

The Mediating Role of Psychological Capital in the between Transformational Leadership, HR Practices, and Innovative Work Behaviour in MSMEs

Lala Aryanis Marsanda^{1*}, Nur Afifah², Endah Mayasari³, Maria Christiana Iman Kalis⁴, Rizani Ramandhan⁵

Universitas Tanjungpura

Corresponding Author: Lala Aryanis Marsanda lalamarsanda@student.untan.ac.id

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ABSTRACT

The purpose of this study is to investigate how psychological capital mediates the relationship between transformational leadership, HR practices, and workers' creative work behavior. Employees under transformational leadership are seen to be more inclined to innovate when they are backed by HR practices that are grounded in psychological capital. Transformational leadership fosters a work culture that promotes innovation through inspiration and motivation. Meanwhile, HR practices such as fair compensation, professional development, open information exchange, and Employee inventiveness is further strengthened by helpful supervision. Employees that actively contribute to the creation and use of fresh concepts to enhance organisational performance exhibit innovative work behaviour. This study employs Smart-PLS 4.0 and involves 100 respondents through a survey. The findings suggest that transformational leadership and HR practices do not significantly influence innovative work behaviour or psychological capital. Furthermore, psychological capital does not mediate the relationship between HR practices and innovative work behavior, nor does it mediate the relationship between transformational leadership and innovative work behavior

INTRODUCTION

The growth of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia continues to rise, reaching 65 million units, with 25.5 million having transitioned into the digital ecosystem (Ministry of Cooperatives and SMEs, 2024). Among these, the vast majority are micro enterprises (98.67%), followed by small enterprises (1.22%), and only 0.1% are categorized as medium enterprises. MSMEs play a crucial role in advancing the Sustainable Development Goals (SDGs), particularly in fostering inclusive economic growth, expanding employment opportunities, and supporting innovation and industrial diversification (UN, 2023).

However, many MSMEs face significant challenges, such as changes in labor structure, workforce reductions, and the risk of closure due to limited capital turnover. To address these issues, business actors must adapt by cultivating innovative work behavior—defined as the development and implementation of new ideas within an organization. This behavior is reflected in the creation, dissemination, and realization of innovative ideas. In a dynamic business environment, transformational leadership and practical human resource (HR) policies can serve as key drivers of employee innovation while also providing a competitive advantage for micro and small enterprises (MSMEs). Therefore, understanding how leadership and HR practices can optimize employees' innovative potential is crucial to enhancing business competitiveness.

In the face of increasingly intense business competition, Micro, Small, and Medium Enterprises (MSMEs) must continually adapt and innovate to survive and grow. Innovation in the MSME sector does not rely solely on technological advancement but also on the role of employees as key drivers in generating fresh ideas. However, the reality shows that many MSMEs in Indonesia face obstacles in fostering employee creativity. These challenges often stem from a lack of inspirational leadership and the absence of supportive human resource management (HRM) practices that encourage employee development. Despite rapid growth, many MSME entrepreneurs still overlook the importance of HR and innovation. One of the main reasons is the lack of organizational leadership support in accommodating and appreciating employees' creative ideas.

The leadership style implemented in a company directly influences employee engagement and productivity. Tedla & Aradom (2022) assert that the role of leaders is particularly vital during crises, such as economic recessions or pandemics, where prompt and strategic decision-making is important. Leadership effectiveness is essential not only during crises but also for maintaining sustainable corporate operations. Transformational leadership is regarded as a crucial element in augmenting employee motivation and effecting changes in attitudes and behaviors. This leadership style consists of four primary elements: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Bak et al., 2022). Leaders that adeptly implement this strategy can cultivate a workplace that fosters creativity and enhances employee engagement. Moreover, HR procedures significantly influence employees' innovative behavior.

