

# The Influence of Transformational Leadership and Organizational Learning on Employee Performance Through Organizational Innovations of MSMEs Guided by Bank Indonesia Representative Office in Bali Province (Case Study in Putri Mas Weaving Group MSME)

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**Abstract:** The objective of this study is to conduct an empirical study of transformational leadership and organizational learning on employee performance through organizational innovation in Putri Mas Weaving Group MSME, Jembrana, Bali. The respondent of this 55 employees of Putri Mas MSMEs. Path analysis technique was used to analyse each relationship of all variable. The results reveal that the direct effect states transformational leadership and organizational learning have a positive but not significant effect on employee performance, while the indirect effect states transformational leadership and organizational learning have a positive and significant effect through organizational innovation on employee performance at Putri Mas Weaving Group MSME.

**Keywords:** Transformational leadership, organizational learning, organizational innovation, employee performance

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## I. Introduction

In this era of digital economy, the digital industry is changing business systems from conventional market patterns to digital market patterns to be able to survive and excel in increasingly globalized business competition. One type of business that also innovates in digital economy era is Micro, Small and Medium Enterprises or MSMEs. Based on data from the Central Statistics Agency (BPS) of Bali Province, the number of MSMEs in Bali in 2016 was 464,787. Specifically in Jembrana Regency, according to the Bali Provincial BPS the number of MSMEs in 2016 was 29,880. One type of MSMEs business that develops in Jembrana district is the Songket weaving business which is one of the leading MSMEs clusters producing commodities from the Jembrana region. One of Jembrana's songket weaving is Putri Mas Weaving Group MSME which is guided by Bank Indonesia Representative Office in Bali Province. Based on interview with the owner of Putri Mas Weaving Group, one of the obstacles faced while running a business is an effort to improve the quality of employees or HR such as the courage of HR to innovate and change the mindset of conventional employees. In the midst of this phenomenon, a leadership style and organizational learning are needed to direct cluster group members be able to adapt for change sustainable innovate then advance performance. Based on the phenomenon of problem above, the writer interest to examine "The Influence of Transformational Leadership and Organizational Learning on Employee Performance Through Organizational Innovations of MSMEs Guided by Bank Indonesia Representative Office in Bali Province (Case Study in Putri Mas Weaving Group MSME)".

## II. Literature Review

### Transformational Leadership

Transformational leaders send employees a strong vision of growth opportunities in their teams, encourage them to think critically about change initiatives, increase their confidence in coping with adaptation, and emphasize the importance of performance beyond personal interests for the team (Bass 2010).

**Organizational Learning**

Organizational Learning is a process that comes from employees who learn and evolve from the individual employee's subconscious mind and are modified at various levels of the organization by the internal and external environment (Birasnavet *al.*, 2019).

**Organizational Innovation**

Organizational innovation is an organization that seeks to adopt practical implementation to maintain performance by learning from appearance, skills, past experience, and trying to adopt a new innovation environment (Waheedet *al.*, 2019).

**Employee Performance**

Employee performance is work performance or work (output) both quality and quantity achieved by each employee unit in a period of time in carrying out the tasks and responsibilities given to him, based on intelligence and skills and resources provided by the organization (Gordaet *al.*, 2016).

**III. Methods**

The research will be conducted in Putri Mas Weaving Group MSME located at JalanCendrawasih No. 3 Pendem, Jembrana regency, Bali. The reason for choosing the research location in this place because Putri Mas Weaving Group MSME has a creative economy program through limited and exclusive Songket product innovations. However, Putri Mas Weaving Group MSME is still trying to change the conventional mindset of employee and improve the quality of HR performance where not all employees are able to produce songket cloth with the specified order time target so that it becomes the basis of the problem phenomenon in this study. The population in this study were the employees of Putri Mas Weaving Group MSME with a total of 55 people.

The type of data used in this study is quantitative data, that is data measured on a numerical scale (numbers) in the form of numbers with answer scores on questionnaires that have been quantified by weighting employee answers. Data is collected through a questionnaire that has been tested for validity and reliability. Data analysis technique in this research is to use SEM-PLS analysis.

