



The influence of transformational leadership and HR practices on employee innovative work behavior through psychological capital as a mediator in MSMEs

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ABSTRACT

This study examines the potential mediating role that psychological capital in the correlation between employees' innovative work behavior, HR practices, and transformational leadership. According to this study's hypothesis, workers who experience the influence of transformational leadership and HR practices that use psychological capital as a mediating factor will be more likely to engage in creative work practices. Transformational leadership emphasizes leaders' ability to inspire and drive their followers, foster a workplace environment that promotes innovation. Employee innovation will also be promoted via HR practices about pay structures, professional growth, information exchange, and encouraging supervision. Employees who are proactive in developing and putting new ideas, solutions, and advancements into practice exhibit innovative work behavior. To bolster the developed hypotheses, Structural Equation Modeling (SEM-AMOS) is utilized in this study to investigate link between independent factors, dependent variables, and mediating variables. 234 people responded to the questionnaire used as the data collection method. The study's findings indicate that innovative work practices and employees' psychological capital are positively and significantly impacted by transformational leadership and HR practices. Psychological capital mediates HR Practices and employee innovative work behavior. Psychological capital does not exhibit a mediating role between innovative work behavior among employees and transformational leadership.

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are growing in Indonesia. MSMEs are businesses run by individuals, households, or small-scale enterprises classified based on limits on annual

revenue turnover, total assets, and number of employees. According to the Ministry of Cooperatives and SMEs (2019), the nation had a total of 65.47 million MSMEs. Specifically, 64.6 million of the units were small businesses. This figure corresponds to 98.67% of all MSMEs in Indonesia. There are 798,679 small business units in total. It represents 1.22% of all MSMEs in the nation. There are only 65,465 medium-sized companies as of right now. This amount makes up 0.1% of all MSMEs in Indonesia. The Sustainable Development Goals (SDGs) are realized in part through the operations of this company. United Nations (2023) states that the overall goal of the SDGs is to increase shared prosperity by implementing strategies that build economic growth and improve social needs. The SDGs' goals include promoting comprehensive and meaningful employment, ensuring decent work opportunities for everyone, and fostering fair and sustainable economic growth. More specifically, point 8.2 advocates for raising economic productivity through diversity, innovation, and technological advancement—focusing on high-value, labor-intensive industries in particular. It is anticipated that this goal would introduce development policies that support the formalization and growth of MSMEs businesses along with productive endeavors, the establishment of quality employment, entrepreneurial initiatives, innovation, and creativity.

Many business entities change their employee structure, reduce their employees, and are even forced to go out of business because there is no income to turn around capital. Business actors must take action to restore the stability of their business entities, for example, by demonstrating innovative work behavior adapted to current conditions. According to (Qi et al., 2019), innovative behavior encompasses a range of behaviors about the conception, development, and implementation of ideas for novel technologies, procedures, methods, or goods.

MSMEs often operate in dynamic and competitive environments. Implementing effective leadership and HR practices that drive employee innovation can contribute to a competitive advantage, as innovation is a key factor in staying ahead in the market. Given that the study focuses on MSMEs, it adds to the contextual understanding of how these specific types of organizations can leverage leadership and HR practices to promote innovation. This can be particularly valuable, as MSMEs often face unique challenges compared to larger enterprises. Since the organization is in charge of directing staff members and helping them meet their goals, leadership style can impact how much a worker feels committed to the company and how well they perform (Daud & Afifah, 2019). According to (Tedla, Aradom, 2022), Leadership is crucial in both calm and disaster. The obvious distinction is that at times of crisis (such as COVID-19), the value of leadership is emphasized, and leaders behave more thoughtfully or frantically than they did previously; in contrast, the weight of leadership is equally necessary at all times, no matter what.

One form of leadership that is particularly important in motivating and changing employee behavior and attitudes among the various types of leadership is transformational leadership. Transformational leadership motivates employees utilizing four factors: idealized influence, inspirational motivation, intellectual stimulation, and individual consideration (Bak et al., 2022).