Leaders in organizations set the tone for the types of behaviours that are expected and valued, which employees interpret and respond to through their actions. When employees perceive that the organization values innovation and rewards creative ideas, they are more likely to contribute actively to achieving organizational goals. Unfortunately, in the context of MSMEs, innovative behaviour remains underutilized. Significant barriers to innovation among employees often arise from a lack of optimism, low self-motivation, and limited awareness of the importance of firm performance. Therefore, a combination of effective transformational leadership and innovation-driven HR strategies is essential to stimulate business growth and competitiveness. The desire to perform well is a component of an individual's positive psychological capital, which has a significant impact on employee performance. In MSMEs, this phenomenon is prevalent, as psychological capital can assist individuals in recovering from business setbacks. De Hoe and Janssen (2022) define psychological capital as a high level of self-efficacy, optimism, hope, and resilience that is indicative of a positive psychological state of development.

According to a study by Bak et al. (2022), transformational leadership can indirectly foster innovative work practices through the mediating effect of psychological capital. Furthermore, research shows that innovative behavior by employees and inclusive leadership are positively correlated, with organizational viewpoint serving as a mediating factor. According to a study by Slåtten et al. (2020), leaders' autonomous support has a considerable impact on employees' innovative behavior, though in different ways. There is still a lack of research on the relationship between HR practices and employees' psychological capital, despite several studies clarifying the relationship between innovative behavior and other organizational traits. By investigating the functions of transformational leadership, HR procedures, and psychological capital in encouraging creative work practices in the MSME context, this study aims to close this gap.

LITERATURE REVIEW

Transformational Leadership

Transformational leadership in the context of Micro, Small, and Medium Enterprises (MSMEs) refers to a leadership style that inspires and engages employees within these organisations, fostering an innovative and motivating environment that drives organisational growth. This approach is characterized by leaders who encourage individual employee development, promote collaboration, and facilitate significant changes that enhance overall performance and organizational adaptability (Budihard et al., 2024; Yusuf & Yulianeu, 2022). Research has shown that transformational leadership plays a crucial role in enhancing the performance of micro and small enterprises (MSMEs), particularly in dynamic and competitive markets.

Moreover, transformational leadership fosters a culture of empowerment and trust, which is crucial for MSMEs aiming to enhance their competitiveness. This leadership style enhances employee engagement by motivating individuals to prioritise the organisational mission over personal interests, ultimately leading to increased commitment and performance (Budihard et al., 2024; Torrido, 2023). Furthermore, studies indicate that transformational leadership is positively correlated with innovation in MSMEs, as it fosters an atmosphere where employees feel encouraged to share ideas and contribute creatively (Nainggolan et al., 2024; Rasheed et al., 2021).

HR Practice

Human Resource (HR) practices can be defined as systematic and strategic approaches to managing human capital within an organization, encompassing a range of functions that directly impact employee performance and organizational effectiveness. HR practices typically include recruitment, training and development, performance management, compensation, employee relations, and organizational development. These practices are designed to enhance employees' skills, knowledge, and capabilities, Facilitating the organisation in attaining its strategic objectives and cultivating a constructive work atmosphere (Omar et al., 2023; Elias et al., 2023).

The literature emphasizes that practical human resource (HR) practices are crucial in driving high performance and achieving a competitive advantage within organizations. For instance, studies have shown that the implementation of High-Performance Work Practices (HPWPs) is associated with increased employee engagement and productivity (Khasawneh & Mohammad, 2021; Zreen et al., 2021). These practices not only aim to optimize employee potential but also to build a culture of continuous improvement and agility within the HR department (Moh'd et al., 2024; Kaushik & Mukherjee, 2021). HR agility refers to the ability of HR practices to adapt to changing business needs and employee expectations, which is increasingly important in today's dynamic work environment (Moh'd et al., 2024; Bannya et al., 2022).

Innovative Work Behaviour

Innovative Work Behaviour (IWB) refers to the actions and activities undertaken by employees aimed at creating, promoting, and implementing new ideas, processes, or products within an organisation. IWB involves a series of steps and cognitive processes that begin with identifying a problem or opportunity and culminate in the implementation of solutions that contribute to organizational goals (Sofiani & Supriatna, 2022; Sari et al., 2021; Hidayat & Patras, 2022). This concept is essential for fostering innovation and competitiveness across sectors, as employees engage in behaviours that seek to enhance performance and drive organizational change.

