

# THE EFFECT OF TRANSFORMATIONAL LEADERSHIP ON ORGANIZATIONAL INNOVATION THROUGH EMPLOYEE CREATIVITY AND INTERNAL SOCIAL CAPITAL IN THE PANDEMIC TIME OF COVID-19

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## ABSTRACT

*This study aims to solve the research gap that occurs in transformational leadership towards organizational innovation. Besides presenting research novelty, the research gap is also resolved by combining employee creativity and internal social capital variables. The approach used in this research is quantitative with a purposive sampling technique. This study involved 125 respondents in the context of a properties company in Indonesia. Using data analysis techniques Partial Least Square (PLS), this study shows that transformational leadership has no significant effect on organizational innovation. Transformational leadership has no significant effect on employee creativity, transformational leadership has no significant effect on internal social capital; employee creativity has a significant effect. Regarding organizational innovation, internal social capital has a significant influence on organizational innovation. In contrast, through employee creativity, transformational leadership does not have a significant effect on organizational innovation, and transformational leadership through employee creativity and internal social capital does not have a significant effect on organizational innovation.*

**Keywords:** Transformational Leadership, Organizational Innovation, Employee Creativity, Internal Social Capital, Properties Company

## INTRODUCTION

As the Indonesian economy develops in 2020, facing problems, namely the COVID-19 outbreak, the company's economy has also experienced a decline. According to the Central Statistics Agency (BPS), Indonesia's economic growth in the first quarter of 2020 decreased by 2.97% year-on-year. This calculation shows a contraction of growth of 2.41% when compared to the fourth quarter of 2019. This is because business actors are limited by government health protocols, for example, social distancing. The current reality makes companies need to consider organizational innovation issues. According to De Jong (2006), innovation describes two main approaches: object-based, focusing on innovation itself, and subject-based, focusing on subjects such as countries, industries, organizations, and groups, which initiate and implement innovations. Organizational innovation is described as creating new, meaningful, and useful products or services in a corporate environment (Woodman et al., 1993; Gumusluoglu & Ilsev, 2009). Janssen, et al., (2004); innovation is considered a more complicated process. Camisón & Villar-López (2014) stated that technological innovation and organizational innovation are at a higher corporate performance level.

Transformational leadership plays an essential role in companies; transformational leadership has been suggested to impact innovation because an organization tends to innovate. According to Vargas (2015), an influential and effective leader can create, develop, and

commercialize talents who work in organizations to foster creativity and innovation. Transformational leadership is described as a process in which leaders become role models who motivate employees (Bednall et al., 2018; Suifan et al., 2018). Leaders instill an innovative vision in employees to encourage innovative work behavior (De Jong, 2006). Transformational leadership occurs when leaders relate to other people so that leaders and followers elevate themselves to higher levels of motivation and morality. Transformational leadership encourages employees to put additional working hours beyond what is expected and achieve organizational goals through self-actualization (Lindebaum & Cartwright, 2010). Leaders with inspirational motivation create a sense of team spirit oriented towards the desired goal (Bass & Riggio, 2010).

According to Khan, Rehman & Fatima (2009), transformational leadership positively affects organizational innovation because Lee & Jung (2006) found transformational leadership that promotes innovative abilities. Sosik, Kahai & Avolio (1998) claim that transformational leadership encourages creative ideas that encourage innovation. Gumusluoglu & Ilsev (2009) also found transformational leadership positively and significantly influencing organizational tendencies to innovate. Today's dynamic environment pressures organizations to change to be innovative. Managers in organizations now feel pressured to change themselves and act as leaders. With their dedication and commitment, they can give new blood to the organization and increase innovation. Then some studies state that transformational leadership does not affect organizational innovation. Eisenbeiss, van Knippenberg & Boerner (2008) states that transformational leadership is not significant for team innovation for a tropical climate for excellence. This is because researchers use team climate theory by extending and empirically testing West's (1990) model principles. This research will try again with a novelty by combining employee creativity and internal social capital as a mediator.

Employee creativity also has an essential role in an organization. Employee creativity is the creativity or new ideas that employees have. To make this happen, must be influenced by transformational leadership, transformational leadership shows that it can stimulate employee creativity because transformational leadership can encourage creativity in the workplace. Leaders must also understand and meet employees' needs because employees have different qualities, so leaders will find it easy to ask employees to think about innovations for the organization's sustainability. According to Mittal & Dhar (2015), transformational leadership has a positive effect on organizational employees' creativity. Transformational leadership involves behaviors that motivate employees to adopt new approaches to challenges and think differently (Podsakoff et al., 1990). The influence of employee creativity on organizational innovation is needed because it can bring up new and unique innovations and will be more developed and able to compete as the times develop. Creativity results from an individual or team, regardless of their functional area and position in the organizational hierarchy, whereas creativity focuses on idea production; innovation includes idea production and implementation. Thus, creativity is the first and essential innovation stage, but the ideas and implementation tend to be different (Zhou & Hoever, 2014).

Talking about employee creativity and organizational innovation do not also forget the role of internal social capital. Internal social capital is a collection of values or informal norms that are spontaneously divided among the group members, which allows for collaboration between them. Leaders build strong interpersonal relationships by increasing trust and teamwork relationships, sharing information, and increasing fairness between leaders and members (Whipple et al., 2015). According to Raja, et al., (2018), there is an influence between transformational leadership and internal social capital; this study shows that social identity is key to how transformational leadership can shape resources. Finally, leaders form and consolidate a keen vision for the future among top management team members (Jansen et al., 2008). Transformational leadership serves as an admired, trusted, and respected role model that inspires idealized influence behavior following high ethical and moral standards (Bono & Anderson, 2005). Transformational leadership can facilitate team members' interaction, build strong relationships, and establish norms for sharing information to enhance collaboration and shared responsibility (Sparrowe et al., 2001).

According to Chen, et al., (2016), there is a significant influence between transformational leadership and internal social capital. Organizations that share information well are more likely to have unique and rare knowledge challenging to imitate by competitors, resulting in significant organizational innovation (Lin, 2007). Team potential, teamwork, and altruistic team behavior are essential to innovation (Pearce & Ensley, 2004). Enhanced internal social capital, in turn, increases the potential for vital innovation throughout the organization (Sanchez-Famoso et al., 2014). In organizational literature, internal social capital is generally considered a resource derived from a personal network or a series of ties to achieve specific goals (Alguezaui & Filieri, 2010). From an internal perspective, the exchange of ideas and knowledge, and individual relationships between group members contribute to a company's ability to identify and develop innovative opportunities that could not have been identified and developed otherwise. Thus, more outstanding internal communication, coordination, and cooperation enable people to collaborate and promote learning, knowledge, and innovation (Subramaniam & Youndt, 2005; Tsai & Huang, 2008; Tsai & Ghoshal, 1998). According to Yazdanifar (2018), the central proposition of social capital is a social network (personal communication) developed from time to time. It needs to be based on trust and cooperation that includes existing and potential resources contributing to social relations. With internal social capital, organizations can develop and have innovations thanks to individuals' thoughts, then they are realized in an organization.