According to (Bos-Nehles & Veenendaal, 2019), HR Practices are another important thing affecting employees' innovative work behavior. Employees in an organization receive signals from their leaders about which actions are expected and rewarded, and they act in accordance with their interpretation. Employees will feel obligated to provide something of value in return, such as assisting the business in achieving its objectives, if they perceive the organization delivering value. Assume workers believe that the workplace is focused on creating and fostering new ideas and that creative ideas are rewarded based on their impression of HR practices. If such is the case, they will react creatively. However, innovative work behaviors are still limited and rarely performed to run MSMEs.

The limitation of innovative work behavior is caused by employees' lack of optimism, self-motivation, and willingness to perform well. An optimistic attitude, self-motivation, and

willingness to work well are some forms of positive psychological capital. This phenomenon is common in MSMEs. Psychological capital can facilitate recovery from entrepreneurial setbacks, defined as "the state of one's positive psychological development characterized by high levels of self-efficacy, optimism, hope, and resilience." (De Hoe & Janssen, 2022). Referring to previous research by (Bak et al., 2022), the findings indicated that transformational leadership has an indirect impact on innovative work behavior through the mediation of psychological capital. (Qi et al., 2019) discovered a positive correlation between inclusive leadership and employee innovative behavior, with perceived organizational serving as a mediator in this relationship. A study conducted by (Slåtten et al., 2020) shows that leadership autonomy support has a significant and varied influence on the innovative behavior of employees. These studies have linked employee innovative behavior with other organizational variables but not with HR Practices or employee psychological capital. The gap from these studies strengthens researchers to examine how Transformational Leadership, HR Practices, and Psychological Capital impact the Innovative Work Behavior of actors in MSMEs.

RESEARCH METHOD

Leadership is crucial in both times of calm and times of disaster. The obvious distinction is that at times of crisis (such as COVID-19), the value of leadership is emphasized, and leaders behave more thoughtfully or frantically than they did previously; in contrast, the weight of leadership is equally necessary at all times, no matter what (Qi et al., 2019). According to (Chen et al., 2018), by establishing a supportive and cooperative environment that encourages creativity and innovative activities, transformational leadership exerts a substantial effect on innovation capabilities. The fundamental tenet of transformational leadership theory is that leaders may broaden and improve the interests of their workforce and inspire members of the organization to approach long-standing issues in novel ways through intellectual stimulation (Ekobelawati et al., 2019). At the core of transformational leadership are the powerful demonstration skills that, when articulating a vision that encourages followers to aim higher, value and anticipate success (associated with optimism and hope), develop self-efficacy—the confidence in one's ability to carry out tasks successfully—and exhibit driven effort and tenacity in the face of setbacks—transformational leaders demonstrate resilience (Schuckert et al., 2018). Value exchange, mutual growth, and self-serving motivations are brought about by transformational leadership, and these factors boost the spirits of both leaders and followers (Hoch et al., 2018).

Organizations can attain both corporate and individual goals with the help of HR practices. The Human Resource Management (HRM) strategy, therefore plays a crucial role in businesses' performance (Jawaad et al., 2019). (Bos-Nehles & Veenendaal, 2019) claim that by utilizing HR practices that promote particular attitudes and behaviors and discourage undesirable ones, firms can foster desirable behaviors. Employees will feel obligated to do something of value in return, such as assisting the company in achieving its objectives, if they believe the organization is offering value. Employees will respond creatively if they believe that fresh ideas are valued and that the workplace is committed to coming up with and supporting them based on how they perceive HR practices. Human Resources Practices typically concentrate on aligning with the strategic objectives of the organization, such as having the right people in the right positions at the right time. HR Practices for employment sustainability, on the other hand, concentrate on the long-term objectives of contributing to an employee's ongoing career, which can take place within or outside the organization. Regardless of age, workers must perform in a competent, motivated, and healthy manner to stay in the workforce. As such, firms are urged to establish HR practices grounded in evidence that enhance the ongoing employability of their employees (Ybema et al., 2020).

