

THE EFFECT OF TRANSFORMATIONAL LEADERSHIP ON INNOVATION AND EMPLOYEE PERFORMANCE MEDIATED BY LEADER MEMBER EXCHANGE AT PT. ACEH MANDIRI UTAMA

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Abstract

This study examines the direct and indirect effects of transformational leadership on employee performance and innovation through leader-member exchange at PT Aceh Mandiri Utama. The research applied an explanatory, cross-sectional design and used a census of 109 employees from four operational branches. The study collected primary data through a five-point Likert questionnaire and analyzed the model with Partial Least Squares Structural Equation Modeling using SmartPLS 4. Transformational leadership positively affected employee performance ($\beta = 0.442$; $t = 3.485$; $p < 0.001$), innovation ($\beta = 0.442$; $t = 2.724$; $p = 0.006$), and leader-member exchange ($\beta = 0.704$; $t = 5.607$; $p < 0.001$). Leader-member exchange also positively affected employee performance ($\beta = 0.427$; $t = 3.842$; $p < 0.001$) and innovation ($\beta = 0.437$; $t = 2.712$; $p = 0.007$). The indirect effects on performance ($\beta = 0.300$; $p = 0.007$) and innovation ($\beta = 0.308$; $p = 0.036$) were significant, indicating partial mediation. The findings show that transformational leadership improves employee outcomes both directly and by strengthening high-quality relationships between leaders and employees.

Keywords: Employee innovation; Employee performance; Leader-member exchange; PLS-SEM; Transformational leadership

INTRODUCTION

Organizations operating in competitive service industries must simultaneously sustain employee performance and generate practical innovation. Employee performance determines whether an organization can meet operational standards, service targets, and customer expectations, while innovative work behavior enables employees to improve processes, solve recurring problems, and respond to technological and market change. Recent research therefore treats performance and innovation as interdependent organizational outcomes rather than separate managerial concerns. Rodríguez-Sánchez et al. (2020) emphasize the importance of investing organizational resources in employees, while Jankelová et al. (2021) show that innovative work behavior contributes to business performance when organizations create supportive work conditions. Srirahayu et al. (2023) further describe innovative work behavior as a process that includes idea generation, idea promotion, and idea implementation. These findings indicate that organizations require leadership practices that can mobilize both disciplined execution and constructive experimentation.

Transformational leadership offers a relevant explanation for these dual outcomes because it combines a compelling vision, intellectual stimulation, inspirational motivation, and individualized consideration. Transformational leaders encourage employees to reinterpret difficult problems, connect individual work with collective objectives, and exceed routine role requirements. Afsar and Umrani (2020) found that transformational leadership strengthens innovative work behavior through learning motivation, task complexity, and an innovation-supportive climate. Bakker et al. (2022) also identified transformational leadership as a daily source of inspiration that supports follower performance. However, empirical evidence remains heterogeneous. Knezović and Drkić (2021) reported contextual differences in the relationship between transformational leadership and innovation, whereas Bauwens et al. (2023) showed that transformational leadership can reinforce innovative work behavior within performance management systems. This variation suggests that leadership style alone may not fully explain how leaders produce employee outcomes.

Leader-member exchange provides a relational mechanism that can clarify this process. The concept focuses on the quality of the dyadic relationship between a leader and each employee, particularly the degree of trust, mutual respect, support, loyalty, and open communication. High-quality exchange relationships can increase employees' access to information, developmental opportunities, psychological support, and discretion. Those resources can strengthen both task accomplishment and the willingness to introduce new ideas. Ahmed et al. (2024) demonstrate that leader-member exchange shapes the relationship between leadership and innovative work behavior, while Ardianto and Suharnomo (2023) show that leader-member exchange contributes to employee performance and innovative work behavior. Sharif et al. (2024) further identify leader-member exchange as an important mediating mechanism between transformational leadership and innovation-related behavior. These studies support the proposition that the quality of leader-employee relationships converts inspirational leadership into observable work outcomes.

PT Aceh Mandiri Utama operates in automotive sales and after-sales services through four branches in Lhokseumawe and North Aceh. The company faces competitive pressure to maintain service quality, achieve sales and operational targets, and improve work processes. The thesis underlying this article identified practical concerns involving limited two-way communication, uneven employee initiative, and differences in employees' understanding of organizational direction. These conditions make the company an appropriate setting for examining whether transformational leadership directly improves employee performance and innovation and whether leader-member exchange transmits part of that influence.

