



Exploring Transformational Leadership and Employee Performance: The Mediation Role of Psychological Empowerment Millennial Generation

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ABSTRACT: This study investigates the influence of transformational leadership on the performance of millennial employees working in SMEs in Banjarmasin City in South Kalimantan Province, Indonesia. Furthermore, it postulates that psychological empowerment is a mediator in explicating the relationship between transformational leadership and employee performance. The research methodology employs a quantitative approach and purposive sampling to select a sample of 400 SME employees in Banjarmasin who were born between 1981 and 1996, thus belonging to the millennial generation. Data analysis involves the utilization of PLS-SEM, with the testing of constructs following a reflective-reflective model. The findings indicate that transformational leadership does not directly influence employee performance but instead exerts its influence through the mediating factor of psychological empowerment. Psychological empowerment, therefore, assumes a crucial role in mediating the relationship between these two constructs. Considering the limited existing literature concerning millennial generation workers, our model serves as a valuable tool for uncovering the distinctive traits of millennial employees within the SME context. Furthermore, this research lays the foundation for future cross-country comparisons of millennial leadership approaches across diverse Asian nations, contributing to a deeper understanding of the varying characteristics of the millennial generation within distinct cultural settings.

Keywords: Transformational Leadership, Psychological Empowerment, Employee Performance, Millennial Generation, The Embedded Two-Stage Approach



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INTRODUCTION

Transformational leadership has been an essential theme in leadership development over the past decade ([Breevaart & Zacher, 2019](#); [Saira et al., 2021](#)) because of their proven influence on performance ([Asrar-ul-Haq & Kuchinke, 2016](#); [Burawat, 2019](#); [Carreiro & Oliveira, 2019](#); [Saira et al., 2021](#)) and have been considered an inseparable part of the success of an organization ([Akdere & Egan, 2020](#); [Doucet et al., 2015](#)). Transformational leadership can motivate and inspire vassals

to work beyond their interests for the purpose and vision of the organization ([Avolio et al., 2004](#); [Bass, 1985](#); [Lutfiyya & Akhirson, 2022](#); [Poturak et al., 2020](#)).

Transformational leadership can drive all follower behaviors to improve organizational governance ([Kalsoom et al., 2018](#); [Omar Elmasry & Bakri, 2019](#)). In literature, a transformational leader can generate optimal and creative solutions to problems by working collaboratively with vassal ([Akdere & Egan, 2020](#); [Voelkel, 2022](#)). [Hee & Rhung's \(2019\)](#) study of millennial generation workers has been conducted in Johor Bahru, Malaysia. This aligns with the study's findings, shedding light on the elements that impact employee work results, including external motivators like compensation, career growth, workload, and the working environment, as well as internal motivators like a sense of purpose, engaging tasks, autonomy, and recognition ([García et al., 2019](#)), millennial workers attach great importance to the intrinsic aspects of their work by using their knowledge in work. Therefore, previous researchers focused more on transformational leadership development, for example, transformational leadership studies in the context of banking employees in Pakistan ([Asrar-ul-Haq & Kuchinke, 2016](#)) and hotel employees in Spain ([Buil et al., 2019](#)). However, transformational leadership in the context of the millennial generation of SMEs in Indonesia is still limited. However, previous studies were transactional, and workers only considered gains and losses at work. For example, research ([García et al., 2019](#); [Hee & Rhung, 2019](#)) researchers do not consider the psychological factors of the millennial generation, whereas psychological factors are seen as a prelude for employees to feel empowered to be effective in work settings ([Zhao, 2018](#)). To address this gap, this paper aims to investigate the influences of transformational leadership on employee performance involving 400 millennial generation employees already working in the context of SMEs in the Banjarmasin City area, South Kalimantan Province, Indonesia. Psychological empowerment is also proposed as a mediator in uncovering the relationship between transformational leadership and employee performance.

Transformational leadership on psychological empowerment

Transformational leadership is defined as the leader's effort to influence vassals to be aware of their goals and needs in the workplace ([Soelton et al., 2018](#)). Leaders can foster interconnectedness to organizational values and goals and encourage higher work outcomes ([Campbell, 2017](#)). This type of transformational leadership is considered capable of promoting increased psychological empowerment. In this scenario, employees do not consider gains and losses as part of their responsibilities within the organization. Organizations must know how transformational leadership roles can drive psychological empowerment ([Mufti et al., 2019](#)).

The dimensions of transformational leadership encompass four key attributes: a) Personalized consideration, which involves leaders closely attending to the unique needs and capabilities of individuals, serving as mentors, and fostering the development of vassal through learning opportunities and a supportive environment for growth; b) Intellectual stimulation, where leaders encourage creativity and innovation among their vassal by approaching problem-solving from various angles and seeking diverse perspectives; c) Idealized influence, which measures the extent to which leaders are seen as admirable, trustworthy, and respectful by their vassal; d) Motivational inspiration, which gauges the extent to which leaders inspire and give purpose to their vassal's work. ([Avolio et al., 2004](#); [Bass & Riggio, 2006](#)).

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Transformational leadership motivates vassal to transcend their self-interests in favor of the organization's well-being. This is evident in psychological empowerment, which embodies a psychological mindset that drives individuals toward empowerment and leadership-oriented behaviors ([Sandhya & Sulphhey, 2021](#)). Effective psychological empowerment can stimulate employees to develop professional skills and, ultimately, cultivate emotional capabilities that enhance their overall performance outcomes ([Rasdi et al., 2020](#)). Empirical evidence further supports the notion that transformational leadership is pivotal in fostering psychological empowerment. [Huang et al. \(2021\)](#) involved 1278 faculty members from 25 universities in China. The outcomes of this investigation reveal a significant association between transformational leadership and psychological empowerment.

