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# The Influence of Psychological Capital and Transformational Leadership in Encouraging Innovative Behavior and Employee Performance: Testing the Readiness to Change of Microenterprise Employees in Situbondo District

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**Abstract:** This study aims to understand the role of psychological capital and transformational leadership in encouraging innovative behavior and employee performance, by considering readiness for change as a mediating variable. The focus of the study was directed at the Micro Business sector in Situbondo, which has so far focused more on technical and financial aspects, while the psychological aspects of employees are often ignored. In fact, this aspect contributes significantly to business competitiveness and sustainability. The research approach used was quantitative with the Structural Equation Modeling (SEM) method based on Partial Least Squares (PLS). The results showed that psychological capital had a positive and significant effect on innovative behavior and employee performance. In addition, readiness for change was proven to act as a mediating variable that strengthened the influence of psychological capital on both variables. Transformational leadership also had a positive effect on innovative behavior, but did not have a significant effect on employee performance. However, the effect of transformational leadership on innovative behavior can be significantly mediated by readiness for change. So far, human resource development in this sector tends to ignore employee psychological strengths such as optimism, self-efficacy, hope, and resilience, even though these elements have proven crucial in creating an innovative and high-performing workforce. Practical advice from this study is the need for interventions specifically designed by the government or policy makers in the form of positive psychology-based training.

**Keywords:** Psychological Capital, Transformational Leadership, Readiness to Change, Innovative Behavior, Employee Performance.

## INTRODUCTION

The Micro, Small and Medium Enterprises (MSMEs) sector has become the backbone of the Indonesian economy whose role cannot be ignored. Official data from the Ministry of Cooperatives and SMEs in 2023 shows that more than 64 million MSME business units contribute significantly to the national economy, which is around 61.07% of the total Gross

Domestic Product (GDP) and managed to absorb more than 97% of the existing workforce. The dominance of Micro Enterprises in the MSME structure reaches 98.68% of the total, making it the main foundation in the populist economic system in the country.

Based on the regulations contained in the Law of the Republic of Indonesia Number 20 of 2008, Micro Enterprises are defined as productive entities owned by individuals or individual business entities with a maximum net worth of IDR 50 million per year (excluding land and buildings of the business premises) or have an annual sales turnover of no more than IDR 300 million. The unique characteristics of microenterprises, which generally operate informally with a simple organizational structure, create special dynamics in the interaction between owners or leaders and their employees, so that the influence of psychological aspects and leadership styles becomes more directly felt.

In the context of increasingly fierce global competition, adaptability and innovation are key to business sustainability. Digital transformation and rapidly changing consumer patterns require micro businesses to not only survive, but also thrive through improving the quality of human resources and implementing the right innovation strategies. This is a challenge in itself given the limitations generally faced by this sector, both in terms of access to technology, capital, and managerial capacity.

Situbondo Regency as one of the regions in East Java Province has promising economic potential in the microenterprise sector. Data from the Situbondo Regency Cooperative and Trade Office in 2022 recorded the existence of more than 25,000 microenterprise units spread across various sub-districts. However, empirical conditions show that most of these business units still operate traditionally with a relatively low level of innovation and technology adoption, and face obstacles in increasing productivity and competitiveness.

The structural problems faced by micro enterprises in Situbondo Regency include several crucial aspects. First, limitations in human resource management, which has an impact on the low quality of service and employee productivity. Second, the lack of adaptation to the development of information technology that can support operational efficiency and market expansion. Third, lack of access to leadership training programs and psychological capacity building that can improve resilience and work motivation.

Another important challenge is the low level of readiness to change among businesses and employees. Although the local government has provided various support programs such as training and access to capital, many micro enterprises are still reluctant to adopt change due to psychological factors and limited understanding of the benefits of innovation. This creates a gap between their economic potential and the available human resource capacity.

In the context of increasingly dynamic changes in the business environment, Psychological Capital and Transformational Leadership are internal factors that are considered important to encourage Innovative Behavior and Employee Performance in Micro Enterprises. Psychological Capital refers to a collection of positive psychological resources that can improve individual performance in the workplace which consists of four main elements, namely self-efficacy, hope, resilience, and optimism (Karimi et al., 2023). At the global level, changes in the dynamics of the business world that are increasingly complex due to globalization, technological advances and economic uncertainty have encouraged organizations to adapt quickly.

Psychological capital plays a very important role in building individual and organizational resilience in facing various challenges. Research by Pandey et al. (2021) shows that employees with high levels of Psychological Capital tend to be better able to manage work pressure, innovate and maintain high motivation in achieving organizational goals. In addition, Psychological Capital also contributes to forming a psychologically healthier work environment, reducing stress levels and increasing organizational commitment and job satisfaction.

Meanwhile, Transformational Leadership is a leadership style that aims to inspire and motivate followers to not only achieve individual goals but also contribute to the achievement of a larger organizational vision (Bass & Riggio, 2006). Transformational leadership focuses on empowering employees, developing employees' best potential, and creating positive change in the organization. This leadership has an impact on Employee Performance and Innovative Behavior, which are two important elements in organizational success.

The results of empirical research on the effect of Transformational Leadership on Employee Performance also show interesting variations. Most studies found a significant positive relationship between Transformational Leadership and improved individual and organizational performance (Alsayyed et al., 2020; Garad et al., 2022). However, there are also studies that show that without the support of other factors such as a clear organizational structure, adequate resources, and a culture of innovation, the effect of Transformational Leadership on performance can be less significant or even decrease (Alrowwad et al., 2020).

Change Readiness is an important mediating variable in this context. Change Readiness is a concept in organizational management and psychology that describes the extent to which individuals, groups, or organizations have mental, emotional, and behavioral readiness to face and accept changes that occur in the work environment (Tidd & Bessant, 2018). This concept is rooted in organizational change theory which emphasizes that the successful implementation of change is highly dependent on resource readiness (Allaoui & Benmoussa, 2020).

In the business world, especially in the microenterprise sector, readiness to change is one of the key elements in determining business competitiveness and sustainability. Micro-enterprises that have a high readiness for change are better able to adapt to technological developments, changes in consumer preferences, and evolving business regulations. Conversely, micro enterprises that lack change readiness tend to experience stagnation, difficulty in facing competition, and are vulnerable to the negative impacts of external changes.

Innovative Behavior as an outcome variable has the main objective of helping organizations to adapt to dynamic and competitive environmental changes. Through innovation, organizations are able to renew processes, products, or work methods so that effectiveness and efficiency can be improved. Distanont (2020) asserts that innovation serves as a strategic tool to maintain organizational competitiveness and relevance in the long term. In addition, innovation also plays a role in motivating employees by providing opportunities to express creativity and feel a direct contribution to achieving organizational goals (Siyal et al., 2021).