This study addresses three analytical gaps. First, it evaluates employee performance and innovation in one integrated structural model rather than examining only one outcome. Second, it tests leader-member exchange as a mediator of both relationships, allowing the analysis to distinguish direct leadership effects from relational effects. Third, it provides evidence from an Indonesian automotive dealership context, which remains less represented in the cited literature than public organizations, educational institutions, banking, and hospitality. Accordingly, this study analyzes the effects of transformational leadership on employee performance, innovation, and leader-member exchange; the effects of leader-member exchange on performance and innovation; and the mediating role of leader-member exchange in both outcome pathways.

LITERATURE REVIEW

Transformational Leadership and Employee Outcomes

Transformational leadership directs employees toward collective goals by combining moral example, inspirational communication, intellectual stimulation, and personal attention. These behaviors influence performance because they clarify priorities, strengthen intrinsic motivation, and encourage employees to apply greater effort and judgment. Saif et al. (2024) found that transformational leadership directly improves task performance and innovative work behavior. Azmy and Perkasa (2024) similarly reported that transformational leadership improves employee performance through innovation-related behavior. These findings support the expectation that employees perform more effectively when leaders communicate meaningful goals, recognize individual needs, and encourage responsible autonomy.

Transformational leadership also creates conditions that favor innovation. Intellectual stimulation legitimizes questioning and alternative problem solving, while inspirational motivation links creative effort to organizational purpose. Afsar and Umrani (2020), Knezović and Drkić (2021), and Suliati et al. (2025) consistently connect transformational leadership with innovative work behavior, although the magnitude and mechanism vary across settings. Based on this reasoning, the study proposes that transformational leadership positively affects employee performance and innovation.

Transformational Leadership and Leader-Member Exchange

Transformational leadership can strengthen leader-member exchange because individualized consideration, ethical conduct, and open communication provide a basis for trust and reciprocity. When leaders recognize employee potential, offer support, and explain organizational goals, employees receive signals that the relationship extends beyond formal supervision. Hasib et al. (2020) show that leader-member exchange transmits the effect of transformational leadership to employee performance, while Sharif et al. (2024) demonstrate a similar relational mechanism for innovative work behavior. Therefore, the study expects transformational leadership to positively affect leader-member exchange.

Leader-Member Exchange, Performance, and Innovation

High-quality leader-member exchange provides employees with informational, emotional, and instrumental resources. Employees who trust their leaders can coordinate tasks more efficiently, seek clarification without excessive interpersonal risk, and receive support when work problems emerge. These conditions can improve task completion, contextual performance, and adaptive performance. Ardianto and Suharnomo (2023) and Sutoni (2023) report positive relationships between leader-member exchange and employee performance.

The same relational quality can encourage innovation because employees require psychological safety and managerial support to propose, promote, and implement new ideas. Employees become more willing to experiment when leaders respond constructively to suggestions and provide access to resources. Ahmed et al. (2024) and Sharif et al. (2024) demonstrate that leader-member exchange supports innovation-related behavior. Consequently, the study predicts positive effects of leader-member exchange on employee performance and innovation.

The Mediating Role of Leader-Member Exchange

Transformational leadership may influence employee outcomes through two complementary routes. The direct route operates when leaders inspire, stimulate, and guide employees. The indirect route operates when those leadership behaviors build a higher-quality exchange relationship that increases trust, communication, support, and reciprocal commitment. Partial mediation should occur when both routes remain significant. The study therefore proposes seven hypotheses: H1, transformational leadership positively affects employee performance; H2, transformational leadership positively affects innovation; H3, transformational leadership positively affects leader-member exchange; H4, leader-member exchange positively affects employee performance; H5, leader-member exchange positively affects innovation; H6, leader-member exchange mediates the effect of transformational leadership on employee performance; and H7, leader-member exchange mediates the effect of transformational leadership on innovation. The following is an overview of the research framework model, as shown in Figure 1 below