The literature emphasizes that innovative work behaviour is a multidimensional construct encompassing activities such as idea generation, idea promotion, and idea realization. Employees who demonstrate IWB not only develop new ideas but also actively seek support for them and strive to implement them effectively (Sari et al., 2021). Moreover, IWB is influenced by various factors, including job engagement, autonomy, leadership style, and organizational climate (Leila et al., 2022; Abdelatti et al., 2022; Palumian et al.,

2021). For instance, employees who feel psychologically safe and empowered are more likely to engage in innovative behaviour, as they believe their contributions are valued and can lead to meaningful change (Xu & Suntrayuth, 2022). Additionally, IWB is closely linked to organisational outcomes, as it has been demonstrated to impact performance and adaptability in rapidly changing business environments positively. When employees are encouraged to innovate, organizations can differentiate themselves from competitors and respond more agilely to market demands (Shah et al., 2022; Gultom et al., 2022).

Psychological Capital

Psychological capital is widely acknowledged as a vital element influencing both individual and organizational efficacy. This idea is primarily characterized as a positive psychological state and encompasses four fundamental components: self-efficacy, optimism, hope, and resilience. This approach is consistent with positive psychology, which focuses on individual strengths instead of weaknesses and fosters an optimistic perspective on personal and professional issues (Ghanizadeh et al., 2022; Ratri et al., 2024; Hassan et al., 2024).

In the workplace, psychological capital correlates with improved performance and flexibility, functioning as an essential resource that empowers people to manage difficult circumstances and attain their goals. Studies indicate that personnel possessing elevated psychological capital are more adept at stress management and sustaining motivation, hence enhancing job satisfaction and organizational commitment (Cao et al., 2022; Kalyani et al., 2023; Peng et al., 2022). Moreover, psychological capital is regarded as a mediating variable in multiple organizational dynamics, encompassing the correlation between leadership style and employee engagement (Shah et al., 2023; Dewi & Soeling, 2024).

Transformational Leadership on Innovative Work Behaviour

Transformational leadership plays a crucial role in shaping creative behaviour by fostering a work culture that supports innovation. Its success largely depends on individual characteristics that drive innovative actions. Leaders who cultivate a creative work environment make a significant contribution to stimulating innovation and motivating employees to face challenges and develop new solutions in uncertain situations (Karimi et al., 2023).

Unlike conventional leadership, transformational leadership inspires and empowers followers through four core strategies: intellectual stimulation, individualized consideration, idealized influence, and inspirational motivation. This method has demonstrated efficacy in fostering creative work behaviours, especially within the public sector (Günzel-Jensen et al., 2022). Bak et al. (2022) assert that transformational leaders articulate a distinct vision and exhibit concrete inventive acts, motivating followers to engage in critical thinking and undertake audacious efforts.

In conclusion, transformational leadership plays a crucial role in fostering innovative behaviour in the workplace. By implementing leadership strategies that focus on innovation, leaders can enhance employee creativity, foster out-of-the-box thinking, and generate adaptive solutions in response to changing organizational dynamics.

H1: Transformational Leadership influences Employees' Innovative Work Behavior

HR Practice on Innovative Work Behaviour

High-commitment HR practices play a crucial role in promoting innovative work behaviour at the individual level. Key influencing factors include fair compensation structures, opportunities for professional development, information sharing, and supervisory support. Employees who feel valued and have access to these resources are more likely to be motivated to innovate.

Work systems that actively engage employees can enhance their capabilities and motivation to complete tasks in more creative ways (Yasir & Majid, 2020). Whether through intrinsic or extrinsic motivation, equitable HR policies and financial incentives serve as catalysts for workplace innovation (Dede, 2021). Employees who perceive training and development as an organizational investment in their future are more inclined to contribute. Furthermore, effective information exchange reinforces perceptions of fairness and trust within the organization, thereby creating a work environment conducive to innovation.

