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## Relationship Between Transformational Leadership and Employees' Creativity with Psychological Empowerment as Mediator

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### Abstract

**Research Aims:** This study examines the mediating effect of psychological empowerment on the relationship between transformational leadership and employee creativity in a financial organisation in Peninsular Malaysia.

**Design/Methodology/Approach:** Quantitative methods were employed in this study. Two hundred questionnaires were distributed to employees of Islamic financial institutions in Malaysia. Of these, only 153 questionnaires were usable. Random sampling and partial least squares structural equation modelling (PLS-SEM) techniques were utilised in data analysis.

**Research Findings:** The results of the analysis showed that psychological empowerment had an indirect effect on the impact of transformational leadership on employee creativity in the organisation under study.

**Theoretical Contribution/Originality:** The result aligned with Spreitzer's (1995) concept of self-motivation through increasing self-esteem and modifying resilience, which promotes motivational behaviour in organisations.

**Managerial Implication in the South East Asian Context:** Transformational leadership has been shown to be effective in addressing crises in organisational management. Leadership that applies this concept is able to sustain the organisation and its competitiveness over time, especially in Asia.

**Research Limitation & Implications:** During the duration of this research, the data were collected only once. The sample for this study was obtained from a single organisation, and the only method used to collect data was a questionnaire. In times of globalisation and economic turmoil, practitioners can use the findings of this study to practice transformational leadership to sustain and support the vision and mission of an organisation.

**Keywords:** Transformational Leadership, Psychological Empowerment, Employee Creativity, Islamic Financial Institutions

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## **INTRODUCTION**

Transformational leadership is a process in which leaders and followers work as a team to change values, goals, motivations, and morals to generate positive results, either for personal or organisational benefits (Abolnasser et al., 2023). Transformational leadership has the potential to alter the organisation's management system positively by encouraging employees to think innovatively, fostering a conducive environment, and eradicating negative thoughts from employees' minds (Peng et al., 2023). At the global level, this transformational leadership style is capable of making macro transformations in development, change, and crisis. For example, when the world faces a global crisis such as those caused by the Covid-19 pandemic, this transformational leadership style can help organisations and employees weather it by providing a suitable portfolio and platform according to the new norm (Prihatini et al., 2022).

These extensive changes have both positive and negative effects on employees. Due to their familiarity with the old norms, employees will begin to feel pressured by this drastic change. This will make it difficult for leaders to assign tasks, schedule, monitor work results, and provide a comfortable work environment. Due to operational restructuring, they will face organisational issues involving insufficient salary payments, social discord, and financial pressure (Zaharah et al., 2009). These challenges and obstacles make it possible for an organisation's operations not to function normally and will disrupt the organisation's overall management system. However, these alterations can be surmounted if a leader employs a transformational leadership style. Transformational leaders have adopted this style of leadership as a habit because they foresee unanticipated changes. Transformational leaders will always encourage their employees to adopt and adapt to current changes in order to maintain organisational stability. Although this transition will take some time, employees will become more efficient and proficient in using the most recent technology for communication, producing more creative work, allocating their time wisely, and understanding their potential and strengths. Without change, employees and organisations will be unaware of their extraordinary abilities to produce superior products and outcomes.

Although it is seen that this transformational leadership style maintains a sustainable organisation (Wang et al., 2017; Shang, 2023), transformational leaders cannot ignore psychological well-being and a conducive work environment for their employees even when facing strong challenges and crises (Adri et al., 2022; Abolnasser et al., 2023). This is due to the employees' own internal factors being the most important element of success in an organisation. If the psychological needs of employees are not taken care of and met, there will be a more significant conflict in the

organisation. This conflict will bring more large-scale destruction to the organisation. This is because when employees feel unappreciated and feel they are not essential to help solve organisational issues, the sustainability and competitiveness of the organisation will not move in parallel with the development of the world (Santoso et al., 2022). So, the implementation of this transformational leadership practice is fundamental to ensure an organisation's resilience and sustainability.

According to Burns (1978) and Bass and Avolio (1990), transformational leadership has four components: idealised influence, individualised consideration, intellectual stimulation, and motivational inspiration. This leadership style and its practice is a breath of fresh air to organisational leaders who want to achieve global success by incorporating ideas based on the inspiration and motivation of their employees. The first component, idealised influence, refers to the ability to serve as a role model who can increase followers' respect for, trust in, and loyalty toward leadership. The second component, individualised consideration, is caring about the needs and achievements of followers. Doing so can cause leaders to become coaches and mentors.

Consequently, followers will respect a leader and become more committed to the organisation, and organisational goals will be attained (Khan et al., 2013; Ibrahim et al., 2015). The third component, intellectual stimulation, refers to the ability to encourage followers to use their creativity and innovation to resolve issues; they may do this by reformulating issues and pursuing new approaches (Lin & Hsiao, 2014). This approach can boost employees' potential in the organisation as they will use all their skills in performing their tasks. The fourth component, motivational inspiration, is associated with the way in which leaders communicate with employees to clarify their vision and help others carry out tasks to make them more meaningful (Bass, 1990). Northouse (2007) added that leaders who communicate well and offer much hope to their followers would inspire them through motivation and indirectly make them more committed to their tasks.