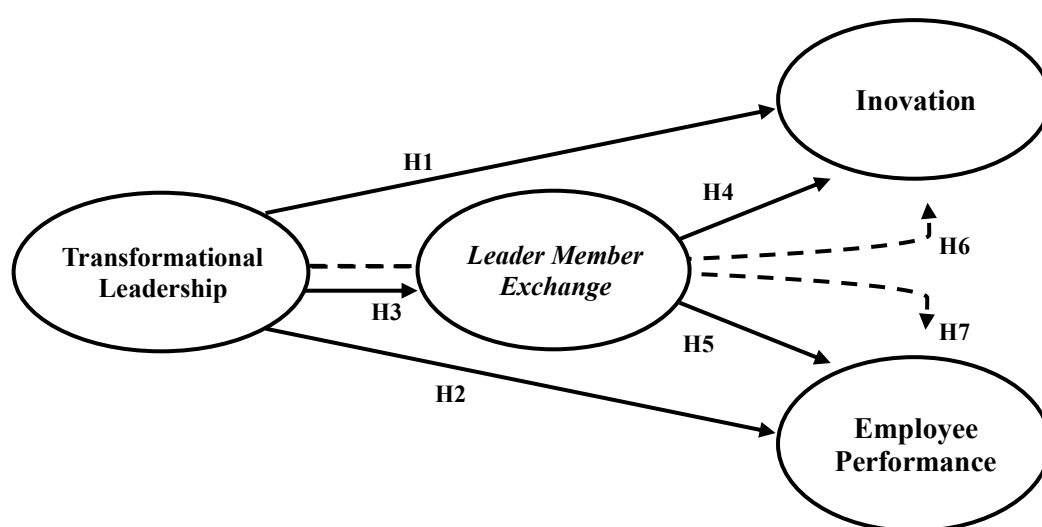


Figure 1 : Conceptual Framework

METHOD

This study used an explanatory and cross-sectional research design to test causal relationships among transformational leadership, leader-member exchange, employee performance, and innovation. The research setting comprised the main office of PT Aceh Mandiri Utama and three branches located in Krueng Geukueh, Panton Labu, and Geudong. The population included all 109 active employees across the four locations. Because the population remained accessible and relatively small, the study applied total sampling and included every employee as a respondent.

The study collected primary data through a structured questionnaire. Researchers explained the research purpose, confidentiality provisions, and completion procedures before respondents answered the instrument independently. The questionnaire used a five-point Likert scale ranging from 1, strongly disagree, to 5, strongly agree. The instrument contained eight items for transformational leadership, seven items for leader-member

THE EFFECT OF TRANSFORMATIONAL LEADERSHIP ON INNOVATION AND EMPLOYEE PERFORMANCE MEDIATED BY LEADER MEMBER EXCHANGE AT PT. ACEH MANDIRI UTAMA

Munawar **et al.**

exchange, eight items for employee performance, and six items for innovation. The model treated transformational leadership, employee performance, and innovation as higher-order constructs, while leader-member exchange functioned as a first-order construct.

The analysis used Partial Least Squares Structural Equation Modeling with SmartPLS 4. The measurement model assessment examined indicator loadings, Cronbach's alpha, composite reliability, average variance extracted, and discriminant validity. The structural model assessment examined variance inflation factors, coefficients of determination, effect sizes, predictive relevance, model fit, direct effects, and specific indirect effects. The study accepted a hypothesis when the bootstrapping result produced a t-statistic above 1.96 and a p-value below 0.05. The mediation assessment classified leader-member exchange as a partial mediator when both the direct and indirect effects remained significant.

RESULTS AND DISCUSSION

The study obtained usable responses from all 109 employees. Men represented 74.3 percent of the sample, and women represented 25.7 percent. The largest age group was 25 to 34 years at 43.1 percent. Most respondents held a diploma IV or bachelor's degree at 51.4 percent. Employees with at least five years of service represented 35.8 percent, while staff-level employees represented 72.5 percent. Sales and marketing constituted the largest functional group at 35.8 percent, followed by workshop and service employees at 30.3 percent. This profile indicates that the data largely reflect operational employees with substantial direct involvement in customer service, sales, and technical processes.

Table 1. Measurement Model Assessment

Construct	Loading Range	Cronbach's Alpha	Composite Reliability	AVE	Assessment
Transformational leadership	0.886-0.961	0.940	0.950	0.705	Reliable and valid
Leader-member exchange	0.861-0.954	0.970	0.975	0.848	Reliable and valid
Employee performance	0.687-0.900	0.944	0.953	0.720	Reliable and valid
Innovation	0.834-0.925	0.948	0.958	0.794	Reliable and valid

Source: SmartPLS 4 output processed from the thesis data, 2026.

The measurement model produced adequate convergent validity and internal consistency. All indicator loadings exceeded the minimum threshold used in the thesis, and the composite reliability values ranged from 0.950 to 0.975. The average variance extracted values ranged from 0.705 to 0.848, indicating that each construct explained more than half of its indicator variance. The square roots of average variance extracted exceeded the corresponding interconstruct correlations in the Fornell-Larcker matrix. These results support the use of the four constructs in the structural analysis.