The empirical studies confirm the same notion that transformational leadership has an impact on psychological empowerment. In the context of employees in the information technology sector in India, a study conducted by [Bose et al. \(2021\)](#) involving 199 information technology sector employees in India supports this idea. Similarly, other empirical research, such as [Shahzad et al.'s \(2018\)](#) conducted among 151 managers in Beijing, China, demonstrates that transformational leadership influences psychological empowerment. An enhancement in transformational leadership is associated with an increase in psychological empowerment. As a result, the proposed hypothesis is as follows:

H1: Transformational Leadership influences psychological empowerment

Psychological empowerment on employee performance

Psychological empowerment is considered important as one of the motivational actions toward employees to perform as selective work as possible ([Gunawan & Viyanita, 2012](#)). The widespread interest in psychological empowerment arises when global competition and organizational change are rife, so organizations require their members to be more initiative and innovative ([Gunawan & Viyanita, 2012](#)). The definition explains that psychological empowerment is an increase in intrinsic motivation in the individual that manifests in four cognitions: a sense of meaning, capability, self-determination, and influencing the correct attitude towards his work role.

The performance of employees holds utmost importance for any organization, making it a recurring subject of discussion. Consequently, companies must remain cognizant of their employees' capacity to manage it effectively and, in turn, align it with the organization's overarching business strategy ([Diamantidis & Chatzoglou, 2019](#)). Employee performance is characterized by the outcomes of an individual's work, encompassing the quantity and quality of tasks performed within their assigned responsibilities and their overall contribution to the organization ([Sudiardhita et al., 2018](#)). Employee performance comprises an individual's conduct and mindset pertinent to the organization's capacity to attain its predetermined goals ([Campbell, 2017](#)). Aspects of employee performance encompass the caliber of work (including both the quality produced and employees' abilities), the volume of work (comprising completed tasks), and punctuality (timely task completion and efficient time utilization) ([Sudiardhita et al., 2018](#))

The empirical literature is also included to validate the assertion. A study conducted by Aghaei and [Savari \(2014\)](#) involving 230 teachers in the Khuzestan province of Iran supports the idea that

psychological empowerment influences performance. Similarly, other empirical research, such as the study by [Wang and Liu \(2013\)](#) conducted in the context of nurses in China, suggests the exact relationship between psychological empowerment and performance. Additionally, comparable empirical literature, such as [Mohamed et al.'s \(2017\)](#), which involved 200 intern nurses from Port-Said University and Mansoura University in Egypt, demonstrates that psychological empowerment impacts professionalism. Based on the literature and empirical evidence discussed above, it can be inferred that there is a connection between psychological empowerment and employee performance. Improvement in psychological empowerment is associated with an increase in employee performance. Therefore, the hypothesis put forward is as follows:

H2: Psychological empowerment has an impact on employee performance

Transformational leadership on employee performance

Transformational leadership focuses on the connection between a leader and a follower rooted in the beliefs, needs, and values acceptable to his vassal ([Burns, 1978](#)). Currently, it stands as the prevailing paradigm in the leadership literature ([Buil et al., 2019](#)). Transformational leadership is characterized by leaders' endeavors to guide vassals in recognizing their objectives and requirements within the workplace. Leaders can cultivate connections with organizational values and objectives, enhancing work results ([Campbell, 2017](#)). This form of transformational leadership is deemed effective in promoting heightened psychological empowerment. In this scenario, employees do not primarily focus on financial gains or losses within their organizational roles. Organizations should understand the role of transformational leadership in fostering psychological empowerment ([Mufti et al., 2019](#)). Transformational leadership motivates vassal to surpass their self-interests for the organization's good, and good transformational leadership can encourage employee performance ([Rasdi et al., 2020](#)). The empirical literature also includes research ([Kwon & Choi, 2020](#)) conducted on nurses in China, and the results showed that transformational leadership affects performance. Based on the literature and empirical facts described above, transformational leadership relates to employee performance. When transformational leadership is improved, it will impact improving employee performance. Therefore, the hypothesis put forward is as follows:

H3: Transformational Leadership has an impact on employee performance

The mediating effect of psychological empowerment

Psychological empowerment is considered important as one of the motivational actions toward employees to perform as selective work as possible ([Gunawan & Viyanita, 2012](#)). The widespread interest in psychological empowerment arises when global competition and organizational change are rife, so organizations require their members to be more initiative and innovative ([Gunawan & Viyanita, 2012](#)). The definition explains that psychological empowerment is an increase in intrinsic motivation in the individual that manifests in four cognitions: a sense of meaning, capability, self-determination, and influencing the correct attitude towards his work role.

Psychological empowerment is a motivational construction manifested in four cognitions: (1) Meaning, namely the congruence between the demands of the job and the values believed by the individual; (2) Self-efficacy, which is an individual's confidence in his ability to carry out his duties; (3) Self-determination, namely independence and authority possessed in carrying out their duties;

and (4) Influence, which is the extent to which individuals have a share in organizational performance. The existence of four things that represent psychological empowerment (meaning, self-efficacy, self-determination, and influence) thus creates a feeling of empowered employees who eventually can contribute to the organization ([Spreitzer, 1995](#)). Previous studies provide evidence of the relationship between transformational leadership and employee psychological empowerment, for example, in the context of the textile industry in Pakistan ([Saira et al., 2021](#)) and the context of public and private sector companies in Romania ([Stanescu et al., 2019](#)). Psychological empowerment is also associated with employee performance, for example, in China's lubricating oil sector ([Yao et al., 2013](#)) and the manufacturing industry sector in Ethiopia ([Degago, 2014](#)).