In the academic literature, research on the factors that influence Innovative Behavior and Employee Performance in the Microenterprise sector still shows a significant gap. Most previous studies focus on large-scale organizations or the formal sector, while the unique characteristics of microenterprises with informal structures and intense interpersonal interactions have not received adequate attention.

Some previous studies have limitations in exploring the relationship between these variables. Not many studies have examined the relationship between the variables Psychological Capital and Transformational Leadership on Innovative Behavior and Employee Performance with Readiness to Change as a mediating variable. Research with a sample population of Micro Business employees is also still limited. This study also answers the limitations and suggestions from the research of Tjimuku et al. (2025) and Meria et al. (2023) who conducted research at the organizational and university levels. The study suggests conducting future research by expanding the findings and analyzing at the level of Micro Business employees.

Research by Melander et al. (2023) on management innovation in SMEs shows that psychological ownership develops dynamically during the implementation process, influenced by interactions between top management and internal teams. The CEO's active and consistent

involvement in implementation proved to be an important determinant for the formation of ownership of managerial innovation. However, this study focuses on the psychological ownership aspect and has not explored in depth the role of Psychological Capital in a broader context.

Mutonyi et al. (2025) found that leadership that demonstrates curiosity has a significant direct impact on employee creative performance, with Psychological Capital as a mediator that strengthens this relationship. Nonetheless, this study has not explored the role of Readiness to Change as a mediating variable in the context of Micro Enterprises.

Kadiyono & Ashriyana Sulistiobudi's (2024) research shows that technology readiness significantly moderates the relationship between Psychological Capital and financial performance of women entrepreneurs in Indonesian MSMEs. However, this study focuses more on technological aspects and financial performance, not yet exploring in depth the relationship between Psychological Capital with Innovative Behavior and Employee Performance.

In Situbondo District, most Micro Enterprises still face challenges in terms of Human Resource (HR) management and adaptation to digitalization. Despite support from the local government in the form of training and access to capital, many microenterprises still lag behind in terms of employee innovation and productivity. This suggests the need for a more in-depth approach to understanding the psychological and leadership factors that can drive readiness to change, and ultimately influence Innovative Behavior and Employee Performance.

Limited access to psychological capacity building training programs and low awareness of the importance of mental aspects in improving business performance are still major obstacles. In addition, the level of readiness for change among micro business owners also varies, which may affect the effectiveness of implementing strategies to increase Psychological Capital and Transformational Leadership in encouraging innovation and Employee Performance.

The urgency of this research is driven by the need to identify factors that can improve business resilience and labor productivity at the local level. Situbondo Regency has a strategic position in the regional economic chain, but still faces challenges in terms of adaptation to industrial development and increasingly competitive market competition. By understanding the role of Psychological Capital and Transformational Leadership in shaping a more resilient, innovative and productive mindset, this research is expected to make a real contribution to improving the effectiveness of small business management in the area.

This study aims to analyze the effect of Psychological Capital and Transformational Leadership on Innovative Behavior and Employee Performance by using Readiness to Change as a mediating variable in the Micro Business sector in Situbondo Regency. In addition to enriching the treasures of management science, this study is expected to produce empirical findings that are applicable to the development of strategies to strengthen human resource capacity in the Micro Business sector.

The theoretical contributions of this study include the development of an understanding of psychological and leadership dynamics in the context of micro-scale organizations, as well as the validation of relationship models between variables that have been tested more in formal organizations. Meanwhile, the practical contribution is expected to provide guidance for business actors, policy makers, and economic development practitioners in designing appropriate interventions to improve the quality of human resources and competitiveness of micro enterprises.

## METHODS

### Research Operational Model

Based on the synthesis of several previous research models (Mujib & Rosari, 2023; Slatten et al., 2020; Ikrema et al., 2021), this study develops an operational model that examines the effect of Psychological Capital (MP) and Transformational Leadership (KT) on Innovative Behavior (PI) and Employee Performance (KK) in Micro Enterprises in Situbondo Regency, with Readiness to Change (KB) as a mediating variable (Figure 1.).

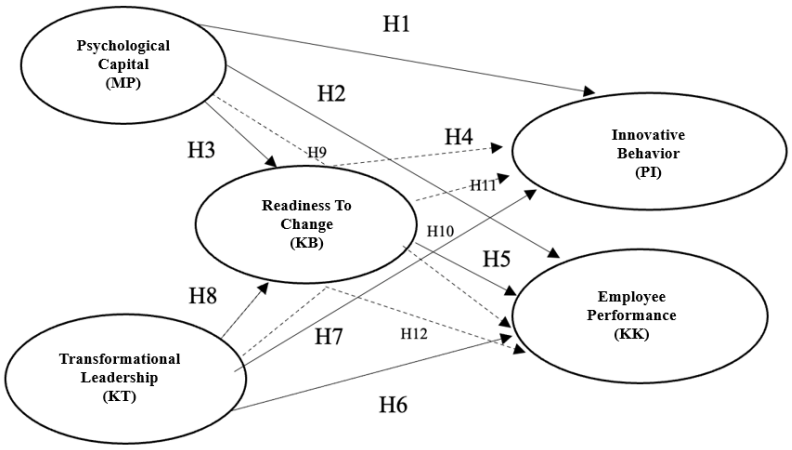



**Figure 1. Modified Research Model Results**

This model hypothesizes that Psychological Capital (self-efficacy, hope, resilience, optimism) and Transformational Leadership (idealized influence, inspirational motivation, intellectual stimulation, individualized consideration) have direct and indirect effects on Innovative Behavior and Employee Performance through Readiness to Change. Readiness to Change acts as a mediating variable that strengthens the relationship between the independent variable and the dependent variable, where employees with high psychological capital and effective transformational leadership tend to be more prepared for change, thus encouraging innovative behavior and improving performance in the context of micro-enterprises.

### Variable Operationalization

The research instrument in this study used a structured questionnaire with a measurement scale using a Likert scale of 1 - 5. The Likert scale is a measurement scale first developed by Likert (1932). Researchers used a 5-point Likert scale based on Dawes' (2002) research which showed no significant difference between the 5-point and 11-point scales. The questionnaire in this study contained 45 questions divided into five variables, namely psychological capital, transformational leadership, readiness to change, innovative behavior, and employee performance.