The structural model also demonstrated meaningful explanatory and predictive capacity. Transformational leadership explained 49.5 percent of the variance in leader-member exchange. Transformational leadership and leader-member exchange jointly explained 64.4 percent of employee performance and 65.8 percent of innovation. All Q^2 predict values exceeded zero, and the variance inflation factors ranged from 1.000 to 1.982, indicating that collinearity did not distort the path estimates. The saturated and estimated SRMR values were 0.072 and 0.088, respectively, which remained below the 0.10 criterion used in the thesis.

Table 2. Structural Model Explanatory and Predictive Results

Endogenous Construct	R ²	Adjusted R ²	Q ² predict
Leader-member exchange	0.495	0.490	0.492
Employee performance	0.644	0.639	0.559
Innovation	0.658	0.653	0.569

Source: SmartPLS 4 output processed from the thesis data, 2026.

Table 3. Direct and Indirect Effect Testing

Hypothesis	Relationship	β	t-statistic	p-value	Decision
H1	TL -> Employee performance	0.442	3.485	< 0.001	Accepted
H2	TL -> Innovation	0.442	2.724	0.006	Accepted
H3	TL -> LMX	0.704	5.607	< 0.001	Accepted
H4	LMX -> Employee performance	0.427	3.842	< 0.001	Accepted
H5	LMX -> Innovation	0.437	2.712	0.007	Accepted
H6	TL -> LMX -> Employee performance	0.300	2.705	0.007	Partial mediation
H7	TL -> LMX -> Innovation	0.308	2.093	0.036	Partial mediation

Note: TL = transformational leadership; LMX = leader-member exchange. Source: SmartPLS 4 output, 2026.

In this study, the structural model was tested using the bootstrapping procedure in SmartPLS 4 to obtain estimates of the path coefficients, t-statistics, and p-values. In addition, the evaluation of the inner model also included tests of collinearity (VIF), the coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2) to assess the model's ability to explain the endogenous variables. The results of the structural model estimation through the bootstrapping procedure, which serve as the basis for testing the research hypotheses, are presented in Figure 2 below.