Psychological empowerment can additionally serve as a mediator in various contexts. It acts as a mediator in the relationship between transformational leadership and innovative employee behavior. The findings underscore the significance of a deeper, interdependent understanding of self among employees ([Stanescu et al., 2019](#)). Psychological empowerment completely mediates between transformational leadership and performance ([Guerrero et al., 2018](#)). Recent research has also demonstrated that in the context of 316 employees employed in Pakistan's textile industry, psychological empowerment plays a mediating role in the connection between transformational leadership and employee outcomes, encompassing organizational member behavior and intentions to progress. Based on the reviewed literature and the empirical findings previously discussed, it is clear that psychological empowerment plays a role in mediating the relationship between transformational leadership and employee performance. As psychological empowerment undergoes improvement, it fortifies the link between transformational leadership and employee performance. Consequently, the proposed hypothesis is as follows:

H4: Psychological empowerment has a mediating effect between transformational leadership and employee performance

METHOD

The research adopts quantitative techniques and employs purposive sampling, comprising 400 participants who meet specific criteria: individuals from the millennial generation with prior experience working in SMEs, born between 1981 and 1996 ([DePew & Gonzales, 2020](#)), and who willingly consent to participate as survey respondents. Purposive sampling is employed due to its effectiveness in examining a particular cultural context ([Campbell et al., 2020](#)), especially the Banjar people, famous for their warrior and loyal attitude ([Novitasari et al., 2021](#)). This research was conducted in 2023 in the Banjarmasin City area, Indonesia, In the context of Sasirangan SMEs in Banjarmasin, SME owners or founders apply transformational leadership because they consider it important to create an innovative work environment in motivating their employees ([Sulastini & Darmawi, 2022](#)) because SMEs are innovation-based work environments ([DePew & Gonzales, 2020](#)). In addition, the Banjar community is famous for its chivalrous and loyal attitude ([Novitasari et al., 2021](#)). Data analysis with PLS-SEM has been widely used in management studies and social sciences ([Hair et al., 2018](#)), more so PLS-SEM can estimate hypothesized relationships

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simultaneously, as in structural models. Likewise, the current research model aims to investigate the influences of transformational leadership on performance and the mediating effects of psychological empowerment in the context of SMEs in the Banjarmasin City area, South Kalimantan Province, Indonesia.

This study examines transformational leadership, psychological empowerment, and employee performance with the embedded two-stage approach (reflective-reflective) model. Transformational leadership consists of four dimensions, and each measured four measurement items: inspirational motivation, idealized influence, intellectual stimulation, and individual consideration ([Avolio et al., 2004](#); [Bass & Riggio, 2006](#)). Psychological empowerment consists of four dimensions, and each measures four measurement items: meaning, self-efficacy, self-determination, and influence ([Spreitzer, 1995](#)). Employee performance consists of 4 sizes, each of which measures four measurement items: work quality, work quantity, punctuality, and effectiveness ([Sudiardhita et al., 2018](#)). The research instrument has been tested and confirmed to be valid and reliable. A Likert point scale of 1-5, namely: (strongly agree), (agree), (neutral), (disagree), (strongly disagree), was used in this study.

In the initial phase, the researcher assesses the outer model's validity and reliability at the dimension level, employing indicators such as loading factors, Cronbach's alpha, composite reliability, and Average Variance Extracted (AVE). Once the measurement model's criteria are met, as evidenced by the Latent Variable Scores (LVS), it is carried forward to the second stage. Subsequently, the structural model is evaluated at the variable level using bootstrapping within the SmartPLS version 3 application. The structural model assessment entails testing hypotheses regarding the relationships between the research variables, which in this study include transformational leadership, psychological empowerment, and employee performance. This examination encompasses the verification of non-multicollinearity, as indicated by inner Variable Importance in Projection (VIP) values below 5, hypothesis testing, and establishing a 95% confidence level ([Bustani et al., 2021](#)), estimated path coefficient parameters, direct variable influence at the structural level, namely direct effect with f square size (low f square 0.02), 0.15 moderate, and 0.35 high). They are testing the effect of mediation using the ϵ^2 statistical measure obtained from squaring the mediation efficiency with the interpretation of low mediation (0.02), medium mediation (0.075), and high mediation (0.175) ([Sarstedt et al., 2019](#)). Evaluation of the entire model consists of R square with criteria ([Chin, 1998](#)), namely low (0.19), moderate (0.33), and high (0.66) influence, Q Square above 0. Furthermore, SRMR values between 0.08-0.10 are acceptable ([Schermelleh-Engel et al., 2003](#)).

RESULT AND DISCUSSION

Profile Respondent

Based on data processing, demographic information was obtained from 400 respondents: 284 (71%) were male, and 116 (29%) were female. Based on education level, 21 (5.3%) respondents had a primary school education; lower secondary graduates 244 (61%); upper secondary graduates 98 (24.5%); diploma graduates 24 (6%); and undergraduate graduates 13 (3.3%). Respondents born

in 1981-1985 were as many as 102 (25.5%); 1986-1990 births were 177 (44.3%), and 1991-1996 births were 121 (30.3%). Details are in Table 1.

Table 1. Profile of respondents

Respondents Profile	Frekuensi	%
Gender		
Male	284	71,0
Female	116	29,0
Total	400	100
Education		
Primary School	21	5,3
Junior High School	244	61,0
High School	98	24,5
Diploma	24	6,0
Bachelor	13	3,3
Total	400	100
Year Range		
1981-1985	102	25,5
1986-1990	177	44,3
1991-1996	121	30,3
Total	400	100

Source: Processed data, 2023

Outer Model Stage 1: Two-Stage Embedded Approach

At this stage, an examination is carried out at the dimensional level. Based on the results of data processing, data processing was carried out again for as many as 34 measurement items with the results of all valid measurement items because they had an outer loading value between 0.813-0.994 greater than 0.70 (see Table 2 and Figure 1). Thus, all measurement items were valid and continued to the next inspection stage. The composite reliability measurement of all constructs is between 0.872-0.994, greater than 0.70, so all measuring instruments can be accepted in this model. Likewise, Cronbach's alpha value is 0.726-0.991, greater than 0.70, and declared reliable. Furthermore, the AVE value of all constructs between 0.774-0.983 is greater than 0.50.