Transformational leadership prioritises inspiring and motivating followers to transcend their individual goals, ultimately leading to the achievement of organisational goals. The primary focus is formulating a strategic outlook for the organisation, cultivating a constructive work environment, and promoting personal advancement and progress. Despite the extensive research on transformational leadership styles, limited attention has been given to their application within Islamic financial institutions. According to Suryani et al. (2022), transformational leadership has been identified as a reliable predictor for effectively navigating changes in organisational management. The findings of this research demonstrate that implementing transformational

leadership positively impacts work performance by enhancing self-efficacy during the transition from conventional banking to Islamic Syariah Bank in Aceh Province.

The application of a transformational leadership style can have significant implications for mitigating prevailing challenges, fostering employee support and motivation, and instilling high levels of confidence among employees to execute tasks effectively during the management transition process. Zaid and Qaid's (2020) study highlighted the significance of individual consideration as a component of transformational leadership in enhancing the organisational structure of governance in Islamic banks operating in Yemen. The positive state of culture within the organisation can be attributed to the administration's empathetic approach toward employees' needs at the bank. The impact, as mentioned earlier, has the potential to result in a rise in the employees' happiness index, thereby increasing their likelihood of remaining with the organisation until their retirement.

The significance of transformational leadership in the context of Islamic Banking is apparent. However, the emphasis on Islamic transformational leadership remains limited. This aspect has been neglected despite the obvious importance of transformational leadership in Islamic Banking. The assertion is supported by a study by Muchran and Muchran (2017), which revealed that transformational leadership is commonly perceived as equitable and responsive to the requirements of followers, thereby engendering a sense of worth. The statement is consistent with the principles of Islamic management, which are derived from the teachings of the Quran and Sunnah. According to these principles, employment is an integral aspect of human existence and is considered the second most significant pursuit in life after faith. In the Islamic faith, labour and efforts deemed "halal" are held in high esteem. The consolidation of Islamic principles within the transformational leadership of Islamic financial institutions holds significant relevance due to its proximity to the ethical conduct of employees. The present study underscores the significance of transformational leadership in Islamic financial institutions. However, it appears to have neglected the association between transformational leadership and psychological empowerment as well as employee creativity.

Several organisational management studies have revealed that transformational leadership significantly affects psychological empowerment and employee creativity (e.g., Nuzul et al., 2020; Stanescu et al., 2021; Gelaidan et al., 2022). The findings of these studies indicated that there exists a positive correlation between transformational leadership and both psychological empowerment and employee creativity. The rationale was that transformational leaders are reputed for their ability to stimulate and encourage their subordinates, instil a sense of direction and significance in

their tasks, and authorise them to assume responsibility for their work and make choices that advance the organisation's achievements. Furthermore, it was discovered that a positive correlation exists between psychological empowerment and employees' creativity. The reason behind this phenomenon is that employees who experience a sense of empowerment tend to exhibit proactive behaviour, take the initiative, and engage in innovative thinking, which can generate novel ideas and solutions. According to Suhaili (2013), psychological empowerment is a mechanism through which power is delegated from a leader to subordinates, thereby enhancing the efficiency of organisational management. The notion of devolution aligns with the constraints of organisational management, wherein a leader's ability to execute a task proficiently is contingent upon the backing and aid of their subordinates.

Simultaneously, the concept of employee creativity pertains to the generation of novel ideas and unconventional methodologies by a staff member. The study observed that employee creativity was evident when a transformational leader exhibited creative intelligence, fostered a creative culture and environment, demonstrated proficiency in implementing creative ideas, and supported employees in generating innovative and creative outputs (Gong et al., 2009). The preservation of this notion played a crucial role in advancing the perpetuation of the transformational leadership approach, as it emphasised the enhancement of employee growth and development, which holds great significance in fostering the advancement of a globalised employee. Insufficient staffing levels have the potential to impact, debilitate, and dismantle an organisational framework, ultimately resulting in adverse effects on a nation's economy. Transformational leadership is the sole approach that can foster a supportive work atmosphere regarding employee welfare, interpersonal connections, mental health, and competencies. Consequently, considering the Covid-19 pandemic, it is imperative for organisational leaders to exhibit heightened sensitivity toward the present requirements of the organisation to prevent any inadvertent neglect of any facet.

Accordingly, this study had four main objectives: (1) to assess the relationship between transformational leadership and psychological empowerment; (2) to assess the relationship between transformational leadership and employee creativity; (3) to assess the relationship between psychological empowerment and employee creativity; and (4) to assess the relationship between transformational leadership, psychological empowerment, and employee creativity. The leadership style of transformation primarily prioritises how leaders can implement constructive and worthwhile changes that influence their followers while emphasising the significance of the work employees engage in.

## LITERATURE REVIEW

### *Relationship Between Transformational Leadership and Employee Behavior*

In recent times there has been extensive research conducted on transformational leadership- a widely recognised approach by leadership scholars. The theory establishes that effective leaders have the ability to motivate and inspire others toward exceptional objectives by conveying an enchanting vision with purpose while nurturing an underlying sense of purpose within them (Bass,1985). Proper implementation of this approach ensures favourable attitudes among employees through positive conduct whilst aligning organisational objectives with individual goals, thereby creating employee empowerment. Empowerment results in favourable individual attitudes and behaviours. Numerous studies have shown this (Avolio & Bass, 1995; Lowe et al., 1996; Luu & Phan, 2020) to be positively correlated with transformational leadership.