The context of this research is on the property company in Indonesia. Property companies sell, buy and rent, including houses, offices, shop houses, boarding houses, and factories. The core business of this company is property related to buying and selling activities. Therefore it requires marketing personnel, namely agents who can also be referred to as company partners. Companies need agents to be the backbone of the company in supporting income for the company. Agents will make it easier for buyers to find the desired property by only giving the desired property characteristics. The advantage is not only felt by the buyer but also from the seller's side because the property that is entrusted to be sold or rented to the agent will be promoted through the property group so that the opportunity to find a buyer or tenant will be more fantastic than when they sell themselves without intermediaries.

The agent performance at the property company cannot be separated from the role of a leader. At the end of each year, the leader has a task that provides an evaluation of the agent's performance achievement as assessed by the company's sales target. This target will then be increased in the following year. As a leader, the principle also motivates agents to be enthusiastic and committed to their work.

## **REVIEW OF LITERATURE**

### **Transformational Leadership**

Transformational leadership is a leader approach by making efforts to increase awareness, arouse employee enthusiasm to try their best in achieving organizational goals, without feeling pressured or pressured, so that the organization becomes effective across managerial levels (Howell & Avolio, 1993). Transformational leadership can regulate followers' values and norms, encourage them to bring about change at the personal and organizational level, and help them perform beyond expectations (Hose & Shamir, 1993; Jung & Avolio, 2000). To achieve beyond, expectations increase their level of motivation and increase their self-esteem, resulting in increased organizational innovation (Gumusluoglu & Ilsev, 2009; Mumford et al., 2002). According to Vargas (2015), an influential and effective leader is a person who can create, develop, and commercialize talents who work in organizations to foster creativity and innovation. Burns (1978) pioneered the concept of transforming leadership and described it as an exchange process in which leaders and followers help each other advance to higher morale and motivation levels. These leaders move the employee's past by engaging the employee's interests into a motivational state to pursue the organizational vision vigorously.

This effect is achieved through intellectual stimulation, emotional appeal, and inspiration from the leader, and the innovation goals appear vibrant, lively, exciting, and even real (Zuraik & Kelly, 2019). Transformational leadership encourages employees to put extra work hours beyond what is expected and achieve organizational goals through self-actualization (Lindebaum & Cartwright, 2010). Avolio & Bass (1995) propose four dimensions of transformational leadership: inspirational motivation, idealized influence, individual judgment, and intellectual stimulation.

Inspirational motivation is defined as traits that motivate and inspire leaders who provide energy to followers to serve the organization's vision. Leaders with emotional motivation give a sense of team spirit that leads them to the desired goals (Bass & Riggio, 2010). Ideal influence refers to situations where leaders are admired, respected, and trusted by those who follow them. The dimension also refers to charismatic behavior that incites a sense of motivation in followers to achieve organizational goals (Bass et al., 2003). According to Masood & Afsar (2017), transformational leadership creates a supportive workplace through inspiration, motivation, and individual consideration. Transformational leadership is described as a process in which leaders play idealized role models, stimulate and encourage innovative work behavior, provide inspirational motivation, and are involved in supporting and guiding followers to achieve the organization's shared vision and goals (Bednall et al., 2018; Suifan et al., 2018; Suifan et al., 2018). Individual consideration implies the leader's attention in supporting, guiding, and developing followers and paying attention to their individual needs and growth (Bass & Riggio, 2010). Intellectual stimulation encourages followers to question assumptions and seek them to be creative in the problem-solving process (Bass et al., 2003).

### **Transformational Leadership Indicators**

Transformational leadership is creating a supportive workplace through inspiration, motivation, and individual consideration. Here are some indicators to measure transformational leadership variables: (Stone et al., 2004).

1. Idealized influence is a factor that looks at a leader's charisma, whether the leader has a strong impact and high self-confidence. It can also be seen from a charismatic leader's actions, such as the carried values. This dimension emphasizes that a leader must be a role model who is admired, appreciated, and followed by employees.
2. Inspirational motivation is the character of a leader who can apply high standards and be able to encourage employees to achieve these standards. This character can generate high optimism and enthusiasm; in other words, the leader always inspires and motivates employees.
3. Intellectual stimulation is the character of a leader who can encourage employees to be creative and innovative and solve problems carefully and rationally. This character also encourages employees to find new, more effective ways of solving problems.
4. Individualized consideration is the character of a leader who can appreciate and understand each employee's differences. Leaders will be happy to listen to their aspirations, educate, and train their employees. Leaders can see the potential and needs of employees and can facilitate it.

### **Organizational Innovation**

In every organizational activity, people will feel that they enjoy these activities if the activities' implementation is not monotonous. Therefore the organization itself requires a breakthrough. The breakthrough in the organization is called organizational innovation. The concept of innovation has received the attention of several researchers in the past. Organizational innovation is generally understood as a firm-level innovation in management initiatives (Oke et al., 2007). According to Anzola-Román, et al., (2018), organizational innovation introduces new organizational methods in business practices, workplace organizations, or company external relations. Indeed, engagement with externally sourced innovation practices raises a range of challenges resulting from growing complexity, ultimately requiring adequate organizational responses and mechanisms for managing resources and

knowledge. As a result, organizational innovation can play an important role, as a manifestation of the company's internal context that may determine the successful implementation of outside-sourced innovation practices.

According to De Jong (2006), this concept was considered for the first time by Schumpeter (1934), who recognized it by describing the innovation process as creating new brands, products, services, and processes and their economic impact development. For a long time, the survival of organizational innovation was considered an essential factor. According to Archibugi & Sirilli, past literature on innovation describes two main approaches that are object-based, focusing on innovation itself, and subject-based, focusing on countries, industries, organizations, and groups implement innovations (in De Jong, 2006). Organizational innovation is described as creating new, meaningful, and useful products or services in a corporate environment (Woodman et al., 1993; Gumusluouglu & Ilsev, 2009). Some researchers consider it an activity intended to develop ideas, implement them, react, and modify them if needed (Van de Ven, 1986). Innovation is regarded as a critical constituent of organizational success in a competitive landscape (Francis & Bessant, 2005). According to Sutanto (2017), organizational innovation is a variable used for new ideas, behavior, products, services, technology, and administrative practices that stimulate processes and procedures in an organization for innovation purposes. Organizational innovation functions in a dynamic environment that demands agility and flexibility from leadership to ensure that the organization responds to changes (Halevi et al., 2015).