Table 2. Loading Factor (FL), Cronbach's alpha (CA), Composite Reliability (CR) and AVE

Construct	Item	Indicator	FL	CA	CR	AVE
Inspirational motivation	TL1.1	Leaders motivate others to work better	0.990	0.986	0.990	0.960
	TL1.2	Leaders foster self-confidence	0.988			
	TL1.3	Leaders provide confidence in achieving company goals	0.958			
	TL1.4	The leader generates enthusiasm to do the job	0.982			

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Idealized influence	TL2.1	Leaders can be role models	0.969	0.960	0.971	0.894
	TL2.2	Leaders provide clear direction	0.954			
	TL2.3	Leaders instill a sense of pride in work	0.974			
	TL2.4	Employees respect leaders	0.883			
Intellectual stimulation	TL3.1	Leaders encourage the use of creativity	0.830	0.893	0.924	0.753
	TL3.2	Leaders encourage me always to be innovative	0.827			
	TL3.3	Leaders are eager to hear employees' ideas	0.907			
	TL3.4	Leaders encourage solving work problems rationally	0.902			
Individual consideration	TL4.1	Leaders seek to improve employee self-development	0.944	0.976	0.982	0.933
	TL4.2	Leaders treat employees as private individuals, not just as members of a workgroup	0.987			
	TL4.3	Leaders listen to difficulties and complaints	0.954			
	TL4.4	Leaders provide advice in self-development	0.978			
Meaning	PE1.1	Feel work is important	0.951	0.959	0.974	0.925
	PE1.2	View work as something of value	0.974			
	PE1.3	feel work is something that needs attention	0.960			
Competence	PE2.1	Individuals believe in their ability to overcome difficult tasks	0.988	0.991	0.994	0.983
	PE2.2	Individuals can face obstacles in achieving goals.	0.992			
	PE2.3	Individuals can use life experience as a step to achieve success.	0.994			
Self-Determination	PE3.1	Feel free to decide how to do the job	0.905	0.874	0.922	0.799
	PE3.2	opportunity to work independently	0.925			
	PE3.3	feel able to make decisions about work	0.849			
Impact	PE4.1	feel they have some influence on the department	0.976	0.961	0.975	0.928
	PE4.2	feel in control of the department	0.943			

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	PE4.3	feel they have a dominant influence over the department	0.971			
Quality	EP1.1	Good quality work	0.953	0.893	0.949	0.903
	EP1.2	Have the ability to get the job done	0.947			
Quantity	EP2.1	Able to finish all the work	0.942	0.726	0.872	0.774
	EP2.2	Work done thoroughly	0.813			
On-Time	EP3.1	Timely completion of work	0.938	0.876	0.941	0.889
	EP3.2	Able to optimize time at work	0.949			