The definition of innovative behavior is a group of behaviors related to the development, sharing, and application of concepts for new products, services, processes, or technologies (Qi et al., 2019). Innovative work behavior among employees pertains to their conduct and their capacity to embrace and apply novel and practical concepts within their workplace (Slåtten et al., 2020). According to (Bos-Nehles & Veenendaal, 2019). To improve organizational performance and success, work behavior can be characterized as individual actions focused on creating, analyzing, and implementing new ideas, encompassing new product ideas, technologies, methods, and work procedures. According to (Qi et al., 2019), The fundamental problem with innovation is when someone comes up with a fresh, original, and creative concept and takes it beyond its initial state.

Employees who exhibit innovative work behavior must bring fresh, worthwhile ideas to the organization's projects and offerings (Lambriex-Schmitz et al., 2020) feel that innovative work behavior encompasses both the promotion and execution of new ideas and their creation and content. Employee behavior and their aptitude for incorporating fresh, practical ideas into their work settings are considered aspects of innovative work behavior. So, innovative work behavior is doing something new, which is a behavioral change from the usual patterns of organizational behavior in the past. Thus, the field of innovative work behavior is related to everyday activities of employees. Innovation can be a one-time or more permanent change (Slåtten et al., 2020).

(Schuckert et al., 2018) is the psychological capital's four dimensions. "Optimism" entails a positive outlook on the future; "hope" means the motivational state of overcome obstacles and progressing; and "resilience" is the ability to overcome setbacks, pursue goals, and attain success. Self-efficacy is the belief in one's ability to successfully accomplish task. The hope dimension of psychological capital refers to a motivational state that gauges an individual's ability to advance despite encountering obstacles. Self-efficacy is an individual's confidence in his or her ability to successfully accomplish task. Resilience refers to managing setbacks, pursuing goals, and achieving good outcomes. Optimism is a person's positive evaluation of what lies ahead (Slåtten et al., 2020). Therefore, research by (Karimi et al., 2023) states that enriching individual psychological capital resources can be a major solution and the best option for boosting employee creativity, particularly in poor nations where most businesses and organizations lack the financial means to engage in innovation and creativity. (Slåtten et al., 2020), additionally, in line with earlier research, define psychological capital refers to an individual's positive psychological developmental, which is characterized by their ability to take on difficult tasks and put in the necessary effort to succeed in them, their optimism about the future, their perseverance in pursuing their goals and, when needed, their ability to change course and move toward their goals to succeed, and their resilience in the face of setbacks and difficulties.

Transformational Leadership and Employee Innovative Work Behavior

Regarding the impact of transformational leadership on creative behavior, it is unambiguously stated that an individual's traits influence inventive conduct. Because it creates a supportive, creative culture, leadership is frequently seen as the most important factor influencing organizational innovative behavior (Karimi et al., 2023). Since businesses rely on various actors to inspire innovative work behavior, organizational leaders are the most well-known characters who may encourage creative work behavior in the workplace and so bring new improvements to an elusive scenario (Li et al., 2019). Characteristics of innovative or creative leadership encourage and uplift followers instead of exerting control over them (Bak et al., 2022). Among the different types of leadership, transformational leadership has a significant impact on creative work practices because it can inspire followers to use four different strategies: intellectual stimulation, individual attention, idealized influence, and inspirational motivation in the public sector (Günzel-Jensen et al., 2018). (Bak et al., 2022) suggested that leaders should not just communicate a vision as a standard practice, instead they also need to actively demonstrate

innovative thinking and behavior. (Jun & Lee, 2023) assert that transformational leaders can encourage more creative activity in their followers by utilizing the four elements of transformational leadership: idealized influence, individualized concern, inspiring motivation, and intellectual stimulation. To catalyze followers' innovative work behavior, transformational leaders stimulate followers' minds so they may take on challenging assignments, exercise critical thought, and use fresh concepts to address issues head-on. Consequently, followers are urged to "think outside the box" in order to come up with fresh concepts and innovative ways to carry out the purpose that their leaders have said (Bak et al., 2022).