### **Organizational Innovation Indicators**

Organizational innovation introduces new organizational methods in business practices, workplace organizations, or company external relations. Here are some indicators for measuring organizational innovation variables, namely: (Tsai, 2018)

1. Organizational structures, companies affect absorption and a high level of speed in decision making.
2. Organizational learning facilities are organizational learning routines that can facilitate the formation and application of innovative ideas.
3. Organizational assumptions and experiments are organizations that adopt processes that encourage existing beliefs and experiment with new ideas.
4. Organizational practices are the importance of organizations implementing managerial practices to minimize organizational change resistance. By managing change resistance, companies are better able to facilitate the formation and application of innovative ideas.

### **Employee Creativity**

Employee creativity is an employee activity or activity that brings about something new, idea, or idea and is applied in an organization. This activity will spur employees to create added value in themselves because, in today's world of work, they must have the ability to compete with other employees. According to Hirst, et al., (2009), creativity focuses on developing and adopting new ideas that have not yet acquired knowledge, strategy, and coordination. Therefore the creative process is often unpredictable, and its progress usually occurs between delays, setbacks, and unexpected costs (Janssen & Van Yperen, 2004). Employees who work in an organization where management is delegated to employees need more power and autonomy to inspire their creative behavior (Tang et al., 2015). According to Tang, et al., (2017), support from an organization can increase employee creativity. The theory of creativity that falls into this category argues that creativity is best conceptualized not as a single entity, but as arising from a complex system with interacting subcomponents, all of which must be accounted for a rich, meaningful, and valid understanding of creativity (Kozbelt et al., 2010). Developing systems theory provides structure to creative individuals' knowledge through a developmental process played out in complex ways and contexts that lead to extraordinary creations. Csikszentmihalyi (2014) considers cultural and social contexts as two salient

environmental aspects that influence creativity. Employees will help build connections between existing knowledge and new knowledge, leading to creative ideas and solutions (Chang et al., 2014). Sharing information can help employees absorb new ideas and learning from others, which allows them to generate more creative ideas (Chiang et al., 2015).

### **Employee Creativity indicator**

Employee creativity is focused on developing and adopting new ideas that have not yet acquired knowledge, strategy, and coordination. Here are some indicators for measuring employee creativity, namely: (Farmer et al., 2003)

1. Seeks new ideas and ways to solve problems, having an interest in finding new ideas and methods when facing a crisis.
2. Tries new ideas or methods first, has a desire to try new ideas and techniques to solve a problem.
3. It generates ground-breaking ideas related to the field, having the ability to create breakthroughs that are relevant to field conditions.
4. Is a good role model for creativity can be an excellent example of producing creativity.

### **Internal Social Capital**

Internal social capital is a collection of values or informal norms that are spontaneously divided among the group members, which allows for cooperation between them. Social capital is a complex concept consisting of structural, relational, and cognitive (Nahapiet & Ghoshal, 1998). These dimensions take many forms, but each of these forms has two general characteristics: "they form some aspect of the social structure" and "facilitate individual action within the structure" (Nahapiet & Ghoshal, 1998). According to Sanchez-Famoso, et al., (2020), internal social capital is defined as a relationship between individuals and groups in an organization based on the dynamics of individual and collective behavior that facilitates cooperation and provides access to new business opportunities which are a competitive advantage for companies. Relational capital considers assets acquired or rooted through interpersonal relationships (Nahapiet & Ghoshal, 1998). According to Dato-on, Banerjee & Roy (2018), following the relational notion that the company's internal social capital is based on trust and cooperation norms, which can contribute to cohesiveness and encourage collective action. It describes the interpersonal quality of relationships and how they develop and strengthen over time (Whipple et al., 2015). Internal social capital increases information exchange and the creation and accumulation of knowledge within a company (Nahapiet & Ghoshal, 1998). Social capital embedded in organizations reduces transaction costs and helps members achieve organizational goals more effectively (Hung et al., 2014). The social capital theory provides a theoretical lens to examine and understand the complex nature of social exchange in (buyer-supplier) relationships (Carey et al., 2011). Internal social capital is structured and related between people in a system (Adler & Kwon, 2002).

### **Internal Social Capital Indicators**

Internal social capital is a collection of values or formal norms that are spontaneously divided among the group members, which allows for cooperation between them. Here are some indicators to measure internal social capital variables, namely: (Ahn & Kim., 2017)

1. Information sharing, sharing information more generally can also increase cooperation and mutual accountability.
2. Trust, a trusting relationship, facilitates collaborative behavior and collective action without an explicit mechanism to encourage and strengthen these behaviors.

3. Shared vision, when individuals interact with each other as part of a collective, are better able to develop a common set of goals and a shared vision for the organization.
4. Cognitive of practice, generally based on voluntary contributions, members' motivation to participate and become a central determinant of an interaction.

### **Relationship between Transformational Leadership and Organizational Innovation**

The transformational leadership effect is also influenced by creativity and innovation. Shin and Zhou (2003) state that creativity and transformational leadership have a positive effect. According to Sosik et al., (1998), leaders who instill a vision into the organization can increase creative output. De Jong (2006) found that an innovation-based vision can encourage innovative work behavior. It explains that the vision will provide direction for activities and establish general guidelines for the future. According to Uddin, et al., (2017), effective leadership plays an essential role in having a supportive climate in exposing knowledge. The relationship between transformational leadership and organizational innovation is measured by looking at the organization's size, corporate culture, and culture in a country. It can be concluded that transformational leadership plays an essential role in organizational innovation. Leaders who use a transformational leadership style will try and provide more excellent opportunities for innovation. Organizations must encourage a transformational leadership style to bring about change and innovative ideas. By doing so, they will offer products exclusive to the market; this will increase their market share. Every leader or manager must adopt a transformational leadership style so that they and their employees can improve themselves to better and higher levels of motivation and morality (Malik & Awan, 2016). Previous research has found that transformational leadership can influence innovation, especially the trend towards organizational innovation (Gumusluoglu & Ilsev, 2009). Good leaders will encourage creative ideas that promote innovation in organizations (Sosik et al., 1998). Transformational leadership is suggested to have an impact on innovation. Transformational leadership increases innovation in an organization; in other words, the organization's desire to innovate. Leaders use inspirational motivation and intellectual stimulation, which is essential because this is useful and can develop for organizational innovation (Elkins & Keller, 2003). Jung, et al., (2003) have examined the direct and indirect impact of transformational leadership on organizational innovation. The results explain that the relationship has a positive and significant effect. Gumusluoglu & Ilsev (2009) also tested and produced the positive and significant impact of transformational leadership on organizational innovation.