Source: Processed data, 2023

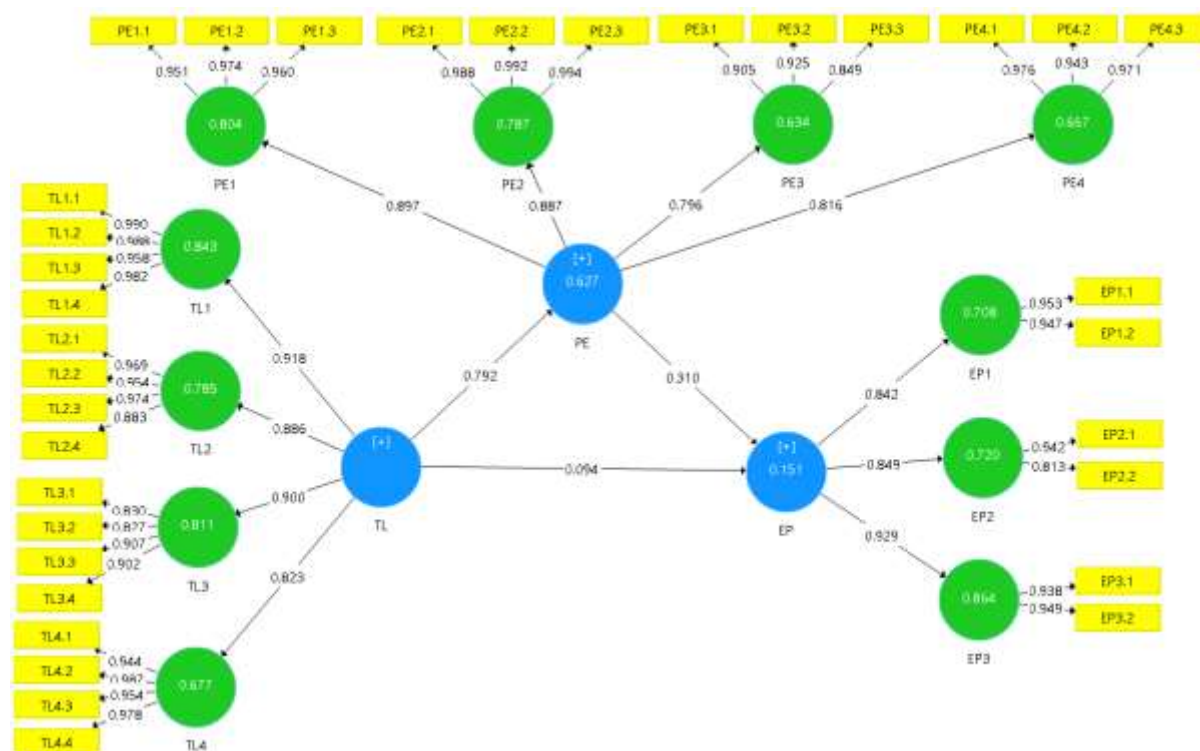


Figure 1. Outer Model Stage 1: Two-Stage Embedded Approach

Based on data processing results (see Table 3), discriminant validity using the Fornell and Lacker method shows that all constructs have an AVE root in bold font greater than the correlation between other constructs. This result means that the discriminant validity of all constructs is fulfilled, as with other constructs. Furthermore, testing using the HTMT method shows that the HTMT value is below 0.90 for the construct pair, so discriminant validity is achieved. The construct divides the variation of measurement items into items that measure it stronger than dividing the variance into other construct items.

Table 3. Discriminant Validity used the Fornell-Larcker Criterion and HTMT

	EP1	EP2	EP3	PE1	PE2	PE3	PE4	TL1	TL2	TL3	TL4
Fornell-Larcker Criterion:											
EP1	0.950										
EP2	0.511	0.880									
EP3	0.676	0.746	0.943								
PE1	0.309	0.490	0.249	0.962							
PE2	0.410	0.361	0.176	0.726	0.991						
PE3	0.233	0.282	0.144	0.676	0.595	0.894					
PE4	0.257	0.316	0.189	0.626	0.641	0.518	0.963				
TL1	0.375	0.152	0.094	0.595	0.749	0.531	0.462	0.980			
TL2	0.279	0.260	0.125	0.694	0.666	0.549	0.495	0.796	0.946		
TL3	0.394	0.364	0.263	0.738	0.736	0.614	0.610	0.745	0.766	0.868	
TL4	0.428	0.253	0.199	0.507	0.699	0.296	0.462	0.669	0.556	0.693	0.966
Heterotrait-Monotrait Ratio (HTMT):											
EP1											
EP2	0.557										
EP3	0.763	0.862									
PE1	0.335	0.628	0.265								
PE2	0.435	0.456	0.185	0.743							
PE3	0.259	0.373	0.161	0.734	0.633						
PE4	0.277	0.397	0.204	0.649	0.655	0.563					
TL1	0.400	0.202	0.098	0.611	0.758	0.566	0.474				
TL2	0.300	0.342	0.144	0.721	0.682	0.594	0.513	0.816			
TL3	0.422	0.477	0.294	0.789	0.764	0.706	0.649	0.773	0.802		
TL4	0.458	0.305	0.213	0.524	0.711	0.315	0.476	0.681	0.570	0.710	

Source: Processed data, 2023

Outer Model Stage 2: Two-Stage Embedded Approach

Four items are employed to assess transformational leadership: inspirational motivation, idealized influence, intellectual stimulation, and individual consideration (see Figure 3 and Table 4). The individual measurement items exhibit outer loading values ranging from 0.816 to 0.918, all surpassing the threshold of 0.70, indicating these items' valid representation of transformational leadership measurements. The construct's reliability is deemed acceptable, as evidenced by a Cronbach's alpha coefficient of 0.905 and a composite reliability of 0.934, both exceeding the 0.70 benchmark, thus affirming the construct's reliability. Furthermore, all items demonstrate a lack of multicollinearity symptoms, each having a Variable Importance in Projection (VIP) value below 5. Convergent validity is established with an Average Variance Extracted (AVE) value of 0.779, which exceeds the 0.50 criterion for good convergent validity. In summary, the transformational leadership construct captures 77.9% of the variance in the measurement items. The intellectual stimulation measurement item exhibits a notably high outer loading value (LF = 0.918).

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The assessment of psychological empowerment is based on four items: meaning, competence, self-determination, and impact (see Figure 3 and Table 4). Each of these measurement items exhibits outer loading values ranging from 0.801 to 0.900, all exceeding the threshold of 0.70, which affirms that these items accurately capture psychological empowerment measurements. The construct's reliability is deemed acceptable, with a Cronbach's alpha coefficient of 0.872 and a composite reliability of 0.912, surpassing the 0.70 benchmark, thus confirming the construct's reliability. Furthermore, all items show no indications of multicollinearity, as each possesses a Variable Importance in Projection (VIP) value below 5. Convergent validity is established, with an Average Variance Extracted (AVE) value of 0.723, exceeding the 0.50 criterion for good convergent validity. In summary, the psychological empowerment construct effectively accounts for 72.3% of the variance in the measurement items. The meaning measurement item exhibits an exceptionally high outer loading value (LF = 0.900).

Three items measure employee performance: quality, quantity, and on-time (see Figure 3 and Table 4). The measurement items have respective outer loading values of 0.844-0.894, greater than 0.70, which means that the three items validly reflect employee performance measurements. The reliability level of the employee performance construct is acceptable, as indicated by Cronbach's alpha of 0.845 and composite reliability of 0.904, each of which has a value above 0.70, so the construct is reliable. All items are also free from multicollinearity symptoms because each has a VIP value of less than 5. The level of convergent validity indicated by the AVE value of 0.759 > 0.50 meets the requirements for good convergent validity. Overall, the variation of measurement items reflected by the employee performance construct reached 75.9%. The on-time measurement item has a high outer loading (LF=0.894), indicating that the measurement item.