Considering the link between positive organisational outcomes with transformational leadership practices, understanding which aspects of employee conduct are influenced becomes crucially significant. Transformational leadership has shown promise in encouraging two key dimensions: psychological empowerment and creativity within organisations' working culture amongst working employees/teams/subordinates. Psychological empowerment explains users' evaluation of one's competence level, including feeling liberated from restrictions concerning meaningful work and decision-making prowess. In contrast, impact provides a feeling of making a difference in accordance with a specific role (Spreitzer, 1995). According to Lai et al. (2020), empirical data exhibits transformational leaders inclined to provide employees with opportunities for growth while also conveying autonomy and purposeful work assignments. Moreover, Tierney et al. (1999) proposed that empowering personnel can increase their creativity. Employees who are more engaged in a given task tend to take more risks in exploring unconventional avenues and nurturing newer concepts.

Promoting innovation at the workplace requires utilising suitable strategies such as embracing an effective form of leadership style like transformational leadership techniques. Empirical studies lend support to the link between transformational leadership styles and levels of employee creativity, as evident from the findings by both Kark et al. (2003) and Tierney et al. (1999). In reality, applying transformational methods produced superior outcomes in terms of enhanced staff problem-solving skills and innovation. Therefore, organisations can benefit from fostering an innovative culture by employing this leadership approach.

The correlation between transformational leadership styles and creative behaviour holds crucial significance within the psychological empowerment theory. The empirical evidence suggests that an environment that promotes employee autonomy leads to enhanced creative expression in individuals (Spreitzer, 1995). Enhanced empowerment is linked with certain aspects, such as ownership over one's work, along with taking meaningful measures for exploring innovative concepts within the organisation's operations (Fernandez & Moldogaziev, 2012). Thus, organisational leaders implementing progressive management, which empowers workers at all hierarchical levels, stand a better chance at promoting innovation acts as an intrinsic aspect of behavioural culture.

Organisations have identified employee creativity as instrumental in achieving these objectives to enhance operations and expand in today's dynamic business world. Thus, according to employee creativity theory, management must provide a work atmosphere where innovation is encouraged. The theory states that an organisation's ecological setting plays a significant role in fostering creative ideas among staff members besides emphasising their unique characteristics (Amabile, 1988). An establishment's cultural values, along with its transformational leadership, form part of the said function context formation. Leaders who motivate personnel through transformational approaches help develop that favourable workplace atmosphere by providing well-defined direction as well as motivating team members while positively affirming innovative thoughts/actions (Tierney et al., 1999).

When attempting to comprehend the relationship between leadership and staff behaviour in organisations, using a framework based on ideas from theories like transformational leadership, psychological empowerment, and employee creativity can be valuable. Research has consistently shown, among other things, that higher levels of both psychological empowerment and creativity are mentally associated with successful organisational behaviour. This further strengthens the case for this approach. Organisations should consider implementing transformational leadership approaches that emphasise improved psychological empowerment alongside enhanced creativity, as this may give the organisation a competitive advantage, given the continually evolving and demanding nature of the modern business world.

Several recent studies conducted with different organisational samples acknowledged that transformational leadership is an essential determinant of psychological empowerment. For example, Cheng et al. (2023) collected data from 436 employees in five call centres located in northwestern China. On the other hand, Ugwoke et al. (2023) collected data from 360 comprising 36 faculty finance officers (the employees), 36 assistant faculty finance officers



(colleagues), 36 deans of faculties (supervisors), 36 finance supervisors (supervisors), 108 undergraduate and 108 postgraduate students (customers) from Nigerian universities. Teymournejad and Elghaei (2017) used the perceptions of 127 employees, including all managers and employees of the Maskan Bank in Tehran Province, and Balaji and Krishnan (2014) used the perceptions of 113 female employees in a network marketing company in southern India. These surveys reported that leaders who could implement the transformational process appropriately (i.e., by using the four components of idealised influence, individualised consideration, intellectual stimulation, and inspirational motivation) in performing daily job functions had increased the psychological empowerment of the organisational sample (Balaji & Krishnan, 2014; Arif et al., 2019; Abdulrab et al., 2020). Thus, the following hypothesis was formed:

Hypothesis 1: Transformational leadership has a positive relationship with psychological empowerment.

Some studies conducted in organisational settings recognised that transformational leadership was a significant factor in employee creativity. For example, Tan et al. (2023) collected information from 54 permanent staff at the onset, spread over three departments in a small-sized public service organisation in Singapore; Nguyen et al. (2022) collected data from 420 employees from 21 telecommunications enterprises in Vietnam; and Maria et al. (2022) collected data from 102 supervisors and 876 employees from 102 small and medium-sized enterprises (SMEs) engaged in the food processing industry in three major cities in Central Java, Indonesia, namely Semarang, Salatiga and Surakarta; Sidney et al. (2022) used a sample of 150 employees of electronic companies in Kinshasa, Congo and Hanaysha (2022) collected data from 43 staff in higher education institutions in Malaysia. These surveys showed that leaders' abilities to practice transformational leadership correctly had enhanced employee creativity in different organisations. Thus, the following hypothesis was formed:

Hypothesis 2: Transformational leadership has a positive relationship with employees' creativity.