In conclusion, high-commitment HR practices significantly contribute to employees' innovative behaviour. Through policies that promote professional growth and organizational justice, employees become more motivated to think creatively and offer innovative solutions as a reciprocal response to the support they receive.

H2: Human Resource Practices Impact Employees' Innovative Work Behaviour.

Transformational Leadership and Psychological Capital

Transformational leadership fosters the advancement of the four fundamental elements of psychological capital: self-efficacy, optimism, hope, and resilience (Schuckert et al., 2018). According to Muhammad (2022), this leadership style is characterized by inspirational role modelling, the establishment of visionary goals, and encouragement for individuals to achieve positive outcomes—attributes closely related to optimism and hope. Additionally, transformational leadership enhances individuals' belief in their ability to complete tasks (self-efficacy) and fosters resilience in the face of challenges.

Through its four key dimensions—idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration—transformational leadership promotes collaboration toward shared goals (Gom et al., 2021). Employees led by transformational leaders tend to exhibit higher self-efficacy, as they are encouraged to think positively, develop confidence, and embrace change. According to emotional contagion theory, followers tend to mirror their leaders' attitudes, including optimism and resilience. Research further suggests that a strong attachment to transformational leaders—who are often viewed as successful role models—enhances employees' optimism (Bak et al., 2022).

In conclusion, transformational leadership plays a crucial role in shaping individuals' psychological capital. By inspiring, setting visionary objectives, and encouraging the achievement of positive outcomes, transformational leaders help employees build confidence, foster a collaborative spirit, and develop resilience. Moreover, leaders' contagious optimism contributes to greater employee motivation and more effective organizational goal attainment.

H3: Transformational Leadership Influences Psychological Capital. HR Practice on Psychological Capital

Vilariño del Castillo and Lopez-Zafra (2022) note that alternative terminologies have been utilized to describe human resource (HR) approaches, including high-performance work systems (HPWS) and high-engagement work systems. Miao et al. (2021) discovered that high-performance work systems (HPWS), or high-performance work practices, positively affect employee attitudes, with psychological capital acting as a mediator. Additional research corroborate the mediating function of psychological capital between HR policies and practices and employee performance, including mentoring, which improves performance by fostering psychological capital. Human resource practices are regarded as job resources, whereas psychological capital functions as a personal resource that empowers people to confront work obstacles and improve their performance.

In summary, HR policies exert a beneficial impact on employee attitudes and performance, with psychological capital serving as a mediating factor. Work systems, such as High-Performance Work Systems (HPWS) and high-engagement work systems, augment affective commitment and job satisfaction. Psychological capital, which includes self-efficacy, optimism, hope, and resilience, serves as a conduit between HR practices and individual performance. Human Resource practices, as job resources, assist employees in managing obstacles, whereas psychological capital enhances motivation and productivity.

H4: HR Practices Influence Psychological Capital Psychological Capital on Innovative Work Behaviour

Psychological capital refers to positive attributes and individual strengths that collectively serve as psychological resources supporting the innovation process. Psychological capital is a higher-order construct encompassing four main components: (1) hope, (2) self-efficacy, (3) resilience, and (4) optimism. The four aspects are dynamic and may evolve over time (Slåtten et al., 2020). Research conducted by Liu et al. (2023) and Bris et al. (2021) demonstrated that the success of technological innovations inside a corporation is significantly affected by the psychological capital of its personnel. Employees possessing elevated psychological capital are more engaged in information appropriation, establishing technological innovation objectives, and actualising future desires, indicative of enhanced motivation. Additionally, other studies also found links between individual psychological capital and job performance, including innovative behaviour. For instance, research by Slåtten et al. (2020) demonstrated a relationship between psychological capital components and individuals' tendency to engage in innovative behaviour in the workplace.

In conclusion, psychological capital is an individual resource that plays a crucial role in supporting the innovation process; consisting of four main aspects: hope, self-efficacy, resilience, and optimism. These elements are dynamic and can grow over time. Research shows that high psychological capital contributes to technological innovation achievements, increases employee motivation, and encourages innovative behaviour at work. Employees with strong psychological capital are more proactive in acquiring knowledge, setting innovative goals, and facing challenges with optimism, ultimately contributing to improved organizational performance and innovation.