*H1: Transformational leadership has a significant effect on organizational innovation.*

### **Relationship between Transformational Leadership and Employee Creativity**

Gumusluoglu & Ilsev (2009) found that transformational leadership behavior acts as a creativity-enhancing force. Gong et al., (2009) define creativity as introducing new and useful ideas that increase the entire organizational process's effectiveness. A study reveals that transformational leadership fosters employee creativity (Henker et al., 2015). Researchers have suggested that to lead creativity; we must motivate employees to generate creative ideas, making leadership an essential prerequisite for creative outcomes (Tierney, 2008). Leaders who have personal relationships with employees tend to feel a work climate that supports employees to be more creative than they should be (Jaiswal & Dhar, 2015). Transformational leadership has implications for positive effects on employee creativity (Mittal & Dhar, 2015)

*H2: Transformational leadership has a significant effect on Employee Creativity.*

### **Relationship between Transformational Leadership and Internal Social Capital**

Not many have studied the relationship between transformational leadership and internal social capital. According to Yukl (2013), transformational leadership is actively involved in changing its employees' values. They also tend to set goals that challenge and inspire optimism about plans, both of which are valuable to followers. Transformational leadership is usually charismatic and tends to occupy a central position in internal advice and network influence to connect directly with almost all team members to transmit goals, anticipate problems, ask for advice, and manage resource flows (Sauer & Kauffeld, 2015). According to Raja, et al., (2018), there is an influence between transformational leadership and internal social capital; this study shows that social identity is key to how transformational leadership can shape resources. Leaders shape and consolidate a keen vision for the future among strategic direction and ideas, energizing them to thoroughly embrace collective meanings, challenges, and goals. Therefore members are encouraged to focus on achieving common goals and a shared vision (Gupta et al., 2011). According to Chen, et al., (2016), there is a significant influence between transformational leadership and internal social capital.

*H3: Transformational leadership has a significant effect on Internal Social Capital.*

### **Employee Creativity and Organizational Innovation Relationship**

Innovation is considered an essential element of organizational success in a competitive landscape (Francis & Bessant, 2005). Studies show that technological innovation arises from organizational innovation and that both together result in a higher level of organizational performance (Camisón & Villar-López, 2014). If an organization continuously maintains new products and services to meet its customers' demands, the organization will be able to achieve long-term success (Hernández-Mogollon et al., 2010). For a company to be successful, it needs to receive the vitality to be creative and accept innovation, and both are essential components of the same process (Anderson et al., 2014). Creativity is the result of individuals or teams, regardless of their functional area and position in the organizational hierarchy. Whereas creativity focuses on idea production, innovation includes idea production and implementation. Thus, creativity is the first and vital stage in innovation (Zhou & Hoever, 2014). Creativity is widely seen as a driver of innovation, growth, and community development (Gilson, 2008; Gong et al., 2013). According to Chaubey, et al., (2018), employee creativity has a significant effect on organizational innovation.

*H4: Employee Creativity has a significant effect on Organizational Innovation.*

### **Relations between Internal Social Capital and Organizational Innovation**

According to Yazdanifar (2018), the central proposition of social capital is a social network (personal communication) developed from time to time. It needs to be based on trust and cooperation that includes existing and potential resources contributing to social relations. Internal social capital keeps people united; they collaborate successfully, build working relationships, and facilitate work practices. Therefore, increasing social capital increases organizational innovation and empowers employees, leading to employee and manager relationships, which create added value by facilitating successful collective activities. According to De Clercq, et al., (2013), internal social capital is proven to encourage input production that promotes innovative processes by mobilizing knowledge embedded and utilized by interactions between individuals in organizations. The density of interpersonal bonds between people in an organizational environment increases the assimilation and integration of knowledge (Drakopoulou Dodd & Anderson, 2013). The quality of profitable relationships supports experimentation and the search for new knowledge by facilitating communication, sharing, and transfer (Carmeli & Gittel, 2009). These processes stimulate learning and creativity and result in the development of new knowledge. Internal social capital also allows people to seek advice



and expertise to solve problems and generate new insights. According to Sanchez-Famoso, et al., (2019), internal social capital has a significant influence on organizational innovation.

*H5: Internal Social Capital has a significant effect on Organizational innovation.*

### **The Relationship between Transformational Leadership and Organizational Innovation is Mediated by Employee Creativity**

Leaders aim to offer employees goals beyond their interests by appealing to their values, ideals, and interests (Vera & Crossan, 2004). It is intended to motivate employees to contribute to organizational performance (Bass et al., 2003). Apart from addressing employee motivation, leaders also act as role models or mentors and empower their employees. This is intended to improve employee abilities and self-confidence and increase employees' ability to contribute to achieving organizational goals (Bass et al., 2003). According to Junni (2016), transformational leadership develops enthusiasm among organizational members to achieve organizational goals to create the desired future. Thus, by emphasizing the importance of organizational innovation, leaders can motivate organizational members to be more creative and develop new ideas and solutions regarding organizational structures, processes, and practices.

*H6: Employee Creativity mediates the relationship between Transformational Leadership and Organizational Innovation.*

### **The Relationship between Transformational Leadership and Organizational Innovation is Mediated by Internal Social Capital**

According to Chen, et al., (2016), internal social capital mediates the relationship between transformational leadership and organizational innovation. This means that leaders who apply transformational leadership accelerate organizational innovation through internal social capital. In this case, to develop internal social capital, the organization must build trust by developing emotional bonds, motivating it by sharing information to increase collaboration, and strengthening a shared vision. This will create a sense of responsibility with collective action, team potential, teamwork, and altruistic team behavior, which are essential for innovation. According to Hermmann (2019), leaders with transformational leadership styles have an important effect on organizational innovation by establishing a context in which employees share and voice their ideas through the hierarchical level of the company and interact with each other to combine knowledge and share innovative solutions.