### ***Transformational Leadership, Psychological Empowerment, and Employee Creativity***

The application of this theory in organisational psychology showed that the concept of psychological empowerment might act as an important mediating variable between transformational leadership and employee creativity. This relationship has received convincing backing from research articles on organisational behaviour. Some studies were conducted using an indirect effects model at public and private organisations. They included the perceptions of

568 Qatari public servants working in a variety of public sector organisations (Gelaidan et al., 2022); 139 employees through the use of structured questionnaires (Stanescu et al., 2021); and 65 employees drawn from an Information Technology company in Surabaya, Indonesia as samples (Nuzul et al., 2020). The outcomes of these quantitative studies showed that the competency of leaders in implementing the four elements of transformational leadership appropriately in executing daily job functions had powerfully invoked employees' psychological empowerment (i.e., meaning, competence, self-determination, and impact). As a result, this empowerment could lead to higher levels of employee creativity in organisational samples. The following hypotheses were formed:

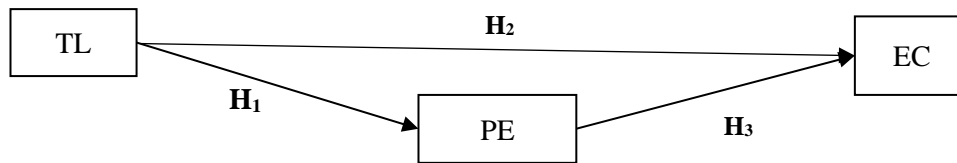
Hypothesis 3: Psychological empowerment has a positive relationship with employee creativity.

Hypothesis 4: Psychological empowerment mediates the relationship between transformational leadership and employee creativity.

Although the current study was aware of the crucial relationship between transformational leadership and employee outcomes, it still lacks comprehensive insights into the specific factors that produce these effects. For example, Shah et al. (2011) highlighted a need for better investigation into recognising identifiable patterns that arise among followers when guided by transformational leaders leading to better clarity on how it impacts employees. Saeed (2013) suggested contemplating fundamental aspects associated with attaining successful outcomes while incorporating a transformational leadership style. Thus, addressing this issue through research would be worthwhile.

However, limitations exist in analysing the theoretical dialogue surrounding transformational leadership deeper. Early evaluations merely examined surface-level connections between transformative leadership and factors like psychological empowerment or employee creativity (Bin Saeed et al., 2019; Ma et al., 2020). In contrast, recent research employing mediation and moderation analyses has begun to reveal the underlying mechanisms responsible for the dynamics of these relationships (Hayes & Rockwood, 2017). To conclude our discussions on transformational leadership and its influence on employee outcomes, it is necessary to conduct additional research into the contributing factors, even though it is a well-established fact that such management strategies have positive effects. To investigate these mechanisms in greater depth, future studies should employ advanced research methodologies, such as mediation and moderation analyses.

The literature review has been used as a foundation to establish a theoretical framework, as illustrated in Figure 1.



TL: Transformational Leadership  
 PE: Psychological Empowerment  
 EC: Employee Creativity

Figure 1. Theoretical model

## RESEARCH METHOD

### *Population and Sample*

This study was conducted at Islamic financial institutions in Malaysia. The names of the institutions are not provided here for personal reasons. The researchers distributed 200 questionnaires, and 153 usable questionnaires were collected from employees. A purposive sampling plan created specifically for this study was used to collect the data from the questionnaires because the managers of the Islamic financial institutions did not provide detailed information about employees for personal reasons. Therefore, the researchers could not use a random sampling technique in selecting participants for this study. Participants responded to the survey questionnaires anonymously and voluntarily.

### *Study Variables*

The survey questionnaire was divided into four sections. The first section dealt with demographic data, including ten items adapted from the questionnaire form developed by Ismail et al. (2009). The second section dealt with the elements of transformational leadership, namely, idealised influence, individual consideration, intellectual stimulation, and motivational inspiration. There were twenty items adapted from Norazzah (2015), Shah et al. (2011), Boonyarit et al. (2010), and Mills (2007) regarding transformational leadership. The third section addressed psychological autonomy. Adapted from Bagget (2015), Özarallı (2015), Shah et al. (2011), and Boonyarit et al. (2010), this section contained seven items. The fourth section addressed employee innovation. It consisted of 12 elements, adapted from a study by Joo (2007). All items were evaluated using a seven-point Likert scale ranging from "1: Strongly Disagree/Dissatisfied" to "7: Strongly Agree/Satisfied." Because this study emphasised employee attitudes, participant characteristics were strictly controlled.

### ***Study Data Analysis***

Hair et al. (2017) recommended that the SmartPLS was used to analyse the data because it could deliver latent variable scores, handle small sample sizes and less than ordinary data, and evaluate a complex research framework. The data analysis procedure was as follows: Firstly, a confirmatory factor analysis was employed to assess the reliability and validity of the measurement scale. Secondly, the significant hypotheses were identified if the value of the t-statistic was more than 1.65 (one-tail testing) (Henseler et al., 2009). Thirdly, the indirect effect model was tested, and the significant hypotheses were recognised if the value of the t-statistic was more than 1.96 (two-tail testing) (Henseler et al., 2009). Fourth, the R-squared value was utilised as a criterion for the overall predictive strength of the model based on the following baselines: 0.19 (weak), 0.33 (moderate), and 0.67 (substantial) (Henseler et al., 2009; Hair et al., 2017). Fifth, the f-squared value was used as a guide to decide upon the effect size of the predicting variable in the model based on the following baselines: 0.02 (weak), 0.15 (medium), and 0.35 (large) (Hair et al., 2017). Sixth, the Q-squared value was employed as a measure of predictive relevance based on the following criteria: 0.020 (weak), 0.15 (medium), and 0.35 (large). Lastly, the standardised root means square residual (SRMR) value was lower than 0.1, and it was applied as a criterion of model fit (Hair et al., 2016).