**Table 1. Operationalization of Psychological Capital Variables**

| Operational Definition of Psychological Capital Variable | Question Item | Item Number |
|---|---|---|
| Employees' psychological capital which includes components of *self-efficacy*, *optimism*, *hope*, and *resilience* that affect their readiness to face work challenges.<br><br>Source: Subramani et al (2024) | How optimistic are you about the future of your career in Micro, Small and Medium Enterprises that you are currently working on? | PC1 |
| | How confident are you in being able to complete difficult tasks in your current job? | PC2 |
| | How confident are you when facing tough work challenges? | PC3 |
| | How able are you to overcome problems that arise in the workplace? | PC4 |

| | | |
|---|---|---|
| | How hard would you work even if you faced many obstacles at work? | PC5 |
| | Do you not give up when plans do not go as expected? | PC6 |
| | Will you keep your spirits up and be able to pick yourself up after a failure at work? | PC7 |
| | Do you believe that you can overcome challenges in the workplace? | PC8 |
| | Do you always look for ways to keep thinking and acting positively and hopefully despite difficulties? | PC9 |

| Operational Definition of Transformational Leadership Variable | Question Item | Item Number |
|---|---|---|
| Transformational leadership is a leadership style that is able to inspire and motivate employees to achieve organizational goals through positive change.<br><br>Source: Alsayyed et al., (2020), Garad et al., (2022), and Santoso et al., (2022) | Do you feel proud of your current job because of your boss (leader) at work? | KT1 |
| | Do you think the leader at work has charisma that makes you work hard? | KT2 |
| | Do you feel inspired to be innovative and creative because your boss encourages you to do so? | KT3 |
| | Are you given the freedom to try new things to develop yourself by your boss? | KT4 |
| | Does your boss have a clear vision/mission so that you know what to do? | KT5 |
| | Do your superiors at your workplace often give clear directions and create work optimism? | KT6 |
| | Are you often inspired by your boss because he/she has a high work ethic? | KT7 |
| | Do you feel cared for by your supervisor to continue developing yourself according to your own abilities? | KT8 |
| | Do you feel supported and guided by your supervisor at work? | KT9 |

| Operational Definition of Readiness to Change Variable | Question Item | Item Number |
|---|---|---|
| Readiness to change is a concept in organizational management and psychology that describes the extent to which individuals, groups, or organizations have mental, emotional, and behavioral readiness to face and accept changes that occur in the work environment.<br><br>Source: Daniel T. Holt (2007) | Do you feel that changes that occur in the workplace often meet your expectations? | RC1 |
| | Do you feel that changes that occur in the workplace are generally positive and beneficial? | RC2 |
| | Do you feel that changes in the workplace always improve the quality of work? | RC3 |
| | Do you believe that changes made in the workplace always support business objectives? | RC4 |
| | Do you feel you have the ability to adapt to changes that occur in the workplace? | RC5 |
| | Do you believe you can handle challenges that arise due to changes that occur in the workplace? | RC6 |
| | Do you feel supported by your superiors and colleagues in dealing with changes that occur in the organization (company)? | RC7 |
| | Do you feel that management provides sufficient support to make changes in the workplace? | RC8 |
| | Do you feel that the changes made in the company (organization) have more benefits than disadvantages? | RC9 |

| Operational Definition of Innovative Behavior Variable | Question Item | Item Number |
|---|---|---|
| Innovative behavior is a series of actions taken by individuals to generate, introduce, and implement new ideas that can provide added value to the organization. | Do you try to create new ideas to solve problems and obstacles at work? | PI1 |
| | Do you try to find new work methods or techniques to complete routine work? | PI2 |
| | Do you make an effort and find new ways to implement ideas? | PI3 |
| | Do you promote new ideas so that others can use them in their work? | PI4 |

| | | |
|---|---|---|
| Source: Terje Slatten et al., (2020) | Do you like to participate in training or capacity building to find new ideas in your work? | PI5 |
| | Do you always try to keep up with the times in doing your work? | PI6 |
| | Do you often find new ways to develop or complete work? | PI7 |
| | Do you often apply new ways of solving work problems? | PI8 |
| | Do you like to share with others new ideas and ways to solve work problems? | PI9 |

| Operational Definition of Employee Performance Variable | Question Item | Item Number |
|---|---|---|
| Performance reflects the extent to which a person can achieve work results in accordance with predetermined standards and contribute to the achievement of organizational goals. | Do you often produce excellent quality work? | KY1 |
| | Do you often work with responsibility and dedication? | KY2 |
| | Are you able to complete assigned tasks on time? | KY3 |
| | Do you feel that your performance has been better than your colleagues or other similar businesses? | KY4 |
| | Were you able to achieve the targets set for the job? | KY5 |
| | Do you often achieve better results than expected? | KY6 |
| Source: Desiana (2019) | Are you able to work independently without much supervision? | KY7 |
| | Do you take pride in your work and are ready to take on bigger challenges? | KY8 |

## Research Hypothesis

### Effect of Psychological Capital on Innovation Behavior

Psychological capital is proven to have a positive influence on employee innovation behavior in various sectors. Research by Asshiddiqie et al. (2024) and Sukmadianto et al. (2025) showed a positive and significant impact of psychological capital on innovation behavior. Based on these findings, it is estimated that psychological capital will be able to increase innovation behavior in micro businesses in Situbondo Regency.

H1: There is a positive influence of psychological capital on innovation behavior in micro business employees in Situbondo.

### Effect of Psychological Capital on Employee Performance

Research in various countries shows a positive relationship between psychological capital and employee performance. Jia & Zhang (2025) in China, Trung Thanh NGO (2021) in Vietnam, and Chen et al. (2024) in Hong Kong found a significant impact of psychological capital on employee performance. Based on these findings, it is estimated that there is a positive impact of psychological capital on the performance of micro business employees in Situbondo Regency.

H2: There is a positive influence of psychological capital on the performance of micro business employees in Situbondo.

### Effect of Psychological Capital on Readiness to Change

Psychological capital has a strong role in shaping employee readiness to change. Sastaviana (2021) found a significant positive relationship with an effect of 47.3 percent, while Lista Meria et al. (2023) and Emanuel & Panca (2024) confirmed the strong influence of psychological capital on readiness to change. Based on these studies, the role of psychological capital is quite strong in shaping employee readiness to change.

H3: There is a positive influence of psychological capital on the readiness to change of micro business employees in Situbondo.

### Effect of Readiness to Change on Innovative Behavior

Organizational and individual change readiness is proven to affect innovative behavior. Sudhartio et al. (2023) found a significant positive effect on 110 private junior high schools in

Indonesia, and Basma et al. (2024) confirmed the positive correlation in hospital nurses. Based on these findings, it is expected that there is a significant positive influence of readiness to change on the innovative behavior of employees in Situbondo micro-enterprises.

H4: There is a positive influence of readiness to change on the innovative behavior of micro business employees in Situbondo.

**Effect of Readiness to Change on Employee Performance**

Research in various industries shows the positive impact of readiness to change on employee performance. Arshad & Sabeen (2021) in an Islamabad manufacturing company and Masduki et al. (2021) in the Indonesian chemical industry found a significant positive effect. Based on these findings, researchers believe there is a positive effect of readiness to change on employee performance in micro businesses in Situbondo.