HR Practices and Employee Innovative Work behavior

(Bos-Nehles & Veenendaal, 2019) examined the influence of HR Practices with high commitment at the individual level on innovative work behavior, namely opinions about the pay structure, professional growth opportunities, information exchange, and encouraging supervision. The basic tenet is that inventive work behavior will be rewarded by employees who believe they are being paid fairly, are provided with training and growth opportunities, feel that knowledge is shared with them, and have supportive supervisors. Highly engaged HR practices are a vital mechanism for the development of employee capabilities and motivation to perform a variety of diverse tasks (Yasir & Majid, 2020). A highly committed work system will positively influence employee attitudes and actions, and through intrinsic and extrinsic motivators, employees' desire to demonstrate innovative work behaviors will increase (Dede, 2021). Therefore, it is anticipated that financial incentives and HR policies will motivate staff to innovate. Employees will see training and development as an indication that their employer values them and is prepared to make an investment in their professional growth. Information sharing can boost support, perceived justice, and trust. Employees may feel pressured to act creatively in return if they believe that their company values, supports, and treats them fairly. When supervisors are seen as supportive, employees are motivated to put in a lot of effort to meet corporate objectives, which is consistent with HR Practices' objectives (Bos-Nehles & Veenendaal, 2019).

Transformational Leadership and Psychological Capital

It is suggested by transformational leadership that the four components of psychological capital can be improved through transformational leadership. (i.e., self-efficacy, optimism, hope, and resilience) (Schuckert et al., 2018). (Muhammad, 2022) stated that the basis of transformational leadership demonstrates a strong demonstration ability that transforms and sets visionary targets for others to achieve positive outcomes (associated with optimism and hope), their ability to fulfill responsibilities successfully (associated with self-efficacy), and their willingness to invest determined effort and persist in the midst of challenges (linked to resilience).

A key factor in the psychological capital development of people is transformational leadership. In particular, idealized influence, inspirational motivation, intellectual stimulation, and tailored consideration—behavioral components of transformational leadership—encourage followers to work together to accomplish greater objectives and favorable results (Gom et al., 2021). Employees with a transformational leadership style will have strong self-efficacy when they are expected to achieve goals with positivity, confidence, and a change-oriented mindset. The theory of contagion states that followers may unintentionally mimic the actions, facial expressions, and attitudes of their leaders, both positively and negatively. Thus, when leaders display optimism, it is inevitable and natural for followers to mirror that optimism. Additionally, research has shown that followers who connect with their transformational leaders, perceived as successful role models, tend to be more optimistic (Bak et al., 2022).

HR Practices and Psychological Capital

Quoting (Vilarinho del Castillo & Lopez-Zafra, 2022). Authors have used various labels to refer to HR Practices such as high-performance work systems, high-engagement work systems, and high-performance work systems, or HPWS. (Miao et al., 2021), investigated how these HR practices affected the attitudes of workers (affective commitment and job satisfaction). They discovered that through psychological capital functioning as a mediator, HPWS, or what we shall refer to as HR Practices, had a favorable impact on employee attitudes. Furthermore, further research confirmed psychological capital's role as a mediator in this matter (policies and HR practices) (Carter & Youssef-Morgan, 2019) assessed the effect of mentoring, which is a form of HR Practices, on performance and the mediating role of psychological capital, confirming all these effects. HR Practices can be viewed as job resources and psychological capital can be viewed as a personal resource.

Psychological Capital and Employee Innovative Work behavior

Psychological capital directs attention toward favorable attributes and individual strengths, collectively identifying them as a positive psychological resource for innovative processes. Psychological capital is a high-level construct that includes four first-order positive psychological resources: (1) hope, (2) self-efficacy, (3) resilience, and (4) optimism. The four resources included in psychological capital are state- like resources (Slåtten et al., 2020). Previous research by (Liu et al., 2023); (Bris et al., 2021), stated that the company's breakthrough technological innovation performance is closely related to the level of employee psychological capital. Employees with a high level of psychological capital can actively accept knowledge, determine technological innovation goals, and realize future expectations, which reflects higher motivation. Additional studies also connect individual psychological capital to work-related performance, including individual innovative behavior. For example, (Slåtten et al., 2020) discovered a correlation between individual elements and resources of psychological capital and innovative behavior.