## **RESULTS AND DISCUSSION**

### ***Descriptive Statistics of Sample***

Table 1 shows that the majority of the participants are male (57.5%), aged between 35 and 44 years old (35.3%), hold Malaysian higher school certificates, known as STPMs (29.4%), are working as support staff (77.1%), and are married (79.7%). They are mainly from the financial unit/department (34.6%), are employed on a permanent basis (87.6%), have 15 to 24 years of service experience (31.4%), are working in an office in Kelantan (12.4%); and have an income of between RM1500 to RM2999 (31.4%).

Table 1. Summary of Participants' Characteristics

Participants' Profile	Sub-Profile	Percentage
Gender	Male	57.5
	Female	42.5
Age	Less than 25 years old	8.5
	25 to 34 years old	25.5
	35 to 44 years old	35.3
	45 to 54 years old	22.9
	More than 55 years old	7.8
Education	LCE/SRP/PMR	3.9
	MCE/SPM/SMPV	29.4
	HSC/STPM/STAM	11.8
	Certificate/Diploma	24.8
	Degree	28.1
Position	Others	2.0
	Management & Professional	22.9
	Support staff	77.1
Marital status	Single	17.6
	Married	79.7
	Others	2.6
Department	Administration	20.9
	Customer Service/Marketing	14.4
	Finance/Counter	34.6
	Hajj	7.2
	Security	17.6
	Technical/Building	2.0
	Office of the Group Managing Director & Chief Executive Officer	0.7
	Human Resources Department	1.3
Services	Permanent	87.6
	Contract	12.4
Duration of services	Less than five years	22.9
	5 to 14 years	22.9
	15 to 24 years	31.4
	25 to 34 years	19.6
	More than 35 years	3.3
Place of duty	Main Office	3.3
	Selangor	5.9
	Pahang	9.8
	Melaka	11.1
	Negeri Sembilan	3.3
	Perak	3.9
	Johor	6.5
	Pulau Pinang	5.2
	Kedah	9.8
	Perlis	9.8
	Kelantan	12.4
Terengganu	0.7	
Income	Sabah	9.8
	Sarawak	3.9
	Wilayah Persekutuan	4.6
	Less than 1500	8.5
	1500 to 2999	31.4
	3000 to 4499	29.4
	4500 to 5999	18.3
	More than 6000	12.4

Note:

SPM/MCE: Sijil Pelajaran Malaysia/ Malaysia Certificate of Education

STPM: Sijil Tinggi Pelajaran Malaysia/ Malaysia Higher Education Certificate

### **Reflective Measurement Model**

Reflective measurement models are particularly useful when the latent construct is unobservable and can only be measured through its indicators. By using reflective measurement models, this research could test the degree to which the indicators are measuring the same underlying construct. This is fundamental for establishing the construct validity of the measurement model. Moreover, reflective measurement models are appropriate for situations where the research has a clear theoretical framework specifying the relationship between the latent construct and its indicators. By specifying this relationship, researchers can better understand how indicators are related to the construct and use this information to improve the measurement model.

Hair et al. (2017) recommended that survey questionnaire data be filtered before an analysis of measurement and structural equation models begins. This study followed the recommendation by removing questionnaires with missing values and suspicious answers and items with skewness and kurtosis values greater than plus or minus 2.0. Only questionnaires that met the validity and reliability analysis criteria were used. Table 2 shows that all outer loading values are above the recommended value of 0.708, indicating good convergent validity. The average variance extracted (AVE) is greater than the threshold of 0.5, indicating good convergent validity. The composite reliability value is greater than 0.708, indicating good internal consistency reliability.

Table 2. Values of The Reflective Measurement Model

Construct	Factor Loadings	AVE	Composite Reliability
Transformational Leadership		0.565	0.963
TL1: Be wise in managing your emotions when facing difficult situations.	0.719		
TL2: Talk about the importance of good values and trust in tasks.	0.741		
TL3: Take the time to give guidance and mentoring.	0.804		
TL4: Help me build my personal strength.	0.779		
TL5: Perform actions in a professional manner.	0.758		
TL6: Treat me fairly.	0.772		
TL7: Emphasize human relationships within the organisation.	0.735		
TL8: Always be ready to forgive me if I make a mistake.	0.787		
TL9: Seek different strategies to solve problems.	0.777		
TL10: Reexamine critical assumptions by questioning whether they are appropriate or not	0.711		
TL11: Suggest new ways to approach task-solving methods.	0.758		
TL12: Encourage me to think independently and consider new ideas	0.733		
TL13: Encourage me to master career-related knowledge so that I can provide insightful ideas.	0.738		
TL14: Encourage me to make the right decisions quickly using my creativity.	0.731		
TL15: Speak enthusiastically about what needs to be achieved in the organisation.	0.724		

Table 2. Values of The Reflective Measurement Model (Continued)