H5: Psychological Capital affects Employees' Innovative Work Behaviour.

H6: Transformational leadership affects employees' innovative work behaviour via psychological capital.

H7: Human Resource practices affect employees' innovative work behaviour via psychological capital.

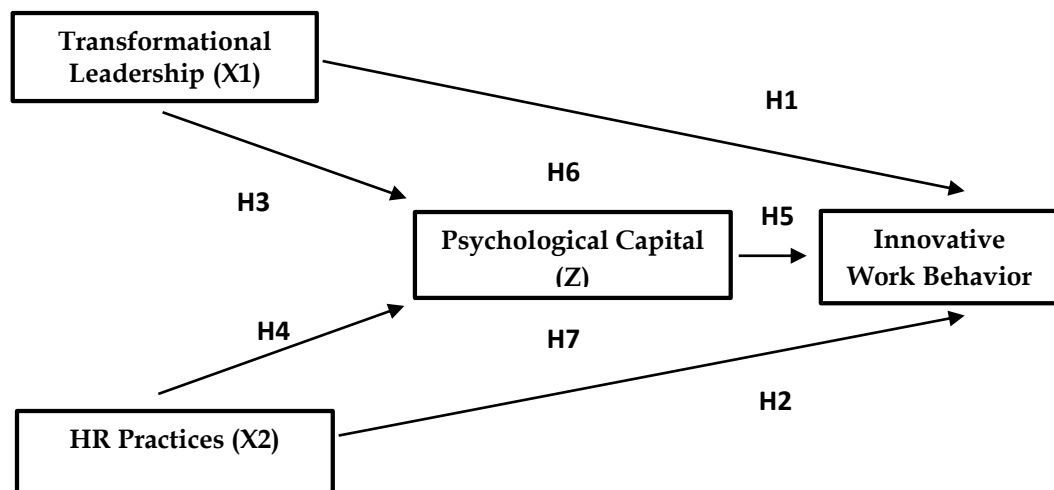


Figure 1. Conceptual Framework

METHODOLOGY

This study utilizes a causal associative method with a quantitative approach to examine the cause-and-effect correlations among the variables analyzed. The quantitative method was used to facilitate objective measurement and statistical analysis, which are crucial for hypothesis testing and deriving generalizable results. This research employs Smart-PLS (Partial Least Squares), a Structural Equation Modeling (SEM) approach adept at analyzing intricate models with latent variables. Smart-PLS is especially suitable for small to medium sample sizes and does not necessitate normally distributed data, rendering it ideal for the sample size of this investigation.

Data was gathered through an online questionnaire, facilitating efficient access to responders from various places. The research instrument comprised closed-ended questions assessed by a 5-point Likert scale, with 1 representing "Strongly Disagree" and 5 denoting "Strongly Agree." This scale allowed the researcher to quantify respondents' opinions and attitudes in a standardized format appropriate for statistical analysis.

The population of this study comprises individuals who possess certain traits pertinent to Indonesian MSMEs (Micro, Small, and Medium Enterprises). A total of 100 respondents were recruited by purposive sampling, a non-probability technique in which participants are chosen according to certain criteria. The criteria for respondent selection encompassed: (1) current employment in MSMEs within the culinary, fashion, or craft sectors; (2) age range of 20 to 60 years (productive age); (3) a minimum tenure of six months in an MSME; (4) possession of a direct supervisor; and (5) active participation in production, marketing, and product innovation activities. The criteria guaranteed that the chosen participants possessed adequate experience and relevance to offer significant insights pertinent to the research objectives.