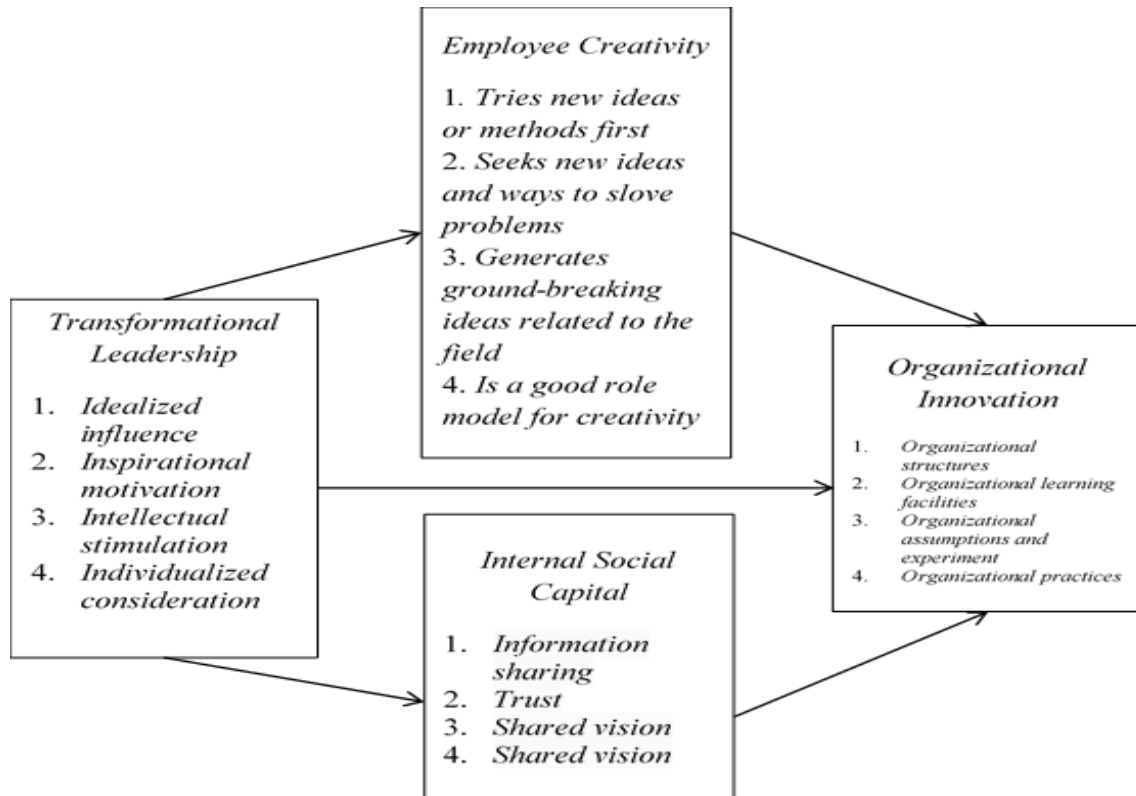
*H7: Internal Social Capital mediates the relationship between Transformational Leadership and Organizational Innovation*

### **The Relationship between Transformational Leadership and Organizational Innovation is Mediated by Employee Creativity and Internal Social Capital**

According to Junni (2016), transformational leadership develops enthusiasm among organizational members to achieve organizational goals to create the desired future. Knowledge for innovation requires more than one communication method, which demands the need for active interaction between leaders and employees. As a result, new concepts, processes, and businesses can be transferred from one person to another for commercial benefits (Melendez & Moreno, 2012). Personal attention and support from leaders to employees' needs and requirements can increase their influence on follower involvement in creative activities (Afsar & Umrani, 2018). By continually questioning and challenging followers' assumptions and thinking, these leaders stimulate employee intellectual thinking, which encourages followers to engage in idea generation and implementation. The leader has the ability to articulate an organizational vision with individual goals, increasing inspirational motivation among followers

(Bednall et al., 2018). Transformational leadership has a vital role in controlling organizational innovation; to smoothen this control, it must involve employee creativity and internal social capital.

*H8: Employee Creativity and Internal Social Capital mediate the relationship between Transformational Leadership and Organizational Innovation.*



**FIGURE 1  
RESEARCH MODEL**

**RESEARCH METHOD**

This study uses a quantitative approach in which data collection is a survey-based method. This study focuses on measurement and statistics that explain the relationship between empirical observations and statistics. The focus of quantitative research is to develop and test hypotheses and theories that explain variables. The period required to conduct research is relatively short, with results that have a high degree of generalization. Although brief, quantitative research can include extensive data. Therefore, researchers often use this type of quantitative research (Hoi & Adams, 2016; Flick, 2015).

The population of research employees at property companies in Indonesia. This study used a non-probability sampling technique, namely, purposive sampling. The use of this technique is due to the specific criteria specified in determining the sample. This study determined that respondents' criteria were employees/agents who had worked together for at least 1 year. Guidelines for sample measurement based on Ferdinand (2014):

1. 100 - 200 samples for the Maximum Likelihood Estimation technique.
2. Depends on the number of parameters estimated. The guideline is 5-10 times the number of parameters estimated.

Based on the requirements for the number of samples described, this study will use 16 indicators or measurement parameters to obtain  $16 \times 5 =$  minimum of 105 samples. However, in this study, 125 respondents participated.

Processing and data analysis in this study will use Smart PLS. This software is used to simplify the processing and analysis of data. PLS software is used for descriptive analysis and Path Analysis, SEM. The transformational leadership measure was adapted from Stone et al. (2004) using 21 (twenty-one) statement items, then according to Tsai (2018) to measure organizational innovation using 4 (four) statement items, according to Farmer, et al., (2003) to measure employee creativity using 4 (four) statement items, and according to Ahn & Kim (2017) to measure internal social capital using 4 (four) statement items.

## RESULTS

Most respondents aged 17-25 years, amounting to 59 people (47.20%). While the ages of 26 - 40 years amounted to 34 people (27.20%) of 125 respondents, 41 - 55 years amounted to 12 people (9.60%), and >55 years amounted to 20 people (16.00%) of 125 respondents. This shows that the respondents in this study were dominated by young people. Most of the sexes were male, amounting to 82 people (65.60%), while women only amounted to 43 people (34.40%) from 125 respondents. This shows that the respondents in this study were dominated by men.