Research Framework

Based on the above description, the framework is therefore as follows:

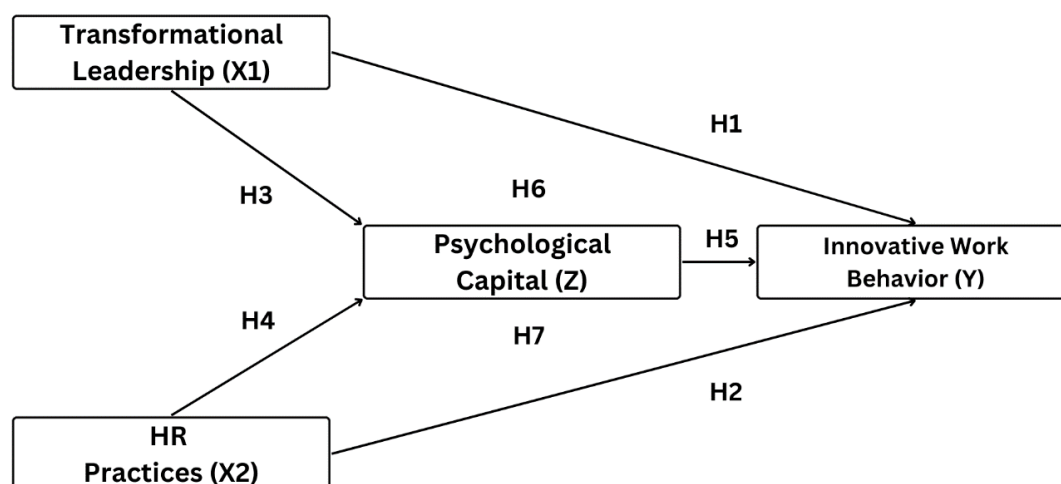


Figure 1. Research Framework

Research Hypothesis

Based on the problem formulation and conceptual framework above, the research hypothesis proposed by the researcher is as follows: (a) Transformational Leadership affects Employee Innovative Work behavior. (b) HR Practices influence Employee Innovative Work behavior. (c) Transformational Leadership affects Psychological Capital. (d) HR Practices affect Psychological Capital. (e) Psychological Capital influences Employee Innovative Work behavior. (f) Transformational Leadership influences Employee Innovative Work behavior through Psychological Capital. (g) HR Practices influence Employee Innovative Work behavior through Psychological Capital.

In this study, researchers used a causal associative method with a quantitative approach using SEM- AMOS data analysis techniques. Questionnaires in online form are used for data collection to obtain data relevant to problem-solving and analysis with participants who are deemed to fulfill predefined criteria. This study uses a questionnaire, utilizing a Likert scale of 1 to 5 with the following categories: Very agree (5 points), Agree (4 points), Undecided (3 points), Disagree (2 points), and Strongly disagree (1 point). The study's participants were business players from Indonesia who fell under the MSME classification. There were 234 samples in this investigation. This study employs purposive sampling as the chosen sampling method, which is part of the non-probability sampling technique with the following criteria: 1) Respondents work in micro or small companies; 2) Businesses that are domiciled in Indonesia; 3) Respondents are still actively working.

RESULTS AND DISCUSSIONS

In this research, an insightful exploration into the dynamics of employee innovation in Micro, Small, and Medium Enterprises (MSMEs) is undertaken. The study investigates the impact of transformational leadership and HR practices, with a particular focus on the mediating role of psychological capital. The following image presents the results derived from data analysis using AMOS, shedding light on the intricate relationships within the proposed theoretical framework.