RESULT

Measurement Model

The results of the fit, validity, and reliability tests are as follows:

Table 1. Value of Standardized Loading Factor in Overall Model Fit

Variabel	Indikator	item	SLF	Conclusion
Tranformational Leadership	Clear Vision	TL1	0,822	VALID
	Inspirational Motivation	TL2	0,761	VALID
	Intellectual Stimulation	TL3	0,780	VALID
	Individualized Consideration	TL4	0,811	VALID
HR Practice	Training and Development	HR1	0,804	VALID
	Compensation and Rewards	HR2	0,880	VALID
	Recruitment and Selection	HR3	0,859	VALID
	Performance Evaluation	HR4	0,778	VALID
Psychological Capital	Self-Efficacy	PC1	0,786	VALID
	Hope	PC2	0,810	VALID
	Resilience	PC3	0,812	VALID
	Optimism	PC4	0,740	VALID
Innovative Work Behavior	Idea Generation	IWB1	0,749	VALID
	Idea Promotion	IWB2	0,774	VALID
	Implementation	IWB3	0,784	VALID

Based on the findings in Table 1, according to Hair et al. (2021), an acceptable outer loading value is 0.7. The loading values for the transformational leadership construct demonstrate a strong measurement of the latent construct, ranging from 0.761 to 0.822. Similarly, the loading values for the HR Practice variable are also strong, ranging between 0.778 and 0.880. Likewise, the employee innovative behaviour construct shows substantial variable loading values, ranging from 0.749 to 0.784. The mediating construct of psychological capital also exhibits strong variable loading values, ranging from 0.740 to 0.812.

Table 2. Value of Construct Reliability (CR), and Avarage Variance Extracted (AVE) in Overall Model Fit

Variabel	Cronbach's alpha	Construct Reliability	Avarage Varian Extracted
Transformational Leadership	0.806	0.872	0.630
HR Practice	0.850	0.899	0.691
Psychological Capital	0.796	0.867	0.620
Innovative Work Behavior	0.656	0.813	0.592

Hair et al. (2021) state that Cronbach's Alpha values between 0.6 and 0.8 imply good dependability, which is supported by the results in Table 2. With Cronbach's Alpha values of 0.806 for Transformational Leadership, 0.850 for HR Practice, 0.796 for Psychological Capital, and 0.656 for Employee Innovative Behavior, these constructs likewise exhibit strong internal consistency. With composite reliability ratings of 0.813 for employee innovative behavior, 0.867 for psychological capital, 0.899 for human resource practice, and 0.872 for transformational leadership, these values further show strong dependability. According to Hair et al. (2021), the Average Variance Extracted (AVE) must have a minimum acceptable value of 0.50. A construct is said to explain 50% or more of the variation of its indicators if its AVE value is 0.50 or above. With values of 0.592 for Employee Innovative Behavior, 0.691 for HR Practice, 0.620 for Psychological Capital, and 0.630 for Transformational Leadership, the AVE values indicate that the indicators exhibit a substantial level of variance.

R-Square

Table 3. R-Square

	R-square	R-square adjusted
Employee Innovative	0,761	0,754
Psychological Capital	0696	0,690

The R² value is used to assess the explanatory power of the model, with thresholds of 0.75, 0.50, and 0.25 indicating strong, moderate, and weak explanatory power, respectively (Ghozali & Latan, 2015, as cited in Verameta et al., 2021). As shown in Table 4.4, the Employee Innovative variable exhibits a high level of explanatory power, with an R² value of 0.761 and an adjusted R² of 0.754. Similarly, the Psychological Capital variable also shows a strong influence, with an R² value of 0.698 and an adjusted R² of 0.690.

Hypothesis Testing

Table 4. Hypothesis Testing

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
HR -> EI	0.464	0.464	0.100	4.620	0.000
HR -> PC	0.361	0.346	0.121	2.994	0.003
PC -> EI	0.143	0.145	0.096	1.486	0.137
TL -> EI	0.314	0.307	0.119	2.639	0.008
TL -> PC	0.505	0.498	0.120	4.221	0.000
TL-PC-EI	0,072	0,073	0,051	1,414	0,157
HR-PC-EI	0,052	0,050	0,037	1,393	0,164

DISCUSSION

Impact of Transformational Leadership on Employee Innovative Work Behavior

A t-statistic of 2.639 with a significance level of $p = 0.05$ is the study's output. Thus, it can be concluded that innovative work behavior among employees is positively and significantly impacted by transformational leadership. Thus, the fourth hypothesis (H1) is confirmed. The 2022 study "Unpacking the Transformational Leadership-Innovative Work Behavior Relationship: The Mediating Role of Psychological Capital" by Bak et al. shows a positive correlation between transformational leadership and innovative work practices among employees. "Authentic and Transformational Leadership and Innovative Work Behavior: The Moderating Role of Psychological Empowerment," a study by Grošelj et al. (2020), emphasizes psychological empowerment as a moderating variable and further supports the positive relationship between transformational leadership and innovative work behavior.