Construct	Factor Loadings	AVE	Composite Reliability
Transformational Leadership			
TL16: Give positive feedback when my performance is good.	0.735		
TL17: Acknowledge the improvement in the quality of my work.	0.760		
TL18: Increase my motivation to achieve individual and organisational goals.	0.774		
TL19: Take accountability steps in setting goals to streamline workflow and prevent mistakes.	0.732		
TL20: Emphasize the importance of time management in daily work planning.	0.766		
Psychological Empowerment		0.631	0.923
PE1: The work that I do is very meaningful to me.	0.846		
PE2: I truly care about what I do in my workplace.	0.823		
PE3: The tasks that I do are very meaningful and need to be perfected to gain the pleasure of Allah.	0.762		
PE4: I am confident in my ability to complete tasks.	0.825		
PE5: I possess important skills necessary for my tasks.	0.811		
PE6: My tasks fall within the scope of my abilities/expertise.	0.768		
PE7: I have the opportunity to use my own initiative in carrying out my work.	0.719		
Employee Creativity		0.632	0.954
EC1: I am able to introduce and propose ideas to others.	0.721		
EC2: I am a good role model in terms of creativity.	0.738		
EC3: I present new and practical ideas to improve performance.	0.77		
EC4: I often have innovative ideas.	0.82		
EC5: I keep up with current developments to produce new products/packages.	0.812		
EC6: I suggest new ways to achieve goals or objectives.	0.819		
EC7: I suggest new ways to improve quality.	0.807		
EC8: I show creativity in the workplace when given the opportunity.	0.806		
EC9: I develop sufficient plans and schedules for implementing new ideas.	0.821		
EC10: I propose new solutions to various problems.	0.806		
EC11: I often have a new approach to problems.	0.786		
EC12: I suggest new ways to carry out tasks in work.	0.824		

Table 3 illustrates the construct validity and reliability results. The heterotrait–monotrait (HTMT) correlation ratio for each construct is less than 0.90, meeting the criteria for discrimination validity. Moreover, each construct's interval value is below 1, meeting the criteria for discriminant analysis. These results suggest that the study instruments used are valid and reliable for analysing the measurement and structural equation models.

Table 3. Results of Discriminatory Analysis

Construct	HTMT	
	Transformational Leadership	Psychological Empowerment
Psychological Empowerment	0.592 (0.363,0.676)	
Employees Creativity	0.505 (0.184,0.510)	0.469 (0.091,0.406)

Note: The values in the parenthesis are the values of confidential interval at 5% and 95%

Table 4 shows that the means for all constructs are between 5.2365 and 5.6958, showing that the majority of participants view levels of idealized influence, individualized consideration, intellectual stimulation, inspirational motivation, psychological empowerment, and employee creativity from high (4) to the highest (7). The values of the variance inflation factor for the relationships (1) between idealized influence, individualized consideration, intellectual stimulation, and inspirational motivation and (2) between psychological empowerment and employee creativity are lower than 5, showing that the collinearity problem is not present in such relationships (Hair et al., 2017).

Table 4. The Outcomes of Variance Inflation Factor and Descriptive Statistics

Construct	Mean	Standard Deviation	Variance Inflation Factor	
			Psychological Empowerment	Employees Creativity
Transformational Leadership	5.2365	0.78083	1.000	1.471
Psychological Empowerment	5.6958	0.74643		1.471
Employee Creativity	5.4555	0.73569		

### ***Structural Model Measurement***

Table 5 shows that the inclusion of transformational leadership in the analysis contributes 32% of the variance in psychological empowerment and 29.5% of the variance in employee creativity. The R-squared values for psychological empowerment are below 0.33 (Cohen, 1992), indicating that these models have a moderate effect. The R-squared values for employee creativity are equal to or lower than 0.33 (Cohen, 1992), indicating that these models have a moderate effect. The analysis's inclusion of transformational leadership and psychological empowerment contributes 61.5% of the variance in employee creativity. The R-squared values for employee creativity are higher than 0.33 (Cohen, 1992), indicating that this model had a substantial effect.

Testing the research hypotheses led to three significant findings. The first is that transformational leadership is positively and significantly correlated with psychological empowerment ( $\beta = 0.566$ ;  $t = 8.022$ ). Therefore, H1 is supported. The second is that transformational leadership is positively and significantly correlated with employee creativity ( $\beta = 0.350$ ;  $t = 4.211$ ). Therefore, H2 is supported. These results demonstrate that transformational leadership is an essential determinant of psychological empowerment and employee creativity. The third is that psychological empowerment is significantly correlated with employee creativity ( $\beta = 0.253$ ;  $t = 3.120$ ); therefore, H3 is supported. The fourth is that transformational leadership and psychological empowerment are significantly correlated with employee creativity ( $\beta = 0.143$ ;  $t = 2.698$ ); therefore, H4 was supported. Overall, these findings confirm (1) that transformational leadership influences psychological empowerment and



employee creativity and (2) that the effect of transformational leadership on employee creativity is mediated by perceived psychological empowerment. Table 5 shows a clear picture of the testing.