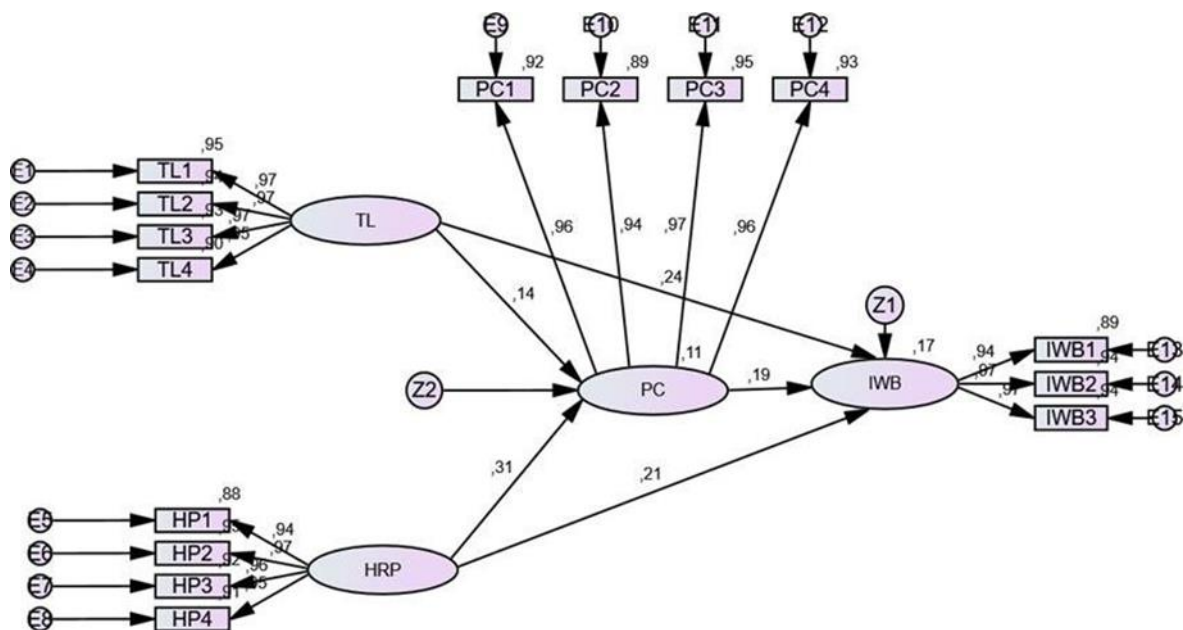


Figure 1. Full Model Testing

The image illustrates the results obtained through data analysis conducted in AMOS. The statistical outputs reveal the relationships between transformational leadership, HR practices, psychological capital, and employee innovative work behavior in MSMEs. Each path coefficient and significance level are meticulously depicted, providing a visual representation of the quantitative findings derived from the empirical investigation. This image serves as a valuable tool for interpreting the nuanced interplay between the variables under examination, offering a comprehensive glimpse into the study's empirical outcomes.

Hypothesis Testing

The results of testing the effect of the relationship between variables in the study configuration built in this study can be presented as follows.

Table 2. Hypothesis

Hypothesis	Path	Estimate	S.E.	C.R.	P	Conclusion
H1	TL - PC	0,121	0,059	2,043	0,041	Positively Significant
H2	HRP - PC	0,303	0,066	4,559	0,000	Positively Significant
H3	PC - IWB	0,185	0,065	2,853	0,004	Positively Significant
H4	TL - IWB	0,211	0,057	3,672	0,000	Positively Significant
H5	HRP - IWB	0,202	0,066	3,052	0,002	Positively Significant

The foundation of hypotheses is current knowledge. Psychological Capital is significantly enhanced by transformational leadership. The hypothesis is supported by the t-value and p-value. Compared to the t-table value of 1.96, the calculated t-value of 2.043 for the Transformational Leadership and Psychological Capital variables indicates a more significant gain. In the same way, the p-value ($\alpha = 0.05$) displays a value higher than 0.05. The second hypothesis' findings are also acknowledged. Psychological capital is significantly enhanced by HR practices. In comparison to the t-table value of 1.96, the calculated t-value for the HR Practices variable on Psychological Capital is 4.559, indicating a gain that is more significant. In a similar vein, the p-value displays a value higher than 0.05. Moreover, the third hypothesis is validated. Employee Innovation is greatly impacted by Psychological Capital.

To confirm the indirect effect on the effect of the built-in mediating variable, the researcher presents Table 5, which is obtained from the results of the Sobel test.