The last education of respondents at least SMA is 35 people (28.00%), S1 is 72 people (57.60%), and S2 is 18 people (14.40%) from 125 respondents. This shows that the respondents' last education was dominated by S1. Most respondents worked for 1-3 years, amounting to 54 people (43.20%), 3-5 years totaling 44 people (35.20%), and >5 years, totaling 27 people (21.60%) of 125 respondents. This shows that the respondents' length of work was dominated by 1 year-3 years.

The highest mean of transformational leadership variables is 4.26 on a scale of 1 -5 on the statement "my leader can make me commit to achieving my goals at work." The ideals in work in question are where employees can achieve their targets in selling property, so it can be interpreted that leaders can make employees committed to achieving their goals at work.

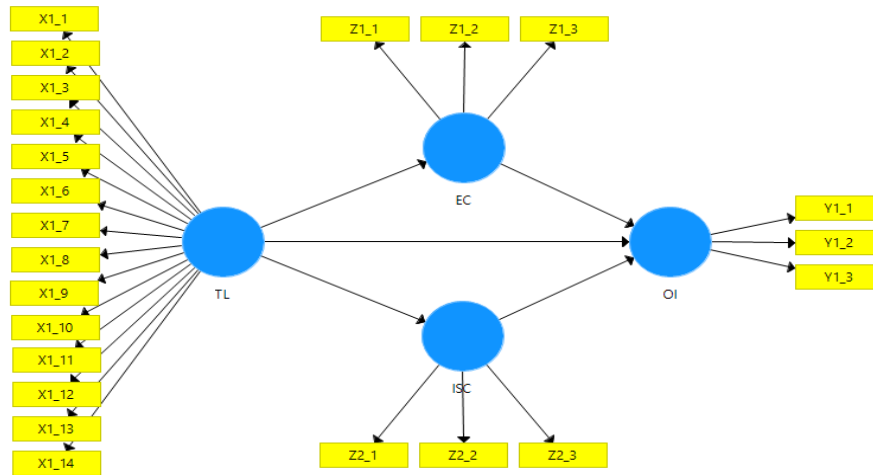
The highest mean on organizational innovation variable of 4.22 from a scale of 1-5 is in the statement, "my organization has high absorption and speed in making decisions." So it can be interpreted that the organization has the absorption and speed in making decisions.

The highest mean on the employee creativity variable is 4.30 from a scale of 1-5, which is contained in the statement "I am trying to be a good example in producing creativity." So it can be interpreted that employees try to be good examples of creativity.

The highest mean on the variable internal social capital, 4.37 from a scale of 1-5, is in the statement "I can share information to improve cooperation." So it means that employees can share information to improve cooperation.

### Outer Model Analysis

The outer model analysis is used to see the relationship between variables and their indicators. The outer model analysis is concerned with testing reliability and validity. The following is the outer model of this research.



**FIGURE 2  
OUTER MODEL**

TL: Transformational leadership  
 EC: Employee Creativity  
 ISC: Internal social capital  
 OI: Organizational innovation

**Validity test**

There are two types of validity tests in PLS, namely convergent validity, and discriminant validity. In explaining the convergent validity value, it is necessary to evaluate the Average Variance Extracted (AVE) on all latent variables.

**Convergent Validity**

Evaluation of the convergent validity test using Average Variance Extracted (AVE). To get a good convergent validity, the indicated AVE value must be equal to 0.5 or more.

<b>Table 1 CONVERGENT VALIDITY TEST</b>		
<b>Variable</b>	<b>AVE</b>	<b>Remarks</b>
Transformational Leadership	0,561	Valid
Organizational Innovation	0,541	Valid
Employee Creativity	0,523	Valid
Internal Social Capital	0,506	Valid

Table 1 shows the results of the AVE value for all variables in this study above 0.5. This indicates that all the variables in this study can meet the convergent validity test requirements.

### Discriminant Validity

The discriminant validity test is assessed based on the cross-loading measurement with the construct. According to Hair et al. (2013), the requirement for cross-loading to meet Discriminant Validity is that cross loading to other constructs must be lower than the loadings of the construct. An indicator of a variable is said to have good discriminant validity when the indicator can measure the variable with a higher correlation than other variables.

<b>Indicator</b>	<b>TL</b>	<b>OI</b>	<b>EC</b>	<b>ISC</b>
X1	0,693	0,016	0,215	0,046
X2	0,639	-0,045	0,044	0,111
X3	0,630	-0,123	-0,062	0,016
X4	0,654	-0,047	0,056	0,029
X5	0,774	0,080	0,126	0,077
X6	0,706	-0,019	0,081	0,008
X7	0,694	0,084	0,077	0,131
X8	0,711	0,086	0,082	0,143
X9	0,710	0,053	0,123	0,069
X10	0,672	-0,057	0,132	0,052
X11	0,794	0,008	0,085	0,033
X12	0,758	-0,148	0,074	0,019
X13	0,798	-0,019	0,185	0,116
X14	0,700	-0,091	-0,021	0,107
Y1	0,019	0,683	0,210	0,252
Y2	-0,011	0,714	0,258	0,306
Y3	0,040	0,842	0,398	0,401
Z1.1	0,135	0,393	0,839	0,325
Z1.2	0,085	0,250	0,614	0,246
Z1.3	0,175	0,205	0,735	0,309
Z2.1	0,247	0,167	0,252	0,584
Z2.2	0,009	0,411	0,371	0,820
Z2.3	0,065	0,323	0,232	0,745

TL: Transformational leadership

EC: Employee Creativity

ISC: Internal social capital

OI: Organizational innovation

Table 2 shows good discriminant validity, with the correlation value between the statement items and the variable indicating a higher value (in bold) than the value with other variables.

### Reliability Test

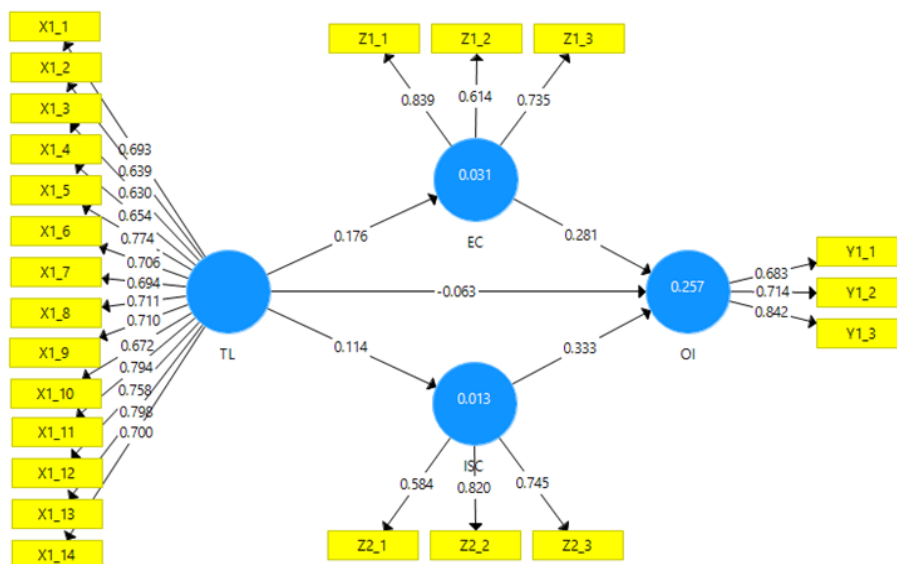
To test the internal consistency reliability of each indicator using composite reliability and Cronbach's alpha. Each indicator's reliability value is said to be good if the composite reliability value ranges from 0.6 - 0.7.