Table 5. Testing of Hypotheses 1, 2, 3, and 4

Hypothesis	Standardize Beta ( $\beta$ )	T-Statistics	R <sup>2</sup>	Decision
H1: TL → PE	0.566	8.022	0.320	Moderate Effect
H2: TL → EC	0.358	4.211	0.295	Moderate Effect
H3: PE → EC	0.253	3.120	0.295	Moderate Effect
H4: TL → PE → EC	0.143	2.698	0.615	Substantial Effect

Note: Significant at \*t value > 1.96 (two-tail test)

TL: Transformational Leadership

PE: Psychological Empowerment

EC: Employee Creativity

The type of mediating effect, effect size ( $f^2$ ), model fit, predictive relevance ( $Q^2$ ), and predictive performance ( $Q^2$ -PLS Predict) were further tested. The mediating effect (i.e., psychological empowerment) in the hypothesised model was a partial mediating effect. This means that a partial mediating effect occurs when the direct effects model (i.e., the relationship between transformational leadership and psychological empowerment) and the indirect effects model (i.e., the relationship between transformational leadership, psychological empowerment, and employee creativity) are significant and pointed in the same direction (Zhao et al., 2010).

Second, the effect size results show that the relationship between transformational leadership and psychological empowerment is 0.471, higher than 0.35 (Hair et al., 2017). This result indicates that transformational leadership has a high effect on psychological empowerment. The relationship between transformational leadership and employee creativity is 0.124, higher than 0.02 and lower than 0.15 (Hair et al., 2017). This result indicates that transformational leadership has a weak effect on employee creativity. The relationship between psychological empowerment and employee creativity is 0.062, higher than 0.02 (Hair et al., 2017). This result indicates that psychological empowerment has a weak effect on transformational leadership.

The value of the SRMR is 0.077, which is lower than 0.1 (Hair et al., 2017) or 0.08 (Hu & Bentler, 1998), signifying that this model has a good fit. The results of the blindfolding show that psychological empowerment has a  $Q^2$  value of 0.190 and that employee creativity has a  $Q^2$  value of 0.172, which is higher than zero (Hair et al., 2017). This result shows that these latent exogenous variables have predictive relevance.

Further, the PLS-Predict was conducted to predict the model performance. Table 6 shows that the PLS-SEM RMSE (root-mean-square error) has all positive values. This result shows that none of the indicators in the PLS-SEM analysis has higher RMSE (or mean absolute error

[MAE]) values than the naïve linear model (LM) benchmark. Therefore, the model has high predictive power (Hair et al., 2018).

Table 6. PLS-predict showing the results of the linear model and PLS-SEM

Items	LM RMSE Values – PLS-SEM RMSE Values	PLS-SEM RMSE Values - LM RMSE Values
PE1	0.519	0.548
PE2	0.525	0.588
PE3	0.580	0.574
PE4	0.509	0.574
PE5	0.530	0.608
PE6	0.520	0.602
PE7	0.564	0.661
EC1	0.540	0.581
EC2	0.612	0.617
EC3	0.607	0.628
EC4	0.540	0.611
EC5	0.523	0.553
EC6	0.540	0.571
EC7	0.478	0.536
EC8	0.630	0.732
EC9	0.628	0.687
EC10	0.504	0.547
EC11	0.586	0.677
EC12	0.561	0.605

This study showed that psychological empowerment is an essential mediating variable in the relationship between transformational leadership and employee creativity. A comprehensive review of the questionnaires revealed that psychological empowerment strongly mediates the effects of transformational leadership and employee creativity, possibly due to several internal factors. First, the boss or supervisor encourages good attitudes and behaviours that will guide and educate employees to work together responsibly. Secondly, leaders constantly try to move in a better direction that will strengthen employees' motivation to work more effectively. Thirdly, leaders give employees the freedom to carry out tasks based on their ideas and creativity while using the utmost dedication, care, and meticulousness to achieve their desired success.

Validity and reliability are two crucial aspects contributing to a study's robustness. Quality research outcomes depend primarily on whether questionnaire items accurately capture what they are meant to measure (validity) as well as ensuring consistent measurement of constructs across various scenarios (reliability). This research that strives for these will have enhanced results when both criteria are met together, thus needing a high level of robustness in research methodology. To maintain robustness in research methodology, SmartPLS is a powerful statistical tool for analysing relationships between latent constructs and their indicators. Partial least squares (PLS) regression is part of the tool, and it is considered a popular method when

analysing complex relationships or path models with small sample sizes. Research becomes far more manageable by utilising SmartPLS analysis, and expert researchers can perform analyses on intricate relationships between multiple entities — these include mediating and moderating effects—catering better accuracy than traditional statistical methods.

When dealing with extensive datasets with multiple constructs and indicators, using SmartPLS in research methodology is a wise choice for many reasons. It enables researchers to identify which factors hold the utmost importance and to what extent they impact the outcome variable while also economising precious time and resources. The association of SmartPLS with a well-prepared questionnaire ultimately assists in attaining faultless outcomes that are dependable in quality and credibility. To add further depth by illuminating concealed connections between various constructs, this approach could be employed thoroughly.

The findings from this study are valuable for managers with Islamic financial institutions. The study illuminates how important transformational leadership is in promoting employee creativity, which is pivotal to the success of these unique organisations. The Islamic principles governing this sector prioritise social justice and the common good above profit. To deliver innovative products, it is fundamental to keep focusing on the client's needs and comply with Islamic finance best practices employees require both technical know-how and creative skills. This is where transformational leadership and psychological empowerment play a crucial role, as research suggests that incorporating both techniques will optimise employee creativity (Kark et al., 2003; Tierney et al., 1999). Empowering employees to recognise unique opportunities in their line of work through factors such as increased control over job-related activities and a thorough understanding of their significance increases employee motivation and engagement, which can lead to the development of more inventive solutions. The leaders of these organisations must not only be well-versed in all facets of Islamic finance but also exhibit transformational leadership competencies – inspiring employees to collaborate by providing the necessary support and resources for an innovative environment that continuously fosters creativity.