Table 3. Sobel Test - Significance of Mediation

Hypothesis	Path	Sobel Test Statistic	Two-tailed Probability	Conclusion
H6	TL - PC - IWB	1,663	0,096	Not Significant
H7	HRP - PC IWB	2,419	0,015	Significant

The Sobel test outcome for the sixth hypothesis yielded a statistical value of 1.663 with a p-value of 0.096, as shown in Table 5. The t-table value of 1.96 exceeds the statistical value of the Sobel test. In the same way, p-value ($\alpha = 0.05$) is less than 0.05. These findings suggest that transformational leadership has a significant indirect impact on employees' innovative work practices through psychological capital. The numerical outcome of the Sobel test for the seventh hypothesis is 2.419, with a p-value of 0.015. The t-table value of 1.96 is greater than the Sobel test statistic value. In the same way, p-value ($\alpha = 0.05$) is less than 0.05. These results indicate that HR practices have a significant indirect influence on the employee's innovative work behavior through psychological capital.

a. Effect of Transformational Leadership on Psychological Capital

The analysis outcomes reveal that the t-statistics value was established to be 0.05 with a value of 2.043. Thus, it can be said that psychological capital is positively and significantly

impacted by transformative leadership. It can be inferred that the first hypothesis (H1) is valid as a result. There is a positive correlation between transformational leadership variables and psychological capital in the according to research by (Shah et al., 2023) titled "The empirical relationship between transformational leadership and job attitudes: the mediating role of psychological capital - a study of healthcare in India?" Research "How Transformational Leadership Facilitates Radical and Incremental Innovation: The Mediating Role of Individual Psychological Capital," published in 2020 (Le), comes next. It demonstrates Individual psychological.

b. Effect of HR Practices on Psychological Capital

The analysis findings indicate that the t-statistics value was found to be 0.05, with a value of 4.559. Thus, it can be said that psychological capital is positively and significantly impacted by HR practices. Consequently, the second hypothesis (H2) might be seen to be accepted. Psychological capital acts as an intermediary in the relationship between HR practices and employee pro-environmental conduct, according to research findings published in 2019 under the heading "Promoting employee's pro- environmental behavior through green human resource management practices" (Saeed et al., 2019). Study (Manuti & Giancaspro, 2019) Psychological capital significantly mediates the connection between employee perceptions of corporate resources and HR practices. An exploratory study on the correlation between organizational practices and employee well-being "People Make the Difference" supports this perspective.

c. Effect of Transformational Leadership on Employee Innovative Work Behavior

The analysis's findings demonstrated that, with a value of 3.672, the t-statistics value was determined to be 0.05. Thus, it can be said that innovative work behavior among employees is positively and significantly impacted by transformational leadership. Thus, it can be inferred that hypothesis H4, the fourth hypothesis, is affirmed. Transformational leadership variables and employee innovative work behavior are positively correlated, according to research findings published in 2022 under the title "Unpacking the Transformational Leadership-Innovative Work Behavior Relationship: The Mediating Role of Psychological Capital" by Bak et al. After that, there is research (Grošelj et al., 2020) titled "Authentic and Transformational Leadership and Innovative Work Behavior: The Moderating Role of Psychological Empowerment," which offers more evidence of the beneficial connection between transformational.

d. Effect of HR Practices on Employee Innovative Work Behavior

The analysis's findings indicate that a t-statistics value of 0.05 was achieved, with a value of 3.052. Thus, it can be said that innovative work behavior among employees is positively and significantly impacted by HR practices. Consequently, it can be concluded that hypothesis number five (H5) is true. According to the findings of a study titled "HR Training Practices and Innovative Work Behavior: A Moderated Mediation Model" by (Odoardi et al., 2022), HR training practices can support innovative work behavior. Research "The Impact of HR Practices and Innovative Work Behavior on Job Performance in Physicians" (Al Wali et al., 2021) demonstrates that HR practices have a favorable and noteworthy impact on the innovative work behavior.

e. Effect of Transformational Leadership on Employee Innovative Work Behavior through Psychological Capital

