

# Transformational Leadership and Knowledge Sharing to Reinforce Innovative Work Behavior in SMEs

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**Abstract.** This study analyzes the impact of transformational leadership and knowledge sharing on innovative employee behavior. The findings are to confirm previous research and as a reference for decision-makers in SMEs in developing innovative employee behavior. We used quantitative research methods. Our study involved 500 employees of SMEs. Samples were determined using the Slovin formula with a margin of error of 10%, and we had 210 respondents by simple random sampling. A questionnaire was used to collect data. Data were analyzed using Structural Equation Modeling (SEM) with SmartPLS. Data analysis started with validity and reliability tests of the research instruments and hypothesis testing. Dimensions of transformational leadership are ideal influence, inspirational motivation, intellectual stimulation, and individual consideration. Dimensions of knowledge sharing are knowledge donation and knowledge collection. Dimensions of innovative behavior are idea exploration, idea generation, idea defense, and idea implementation. Findings show that transformational leadership and knowledge sharing significantly and positively influence innovative behavior. Knowledge sharing has a greater influence than leadership. Transformational leadership and knowledge sharing stimulate innovative behavior in transformational SMEs to build innovative behavior.

**Keywords:** Transformational leadership (TL); knowledge sharing (KS); innovative behaviour (IWB); SMEs; digital era

## 1. Introduction

The Covid-19 pandemic has led to a recession marked by negative economic growth or contraction. The second quarter of 2020 saw negative growth for Indonesia's economy of 5.3%. [1] due to decreased household consumption after the social restriction was implemented, coupled with decreased investment and government spending. Small and Medium Enterprises (SMEs) were severely affected by the pandemic, causing a significant decrease in the economy [2] because SMEs are the backbone of the economy. We had 64.2 million SME actors in 2018, or 99.99% of the total national business actors [3] SMEs absorb 117 million workforces, or 97% of the total workforce. SMEs contribute 61.1% to our GDP. SMEs are dominated by micro enterprises (96.8%), absorbing 89% of the workforce, contributing 37.8% to GDP.

The digital era has led to tighter SME competition, and innovation is necessary. Sustainable innovations are what it takes for quality products and services and organizational competitiveness [4]. Organizational innovations are closely related to human resources as one of the primary production factors. Thus, employees must have innovative behavior [5]. Innovative work behavior (IWB) refers to an activity directed at formatting, introducing, and applying new things beneficial for the organization. Studies show that IWB can be formed through training and is affected by certain factors [1], [6]; transformational leadership (TL) is considered to have a dominant role in IWB. Transformative leaders will easily gain trust, loyalty, and respect from subordinates, allowing them to volunteer to do tasks outside their main responsibility. IWB is influenced by perceptions of TL [5], [7].

Knowledge sharing (KS) is another factor predicted to affect IWB. KS is a knowledge exchange process within an organization allowing for knowledge creation and even problem-solving. KS positively affects IWB, especially when it comes to promoting and applying new ideas [1], [2], [6]. Our study aims to determine how transformational leadership and knowledge sharing affect innovative work behavior. We hope the findings can confirm previous studies and become a reference in SME decision-making.

## **2. Literature Review**

### **2.1 Transformational leadership**

[1], [6] mention that transformative leaders can influence their subordinates by strengthening their goals and helping them increase confidence in the workplace. TL is identified through (1) idealized influence, a leader's charisma that makes him an example for the group's members.; (2) inspirational motivation, the capacity of a leader to inspire and motivate team members to achieve shared objectives.; (3) intellectual stimulation, the behavior of a transformative leader encouraging followers to consider innovation, creative approaches, or fresh ways to accomplish goals; (4) individual consideration, the leader's ability to identify, understand, and address the needs of members and treat them well. This theory is one of the popular leadership theories because of its great influence on organizational progress. Transformative leaders help employees devoted to realizing the organization's mission and can put the company's needs before their own. This positive thing will ultimately be positively correlated with individual and organizational performance.

### **2.2 Knowledge Sharing**

One of the important organizational assets rarely realized is knowledge [4], [6], but knowledge alone is not sufficient and additional procedures are required to increase the organization's benefit from that knowledge. One of the vital activities in maintaining and developing knowledge is knowledge-sharing behavior. KS is a social interaction for exchanging knowledge, experience, and employee skills across departments or organizations. [8] state that KS can also be interpreted as a procedure whereby people share knowledge and attempt to derive new knowledge from the shared knowledge. KS enables the knowledge of each individual to be shared with other members to become organizational knowledge. KS has two primary activities: donating and collecting

knowledge. Donating knowledge is where everybody shares knowledge or intellectual resources, and collecting knowledge is characterized by engaging in the process of consultation with co-workers to promote the sharing of their intellectual property [2], [9].