Table 4. Loading Factor (FL), VIP, Cronbach's alpha (CA), Composite Reliability (CR) and AVE

Variable	Item	Indicator	FL	VIP	CA	CR	AVE
Transformational Leadership	TL1	Inspirational motivation	0.906	3.509	0.905	0.934	0.779
	TL2	Idealized influence	0.886	3.408			
	TL3	Intellectual stimulation	0.918	3.303			
	TL4	Individual consideration	0.816	2.180			
Psychological Empowerment	PE1	Meaning	0.900	2.781	0.872	0.912	0.723
	PE2	Competence	0.890	2.466			
	PE3	Self-Determination	0.801	1.944			
	PE4	Impact	0.805	1.889			
Employee Performance	EP1	Quality	0.844	1.844	0.845	0.904	0.759
	EP2	Quantity	0.876	2.258			
	EP3	On-Time	0.894	3.074			

Source: Processed data, 2023

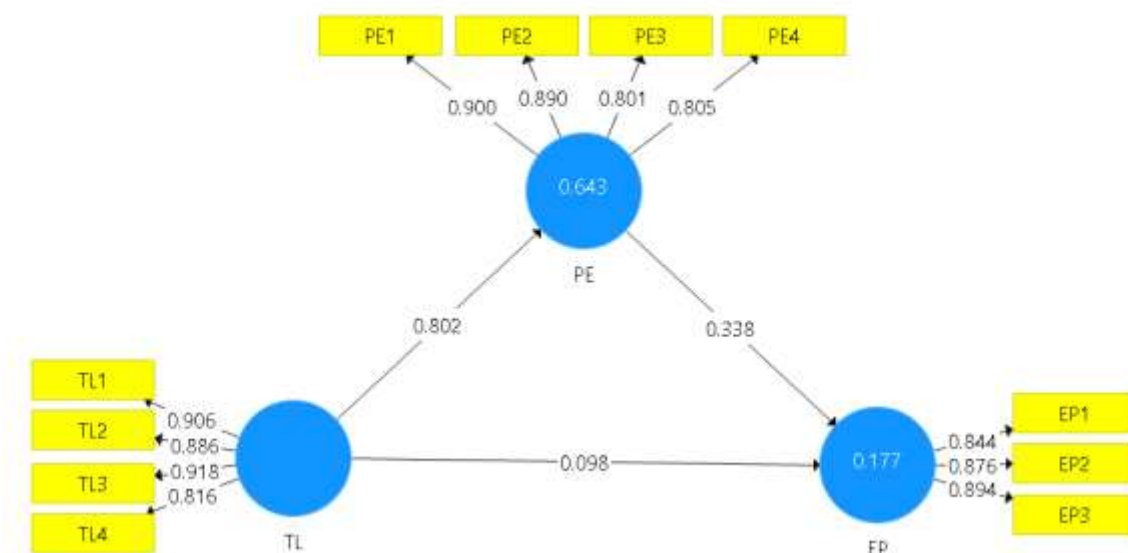


Figure 2. Outer Model Stage 2: Two-Stage Embedded Approach

Based on data processing results (see Table 5), discriminant validity using the Fornell and Lacker method shows that all construct has an AVE root in bold font greater than the correlation between other constructs. This result means that the discriminant validity of all constructs is fulfilled, as with other constructs. Furthermore, testing using the HTMT method shows that the HTMT value is below 0.90 for the construct pair, so discriminant validity is achieved. The construct divides the variation of measurement items into items that measure it stronger than dividing the variance into other construct items.

Table 5. Discriminant Validity used the Fornell-Larcker Criterion and HTMT

	Employee Performance	Psychological Empowerment	Transformational Leadership
Fornell-Larcker Criterion:			
Employee Performance	0.871		
Psychological Empowerment	0.417	0.850	
Transformational Leadership	0.369	0.802	0.883
Heterotrait-Monotrait Ratio (HTMT):			
Employee Performance			
Psychological Empowerment	0.447		
Transformational Leadership	0.394	0.882	

Source: Processed data, 2023

Structural Model Evaluation

The assessment of the structural model involves the verification of hypotheses concerning the relationships among the research variables in this study, specifically transformational leadership, psychological empowerment, and employee performance. This examination entails several components: ensuring the absence of multicollinearity between variables, indicated by inner Variable Importance in Projection (VIP) values below 5. Conducting hypothesis testing with a 95% confidence level for estimated path coefficient parameters. Investigating the direct influence of variables at the structural level, particularly the direct effect, using the f-square measure, where low f-square corresponds to 0.02, moderate to 0.15, and high to 0.35. Examining the mediating effects using the upsilon-v statistical measure, which is derived from squaring the mediation efficiency, with interpretations of low mediation (0.02), moderate mediation (0.075), and high mediation (0.175) (Sarstedt et al., 2019). Evaluation of the entire model consists of R square with the criteria (Chin, 1998), namely low influence (0.19), moderate (0.33), and high (0.66), Q Square above 0. Furthermore, SRMR values between 0.08-0.10 are acceptable (Schermelleh-Engel et al., 2003).

The outcomes of the assessment of the structural model demonstrate its acceptability. Specifically, the variables have no multicollinearity, as evident from the inner VIP value being below 5. The parameter estimates are found to be robust. Additionally, the R Square value of 0.177 signifies that the impact of transformational leadership on psychological empowerment is 17.7%, indicating a low effect. The influence of psychological empowerment on employee performance and transformational leadership on employee performance is 47.3%, suggesting a moderate impact. The Q Square value is a validation measure within the PLS method to assess the model's predictive relevance. This study's Q Square value exceeding zero indicates the model's predictive validity (see Table 6).

Furthermore, the model's SRMR value is 0.091 (see Table 7), which, according to (Schermelleh-Engel et al., 2003), is still within the acceptable fit. In other words, the resulting model has an excellent fit level with empirical data (good fit) indicated by the SRMR value $0.091 < 0.10$. The measurement results of the Goodness of Fit Index (goF index) show a value of 0.556 (see Table 7), which is included in the high category (Wetzels et al., 2009). This means that empirical data can explain measurement models with high match rates.