HR Practices' Impact on Employees' Innovative Work Behavior

The analysis results show a t-statistic value of 4.620 at a significance threshold of $p = 0.05$. Thus, it can be concluded that HR procedures significantly and favorably influence workers' creative work habits. Thus, the first hypothesis is confirmed. This conclusion is supported by the study "HR Training Practices and Innovative Work Behavior: A Moderated Mediation Model" by Odoardi et al. (2022), which shows that HR training techniques promote innovative work behavior. Similarly, "The Impact of HR Practices and Innovative Work Behavior on Job Performance in Physicians" by Al Wali et al. (2021) shows that HR practices have a favorable and significant effect on innovative work behavior.

The Influence of Transformational Leadership on Psychological Capital

The analysis yields a p-value of 0.05 and a t-statistic of 2.043. As a result, transformational leadership has a favorable and noteworthy impact on psychological capital. Thus, the initial hypothesis (H1) has been validated. "The Empirical Relationship Between Transformational Leadership and Job Attitudes: The Mediating Role of Psychological Capital – A Study of Healthcare in India," a study by Shah et al. (2023), shows that transformational leadership and psychological capital are positively correlated. Additionally, Le (2020), in "How Transformational Leadership Facilitates Radical and Incremental Innovation: The Mediating Role of Individual Psychological Capital," supports these findings

by showing that transformational leadership and both radical and incremental innovation are significantly mediated by individual psychological capital.

HR Practices' Impact on Psychological Capital

The analysis's p-value of 0.05 and t-statistic of 2.994 indicate that HR practices significantly and favorably affect psychological capital. As a result, the second hypothesis (H2) is accepted. As demonstrated by Saeed et al. (2019) in "Promoting Employee's Pro-Environmental Behavior through Green Human Resource Management Practices," psychological capital acts as a mediator between HRM practices and employees' pro-environmental behavior. Furthermore, Manuti & Giancaspro (2019) found that the relationship between HR practices and employees' perceptions of organizational resources is significantly mediated by psychological capital. In support of the notion that "People Make the Difference," the exploratory study demonstrates how effective organizational practices increase psychological capital, which in turn enhances employee well-being.

Impact of Transformational Leadership on Innovative Work Behavior by Employees Via Psychological Capital

The study produces a t-statistic of 1.414 and a p-value of 0.05. Consequently, psychological capital does not exert a major beneficial influence on employee innovative work behavior within the framework of transformational leadership. Therefore, hypothesis six (H6) is dismissed. This finding corresponds with the study by Han et al. (2023) entitled "The Influence of School Atmosphere on Chinese Teachers' Job Satisfaction: The Chain Mediating Effect of Psychological Capital and Professional Identity," which similarly did not identify psychological capital as a mediator between job satisfaction and school atmosphere. Moreover, Baron and Kenny's (1986) mediation theory posits that mediation transpires just when a substantial correlation exists between the independent and dependent variables, which becomes non-significant upon controlling for the mediator. The insignificant correlation between psychological capital and innovative work behavior suggests that psychological capital does not serve as an effective mediator in this scenario..

Impact of Human Resource Practices on Employee Innovative Work Behavior Via Psychological Capital

The research produces a t-statistic of 1.393 and a p-value of 0.05, suggesting that HR practices do not exert a substantial beneficial influence on employee innovative work behavior via psychological capital. Consequently, hypothesis seven (H7) is dismissed. The hypothesis is unsupported as the t-statistic is 1.393 and the p-value is 0.097, exceeding the significance level of 0.05. This indicates that psychological capital does not substantially affect innovative work behavior. This discovery diverges from other prior studies and may result from variations in organizational setting, workplace culture, or responder attributes. Additional investigation is advised to examine this correlation in various contexts.

