2025)

The results of the indirect effect hypothesis testing show that innovative work behavior significantly mediates the relationship between work flexibility and employee performance ($\beta = 0.339$, $T = 2.611$, $p = 0.024$), supporting H6, and also mediates the relationship between transformational leadership and employee performance ($\beta = 0.283$, $T = 2.357$, $p = 0.019$), supporting H7. These findings indicate that while transformational leadership may not directly affect performance, it can still enhance it indirectly by fostering innovative behaviors. Similarly, the impact of work flexibility on performance is amplified when it encourages employees to engage in innovation. Thus, innovative work behavior serves as a crucial mechanism linking both leadership and flexibility to improved employee outcomes.

B. Work Flexibility and Employee Performance

The results confirm Hypothesis 1, showing a significant positive relationship between work flexibility and employee performance (path coefficient = 0.286, *T-statistic* = 2.039, *p-value* = 0.042). This finding suggests that increasing work flexibility significantly contributes to enhanced employee performance, highlighting the importance of flexible work arrangements in achieving organizational effectiveness (Mandalahi et al., 2024; Hediningrum, 2023). This implies that when employees are given autonomy regarding when and where they perform their tasks, they experience higher job satisfaction and productivity, resulting in improved overall performance (Eshak, 2021). Flexible work schedules can increase employees' sense of control and well-being, positively impacting performance (Yamin & Pusparini, 2022). In addition, flexible work arrangements are known to promote work-life balance, which in turn enhances engagement and output (Mandalahi et al., 2024).

C. Transformational Leadership and Employee Performance

Hypothesis 2 was not supported by the data, as the analysis revealed a non-significant relationship between transformational leadership and employee performance (path coefficient = 0.265, *T-statistic* = 1.651, *p-value* = 0.101). This result indicates that, although transformational leadership is generally considered beneficial, its direct influence on employee performance was not statistically significant in this particular context (Anwar et al., 2023; Ferozi & Chang, 2021). This suggests that additional factors or mediators might be necessary to translate transformational leadership practices into measurable improvements in employee performance (Udin, 2023). Transformational leadership tends to yield better results when coupled with a culture of innovation or high intrinsic motivation, which may have been lacking or unevenly distributed in this organization (Mangkunegara & Huddin, 2016).

D. Work Flexibility and Innovative Work Behavior

The findings strongly support Hypothesis 3, demonstrating that work flexibility has a substantial positive impact on innovative work behavior (path coefficient = 0.796, *T-statistic* = 2.002, *p-value* = 0.011). This result underscores the critical role of flexible working conditions in fostering innovation among employees, thereby facilitating organizational growth through creativity and innovation (Mandalahi et al., 2024; Hediningrum, 2023). Employees operating in a flexible environment feel more empowered and encouraged to generate, promote, and implement innovative ideas, thus enhancing organizational competitiveness (Rahman et al., 2020). A flexible work setting supports cognitive freedom and a sense of psychological safety, both of which are key to encouraging innovative behavior (Yamin & Pusparini, 2022).

E. Transformational Leadership and Innovative Work Behavior

The analysis also confirms Hypothesis 4, revealing that transformational leadership significantly and positively influences innovative work behavior (path coefficient = 0.703, *T-statistic* = 3.372, *p-value* = 0.001). This finding highlights the essential function of transformational leadership in promoting an innovative and creative organizational culture (Anwar et al., 2023;

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Ferozi & Chang, 2021). Leaders who inspire, motivate, and support employee development are crucial in creating an environment conducive to innovation and continuous improvement (Ekhsan & Setiawan, 2021). A leader's intellectual stimulation and individualized consideration are instrumental in nurturing employees' innovative efforts (Udin, 2023; Mangkunegara & Huddin, 2016).