H5: There is a positive effect of readiness to change on employee performance at micro businesses in Situbondo.

**The Effect of Transformational Leadership on Employee Performance**

Transformational leadership is proven to have a positive impact on employee performance. Masduki et al. (2021) in the Indonesian chemical industry and Nyakundi et al. (2021) in a banking company found a significant positive impact. Based on these findings, researchers believe there is a positive influence of transformational leadership on employee performance in micro businesses in Situbondo.

H6: There is a positive influence of transformational leadership on employee performance in micro businesses in Situbondo.

**The Effect of Transformational Leadership on Innovative Behavior**

Transformational leadership shows a positive relationship with employee innovative behavior. Saif (2024) in Pakistan & Antonio et al. (2024) in a Colombian automotive company found a significant positive relationship. Based on these findings, researchers predict there is a positive impact of transformational leadership on employee innovative behavior in micro businesses in Situbondo.

H7: There is a positive influence of transformational leadership on employee innovative behavior at micro businesses in Situbondo.

**Effect of Transformational Leadership on Readiness to Change**

Transformational leadership has a positive influence on employee readiness to change. Erlyani et al. (2022) in Indonesian higher education and Hasim & Mahbob (2024) in Malaysia's Klang Valley MSMEs found a significant positive effect. Based on these findings, researchers predict that transformational leadership influences change readiness in microenterprise employees in Situbondo.

H8: There is a positive influence of transformational leadership on the readiness to change of employees at micro enterprises in Situbondo.

**The Mediating Effect of Change Readiness on the Relationship between Transformational Leadership and Performance**

Change readiness is proven to mediate the effect of transformational leadership on performance. Katsaros & Tsirikas (2020) in a Greek shipping company, Yeap et al. (2020) in a Malaysian polytechnic, and Masduki (2021) in the Indonesian chemical industry confirmed the mediating effect. Based on these findings, researchers predict that employee change readiness in micro businesses in Situbondo can mediate the effect of transformational leadership on employee performance.

H9: Employee change readiness has a mediating effect on the effect of transformational leadership on employee performance at micro businesses in Situbondo.

**Mediating Effect of Readiness to Change on the Relationship between Transformational Leadership and Innovation Behavior**

Change readiness can mediate the effect of transformational leadership on innovation behavior. Aditianto & Taufiq (2022) at PT Lativi Mediakarya found that employee change readiness can mediate the effect of transformational leadership on employee innovation behavior. Based on these findings, researchers predict that readiness to change has a mediating effect on the influence of transformational leadership and employee innovation behavior on micro businesses in Situbondo.

H10: Employee readiness to change has a mediating effect on the effect of transformational leadership on employee innovation behavior at micro businesses in Situbondo.

**Mediating Effect of Readiness to Change on the Relationship between Psychological Capital and Performance**

Change readiness has a mediating effect on the relationship between psychological capital and employee performance. Ramdhani & Desiana (2022) in Indonesian telecommunication companies and Iskandar et al. (2024) in the East Java hotel industry found such mediating effect. Based on these two findings, we expect readiness to change to have a mediating effect on the effect of psychological capital on employee performance in micro enterprises in Situbondo.

H11: Readiness to change has a mediating effect on the effect of psychological capital on employee performance in micro businesses in Situbondo.

**Mediating Effect of Readiness to Change on the Relationship between Psychological Capital and Innovative Behavior**

Psychological capital has a major impact on change readiness and innovative behavior of employees. Sastaviana (2021), Basma et al. (2024), and Asshiddiqie et al. (2024) confirmed the important role of psychological capital on readiness to change and innovative behavior. Based on these findings, researchers expect readiness to change to have a mediating effect on the influence of psychological capital on employee innovative behavior in micro businesses in Situbondo.

H12: Change readiness has a mediating effect on the influence of psychological capital on employee innovative behavior in micro businesses in Situbondo.

**Data Collection Stages**

**Population and Sample**

This study involved micro business employees with a total population of 38,000 people. Based on the calculation of Hair et al. (2019), a minimum of 250 respondents is required for SEM analysis, but this study managed to collect 405 respondents. The sample selection uses special criteria, namely employees who have worked for at least 1 year in micro businesses that have been operating for at least 2 years.

**Pre-test**

Before the main survey, a pilot test of the questionnaire was conducted to ensure that the questions were easy to understand and did not cause problems. Crescrosw et al. (2009) and Perneger et al. (2015) suggest a minimum of 30 respondents for this pilot test. This study used 50 respondents for the pilot test to prevent obstacles during the actual data collection.

### Research Instrument Test (Validity and Reliability Test)

The questionnaire is tested to ensure the questions actually measure what is intended to be measured (validity) and the results are consistent (reliability). According to Sürücü & Maslakci (2020) and Kamis et al. (2020), an instrument is considered good if the loading factor value is ≥ 0.6 and Cronbach's Alpha ≥ 0.6. This test is important to ensure the quality of the data to be collected.

### Data Analysis Technique

### Descriptive Analysis

Descriptive analysis is used to describe the conditions and characteristics of the data collected in the form of average numbers, percentages, and data distribution. Groves et al. (2009) explain that descriptive statistics can show how large and scattered various sample characteristics are in a population. This study uses descriptive analysis to explain the profile of respondents (gender, age, tenure, education) and the average value of each variable measured.

### Research Hypothesis Testing

This study uses the Partial Least Square Structural Equation Modeling (PLS-SEM) method to test the relationship between variables. The selection of PLS-SEM is based on four main reasons: suitable for exploratory research, does not require a data normality test, can handle complex data with 5 variables, and is more focused on prediction (Rozman et al., 2020; Hair et al., 2012). The hypothesis is accepted if the t-value ≥ 1.65 and the significance level ≤ 0.05 (Hair et al., 2019).

## RESULTS AND DISCUSSION

### Result

### Readability Test and Pre Test

### Data Collection Method

Data were collected using questionnaires distributed through 17 trained enumerators with minimum qualifications of high school education and currently pursuing or have completed higher education. The use of enumerators was chosen because initial experiments with direct questionnaires showed suboptimal results due to respondents' limited understanding of the academic language in the research instrument.