### **2.3 Innovative Work Behaviour**

IWB aims to investigate and advance novel and beneficial concepts, methods, products, or practices. IWB can also be seen as personal pursuits oriented to the creation, process and implementation of ideas related to relatively new products, technologies, procedures, or work processes to increase organizational effectiveness and achievement. [1], [4] explain four dimensions of IWB. (1) Idea exploration is a procedure used to look for possibilities to better circumstances or threats that call for prompt action. In other words, idea exploration is the pursuit of chances to enhance the quality of goods, services, and operational procedures through various methodologies. (2) Idea generation is a technique used to develop fresh concepts by examining current opportunities and risks. (3) Idea championing is a method used to create fresh concepts based on an examination of current opportunities and risks (4) Idea implementation is an endeavor made to put into practice the idea that has been made and is accountable for executing the innovation. IWB is a positive behavior at work; this behavior positively correlates with innovation output, improving organizational performance and impacting organizational sustainability.

### **2.4 Hypothesis Development**

Several research results explain the contribution of TL on IWB. [4], [5] mention that TL is considered the most influential factor in promoting IWB. TL will encourage employees to be more innovative.

H1: Transformational leadership significantly and positively impacts innovative work behavior.

[1], [6] mention that KS is one of the dominant determinants in building IWB. Company members can exchange knowledge and professional expertise through knowledge-sharing events, which can spark original thoughts that eventually result in organizational innovations. Additionally, members of the organization might be encouraged to develop possibilities in an effort to produce solutions and efficiency through the information-sharing process.

H2: Knowledge sharing significantly and positively impacts innovative work behavior.

## **3. Research Method**

This study uses quantitative research methods. The population in this study was 500 employees of SMEs. Samples were determined using the Slovin formula with a margin of error of 10%, and we ended up having 210 respondents chosen by simple random sampling. Data was collected through a questionnaire using a Likert scale. We used Structural Equation Modeling (SEM) with SmartPLS to analyze data. Dimensions of transformational leadership are ideal influence, inspirational motivation, intellectual stimulation, and individual consideration. Dimensions of knowledge sharing are knowledge donation and knowledge collection. Dimensions of innovative behavior are idea exploration, idea generation, idea defense, and idea implementation.

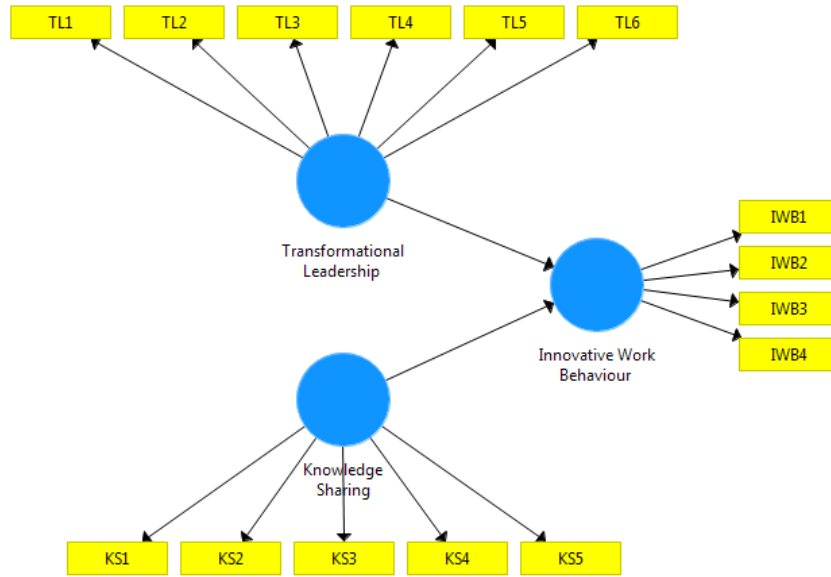
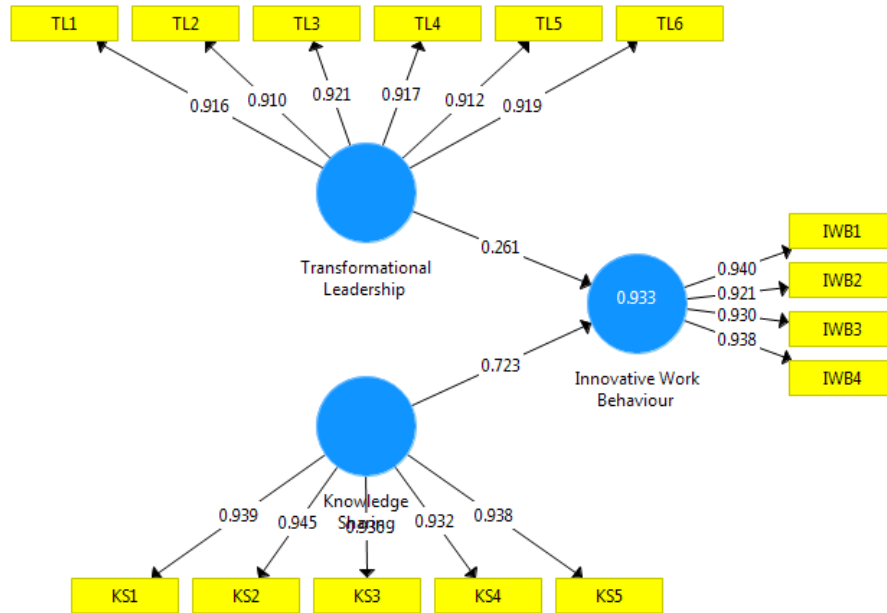