F. Innovative Work Behavior and Employee Performance

Hypothesis 5 is supported, as the data analysis shows that innovative work behavior has a positive and significant influence on employee performance (path coefficient = 0.403, T-statistic = 3.951, p-value < 0.001). This indicates that fostering innovative behaviors among employees significantly enhances their overall performance (Arifin et al., 2024; Futri et al., 2023). Employees who consistently engage in innovative practices tend to achieve higher job satisfaction, increased efficiency, and greater effectiveness in fulfilling organizational objectives (Rahman et al., 2020). Innovative behavior not only improves individual task performance but also contributes to organizational adaptability and service quality (Situmorang et al., 2023).

G. Innovative Work Behavior Mediate the Relationship Between Work Flexibility and Employee Performance

Hypothesis 6 receives empirical support, with innovative work behavior significantly mediating the relationship between work flexibility and employee performance (path coefficient = 0.339, T-statistic = 2.611, p-value = 0.024). This mediation emphasizes the importance of innovative behaviors as a mechanism through which flexible work arrangements enhance employee outcomes (Mandalahi et al., 2024; Hediningrum, 2023). It suggests that providing flexible working conditions alone is not sufficient; encouraging innovative practices among employees amplifies the benefits of flexibility on performance (Rahman et al., 2020). Flexible environments can stimulate innovative thinking, which in turn leads to better performance outcomes (Yamin & Pusparini, 2022).

F. Innovative Work Behavior Mediate the Relationship Between Transformational Leadership and Employee Performance

Finally, Hypothesis 7 is validated, as innovative work behavior significantly mediates the relationship between transformational leadership and employee performance (path coefficient = 0.283, T-statistic = 2.357, p-value = 0.019). This underscores the critical mediating role innovative work behavior plays in amplifying the positive effects of transformational leadership on employee performance (Anwar et al., 2023; Ferozi & Chang, 2021). Transformational leaders who effectively foster an innovative climate enable their employees to leverage creativity and novel ideas to achieve enhanced performance outcomes (Ekhsan & Setiawan, 2021). This result indicates that innovation acts as a bridge that translates inspirational leadership into tangible improvements in employee output (Udin, 2023; Mangkunegara & Huddin, 2016).

VI. CONCLUSIONS

This study investigated the effects of work flexibility and transformational leadership on employee performance, with innovative work behavior as a mediating variable, in the context of a regional public utility company in Indonesia. The findings confirmed that work flexibility directly enhances employee performance and positively influences innovative work behavior. Transformational leadership, while not having a significant direct effect on performance, significantly encourages innovative work behavior, which in turn improves performance. The mediating role of innovative work behavior was validated in both the work flexibility performance and transformational leadership performance relationships, highlighting its importance as a mechanism for organizational improvement.

Theoretically, this research contributes to the enrichment of human resource management literature by reinforcing the role of innovative work behavior as a mediating factor between managerial practices (such as flexible working and transformational leadership) and employee performance. The use of Organizational Behavior Theory, Goal Setting Theory, and Psychological Perspective Theory provided a robust framework for understanding employee dynamics in contemporary work environments. Practically, organizations are encouraged to adopt flexible work arrangements that allow employees autonomy in performing their duties, which enhances creativity and productivity. Additionally, companies should focus on developing transformational leaders who foster innovation by creating a supportive and inspiring work environment. Particularly in public service organizations, such leadership and workplace designs can help improve efficiency and service quality.

This study is subject to several limitations. First, the research focused solely on a single public organization in Tabanan Regency, which may limit the generalizability of the findings to other sectors or regions. Second, the data were collected through self-reported questionnaires, which may be influenced by response biases. Third, the cross-sectional design of the study limits the ability to establish causal relationships between variables over time. Future studies could expand the scope by involving multiple organizations or comparing public and private sector settings to enhance the generalizability of the findings.

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Longitudinal designs are also recommended to better understand the causality and long-term effects of flexible work and leadership styles. Moreover, incorporating additional moderating variables such as organizational culture, job type, or digital readiness may offer deeper insights into how and when work flexibility and leadership influence performance through innovation.

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