**Table 2. Research Enumerators**

| Enumerator | Education | Interviewed Respondents |
|---|---|---|
| Enumerator 1 | S-1 | 25 |
| Enumerator 2 | S-1 | 25 |
| Enumerator 3 | SMA | 27 |
| Enumerator 4 | S-1 | 25 |
| Enumerator 5 | SMA | 25 |
| Enumerator 6 | SMA | 24 |
| Enumerator 7 | S-1 | 22 |
| Enumerator 8 | SMA | 25 |
| Enumerator 9 | S-1 | 20 |
| Enumerator 10 | S-1 | 20 |
| Enumerator 11 | SMA | 26 |
| Enumerator 12 | SMA | 20 |
| Enumerator 13 | S-1 | 25 |
| Enumerator 14 | S-1 | 25 |
| Enumerator 15 | SMA | 26 |
| Enumerator 16 | SMA | 20 |
| Enumerator 17 | S-1 | 25 |
| **Total Respondents** | | **405** |

Source: Data processed by the author (2025)

Based on Table 2, a total of 405 respondents were collected from micro enterprises in Situbondo district. Each enumerator handled 20-27 respondents with variations based on interview time and travel distance. To ensure data quality, researchers crosschecked by phone 25% or 101 respondents of the total.

## Results of Convergent Validity Testing

**Table 3. Convergent Validity Results for Pre Test**

| Variable | Indicator | Loading Factor | Description |
|---|---|---|---|
| Psychological Capital (X1) | MP1 | 0.566 | Valid |
| | MP2 | 0.630 | Valid |
| | MP3 | 0.758 | Valid |
| | MP4 | 0.766 | Valid |
| | MP5 | 0.684 | Valid |
| | MP6 | 0.499 | Valid |
| | MP7 | 0.727 | Valid |
| | MP8 | 0.683 | Valid |
| | MP9 | 0.798 | Valid |
| Transformational Leadership (X2) | KT1 | 0.702 | Valid |
| | KT2 | 0.815 | Valid |
| | KT3 | 0.763 | Valid |
| | KT4 | 0.824 | Valid |
| | KT5 | 0.698 | Valid |
| | KT6 | 0.743 | Valid |
| | KT7 | 0.742 | Valid |
| | KT8 | 0.689 | Valid |
| | KT9 | 0.811 | Valid |
| Readiness to Change (Z) | KB1 | 0.502 | Valid |
| | KB2 | 0.683 | Valid |
| | KB3 | 0.584 | Valid |
| | KB4 | 0.552 | Valid |
| | KB5 | 0.769 | Valid |
| | KB6 | 0.708 | Valid |
| | KB7 | 0.684 | Valid |
| | KB8 | 0.763 | Valid |
| | KB9 | 0.693 | Valid |
| | PI1 | 0.763 | Valid |
| | PI2 | 0.713 | Valid |
| Innovative Behavior (Y1) | PI3 | 0.759 | Valid |
| | PI4 | 0.670 | Valid |
| | PI5 | 0.821 | Valid |
| | PI6 | 0.779 | Valid |
| | PI7 | 0.798 | Valid |
| | PI8 | 0.817 | Valid |
| | PI9 | 0.658 | Valid |
| Employee Performance (Y2) | KK1 | 0.759 | Valid |
| | KK2 | 0.857 | Valid |
| | KK3 | 0.822 | Valid |
| | KK4 | 0.521 | Valid |
| | KK5 | 0.739 | Valid |
| | KK6 | 0.738 | Valid |
| | KK7 | 0.706 | Valid |
| | KK8 | 0.679 | Valid |
| | KK9 | 0.788 | Valid |

Source: SmartPLS output, data processed by the author (2025)

All indicators of the five research variables - Psychological Capital (X1), Transformational Leadership (X2), Readiness to Change (Z), Innovative Behavior (Y1), and

Employee Performance (Y2) - meet the convergent validity criteria and can be used in further analysis.

## Average Variance Extracted (AVE) Results

**Table 4. Average Variance Extracted (AVE) for Pre Test**

| Variable | Average Variance Extracted (AVE) | Validity |
|---|---|---|
| Psychological Capital (X1) | 0,571 | Valid |
| Transformational Leadership (X2) | 0,440 | Valid |
| Readiness to Change (Z) | 0,456 | Valid |
| Innovative Behavior (Y1) | 0,548 | Valid |
| Employee Performance (Y2) | 0,570 | Valid |

Source: SmartPLS output, data processed by the author (2025)

AVE testing shows that three variables have values above 0.5: Psychological Capital (0.571), Innovative Behavior (0.548), and Employee Performance (0.570). Meanwhile, Transformational Leadership (0.440) and Change Readiness (0.456) have values below 0.5 but are still considered valid after considering the high composite reliability value.

## Reliability Test Results

**Table 5. Composite Reliability and Cronbach's Alpha for Pre Test**

| Variable | Composite Reliability | Cronbach's Alpha | Description |
|---|---|---|---|
| Psychological Capital (X1) | 0,923 | 0,906 | Reliable |
| Transformational Leadership (X2) | 0,874 | 0,840 | Reliable |
| Readiness to Change (Z) | 0.915 | 0,895 | Reliable |
| Innovative Behavior (Y1) | 0,880 | 0,845 | Reliable |
| Employee Performance (Y2) | 0,922 | 0,905 | Reliable |

Source: SmartPLS output, data processed by the author (2025)

Reliability testing using Cronbach's Alpha and Composite Reliability shows satisfactory results for all variables. The composite reliability value ranges from 0.874-0.923, while Cronbach's Alpha ranges from 0.840-0.906. All of these values exceed the minimum standard of 0.7, indicating good internal consistency in measuring latent constructs.

## Discriminant Validity Test Results

**Table 6. Discriminant Validity Table for Pre Test**

| | KT | KB | KK | MP | PI | Validity |
|---|---|---|---|---|---|---|
| KT | 0,724 | | | | | Valid |
| KB | 0,688 | 0,663 | | | | Valid |
| KK | 0,551 | 0,483 | 0,740 | | | Valid |
| MP | 0,721 | 0,500 | 0,670 | 0,675 | | Valid |
| PI | 0,707 | 0,608 | 0,566 | 0,665 | 0,755 | Valid |

Description: KT: Transformational Leadership, KB: Readiness to Change,
KK: Employee Performance, MP: Psychological Capital, PI: Innovative Behavior

Testing discriminant validity using the Fornell-Lacker criterion shows that all variables have an AVE value that is greater than the correlation between other variables (Table 4.5). This proves that each construct is unique and does not overlap with other constructs, so the research model is declared valid.

## Profile of Research Respondents

### Gender Characteristics

**Table 7. Distribution of Respondents Based on Gender**

| Gender | Frequency | Percentage (%) |
|---|---|---|
| Male | 211 | 52% |
| Female | 194 | 48% |
| **Total** | **405** | **100%** |

Source: Data processed by the author (2025)

The distribution of respondents by gender shows a relatively balanced composition. Male respondents totaled 211 people (52%), while female respondents totaled 194 people (48%). This almost equal distribution indicates that there is no gender bias in the research sample.

## Age Characteristics

The age profile of respondents is dominated by the 31-41 year age group with 194 respondents (48%), followed by the 21-30 year age group with 109 respondents (27%). The 41-51 years age group reached 61 respondents (15%), while the extreme age groups (<20 years and >50 years) were only 5% of the total respondents.