The analysis's findings indicate that the t-statistic's value, which came out to be 1.663, is 0.05. Thus, it can be said that psychological capital does not significantly and favorably influence innovative work behavior by employees under transformational leadership. As a result, it can be inferred that hypothesis number six (H6) is not accepted. "The Influence of School Atmosphere on Chinese Teachers' Job Satisfaction: The Chain Mediating Effect of Psychological Capital and

Professional Identity" (Han et al., 2023) does not attribute any intermediary function of psychological capital in the relationship between work satisfaction and school atmosphere. Theory of Baron and Kenny (1986) presents a method of mediation analysis where the mediation effect can only occur if there is a noteworthy correlation between the controlled (independent) variable and measured (dependent) variable, and if the correlation is no longer significant when controlling for mediators.

f. Effect of HR Practices on Employee Innovative Work Behavior through Psychological Capital

The results of the analysis conducted show that the t statistics value obtained is 0.05 with a value of 2.419. So, it can be concluded that HR Practices have a positive and significant effect on employee innovative work behavior through psychological capital. Therefore, it can be said that the seventh hypothesis (H7) is accepted. The results of research conducted (Manuti & Giancaspro, 2019) Psychiatric capital is a major mediator of the relationship between employee perceptions of HR practices organization, according to the study "People Make the Difference: An Explorative Study on the Relationship between organizational practices, employees' Resources, and organizational behavior enhancing the Psychology of sustainability and sustainable development." The study "Unpacking the Transformational Leadership- Innovative Work Behavior Relationship: The Mediating Role of Psychological Capital." According to (Bak et al., 2022) comes next which shows that transformational leadership affects innovative work behavior indirectly through psychological capital. Research conducted by (Rodríguez-Cifuentes et al., 2020) with the title "The mediating role of psychological capital between motivational orientations and their work behavior" shows that transformational leadership affects innovative work behavior indirectly through psychological capital organizational consequences" suggests that psychological capital plays a mediating role in some of the relationships explored that are primarily related to better performance.

CONCLUSION

This study uses psychological capital as a bridge to examine how HR practices and transformational leadership affect the creative work behaviors of employees in MSMEs. The study's findings suggest that HR practices and transformational leadership foster creative work practices. When it comes to encouraging creative work practices among employees, psychological capital plays a crucial role. However, it is important to note that there is no significant direct effect of transformational leadership on innovative work behavior through psychological capital. Instead, HR Practices have a significant indirect influence on innovative work behavior through their influence on employees' psychological capital. Innovation has become a crucial driver of success for Micro, Small, and Medium Enterprises (MSMEs) by underscoring the importance of transformational leadership and effective HR Practices as well as employee psychological capital in MSMEs. By embracing these principles and customizing them to the specific needs of small businesses, MSMEs can unlock their innovative potential and thrive in today's competitive business landscape.

This research provides contribution for some parties and is expected to enrich scientific studies in the field of human resource management, especially those related to the influence of Transformational Leadership, HR Practices, Psychological Capital, and Employee Innovative Work Behavior, and can be input for the development of science, especially in human resource management. This research is expected to provide input and information for MSME business actors in Indonesia in making decisions in the future. Especially in the field of human resources.

This study contains a number of restrictions. First off, not all of the characteristics that may affect employees' innovative work behavior have been examined in this study. There are still many other variables that can be important factors in understanding innovative behavior.

Secondly, in terms of the object of research, the MSMEs that are the subject of the study have considerable diversity. They come from a variety of different industrial sectors. Due to these differences, the results of the study may not be uniformly applicable to all types of MSMEs. Therefore, it should be noted that the results of this study may be more applicable to certain industrial sectors, and the results may not be directly generalizable to all MSMEs.

It is necessary to increase the number of samples and specialize MSMEs with certain sectors to be studied. In addition, the distribution of samples to cover various perspectives also needs to be done. Further research is expected to continue to be carried out to improve the performance of MSMEs, which play a crucial role in the progress of a country's economy, develop a more comprehensive framework by including more of these variables, and explore deeper and wider as an effort to refine people's understanding of the factors that influence employee innovative work behavior in various MSME contexts.

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