## **MANAGERIAL IMPLICATIONS IN THE SOUTH EAST ASIAN CONTEXT**

This research indicated that for-profit and non-profit organisations benefit significantly from implementing a transformational leadership approach by emphasising psychological empowerment. This effective style encourages innovative thinking in employees while boosting their confidence, performance, job satisfaction, and commitment, thereby enhancing the

competitiveness of businesses in the face of global competition or economic instability (Gojali et al., 2021). Due to the dynamic nature of South East Asia, where creativity plays an increasingly important role in obtaining a competitive advantage through innovation (Ismail & Alam, 2019), these recommendations apply to all companies in the region. Managers would do well by incorporating behaviours associated with transformational leadership alongside providing psychological empowerment opportunities to create an environment encouraging employee creativity initiative.

To bolster leadership skills within the South East Asian region, organisations could introduce training programs tailored to high-ranking personnel. By doing so, these leaders can better understand an organisation's ethical values and knowledge. Additionally, incorporating a participatory style of leadership that involves employees in decision-making can prove advantageous. Skilled communication between followers and leaders can enhance positive personal outcomes, and management can pay close attention to the distribution of tasks and how it affects psychological empowerment. Finally, leaders need to supplement their roles with transformational leadership skills to help their followers move forward and follow their job descriptions. Overall, the implications of this research suggested that the adoption of transformational leadership styles that emphasise psychological empowerment can promote innovation and creativity in the workplace and lead to positive employee outcomes, ultimately enhancing organisational competitiveness and performance in times of global competition and economic instability. Consequently, it is anticipated that human resources departments will approach these transformational leadership practices with an open mind, thereby facilitating the development of additional strategies for achieving a vision and mission. If management prioritises these suggestions, their organisations could reap numerous benefits.

## **THEORETICAL IMPLICATIONS**

The present investigation made several contributions to the extant body of literature. The study has established the mediating function of psychological empowerment in the correlation between transformational leadership and employees' creativity. The present discovery aligns with the psychological empowerment theoretical framework (Conger & Kanungo, 1988; Spreitzer, 1995) and contributes to the existing literature on transformational leadership (Cheng et al., 2023; Ugwoke et al., 2023). The research presented in this study adds to the existing body of literature regarding the influence of transformational leadership on employee creativity. The findings provide additional support for the notion that transformational leadership has the ability to both encourage and regulate innovation within organisational settings. The theory of psychological

empowerment in relation to self-motivation has been emphasised. Identifying and modulating resilience can boost self-esteem, thereby fostering motivational behaviour throughout organisations (Conger & Kanungo, 1988).

In order to enhance employee creativity, Thomas and Velthouse (1990) proposed utilising four distinct sets of cognitions that pertain to individual orientation, meaning, efficiency, self-determination, and impact. This discovery provides corroboration and expansion to the research on transformational leadership. The findings indicated that the adoption of transformational leadership could facilitate the promotion and regulation of innovation in a corporate setting, as well as engender a proactive mindset among employees by actively soliciting their input and backing, communicating with them to ascertain their competencies, and directing and motivating them to effect changes. The experience of empowerment in the workplace may lead to favourable outcomes in the personal lives of employees and a boost in their creative potential.

Despite the contributions of this study, several limitations need to be acknowledged. This study focused on only one Islamic financial institution in Malaysia, limiting the generalizability of the findings to other organisations and industries. Additionally, the study only measured creativity at the individual level and did not explore group- or organizational-level creativity. Moreover, this study only examined psychological empowerment as a mediator between transformational leadership and creativity without considering other potential mediators.

Future studies can overcome these limitations using a larger sample size that includes multiple industries and organisations in South East Asia. Furthermore, future research could explore the impact of transformational leadership and psychological empowerment on group- and organizational-level creativity. Another suggestion for future research is to examine other potential mediators, such as job autonomy or intrinsic motivation, to provide a more comprehensive understanding of the relationship between transformational leadership, psychological empowerment, and creativity in the South East Asian context.

## **CONCLUSION**

The study's findings suggest a positive correlation between transformational leadership and psychological empowerment, and employee creativity. Therefore, it can be inferred that transformational leadership has a beneficial impact on these two variables. The significance of this association is noteworthy within the framework of Southeast Asian institutions, where there is an increasing inclination towards formulating inventive and imaginative resolutions to tackle intricate predicaments. Transformational leadership behaviours demonstrated by leaders can establish a

workplace atmosphere that cultivates psychological empowerment and motivates personnel to participate in innovative problem-solving. The aforementioned phenomenon has the potential to result in increased levels of employee motivation and engagement, thereby positively impacting organisational performance and success.

It is noteworthy that the efficacy of transformational leadership behaviours may be impacted by the cultural milieu of Southeast Asia. Hence, it is imperative for leaders within this geographical area to comprehend cultural subtleties and adapt their leadership methodologies correspondingly. Investigating transformational leadership, psychological empowerment, and employee creativity is crucial for organisations operating in Southeast Asia to discern efficacious leadership approaches that foster employee motivation, engagement, and creativity. Developing strategies aimed at enhancing employee behaviour can enable organisations in Southeast Asia to improve their capacity for innovation and adaptability in response to evolving business environments, thereby promoting their sustained success.

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