**Table 8. Distribution of Respondents by Age**

| Age Category | Frequency | Percentage (%) |
|---|---|---|
| < 20 years old | 20 | 5% |
| 21-30 Years | 109 | 27% |
| 31-41 Years | 194 | 48% |
| 41-51 Years | 61 | 15% |
| > 50 Years | 21 | 5% |
| **Total** | **405** | **100%** |

Source: Data processed by the author (2025)

## Characteristics of Working Period

The majority of respondents have a working period of 6-10 years (162 people or 40%), followed by a group with a working period of <5 years (122 people or 30%). Respondents with a tenure of 11-20 years reached 81 people (20%), while groups with longer tenure (21-30 years and > 31 years) had smaller proportions with 8% and 2% respectively.

**Table 9. Distribution of Respondents by Length of Service**

| Period of Service | Frequency | Percentage (%) |
|---|---|---|
| < 5 Years | 122 | 30% |
| 6-10 Years | 162 | 40% |
| 11-20 Years | 81 | 20% |
| 21-30 Years | 32 | 8% |
| > 31 Years | 8 | 2% |
| **Total** | **405** | **100%** |

Source: Data processed by the author (2025)

## Frequency Distribution

### Psychological Capital Variable (MP/X1)

The majority of respondents gave answers in the Agree and Strongly Agree categories for all items with an average value of 4.3-4.4. Items MP1 and MP2 show the highest percentage with 43.7%-47.7% choosing Agree and Strongly Agree. The very low frequency of even zero in the Strongly Disagree and Disagree categories indicates a very positive assessment.

Respondents' perceptions of Psychological Capital are very strong and dominant at a high level of agreement.

**Transformational Leadership Variable (KT/X2)**

The majority of respondents gave ratings in the Agree and Strongly Agree categories for all items with an average score of 3.8-4.2. Item KT1 obtained the highest score (4.2) with 50.1% choosing Agree and 35.3% Strongly Agree. Item KT5 showed the lowest score (3.8) but still showed a positive level of agreement. Overall, respondents showed a fairly high agreement with the transformational leadership aspect.

**Readiness to Change Variable (KB)**

The majority of respondents gave an assessment in the Agree category with a percentage of 56.5%-63.2% for each item. Item KB3 has the highest percentage in the Agree category (63.2%), followed by KB5 (62.2%) and KB2 (61.7%). The Neutral category has a low frequency (10.6%-18.5%) with an overall mean score of 4.0-4.2. This shows that respondents tend to have a positive readiness for change.

**Innovative Behavior Variable (PI)**

The majority of respondents chose the Agree category for almost all items with a percentage of 41.7%-58.3%. Items PI1 and PI6 have the highest mean value (4.1) which indicates the most positive response. Items PI4 and PI9 show a sizable percentage in the Neutral category (29.1%) which indicates respondents' uncertainty. The overall average of this variable is 3.8, which is the lowest compared to other variables.

**Employee Performance Variable (Y2)**

The majority of respondents gave a positive assessment on all indicators with an average value of 4.1-4.5. Indicator KK9 obtained the highest score (4.5) with 54.1% choosing Strongly Agree and 38.8% Agree. Indicators KK2, KK3, KK5, KK6, and KK7 have a uniform average value (4.2) with the dominance of the Agree and Strongly Agree categories. Overall, this variable has the highest average value (4.2) compared to other variables, indicating a high level of employee performance.

**Outer Model Analysis**

**Convergent Validity Test (Outer Loading)**

**Table 10. Convergent Validity Results**

| Variable | Indicator | Loading Factor | Description |
|---|---|---|---|
| Psychological Capital (X1) | MP1 | 0,677 | Valid |
| | MP2 | 0,744 | Valid |
| | MP3 | 0,735 | Valid |
| | MP4 | 0,755 | Valid |
| | MP5 | 0,791 | Valid |
| | MP6 | 0,667 | Valid |
| | MP7 | 0,757 | Valid |
| | MP8 | 0,782 | Valid |
| | MP9 | 0,749 | Valid |
| Transformational Leadership (X2) | KT1 | 0,725 | Valid |
| | KT2 | 0,831 | Valid |
| | KT3 | 0,803 | Valid |
| | KT4 | 0,809 | Valid |
| | KT5 | 0,767 | Valid |
| | KT6 | 0,825 | Valid |
| | KT7 | 0,793 | Valid |

| Variable | Indicator | Loading Factor | Description |
|---|---|---|---|
| | KT8 | 0,806 | Valid |
| | KT9 | 0,806 | Valid |
| | KB1 | 0,616 | Valid |
| | KB2 | 0,739 | Valid |
| | KB3 | 0,691 | Valid |
| | KB4 | 0,729 | Valid |
| Readiness to Change (Z) | KB5 | 0,752 | Valid |
| | KB6 | 0,757 | Valid |
| | KB7 | 0,771 | Valid |
| | KB8 | 0,751 | Valid |
| | KB9 | 0,743 | Valid |
| | PI1 | 0,686 | Valid |
| | PI2 | 0,752 | Valid |
| | PI3 | 0,781 | Valid |
| | PI4 | 0,693 | Valid |
| Innovative Behavior (Y1) | PI5 | 0,706 | Valid |
| | PI6 | 0,663 | Valid |
| | PI7 | 0,784 | Valid |
| | PI8 | 0,768 | Valid |
| | PI9 | 0,672 | Valid |
| | KK1 | 0,760 | Valid |
| | KK2 | 0,770 | Valid |
| | KK3 | 0,678 | Valid |
| | KK4 | 0,687 | Valid |
| Employee Performance (Y2) | KK5 | 0,736 | Valid |
| | KK6 | 0,637 | Valid |
| | KK7 | 0,684 | Valid |
| | KK8 | 0,712 | Valid |
| | KK9 | 0,687 | Valid |

Source: SmartPLS output, data processed by the author (2025)

All indicators have an outer loading value of> 0.6 so that they are declared valid and can be continued to the next stage. A high loading value indicates that the indicator significantly contains information relevant to the construct being measured.

## Average Variance Extracted (AVE)

**Table 11. Average Variance Extracted (AVE)**

| Variable | Average Variance Extracted (AVE) | Validity |
|---|---|---|
| Psychological Capital (X1) | 0,542 | Valid |
| Transformational Leadership (X2) | 0,635 | Valid |
| Readiness to Change (Z) | 0,532 | Valid |
| Innovative Behavior (Y1) | 0,525 | Valid |
| Employee Performance (Y2) | 0,499 | Valid |

Source: SmartPLS output, data processed by the author (2025)

The majority of variables have AVE> 0.5. Employee Performance (0.499) is slightly below standard but still valid because composite reliability >0.6. Transformational Leadership shows the highest convergent validity.