CONCLUSION AND RECOMMENDATION

Conclusion

This study employs psychological capital as a mediating variable to investigate the impact of human resource (HR) practices and transformational leadership on employee innovative work behaviour in micro, small, and medium enterprises (MSMEs). The findings reveal that both HR practices and transformational leadership can encourage innovative work behaviour. Psychological capital plays a vital role in promoting innovative behaviour among employees. Nonetheless, it is important to acknowledge that no substantial direct impact of transformational leadership on innovative work behavior via psychological capital was identified. Likewise, HR practices do not exert a substantial indirect effect on innovative work behavior via their impact on employees' psychological capital.

Innovation is crucial for the success of MSMEs, highlighting the necessity of adopting transformational leadership, optimizing HR management techniques, and improving employees' psychological capital. By applying these principles tailored to the characteristics of small and medium-sized enterprises (SMEs), MSMEs can develop their innovative capacity and compete effectively in an increasingly competitive business environment.

This research makes a significant contribution to various stakeholders. It is expected to enrich the body of knowledge in human resource management, particularly regarding the relationships between transformational leadership, HR practices, psychological capital, and employee innovative behaviour. Additionally, the findings can serve as a reference for knowledge development and practical application in HR management. For MSME practitioners in Indonesia, the results can guide strategic decision-making, especially in human resource management aspects.

Nevertheless, this study has several limitations. First, not all variables that potentially influence employee innovative behaviour were examined, leaving room for further exploration of other relevant factors. Second, the research objects encompass MSMEs from various industry sectors, so the results may not be universally applicable to all types of MSMEs. The findings are more suitable for consideration within specific industry contexts. Therefore, an expansion of sample size and a focus on particular MSME sectors are needed to gain a deeper understanding. Furthermore, a more balanced sample distribution that reflects diverse perspectives is necessary. Future research is strongly recommended to enhance the performance of MSMEs, which play a crucial role in national economic development. In the future, studies are expected to develop a more holistic conceptual framework by incorporating additional variables and conducting broader and deeper explorations of the factors influencing innovative work behaviour across various MSME contexts.

Recommendation

- a. For MSMEs in Indonesia, it is recommended that they adopt a transformational leadership style that inspires and empowers employees. Leaders should encourage active participation, appreciate new ideas, and create a work environment that is open to change and innovation. Additionally, professional HR management practices—such as competency-based recruitment, continuous training, and a fair compensation system—should be implemented to enhance employee motivation and performance.
- b. For stakeholders, synergy in creating structured programs to support MSME development is a crucial step that must begin now and continue. The growing intensity of global competition and the influx of imported products necessitate immediate attention and swift responses to ensure the sustainability of domestic micro and small enterprises (MSMEs).
- c. For future research, it is advisable to include other variables that may influence employees' innovative work behaviour, such as organizational culture, employee engagement, innovation climate, or job satisfaction. The inclusion of these variables could broaden the understanding of the factors that drive innovative behaviour. Given the high diversity among MSMEs, future studies should focus on specific industry sectors such as food and beverages, fashion, manufacturing, or technology. This targeted approach will yield more precise insights tailored to the needs of each sector.

Furthermore, the limitations regarding the number and scope of respondents in this study should be taken into consideration. Thus, it is recommended that future studies involve larger and more geographically distributed samples across various MSME categories to enable broader generalizability. To complement the quantitative findings, future research may also adopt qualitative or mixed methods approaches. In-depth interviews or focus group discussions (FGDs) with business owners and employees can provide rich, contextual insights that are not captured through survey instruments.

Lastly, considering that not all mediation effects in this study were found to be significant, it is advisable for future research to explore more complex mediation and moderation models. For instance, future studies could examine whether factors such as leader empathy or a creativity-supportive work climate serve as moderators in the relationship between leadership and innovative work behaviour.

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