**IV. Results and Discussion**

**Respondent Characteristic**

Respondents characteristic based on age namely aged less than 21 years were 4 respondents or 7.3%, ages 21 until 30 years were 9 respondents or 16.3%, aged 30 until 40 years were 25 respondents or 45.5%, and aged more than 40 years were 17 respondents or 30.9%. Based on that respondents aged 30 until 40 years become the most respondents, 25 respondents or 45.5%. Then respondent characteristic based on sex 100 percent was female as many as 55 employees. Based on last education respondent characteristic, the respondents with elementary last education were 10 respondents or 18,2%, junior high school were 20 respondents or 36.4%, employees with senior high school education were 23 respondents or 41.8%, employees with diploma last education were 2 respondents or 3.6%, so the most respondents based on last education were respondent with senior high school last education, 23 respondents or 41.8%. Next based on length of work the respondent characteristic namely, employee with length of work under 1 years were 10 respondents or 49.1%, 1 until 3 years were 27 respondents or 49.1%, then 3 until 10 years were 18 respondents or 32.7% so the most respondents were respondent with length of work 1 until 3 years, 27 respondents or 49.1%.

**Measurement Model (Outer Model)**

**Validity test:** Processing validity tests is assisted with the SmartPLS version 3.0 application. Processing validity test is through AVE comparison test with correlation (Fornell-Larcker Criterion). According to Chin and Todd (1995) Indicator is considered valid if it has a AVE value above 0.5 or shows all dimensions of loading outside the variable has a loading value > 0.5 so that it can be concluded that the measurement meets the convergent validity criteria. The Fornell-Larcker test results can be seen in Table 1.

**Table 1:** Fornell-Larcker Criterion

	Transformational Leadership (X1)	Organizational Learning (X2)	Organizational Innovation (Z)	Employee Performance (Y)
Transformational Leadership (X1)	0.748			
Organizational Learning (X2)	0.794	0.749		
Organizational Innovation (Z)	0.690	0.696	0.824	
Employee Performance (Y)	0.868	0.865	0.772	0.848

Table 1 shows the results of modeling using four latent constructs. All constructs have been shown to have high discriminant validity namely  $X1 = 0,748$ ,  $X2=0,749$ ,  $Z=0,824$  and  $Y= 0,848$ . It can be seen from the AVE value of each construct is higher than the correlation of the construct with other constructs.

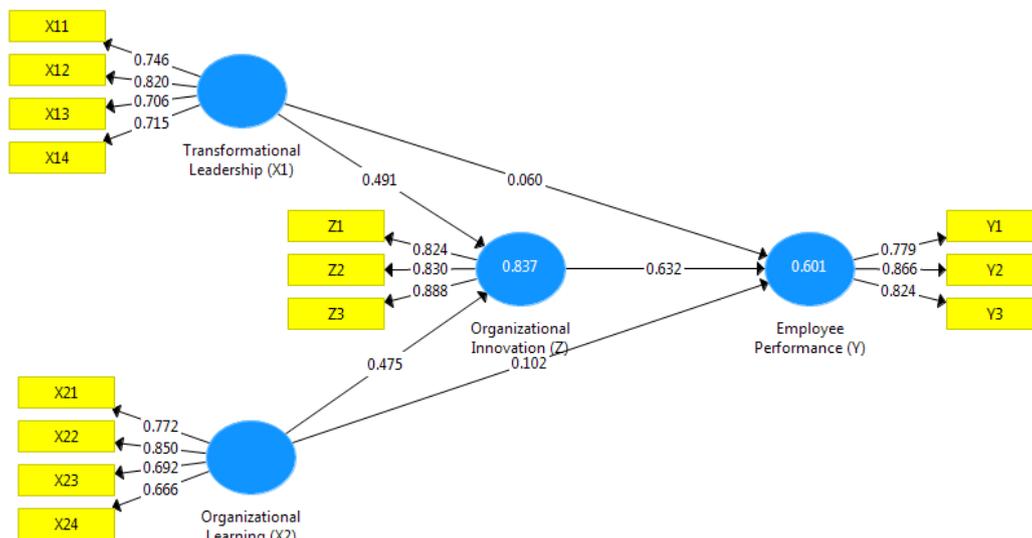
**Reliability test:** Reliability can be measured by looking at the value of Cronbach's Alpha and Composite Reliability. Cronbach's Alpha or Composite Reliability value must be greater than 0.7, but if the results are close to 0.7 (such as 0.6), it is still acceptable in exploratory studies, whereas if less than 0.60 categorized as poor reliability or not acceptable (Hair *et al.*, 2006). The construct reliability test results can be seen in Table 2 showing the value of Cronbach's Alpha and Composite Reliability of each construct is greater than 0.70 so that it can be said that the indicators used in this study are reliable.