## Discriminant Validity

**Table 12. Discriminant Validity**

| | KT | KB | KK | MP | PI | Validity |
|---|---|---|---|---|---|---|
| KT | 0.797 | | | | | Valid |
| KB | 0.682 | 0.729 | | | | Valid |
| KK | 0.470 | 0.653 | 0.707 | | | Valid |

| | | | | | | |
|---|---|---|---|---|---|---|
| MP | 0.503 | 0.646 | 0.640 | 0.736 | | Valid |
| PI | 0.562 | 0.586 | 0.503 | 0.475 | 0.724 | Valid |

Notes: KT: Transformational Leadership, KB: Readiness to Change,
KK: Employee Performance, MP: Psychological Capital, PI: Innovative Behavior

The diagonal value (square root of AVE) is greater than the off-diagonal value, indicating good discriminant validity. Each variable has clear differentiation and is not highly correlated with other variables.

## Reliability Test

**Table 13. Composite Reliability and Cronbach's Alpha**

| Variable | Composite Reliability | Cronbach's Alpha | Description |
|---|---|---|---|
| Psychological Capital (X1) | 0,914 | 0,894 | Reliable |
| Transformational Leadership (X2) | 0,940 | 0,928 | Reliable |
| Readiness to Change (Z) | 0,910 | 0,889 | Reliable |
| Innovative Behavior (Y1) | 0,980 | 0,887 | Reliable |
| Employee Performance (Y2) | 0,899 | 0,874 | Reliable |

Source: SmartPLS output, data processed by the author (2025)

All variables show high reliability with composite reliability and Cronbach's alpha values >0.7. Innovative Behavior has the highest reliability (0.980), indicating excellent internal consistency.

## Inner Model Analysis
## R-Square

**Table 14. R-Square**

| Variable | R-Square | Adjusted R-Square |
|---|---|---|
| Readiness to Change (KB) | 0,588 | 0,586 |
| Employee Performance (KK) | 0,508 | 0,505 |
| Innovative Behavior (PI) | 0,403 | 0,399 |

Source: SmartPLS output, data processed by the author (2025)

The model has moderate to good predictive ability. Readiness to Change has the highest variance explained by the predictor variables (58.8%), while Innovative Behavior has the lowest variance (40.3%).

## F-Square (Effect Size)

**Table 15. F-Square Test**

| | KT | KB | KK | MP | PI |
|---|---|---|---|---|---|
| **KT** | | 0.415 | 0.000 | | 0.073 |
| **KB** | | | 0.141 | | 0.064 |
| **KK** | | | | | |
| **MP** | | 0.298 | 0.164 | | 0.017 |
| **PI** | | | | | |

Source: SmartPLS output, data processed by the author (2025)

Transformational Leadership has the greatest influence on Readiness to Change. Psychological Capital has a moderate effect on Readiness to Change and Employee Performance . The effect on Innovative Behavior is generally low, indicating the need for other supporting factors to encourage innovation.

## Hypothesis Testing

Direct effect analysis uses bootstrapping techniques to test the relationship between variables in the research model. The test is carried out by analyzing the path coefficient which shows the strength of the relationship between variables, with the significance value set at p-value <0.05.

## Direct Effect Analysis

**Table 16. Path Coefficients Test Results**

| Variable | Original Sample (O) | Standard Deviation (STDEV) | T Statistics (\|O/STDEV\|) | P Values |
|---|---|---|---|---|
| KT→ KB | 0.478 | 0.049 | 9.839 | 0.000 |
| KT→ KK | 0.002 | 0.055 | 0.034 | 0.973 |
| KT→ PI | 0.286 | 0.065 | 4.410 | 0.000 |
| KB→ KK | 0.410 | 0.066 | 6.206 | 0.000 |
| KB→ PI | 0.304 | 0.074 | 4.103 | 0.000 |
| MP→ KB | 0.405 | 0.048 | 8.509 | 0.000 |
| MP→ KK | 0.374 | 0.050 | 7.528 | 0.000 |
| MP→ PI | 0.135 | 0.060 | 2.256 | 0.025 |

Source: SmartPLS output, data processed by the author (2025)

Based on Table 16, the following presents the results of the analysis of indirect effects between variables:

1. Psychological Capital on Innovative Behavior (H1)
   The path coefficient of 0.135 with a p-value of 0.025 shows a significant positive effect. This result indicates that increasing employees' psychological capital will increase their innovative behavior.
2. Psychological Capital on Employee Performance (H2)
   The path coefficient of 0.374 with a p-value of 0.000 indicates a significant positive effect. High psychological capital directly contributes to improving employee performance.
3. Psychological Capital on Readiness to Change (H3)
   The path coefficient of 0.405 with a p-value of 0.000 shows a significant positive effect. Employees with high psychological capital have better readiness to deal with organizational change.
4. Readiness to Change to Innovative Behavior (H4)
   The path coefficient of 0.304 with a p-value of 0.000 shows a significant positive effect. Employees who are ready to change tend to show higher innovative behavior.
5. Readiness to Change on Employee Performance (H5)
   The path coefficient of 0.410 with a p-value of 0.000 shows a significant positive effect. Readiness to change is an important factor affecting employee performance.
6. Transformational Leadership on Employee Performance (H6)
   The path coefficient of 0.002 with a p-value of 0.973 indicates an insignificant effect. The hypothesis is rejected because transformational leadership has no direct effect on employee performance.
7. Transformational Leadership on Innovative Behavior (H7)
   The path coefficient of 0.286 with a p-value of 0.000 shows a significant positive effect. The transformational leadership style encourages employees to innovate.
8. Transformational Leadership on Readiness to Change (H8)
   The path coefficient of 0.478 with a p-value of 0.000 shows a significant positive effect. Transformational leadership has an important role in preparing employees for change.

## Analysis of Indirect Influence

**Table 17. Specific Indirect Effect Test Results**

| Variable | Original Sample (O) | Standard Deviation (STDEV) | T Statistics (\|O/STDEV\|) | P Values |
|---|---|---|---|---|
| KT→ KB→ KK | 0.196 | 0.039 | 5.044 | 0.000 |
| MP→ KB→ HH | 0.166 | 0.033 | 4.989 | 0.000 |
| KT→ KB→ PI | 0.145 | 0.039 | 3.727 | 0.000 |
| MP→ KB→ PI | 0.123 | 0.034 | 3.670 | 0.000 |

Source: SmartPLS output, data processed by the author (2025)

Based on Table 17, the following presents the results of the analysis of indirect effects between variables:

1. Transformational Leadership on Employee Performance through Readiness to Change
   The path coefficient of 0.196 with a p-value of 0.000 indicates a significant mediation effect. Readiness to change mediates the relationship between transformational leadership and employee performance by 19.6%.
2. Psychological Capital on Employee Performance through Readiness to Change
   The path coefficient of 0.166 with a p-value of 0.000 indicates a significant mediation effect. Readiness to change mediates the relationship between psychological capital and employee performance by 16.6%.
3. Transformational Leadership on Innovative Behavior through Readiness to Change
   The path coefficient of 0.145 with a p-value of 0.000 indicates a significant mediation effect. Readiness to change mediates the relationship between transformational leadership and innovative behavior by 14.5%.
4. Psychological Capital on Innovative Behavior through Readiness to Change
   The path coefficient of 0.123 with a p-value of 0.000 indicates a significant mediation effect. Readiness to change mediates the relationship between psychological capital and innovative behavior by 12.3%.