Based on the results of hypothesis testing (see Table 6), it can be explained as follows: The first hypothesis (H1) is accepted, namely that there is a significant influence of transformational leadership on psychological empowerment with a path coefficient of 0.802 and a p-value ($0.000 < 0.05$). Every change in transformational leadership will increase the psychological empowerment of employees. The 95% confidence level for the influence of transformational leadership in increasing psychological empowerment lies between 0.0740-0.859. Nevertheless, the existence of transformational leadership in increasing psychological empowerment has a high structural effect (f square = 1.80).

The second hypothesis (H2) is accepted, namely that there is a significant effect of psychological empowerment on employee performance with a path coefficient of 0.338 and a p-value

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($0.000 < 0.05$). Any changes to psychological empowerment will increase employee performance. The 95% confidence level is that psychological empowerment's influence in increasing employee performance lies between 0.188-0.498. Even so, psychological empowerment in improving employee performance has a low effect on the structural level ($f \text{ square} = 0.05$).

The third hypothesis (H3) is rejected, namely that there is a not significant influence of transformational leadership on employee performance with a path coefficient of 0.098 and a p-value ($0.235 > 0.05$). Every change in transformational leadership will not significantly increase employee performance. The 95% confidence level in the influence of transformational leadership in improving employee performance is between (0.072)-0.253. Nevertheless, the existence of transformational leadership in increasing employee performance has a low influence at the structural level ($f \text{ square} = 0.004$).

The fourth hypothesis (H4) is accepted where significant psychological empowerment plays a role as a mediating variable, namely mediating the indirect effect of transformational leadership on employee performance, with a mediation path coefficient of 0.271 and p-value ($0.000 < 0.05$). Nevertheless, at the structural level, the mediating role of psychological empowerment is still classified as having low mediating influence ($\text{upsilon } v = 0.073$). 95% confidence level by increasing the improvement of psychological empowerment, the role of this mediation will increase between 0.147-0.414.

Table 6. Hypothesis Testing

Hypothesis / Relations hip	Path Coefficient	T Statistics	P Values	Decision	95% Confidence intervals		Inner VIP	f square / Upsilon V	R square	Q square
					Lower	Upper				
Direct Effect:										
TL -> PE	0.802	26.597	0.000	Supported	0.740	0.859	1.000	1.800	0.177	0.115
PE -> EP	0.338	4.322	0.000	Supported	0.188	0.498	2.800	0.050	0.643	0.453
TL -> EP	0.098	1.187	0.235	Not Supported	-0.072	0.253	2.800	0.004		
Mediation Effect:										
TL -> PE-> EP	0.271	4.008	0.000	Supported	0.147	0.414		0.073		

Source: Processed data, 2023

Note: TL: Transformational Leadership; PE: Psychological Empowerment; EP: Employee Performance

Table 7. Model Fit with SRMR and GoF Index	
SRMR (Saturated Model)	GoF Index
0.091	0.556

Source: Processed data, 2023

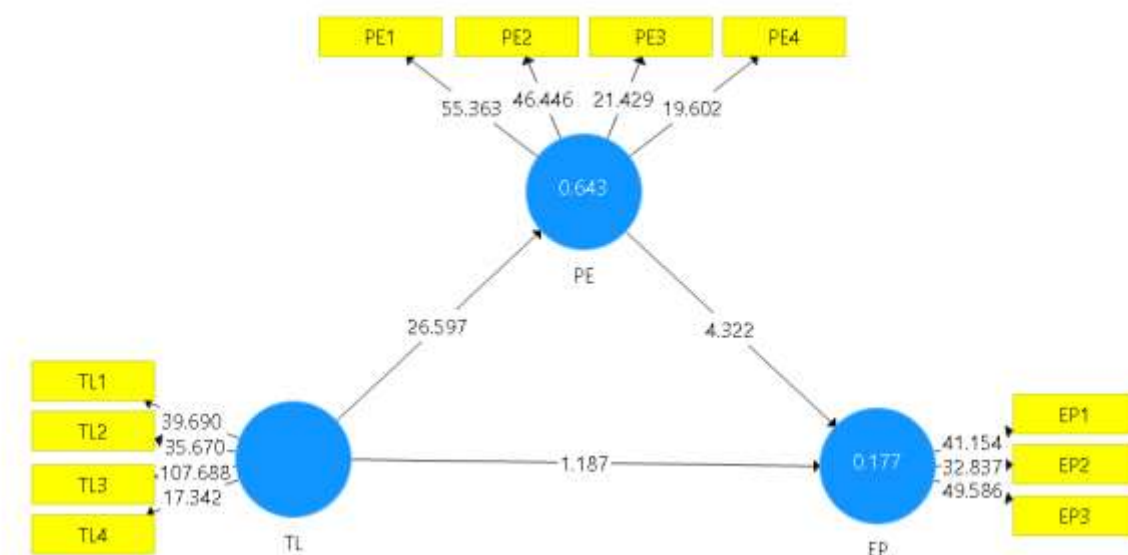


Figure 3. Inner Model

Transformational leadership on psychological empowerment

The results of this study strengthen empirical findings (Kwon & Choi, 2020), which state that transformational Leadership impacts psychological empowerment. Then, by itself, it can create a good relationship between leaders and subordinates, and the emergence of individual awareness in social interactions ultimately encourages psychological empowerment. Transformational leadership relates to psychological empowerment (Huang et al., 2021). Subsequent empirical literature also implies the same thing, that transformational leadership contributes to psychological empowerment (Bose et al., 2021; Shahzad et al., 2018). Likewise, with current research, transformational leadership impacts psychological empowerment in the millennial generation of Banjarmasin, Indonesia, in the context of SMEs. Millennial generation employees born in 1981-1996 who have worked in SMEs in Banjarmasin imply that applying transformational leadership can increase their psychological empowerment. This is additional evidence in the context of millennial generation SME workers who further explain that the more transformational leadership carried out by company leaders, the more psychological empowerment they will increase.