**Table 2:** Cronbach's Alpha and Composite Reliability

Variable	Cronbach's Alpha	Composite Reliability	Result
Transformational Leadership (X1)	0.736	0.835	Reliable
Organizational Learning (X2)	0.734	0.835	Reliable
Organizational Innovation (Z)	0.763	0.864	Reliable
Employee Performance (Y)	0.805	0.885	Reliable

**Structural Model Testing (Inner Model)**

The structural model needs to be evaluated using R-square for the dependent variable and its significance value is based on the t-values for each path. The structural model in this study is presented in figure 1. After the estimated model meets the outer model criteria, the inner model testing is then performed. Assessing the inner model is tantamount to looking at the relationship between latent variables by looking at the estimated results of the path coefficient and its level of significance. Table 3 shows the R-square values for each endogenous variable. According to Ghozali (2013), the R-square value between 0.67 - 1 indicates that the model is good, while the R-Square range between 0.34 - 0.66 indicates a moderate structural model, and if the R-Square is between 0.33 to below the model is relatively weak.



**Fig. 1:** Research Model Framework with Path Coefficient

**Table 3:** R-Square

Variable	R-square	Result
Transformational Leadership (X1)		
Organizational Learning (X2)		
Organizational Innovation (Z)	0.601	Moderate
Employee Performance (Y)	0.837	Good

Table 3 shows the R-square value of 0.601 for the employee performance variable. This means that the variability of employee performance constructs can be explained by the constructs of transformational leadership and organizational learning by 60.1 percent. The remaining 39.9 percent is explained by other factors besides employee performance. Then, the construct of organizational innovation is explained by the construct of transformational leadership and organizational Learning of 0.837. This means that the construct variability of organizational Innovation can be explained by the construct of transformational leadership and organizational learning is 83.7 percent. The remaining 16.3 percent is explained by other factors besides Organizational

innovation. Based on R- square of organizational innovation (Z) and R-square of employee performance (Y) in Table 3 it can be calculated Q<sup>2</sup> or Stone Geiser Q-Square test, namely:

$$\begin{aligned}
 Q^2 &= 1 - \{(1 - 0.601) (1 - 0.837)\} \\
 &= 1 - \{(0.399) (0.163)\} \\
 &= 0.934963 \\
 &= 0.93
 \end{aligned}$$

Q<sup>2</sup> calculation results of 0.92 so that it can be said to have a high predictive prevalence, the resulting model is feasible to use to predict. Figures of 0.93 can be interpreted that the Employee Performance variable of 93 percent can be explained by the variables of transformational leadership, organizational learning, and organizational innovation while the remaining 7% is explained by other variables out of the model.

**Direct Effects, Indirect Effects, and Total Effects between Variables**

Analysis of direct influence, indirect effect, or total effect, can explain the relationship between research variables (latent variables). The intended variables are transformational leadership, organizational learning, organizational innovation, and employee performance. The direct effect is shown by the coefficient of all arrows with one end, whereas the indirect effect occurs through the role of the intermediate variable. To find out the direct effect between construct variables can be seen from the results of the analysis of the path coefficients shown in Table 4.

**Table 4: Path Coefficient**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
X1 -> Y	0.060	0.066	0.215	0.279	0.780
X1 -> Z	0.491	0.461	0.140	3.505	0.000
X2 -> Y	0.102	0.115	0.227	0.447	0.655
X2 -> Z	0.475	0.460	0.130	3.649	0.000
X1 -> Z -> Y	0.310	0.269	0.140	2.212	0.027
X2 -> Z -> Y	0.300	0.275	0.147	2.044	0.041

Where: X1 = transformational leadership; X2 = organizational learning; Z = organizational innovation; Y = employee performance

Based on Table 4, it can be explained that transformational leadership has a positive and significant effect on organizational innovation as it can be seen in p-value has 0.000 < 0.050, but no significant effect on employee performance which is the p-value has 0.780 > 0.050. Then organizational learning has a positive and significant effect on organizational innovation as it can be seen in p-value has 0.000 < 0.050, but no significant effect on employee performance which is the p-value has 0.655 > 0.050. Furthermore it is also seen that organizational innovation has a positive and significant effect on employee performance as it can be seen in p-value has 0.014 < 0.050. Meanwhile, to determine the indirect effect between construct variables can be seen from the results of the analysis of indirect effects values shown in Table 4. Based on Table 5 it is known that transformational leadership has an indirect effect on employee performance through organizational innovation as it can be seen in p-value has 0.027 < 0.050. Then organizational learning has an indirect effect on employee performance through organizational innovation as it can be seen in p-value has 0.041 < 0.050.