## Discussion

### Summary of Research Results

This study reveals that Psychological Capital has a significant and positive influence on Innovative Behavior by 0.135 (13.5%) and on Employee Performance by 0.374 (37.4%). This finding supports previous research by Slatten et al. Lien (2020) who found an effect of 0.34 on Innovative Behavior, as well as research by Chen et al. (2023), Grozinger et al. (2021), and Asbari et al. (2021) which confirmed a similar positive relationship. Specifically, the study by Grozinger et al. (2021) involved 379 SME actors during the Covid-19 pandemic. The mediating role of Readiness to Change in the relationship of Psychological Capital to Innovative Behavior shows a positive influence of 0.123 (12.3%) and to Employee Performance of 0.166 (16.6%), confirming the findings of Luo et al. (2022) although with a different magnitude.

Transformational Leadership shows a contrasting influence: the direct effect on Employee Performance is very small and insignificant (0.002 or 0.2%, p-value 0.973), but has a strong influence on Innovative Behavior of 0.286 (28.6%). These results differ from the research of Bernanthos (2018), Mudhofar & Gumanti (2018), Pudyaningsih et al. (2020), and Effiyanti et al. (2021) which found a significant effect. Researchers suspect this is due to the characteristics of micro businesses that have few employees and are mostly family. However, through the mediation of Readiness to Change, the effect of Transformational Leadership on

Employee Performance becomes significant at 0.196 (19.6%) and on Innovative Behavior at 0.145 (14.5%), in line with the findings of Novitasari et al. (2020) and Tan et al. (2020).

Readiness to Change proved to be a very effective mediating variable with a positive influence on Innovative Behavior of 0.304 (30.4%) and on Employee Performance of 0.410 (41.0%). This finding is supported by Al-Ghazali and Afsar's (2020) research on hotel employees during the Covid-19 pandemic, Kirrane et al. (2016), Aboobaker & Zakkariya (2020), as well as Alqudah, Carballo-Penela, and Ruzo-Sanmartín (2022), Sari et al. (2024), and Indriastuti & Fachrunnisa (2020). Transformational Leadership has a strong influence on Readiness to Change of 0.478 (47.8%), in line with the research of Waisy & Wei (2020), Wardani et al. (2020), Effiyanti et al. (2021), and Mujib & Rosari (2023). Based on these findings, to significantly improve Employee Performance, Psychological Capital is more effective than Transformational Leadership, while to improve Innovative Behavior, Transformational Leadership is more effective than Psychological Capital.

**Overall Discussion**

**Effect on Employee Performance (KK)**

Psychological Capital can affect Employee Performance directly or indirectly, especially when mediated by Readiness to Change with a highly significant effect (T-statistics 4.989, P Values 0.000). Transformational Leadership has a significant influence on Employee Performance through Readiness to Change (T-statistic 5.044, P-value 0.000), indicating that transformative leadership is very important in building employee readiness to change which then has a positive impact on improving Employee Performance. However, the direct path of Transformational Leadership to Employee Performance does not show a positive influence (T-statistic 0.034, P-value 0.973), because in the context of Micro Enterprises, the average employee is family so not many of them feel the owner is a relative or relatives.

**Strongest Influence on Innovative Behavior (PI)**

The mediation path between Transformational Leadership and Innovative Behavior through Readiness to Change shows a significant effect (T-statistic 3.727, P-value 0.000), where transformational leadership can encourage changes in employee attitudes and behaviors and plays an important role in increasing employee readiness to innovate. Psychological Capital on Innovative Behavior also showed a significant although smaller effect (T-statistic 2.256, P-value 0.025), where psychological capital such as optimism, self-confidence, and ability to cope with stress motivate employees to think creatively and implement innovative ideas. In Situbondo, many micro businesses still rely on traditional methods of business management, so transformative leadership is an important element in creating a culture of innovation at the individual level, especially in the face of evolving economic and market challenges.

**Direct and Indirect Effect**

Psychological Capital has a direct effect on Innovative Behavior, but Readiness to Change mediates this relationship more significantly leading to stronger innovative behavior. The mediation path between Transformational Leadership and Innovative Behavior through Change Readiness provides a stronger influence than the direct path, especially in the direct path Transformational Leadership does not have a significant effect on Innovative Behavior. Micro businesses in Situbondo, with limited resources, are likely to face challenges in changing established ways of working, therefore transformative leadership and strong psychological capital are needed to encourage employee readiness to adapt to changes that will lead to innovation and better performance.

## CONCLUSION

This study concludes that Psychological Capital and Transformational Leadership play an important role in improving Innovative Behavior and Employee Performance in Microenterprises, with Readiness to Change as a mediating variable. Psychological Capital which includes hope, self-efficacy, resilience, and optimism is proven to have a significant positive influence on the other three variables. Although Transformational Leadership does not have a direct effect on Employee Performance, this leadership style is shown to have a positive effect on Innovative Behavior and Readiness to Change. This research fills a gap in the literature by proving that psychological and leadership-based HR development practices remain relevant at the microenterprise scale.

Theoretically, this study extends the applicability of the Psychological Capital model to the Microenterprise context and confirms the role of Readiness to Change as a mediator. Managerial implications point to the importance of Micro Enterprise owners prioritizing the development of employees' Psychological Capital through training, mentoring, and the creation of an organizational culture that supports innovation. However, the study has a limited scope that only covers Situbondo Regency, has not examined the dimensions of the variables in depth, and the lack of previous studies on Psychological Capital in Micro Enterprises which limits comparison with previous research.

This research provides advice to the government to develop policies that support the strengthening of Psychological Capital among Micro Business employees through training programs and digital transformation. For future researchers, it is recommended to explore other mediator or moderator factors and use qualitative or mixed research methods for a deeper understanding. As for the microenterprise community, it is important to realize that managing change requires the active involvement of all employees and an increased understanding of the importance of Psychological Capital in creating an adaptive, innovative and productive work environment.

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