Leaders who always create a good working environment can also impact employees, and they carry out their work seriously because when the work environment is good, the relationship between co-workers, superiors, and subordinates is also good. They respect each other and work together, and work together to realize the organization's goals without bringing each other down. The leader's behavior can be a role model to his vassal because when the leader gives examples of

positive actions or attitudes that can motivate his vassal, then naturally, the vassal or employees will also follow the attitude or behavior of their leader. An interesting adage, "guru kencing berdiri, murid kencing berlari," means that vassals will imitate the behavior of their leaders. Therefore, leaders must be good role models for their subordinates so that vassals or employees will also become better.

Psychological empowerment on employee performance

The results of this study are consistent with empirical findings ([Aghaei & Savari, 2014](#); [Mohamed et al., 2017](#)); psychological empowerment impacts performance. Psychological Empowerment is a condition that encourages individuals who focus on conscious cognition so that individuals feel empowered in carrying out all work activities. Work is also seen as valuable, meaning that whatever is done regarding work activities carries out tasks, teamwork, and so interpret it meaningfully in mind and heart. That is, when a leader trusts his subordinates, it will have a significant impact and can change employee attitudes and behavior. Psychological empowerment fosters professionalism among employees and ultimately enhances their performance. Research conducted by [Aghaei & Savari \(2014\)](#) involving 230 teachers in the Khuzestan province of Iran demonstrates that psychological empowerment impacts performance. Similar findings were observed in the study by [Mohamed et al. \(2017\)](#), which involved 200 nursing interns at Port-Said University and Mansoura University in Egypt. Previous research suggests that psychological empowerment contributes to teachers' performance in China, nurses in India, and nurses in Egypt.

Likewise, the current study's results indicate that psychological empowerment influences performance among millennial generation employees born between 1981 and 1996 who work in SMEs in Banjarmasin. This implies that the implementation of psychological empowerment can enhance their work outcomes. This provides additional evidence in the context of millennial generation SME workers, further elucidating that increased psychological empowerment by company leaders correlates with improved employee performance.

Transformational leadership on employee performance

Transformational leadership from a perspective of individualized consideration as measured by career development, creating a good work environment, and relationships with subordinates does not significantly impact the millennial generation in the Province of South Kalimantan, Indonesia. Likewise, inspirational motivation, idealized not influence as measured by respect from employees, trust, being a role model, motivator, setting goals, and inspiring leaders also influence the employee performance. The results of this study are not supported by empirical findings ([Kwon & Choi, 2020](#)), which state that transformational leadership influences employee performance. Millennial generation employees born in 1981-1996 who have worked in SMEs in Banjarmasin imply that applying transformational leadership cannot improve their work results. This is additional evidence in the context of millennial generation SME workers who further explain that the more transformational leadership carried out by company leaders cannot improve employee performance.

Psychological empowerment mediates the relationship between transformational leadership and employee performance

Psychological empowerment is a condition that encourages individuals who focus on conscious cognition so that individuals feel empowered in carrying out all work activities. Work is also seen as valuable, meaning whatever is done regarding work activities, tasks, and teamwork is significant in mind and heart. That is, when a leader trusts his subordinates, it will have a significant impact and can change employee attitudes and behavior. Psychological empowerment encourages the relationship between transformational leadership and employee performance. Transformational leadership, individualized consideration measured career development, creating a good work environment, and relationships with subordinates significantly influence employee performance through the psychological empowerment of employees of the millennial generation in Banjarmasin, Indonesia. Likewise, inspirational motivation and idealized influence as measured by respect from employees, trust, being a role model, motivator, setting goals, and inspiring leaders also influence the employee's performance. The employee performance of millennial generation SMEs in Banjarmasin, Indonesia, has competence that can create employee skills so that they can work according to what has been described in the job description.

The results of this study align with several previous studies; psychological empowerment mediates the relationship between transformational leadership and employee task performance and the behavior of organizational members ([Gottman et al., 1998](#)). Psychological empowerment mediates the influences of transformational leadership on vassal organizational commitment in the context of nurses employed by a large public hospital in Singapore ([Avolio et al., 2004](#)). Similarly, psychological empowerment mediates the relationship between transformational leadership and employee outcomes of organizational member behavior in the context of employees working in the textile industry in Pakistan ([Saira et al., 2021](#)). Likewise, with current research, psychological empowerment is essential in enhancing transformational leadership relationships and employee performance in the millennial generation of Banjarmasin, Indonesia. Millennial generation employees born in 1981-1996 who have worked in SMEs in Banjarmasin imply that applying transformational leadership can increase their psychological empowerment. This is additional evidence in the context of millennial generation SME workers who further explain that the more transformational leadership carried out by company leaders, the more psychological empowerment they will increase.

CONCLUSION

This paper investigates transformational leadership influences on millennial generation employees' performance in the context of SMEs in the Banjarmasin City area, South Kalimantan Province, Indonesia. The study's results revealed that transformational leadership does not influence employee performance but is influential through psychological empowerment. At the same time, psychological empowerment has a mediating role in the relationship between the two.

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However, because the existing literature is so scarce in dealing with millennial generation workers, our model can be used to identify the unique characteristics of millennial workers in the context of SMEs. The current study provides additional evidence on the transformational leadership, psychological empowerment, and employee performance of Indonesia's millennial generation, contributing to the growing international research on this generation. Future studies can compare the leadership of the millennial generation with other Asian countries so that the level of difference in the character of the millennial generation is clearly illustrated.

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