Fig 1. Research Model

#### 4. Result and Discussion

We tested the validity and reliability of the model using reflective indicators. The following four measurement model evaluations are obtained using the PLS Algorithm in SmartPLS.



**Fig 2.** Validity and Reliability Testing

#### 4.1 Reliability

Figure 2 confirms a loading value above 0.70, meaning that the construct can explain more than 50% of the indicator variance.

##### 4.1.1 Internal Consistency Reliability

Internal consistency shows the indicator's capacity to measure its latent construct using composite reliability and Cronbach's alpha. A composite reliability of 0.6 – 0.7 is considered good, and the expected Cronbach's alpha value is above 0.7 [10]. We had the expected Cronbach's alpha of more than 0.7 (Table 1), indicating that the construct can explain more than 50% of the indicator variance.

**Table 1.** Validity and Reliability Testing

	Cronbach's Al...	rho_A	Composite Rel...	Average Variance Extracted (AVE)
Innovative Work Behaviour	0.950	0.950	0.964	0.869
Knowledge Sharing	0.966	0.966	0.973	0.880
Transformational Leadership	0.962	0.962	0.969	0.839

#### **4.1.2 Convergent Validity**

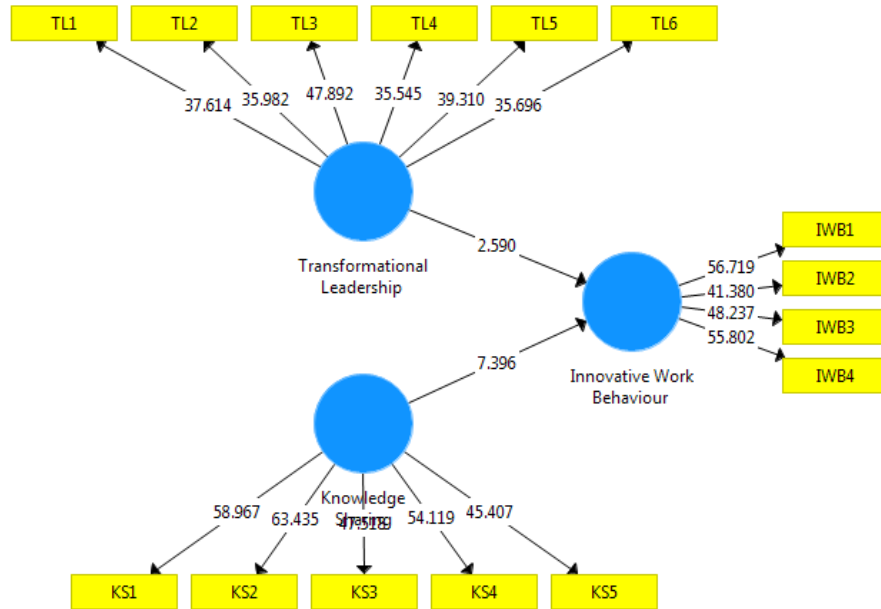
Convergent validity means that a construct's measures should have a high degree of correlation. The convergent validity of a construct with reflective indicators was evaluated by Average Variance Extracted (AVE). The AVE value should equal 0.5 or more (Purwanto et al., 2020). AVE value of 0.5 or more means that the construct can explain 50% or more of the item variance. Table 1 shows that the AVE value should equal 0.5 or more, meaning the construct can explain 50% or more of the item variance.

#### **4.2 Coefficient of Determination (R<sup>2</sup>)**

The coefficient of determination (R<sup>2</sup>) is a way to assess how much an exogenous construct can explain an endogenous construct. The value of the coefficient of determination (R<sup>2</sup>) is expected to be between 0 and 1. R<sup>2</sup> values of 0.75, 0.50, and 0.25 indicate that the model is strong, moderate, and weak. R<sup>2</sup> values of 0.67, 0.33 and 0.19 as strong, moderate, and weak [11]. Based on Figure 2, the coefficient of determination (R<sup>2</sup>) is 0.933 or 93.3%. It can be concluded that TL and KS have contributed 93.3% to IWB in SMEs, and the remaining 6.7% is a contribution from additional factors.