TABLE 3 RELIABILITY TEST				
VARIABLE	COMPOSITE RELIABILITY	REMARKS	EC	ISC
Transformational Leadership (X1)	0,934	Reliable	0,215	0,046
Organizational Innovation (Y1)	0,792	Reliable	0,044	0,111
Employee Creativity (Z1)	0,776	Reliable	-0,062	0,016
Internal Social Capital (Z2)	0,763	Reliable	0,056	0,029

Table 3 shows that all variables in this study have values above 0.6 - 0.7. This means that all variables can be said to be reliable.

**Inner Model Evaluation**

According to Sarstedt, et al., (2017), two steps are taken to evaluate the inner model of a research model. The first step is to identify whether there is collinearity between the variables and the model's predictive ability. The second step, namely, makes measurements regarding the predictive power of models that meet the four criteria. The following are the results of the inner model in Figure 3.



**FIGURE 3  
INNER MODEL**

TL: Transformational leadership

EC: Employee Creativity  
 ISC: Internal social capital  
 OI: Organizational innovation

## R Square

The coefficient of determination is a method that aims to assess the magnitude of endogenous variables, which can be explained by exogenous variables. A good coefficient of determination (R Square) is between 0 and 1 (Sarstedt et al., 2017). R Square values of 0.67, 0.33, and 0.19 respectively indicate that the model is strong, moderate, and weak. The value of R Square of each variable in the study can be seen in the table below.

<b>VARIABLE</b>	<b>R SQUARE</b>
Organizational Innovation (Y)	0,257
Employee Creativity (Z1)	0,031
Internal Social Capital (Z2)	0,013

Table 4 shows that the R square value of organizational innovation (Y) is 25.7%, so it can be said that this value is influenced by transformational leadership, employee creativity, and internal social capital. Besides, the R square value of employee creativity (Z1) is 3.1%, so it can be said that this value is influenced by transformational leadership. Meanwhile, the R square value of internal social capital (Z2) is 1.3%, so it can be said that this value is influenced by transformational leadership.

## Path Coefficient

The path coefficient is a method that aims to see the significance and strength of the relationship and also as a method for testing hypotheses. Usually, the path coefficient value is between the numbers -1 to +1. If the value is close to +1, the relationship between the two variables will be stronger and vice versa.

<b>RELATIONSHIP</b>	<b>PATH COEFFICIENT</b>
TL → OI	-0,063
TL → EC	0,176
TL → ISC	0,114
EC → OI	0,281
ISC → OI	0,333

TL: Transformational leadership  
 EC: Employee Creativity  
 ISC: Internal social capital  
 OI: Organizational innovation

Table 5 shows that each exogenous variable in this study has a path coefficient value between -1 and +1. This indicates that the exogenous variables in this study transformational leadership weaken the endogenous variables in this study, namely organizational innovation,

employee creativity, and internal social capital. Variables of employee creativity and internal social capital strengthen organizational innovation.

### Hypothesis Testing

Hypothesis testing in this study uses the bootstrapping method by looking at the t-statistics generated from each relationship between variables. If the t-statistic value shows a number > two-tailed t-table value, namely 1.96 and a P-value < 0.05,  $H_0$  is rejected, and  $H_a$  is accepted and vice versa.

PATH	T STATISTICS	P-VALUE	REMARKS
TL → OI	0,524	0,600	H1 rejected
TL → EC	1,050	0,294	H2 rejected
TL → ISC	0,686	0,493	H3 rejected
EC → OI	3,396	0,001	H4 accepted
ISC → OI	3,539	0,000	H5 accepted
TL → EC → OI	1,029	0,304	H6 rejected
TL → ISC → OI	0,609	0,543	H7 rejected
TL → EC & ISC → OI	0,912	0,362	H8 rejected

TL: Transformational leadership

EC: Employee Creativity

ISC: Internal social capital

OI: Organizational innovation

Table 6 shows that the relationship between transformational leadership and organizational innovation is not significant. This is indicated by the value of the t-statistic of  $0.524 < 1.96$  and the P-value of  $0.600 > 0.05$ . This shows that the transformational leadership variable does not significantly affect organizational innovation; the relationship between transformational leadership and employee creativity is not significant. This is indicated by the value of the t-statistic of  $1.050 < 1.96$  and the P-value of  $0.294 > 0.05$ . This shows that the transformational leadership variable has no significant effect on employee creativity

Then the relationship between transformational leadership and internal social capital is not significant. This is indicated by the value of the t-statistic of  $0.686 < 1.96$  and the P-value of  $0.493 > 0.05$ . This shows that the transformational leadership variable has no significant effect on internal social capital; the relationship between employee creativity and organizational innovation is significant. This is indicated by the value of the t-statistic of  $3.396 > 1.96$  and a P value of  $0.001 < 0.05$ . This shows that the employee creativity variable has a significant effect on organizational innovation.

Furthermore, the relationship between internal social capital and organizational innovation is significant. This is indicated by the value of the t-statistic of  $3.539 > 1.96$  and the P-value of  $0.000 < 0.05$ . This shows that the internal social capital variables significantly affect organizational innovation; the relationship between transformational leadership and organizational innovation through employee creativity is not significant. This is indicated by the value of the t-statistic of  $1.029 < 1.96$  and the P value of  $0.304 > 0.05$ . This shows that the transformational leadership variable has no significant effect on organizational innovation through employee creativity.