Based on Table 4 can be calculated the direct effect, indirect effect and the total effect between variables in this study, namely transformational leadership (X1), organizational learning (X2), organizational innovation (Z), and employee performance (Y) summarized as well presented in Table 5.

**Table 5: Summary of Direct Effects, Indirect Effect, and Total Effects**

Dependent Variable		Independent Variable		
		Transformational Leadership (X1)	Organizational Learning (X2)	Organizational Innovation (Z)
Organizational Innovation (Z)	Direct Effect	0.491	0.475	
	Indirect Effect			
	Total Effect	0.491	0.475	
Employee Performance (Y)	Direct Effect	0.060	0.102	0.632
	Indirect Effect	0.310	0.300	
	Total Effect	0.370	0.402	0.632

**Hypothesis Testing**

In the hypothesis testing stage, it is very important to pay attention to the influence indicated by the direction of the arrows between latent variables. To test the significance of the relationship, it is very important to pay attention to the p-values, where the relationship is said to be significant if the p-values < 0.05, otherwise if the p-values > 0.05 then the relationship is said to be insignificant. Furthermore, the t-statistic value is also noted, where the cut-off is with a t-table of 1.67.

**Table 6:** The Result of Hypothesis Testing

No	Hypothesis	Result
1.	Transformational leadership has positive and significant effect on employee performance	Rejected
2.	Organizational learning has a positive and significant effect on employee performance	Rejected
3.	Transformational leadership has a positive and significant effect on organizational innovation	Accepted
4.	Organizational learning has a positive and significant effect organizational innovation	Accepted
5.	Organizational innovation has a positive and significant effect on employee performance	Accepted
6.	Organizational innovation mediate the effect of transformational leadership on employee performance	Accepted
7.	Organizational innovation mediate the effect of organizational learning on employee performance	Accepted

## V. Results

### ***Transformational Leadership Has Positive Effect on Employee Performance***

The effect of transformational leadership on employee performance has a regression coefficient is 0.066 with a p-value of 0.780 greater than 0.05. Then the t-statistic value is also smaller than 1.67 which is worth 0.279. So, directly transformational leadership has positive effect, but not significant effect on employee performance. This is because most respondents aged 30-40 years (45.5%) who are identical with many other roles than work because that's why if only implementing transformational leadership such as providing motivation and individual attention is not enough. So, the hypothesis of the direct effect of transformational leaders into employee performance at Putri Mas Weaving Group MSME was rejected.

### ***Organizational Learning Has a Positive Effect on Employee Performance***

The effect of organizational learning on employee performance has a regression coefficient of 0.102 with p-value is 0.655 which is greater than 0.05. Then the t-statistic value is smaller than 1.67 which is worth 0.447. So, directly organizational learning has positive effect, but not a significant effect on employee performance. This is because most respondents with the last education are senior high school (41.8%) which is identical to the low learning response so, the hypothesis of the direct effect of organizational learning into employee performance at Putri Mas Weaving Group MSME was rejected.

### ***Transformational Leadership Has a Positive Effect on Organizational Innovation***

The effect of transformational leadership on organizational innovation has a regression coefficient of 0.491 with p-value is 0.000 which is smaller than 0.05. Then the t-statistic value is greater than 1,67 which is 3.505. So, directly transformational leadership has positive and significant effect on organizational innovation. The respondents are 100% women, whereas women are identical with femininity. The transformational leadership applied to the Putri Mas Weaving Group MSME treats employees with approaches such as paying individually attention and providing motivation to employees when has obstacles while their worked, so employees felt noticed and did innovates to Putri Mas Weaving Group MSME, based on that transformational leadership influences organizational innovation.

### ***Organizational Learning Has a Positive Effect Organizational Innovation***

The effect of organizational learning on organizational innovation has a regression coefficient of 0.475 with p-value is 0.000 which is smaller than 0.05. Then the t-statistic value is greater than 1.67 which is 3.549. So, directly organizational learning has positive and significant effect on organizational innovation. The respondent in this study based on the length of work, the most have worked for 1-3 years with the number of 27 respondents or 49.1%. Working for 1-3 years is identical to desire of employees to try innovates in their work so that organizational learning in the form of trainings conducted by Putri Mas Weaving Group MSME influences employees in creating organizational innovation.