#### **4.3 Hypothesis Testing**

Bootstrapping produces t-statistical values for each relationship path used for hypothesis testing. We compared t-statistic with t-table values. We used a 95% confidence level, so the ( $\alpha$ ) was 5% or 0.05, and the t-table was 1.96. If the t-statistic is less than the t-table (t-statistic < 1.96), H<sub>0</sub> is accepted, and H<sub>a</sub> is rejected. If the t-statistic value is greater than or equal to the t-table (t-statistic > 1.96), H<sub>0</sub> is rejected, and H<sub>a</sub> is accepted.



**Fig 3.** Hypothesis Testing

Hypothesis testing show that the t-statistic of TL is  $2.590 > 1.96$ . This means that TL significantly and positively impacts IWB. The t-statistic of KS is  $7.396 > 1.96$ . This shows that KS has significantly and positively impacts IWB.

**Table 2.** Hypothesis Testing

	Original Sampl...	T Statistics ( O...	P Values
Knowledge Sharing -> Innovative Work Behaviour	0.723	7.396	0.000
Transformational Leadership -> Innovative Work Behaviour	0.261	2.590	0.010

#### 4.3.1 The Effect of Transformational Leadership on Innovative Behavior

Hypothesis testing demonstrates that TL significantly impacts IWB. According to the study, using a TL approach will stimulate more IWB among employees. The results of this study support the findings of earlier investigations by [4], [5], [7], [12] related to TL and IWB. Intellectual stimulation is one dimension of transformational leadership closely related to innovative behavior. The behavior of a transformative leader encourages followers to consider innovation, creative approaches, or fresh ways to accomplish goals. This kind of leadership character is absolutely

necessary to create an innovative organization. In this study, the effect of TL is lower than KS. This is an interesting finding; for further research, moderating variables can be used to strengthen the relationship between TL and IWB. One of the moderating variables that can be used is psychological empowerment. An individual's psychological state, known as psychological empowerment, shows an active orientation toward professional roles. [1], [6] show that TL has a greater and more significant effect when mediated by psychological empowerment.

#### **4.3.2 The Effect of Knowledge Sharing on Innovative Behavior**

Hypothesis testing shows that KS positively and significantly impacts IWB. The results of this study suggest that increasing KS intensity motivates employees to act more innovatively. This study's findings align with and further strengthen the findings of previous studies regarding the role of knowledge sharing in stimulating innovative behavior. [2] mention several reasons KS has a dominant influence. (1) Members of the organization can communicate concepts or fresh information through KS, which enables them to identify numerous chances to apply innovation for the organization. (2) Organizational members gain much valuable information from co-workers through KS, which may be leveraged to generate fresh innovative ideas. (3) Members of the organization can present their innovative ideas and discover a community to discuss them. (4) Because they have partners to help them implement the innovations they learn about through KS, organizational members are more willing to try out their innovative ideas. According to [13], while KS should be simple in theory, it is difficult since not all employees are motivated to seek out information or knowledge from their co-workers, and not all employees want to contribute their knowledge. [1], [6] mention that Organizations must provide space to support the adoption of KS, even if it's necessary to offer incentives to those who share their knowledge. This is crucial because knowledge donation will make it simpler and less expensive to access information, which will substantially help the business carry out human resource development with effectiveness and efficiency. The larger role of KS in promoting an increase in IWB is one of the study's key results. This is intriguing since motivating staff to be more inventive involves both a top-down approach by the leadership and a bottom-up approach, namely from the organization's members. Employers must seek out candidates with great potential and skills so that information can be shared widely. In addition, leaders must be able to motivate subordinates to want to learn new things from their co-workers. In conclusion, KS enables information in the firm to become more valuable because other team members may hold it in addition to just one person.

### **5. Conclusion**

According to the study, transformational leadership and information sharing significantly and favorably influence innovative behavior. Knowledge sharing has a greater influence than leadership. To encourage innovative behavior in transformational SME institutions, transformational leadership and knowledge sharing plays a key role. Our findings imply that organizations must support knowledge sharing through policies and infrastructure. Additionally, in an effort to encourage employees' innovative behavior, it is crucial for leaders at all levels to adopt a transformational leadership style. Despite the fact that many factors can be employed as drivers of innovative



behavior, this study solely examined the variables of transformational leadership and information sharing. The impact of transactional leadership as an alternative predictor of innovative behavior can be further investigated. Additionally, it is advised that future scholars carry out study employing a greater variety of samples and more modern data processing methods, like the structural equation model.

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