Then the relationship between transformational leadership and organizational innovation through internal social capital is not significant. This is indicated by the value of the t-statistic of  $0.609 < 1.96$  and the P-value of  $0.543 > 0.05$ . This shows that transformational leadership



variables do not significantly affect organizational innovation through internal social capital, and the relationship between transformational leadership and organizational innovation through employee creativity and internal social capital is not significant. This is indicated by the value of the t-statistic of  $0.912 < 1.96$  and the P-value of  $0.362 > 0.05$ . This shows that the transformational leadership variable does not significantly affect organizational innovation through employee creativity and internal social capital.

## DISCUSSIONS

### **The Influence of Transformational Leadership on Organizational Innovation**

Based on the results of hypothesis testing, transformational leadership does not affect organizational innovation. The path coefficient of transformational leadership for organizational innovation is  $-0.063$ , which means that if the higher the value of transformational leadership, the lower the value of organizational innovation. Even though the value is negative, it is not significant or contradictory. This can be caused by the leader not always meeting face to face and interacting with agents every day. This condition makes no transformational leadership impact on organizational innovation. According to previous research conducted by Uddin, et al., (2017), effective transformational leadership plays an important role in building a work climate that supports employees in gaining knowledge of an organization's innovation. According to Vargas (2015), an influential and effective leader is a person who can create, develop, and commercialize talents who work in organizations to foster creativity and innovation. However, this is not in line with this study's findings, which states do not have a supportive working climate. Thus the H1 hypothesis, namely, transformational leadership, has no significant effect on organizational innovation.

### **The Influence of Transformational Leadership on Employee Creativity**

Based on the results of hypothesis testing, transformational leadership does not affect employee creativity. Transformational leadership's path coefficient on employee creativity is  $0.176$ , which means a positive but insignificant effect because the significance value is above  $0.05$ . This is because leaders do not always meet face to face and interact with agents every day. This condition makes no transformational leadership impact on employee creativity. According to previous research conducted by Jaiswal & Dhar (2015), leaders who have personal relationships with employees tend to feel a work climate that supports employees to be more creative than they should be. A study revealed that transformational leadership fosters employee creativity (Henker et al., 2015). However, this is not in line with this study's findings, which states that there is no personal relationship between leaders and agents. Thus the H2 hypothesis, namely, transformational leadership, has no significant effect on employee creativity.

### **The Influence of Transformational Leadership on Internal Social Capital**

Based on the results of hypothesis testing, transformational leadership does not affect internal social capital. The path coefficient of transformational leadership on internal social capital is  $0.114$ , which means a positive but insignificant effect because the significance value is above  $0.05$ . This is because leaders do not always meet face to face and interact with agents every day. This condition leaves no transformational leadership impact on internal social capital. According to previous research conducted by Yukl (2013), transformational leadership is actively involved in changing the values of its employees. According to Raja, et al., (2018), there is an influence between transformational leadership and internal social capital; this study

shows that social identity is key to how transformational leadership can shape resources. However, this is not in line with this study's findings, which states that leaders are not actively involved in internal social capital relationships. Thus, hypothesis H3, namely, transformational leadership, does not significantly affect internal social capital.

### **The Influence of Employee Creativity on Organizational Innovation**

Based on the results of hypothesis testing, employee creativity affects organizational innovation. This is due to agents who have good creativity so that organizational innovation can increase optimally. According to Zhou & Hoever (2014), creativity is the first and vital stage in innovation. For a company to be successful, it needs to receive the vitality to be creative and accept innovation, and both are essential components of the same process (Anderson et al., 2014). Thus the H4 hypothesis, namely, employee creativity, has a significant effect on organizational innovation.

### **The Influence of Internal Social Capital on Organizational Innovation**

Based on the results of hypothesis testing, internal social capital affects organizational innovation. This is due to the agents who are members of several teams and have good cooperation, such as sharing information about property, asking for advice, consulting, etc. According to Yazdanifar (2018), the central proposition of social capital is a social network (personal communication) developed over time. It needs to be based on trust and cooperation that includes existing and potential resources contributing to social relations. The density of interpersonal bonds between people in an organizational environment increases the assimilation and integration of knowledge (Drakopoulou Dodd & Anderson, 2013). Thus the hypothesis H5 is that internal social capital has a significant effect on organizational innovation.

### **The Influence of Transformational Leadership on Organizational Innovation is Mediated by Employee Creativity**

Based on hypothesis testing, employee creativity does not mediate the relationship between transformational leadership and organizational innovation. This is due to the lack of a transformational leadership role in influencing employee creativity to affect organizational innovation. According to Junni (2016), transformational leadership develops enthusiasm among organizational members to achieve organizational goals to create the desired future. This is intended to improve employee abilities and self-confidence and increase employees' ability to contribute to achieving organizational goals (Bass et al., 2003). Thus, hypothesis H6, namely, employee creativity, does not mediate the relationship between transformational leadership and organizational innovation.

### **The Influence of Transformational Leadership on Organizational Innovation is Mediated by Internal Social Capital**

Based on hypothesis testing, internal social capital does not mediate the relationship between transformational leadership and organizational innovation. According to Hermmann (2019), leaders with transformational leadership styles have a substantial effect on organizational innovation by establishing a context in which employees share and voice their ideas through the company's hierarchical level and interact with each other to combine knowledge and share innovative solutions. According to Chen, et al., (2016), internal social capital mediates the relationship between transformational leadership and organizational innovation. This is because transformational leadership is not involved in internal social capital relations, affecting organizational innovation. Thus the hypothesis H7 is that internal social

capital does not mediate the relationship between transformational leadership and organizational innovation.

### **The Influence of Transformational Leadership on Organizational Innovation is Mediated by Employee Creativity and Internal Social Capital**

Based on hypothesis testing, employee creativity and internal social capital do not mediate the relationship between transformational leadership and organizational innovation. This is because transformational leadership has not been able to build a strong relationship with employee creativity and internal social capital, so this has an impact on organizational innovation. Personal attention and support from leaders to employees' needs and requirements can increase their influence on follower involvement in creative activities (Afsar & Umrani, 2018). The leader has the ability to articulate the vision of the organization with individual goals, increasing inspirational motivation among followers (Bednall et al., 2018). Thus, hypothesis H8, namely, employee creativity and internal social capital, does not mediate the relationship between transformational leadership and organizational innovation.

### **CONCLUSIONS**

Based on this research, it is hoped that company leaders must often meet face to face with employees and build a good working climate, to develop attitudes and team spirit. Company leaders can then establish learning routines that facilitate the formation and application of innovative ideas, allowing employees to put their previously discovered new ideas and methods into practice. Especially for employees, it is expected that they can voluntarily participate and contribute to a job.

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