### ***Organizational Innovation Has a Positive Effect On Employee Performance***

The effect of organizational innovation on employee performance has a regression coefficient of 0.632 with p-value is 0.014 which is smaller than 0.05. Then the t-statistic value is greater than 1,67 which is 2.460. So, directly organizational innovation has positive and significant effect on employee performance. The respondents were 100% female and the majority of respondents were women aged 30 - 40 years by 25 employees (45.5%) which mean, women of that age had other roles for example as housewives who had to take care of the their household besides their roles as employees. with the innovations implemented in Putri Mas Weaving Group MSME that employees can work at home is very helpful respondent employees aged 30-40 years carry out other obligations besides working as employees so that innovation has a positive and significant impact on the performance of employees at Putri Mas Weaving Group MSME.

### **Organizational Innovation Mediate The Effect Of Transformational Leadership On Employee Performance**

The effect of transformational leadership on employee performance through organizational innovation has a regression coefficient of 0.310 with a p-value of 0.027 that is smaller than 0.05. Likewise, the t-statistic value is also greater than 1.67 which is valued at 2.212. So, indirectly transformational leadership has a significant effect on employee performance through organizational innovation. It should be noted that transformational leadership directly does not significantly influence employee performance because respondents are based on age level, mostly are aged 31-40 years, 25 respondents or 45.5%. Age 31-40 years is identical with many roles that must be performed besides work so that it influences the performance of employees. Based on that Putri Mas Weaving Group MSME needs to maintain organizational innovation in the form of supporting employees trying new ideas, then innovating in operational processes and supporting employees creating product innovations at Putri Mas Weaving Group MSME. Therefore organizational innovation can be said to fully mediate transformational leadership on employee performance.

### **Organizational Innovation Mediate The Effect Of Organizational Learning On Employee Performance**

The effect of transformational leadership on employee performance through organizational innovation has a regression coefficient of 0.300 with a p-value of 0.041 that is smaller than 0.05. Likewise, the t-statistic value is also greater than 1.67 which is valued at 2.044. So, indirectly organizational learning has a significant effect on employee performance through organizational innovation. It should be noted that organizational learning directly does not significantly influence employee performance because respondents were based on their last education, mostly in senior high school were 23 respondents or 41.8%. The level of education that is not too high is identical with a low level of learning response so that it affects the performance of employees. Based on that Putri Mas Weaving Group MSME needs to maintain organizational innovation in the form of supporting employees trying new ideas, then innovating in operational processes and supporting employees creating product innovations at Putri Mas Weaving Group MSME. Therefore organizational innovation can be said to fully mediate organizational learning on employee performance.

## **VI. Conclusions and Suggestions**

### **Conclusions**

Transformational leadership and organizational learning has positive effect, but not significant effect on employee performance at Putri Mas Weaving Group MSME. Transformational leadership, organizational learning, and organizational innovation has a positive and significant effect on organizational innovation in Putri Mas Weaving Group MSME. Transformational leadership and organizational learning indirectly have a significant effect on employee performance through organizational innovation. Given that the direct effect is not significant, the indirect effect of transformational leadership and organizational learning through organizational innovation is full mediation.

### **Suggestions**

Putri Mas Weaving Group MSME better to maintain organizational innovation as a mediation of transformational leadership and organizational learning by providing space for employees to express new ideas, develop programs that can improve employees creating innovations product and sustain to implement innovating operational production processes to improve employee performance at Putri Mas Weaving Group MSME.

For further research, it is expected to be able to provide a more understanding related to this research and be able to conduct research with variables other than transformational leadership and organizational learning on employee performance through organizational innovation at Putri Mas Weaving Group MSME. This study is also has limitation that in types of respondents who are 100% female, then mostly respondents has last education with a secondary education level of 41.8%, an aged level of 30-40 years that are 45.5%, and has length of work are 1-3 years 49.1%. Based on the statement above, it is expected that future studies that want to use transformational leadership and organizational learning on employee performance through organizational innovation can looking for male respondents, responders with higher educational attainment, respondent ages other than 30-40 years and respondent with the length of time worked besides 1-3 years. This research also has a limitation that is done only one MSMEs, so it is hoped that further research wants to conduct research accordance with the variables above can conduct research in a wider area.

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