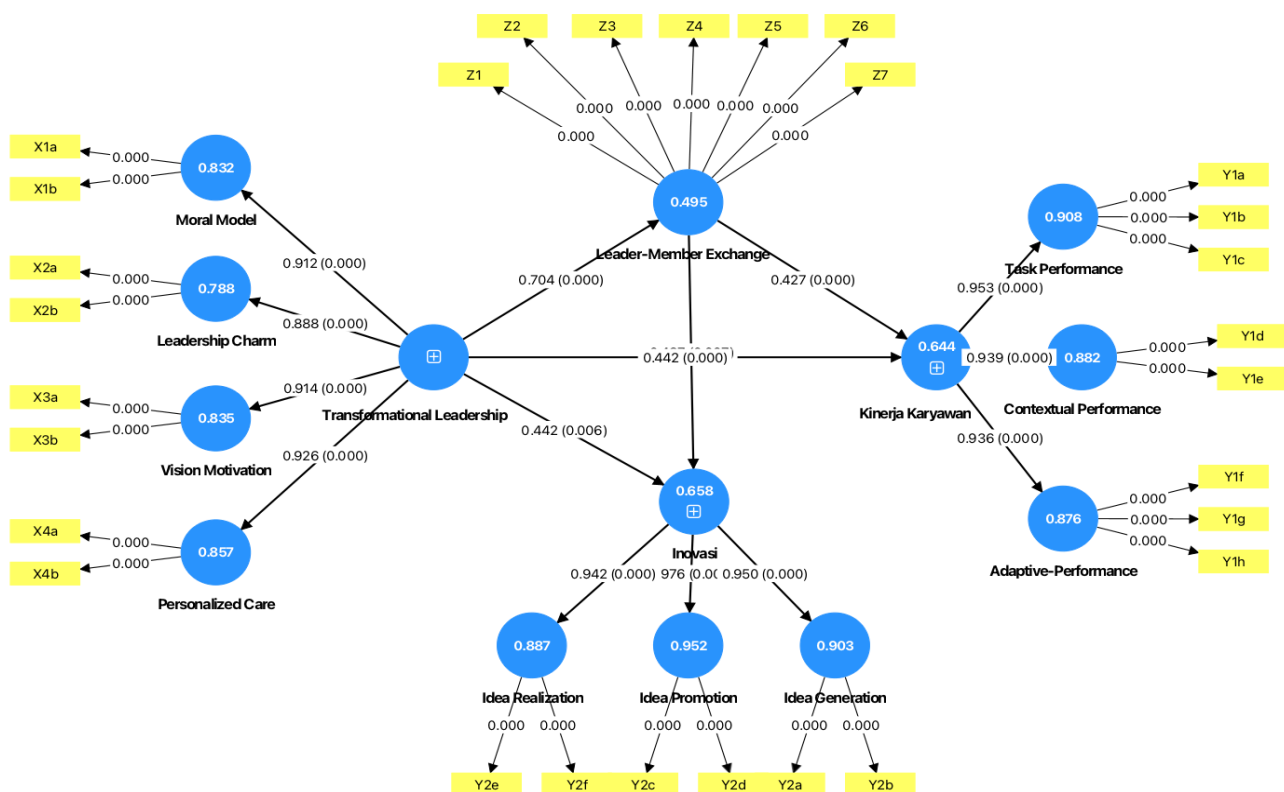


Figure 2 : Structural Model Bootstrapping Results

The first hypothesis received support because transformational leadership positively affected employee performance. The coefficient of 0.442 indicates that leaders who communicate direction, encourage creative thinking, model commitment, and provide personal support can improve employees' task execution and adaptive contribution. This result aligns with Saif et al. (2024), Bakker et al. (2022), and Azmy and Perkasa (2024), who connect transformational leadership with stronger individual performance. In the company context, transformational leadership can help employees interpret service standards and operational targets as shared commitments rather than merely administrative demands.

The second hypothesis also received support because transformational leadership positively affected innovation. Intellectual stimulation and inspirational motivation appear particularly relevant because employees in automotive sales and service frequently encounter customer complaints, changing product information, and process inefficiencies that require practical solutions. The result supports Afsar and Umrani (2020), Bauwens et al. (2023), and Suliati et al. (2025). Transformational leaders therefore contribute to innovation by legitimizing new approaches and by connecting experimentation with service and business objectives.

The third hypothesis showed the strongest direct coefficient in the model. Transformational leadership affected leader-member exchange with a coefficient of 0.704. This result indicates that employees evaluate leadership not only through formal decisions but also through everyday relational behavior. Leaders who communicate consistently, recognize employee potential, and provide individualized support strengthen trust and reciprocal respect. The finding supports the relational logic reported by Hasib et al. (2020) and Sharif et al. (2024).

The fourth and fifth hypotheses demonstrate that leader-member exchange contributes to both employee performance and innovation. High-quality relationships can improve performance because employees obtain clearer information, faster support, and stronger confidence when they handle work problems. Such relationships can also improve innovation because employees feel safer proposing changes and requesting resources for implementation. The results correspond with Ardianto and Suharnomo (2023), Sutoni (2023), Ahmed et al. (2024), and Sharif et al. (2024). The parallel effects suggest that relational quality constitutes an operational resource rather than merely an interpersonal benefit.

The indirect effects provide the study's central contribution. Leader-member exchange significantly mediated the effect of transformational leadership on employee performance with a coefficient of 0.300 and on innovation with a coefficient of 0.308. Because the direct effects remained significant, both pathways showed partial mediation. Transformational leadership therefore improves outcomes through direct motivational influence and through the relational environment that leaders create. This result extends studies that examine a single outcome by showing that the same relational mechanism supports execution and innovation simultaneously.

The findings have direct managerial implications for PT Aceh Mandiri Utama. The company should evaluate leadership effectiveness through both strategic communication and relationship quality. Leadership development should strengthen vision communication, intellectual stimulation, individualized coaching, and constructive feedback. Managers should also establish regular two-way discussions, recognize employee contributions, provide timely support for work problems, and create transparent procedures for proposing and testing new ideas. These practices can convert transformational leadership from a general managerial aspiration into observable routines that improve performance and innovation.

CONCLUSION

This study confirms that transformational leadership positively affects employee performance, innovation, and leader-member exchange at PT Aceh Mandiri Utama. Leader-member exchange also positively affects employee performance and innovation. The significant indirect effects show that leader-member exchange partially mediates both leadership-outcome relationships. These findings indicate that transformational leaders generate stronger employee outcomes when they combine inspirational and developmental behavior with trusted, supportive, and reciprocal relationships.

The company should integrate transformational leadership competencies and leader-member exchange quality into leadership development and managerial evaluation. Managers need to communicate clear objectives, stimulate alternative problem solving, coach employees individually, and maintain open interaction across branches. The organization should also create formal channels for employees to submit, discuss, test, and implement service or process improvements.

The study has several limitations. It examined one company, used a cross-sectional design, relied on self-reported perceptions, and tested leader-member exchange as the only mediator. Future research should use longitudinal or mixed-method designs, include organizations from different sectors, and examine additional

mediators or moderators such as psychological empowerment, organizational support, employee engagement, and innovation climate.

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