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The Effect of Transformational Leadership, Organizational Learning Capabilities and Innovation on Competitive Advantage: A Study on MSEs Under CSR Program of PT Telkom Regional II, Jakarta-Banten, Indonesia

Sugiyanto¹, Armanu², Rofiaty³ and Noermijati⁴

¹⁻⁴Faculty of Economics and Business, Branjaya University, Indonesia. Email: sugiyantosaleb17@gmail.com, Corresponding Author

ABSTRACT

This research examined the effects of transformational leadership, organizational learning capabilities and innovation on competitive advantage at MSEs under CSR Program of PT. Telkom Regional Division II. The study population includes 172 MSEs. Samples were selected by stratified random sampling based on region of production. Hypotheses were tested by WarpPLS3.0, based on completed questionnaires from 101 leaders of MSEs as respondents. The study results indicate that transformational leadership indirectly had significant effect on competitive advantage of MSEs through organizational learning capabilities and innovation. Innovation had complete mediator role for the effect of transformational leadership and organizational learning capabilities on competitive advantage of MSEs.

Keywords: Transformational Leadership, Organizational Learning Capabilities, Innovation, Competitive Advantage, Micro and Small Enterprises.

1. INTRODUCTION

Micro and Medium Enterprises (MSEs) had an important and strategic role in driving the Indonesian economy with very dominant quantity (> 95% of business units) (BPS, 2015), but fail as the main support of national economic system as constrained by low productivity and competitiveness to affect to low performance (Tambunan, 2014). The contribution of SMEs export value in formation of PBD was only 16.44% of total export value of large enterprises (Ministry of Cooperatives and SMEs, 2014). In Global Innovation Index Indonesia ranks 88th out of 128 countries, under the Philippines and Vietnam (WIPO, 2016). Handling productivity and low competitiveness through improving the quality of human resources should be a priority.

MSEs were characterized by the dominant role of top management in company (Baum, Locke and Smith, 2001). Among the dichotomies of two leadership styles, the transformational leadership style was highly relevant in context of MSEs compared to the transactional leadership style (Matzler *et al.*, 2008). The small size of MSEs allows leaders with idealized influence to provide vision and direction. Through inspirational motivation and individual considerations, transformational leaders can communicate their expectations to each employee personally. The emphasis on intrinsic motivation was best suited for implementing MSEs with limited financial conditions (McMeekin & Coombs, 1999). Conceptually, transformational leadership had a role in maintaining the company's competitive advantage (Singh, 2013), but so far the empirical evidence of transformational leadership effects on competitive advantage of MSEs was limited.

Although theoretically transformational leadership had a strong positive influence on various organizational outcomes (Arnold, Barling and Kelloway, 2001; Wang and Howell, 2012), but in the context of micro and small enterprises, very little empirical evidence presents the influence of transformational leadership on Organizations outcome (Franco & Matos, 2015), even inconsistent and weak. The results of the study Pedraja-Rojas *et al.* (2006), Matzler *et al.* (2008) support a significant influence, on the contrary the results of Obiwuru *et al.* (2011) was not significant. Further study results Brandt *et al.* (2016) suggests that in general transformational leadership had a weak influence on productivity, and fails to prove a stronger influence on small firms. This research was conducted to close this research gap by presenting mediation variables in the form of organizational learning capabilities and innovation.

Research involving transformational leadership constructs and corporate competitive advantage has been done separately. On one hand, transformational leadership studies were mostly conducted on organizational learning and innovation such as studies conducted by Tierney, Farmer & Graen (1999); Hu, Gu Chen (2013); Singh (2008); Garcia-Morales, Jimenez-Barrionuevo & Gutierrez-Gutierrez (2012); Arago'n-Correa, Garcia-Morales & Cordo'n-Pozo (2007); Camps & Rodriguez (2011); Tipu, Ryan & Fantasy (2012); And Jung, Chow & Wu (2003). On other hand, many studies were conducted on organizational learning relationship to innovation and competitive advantage. Study relationships between organizational learning and innovation such as those conducted by Santos-Vijande, Lopez-Sanchez, & Gonzales-Mieres (2012); Škerlavaj, Song & Lee (2010); Cerneet *et al.* (2012); Tohidi, Seyed & Mandegari (2012); Sony & Ride (2012); Andjarsariet *et al.* (2013). Studies the relationships between organizational learning and company innovation and sustainable competitive advantage were done by Johannessen & Olsen (2009); Camison and Vilar-Lopez (2011). The research of Naidoo (2010); Wingwon (2012); Rojas, Cerda & Hernandez (2013); Ali Ekber Akgun *et al.* (2010), and Ching-Hsun Chang (2011) analyzed the relationship of innovation with the company's competitive advantage. The presence of research to builds an integrated relationship model between transformational leadership and competitive advantage was needed.

MSEs Industries under CSR Program of PT. Telekomunikasi Indonesia, Tbk (PT TELKOM) Regional Division II was one of 8 regional divisions that manage grants to MSEs in Partnership Program and also grant aid in Community Development Program in Jakarta, Depok, Bogor, Tangerang and Bekasi. This MSEs was an relevant object of study to this research.

This study aims to analyze the effect of transformational leadership on competitive advantage of MSEs, either directly or indirectly through the organizational learning capabilities and innovation.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Literature Review

The company's competitive advantage was defined as the company's position in an industry compared to its competitors achieved by delivering superior value to customers. The sources of competitive advantage consist of cost advantage, differentiation advantage and marketing advantage (Best, 2010). Four characteristics of resources that can produce Sustainable Competitive Advantages are: value, rareness, immutability, and organization-specific criteria (organization) (Barney, 1991). Sustainable competitive advantage can be built by combining skills and resources in a unique way (Day & Wensley, 1988).

Transformational leadership was based on four interrelated aspects: Idealized Influence, Inspirational Motivation, Intellectual Stimulation, and Individualized Consideration (Bass, 1994; Bass and Avolio, 2000). Conceptually, transformational leadership had a relationship with sustainable competitive advantage (Singh, 2013). Transformational leadership also affect on marketing differentiation and low cost strategy, both of which were strategies of corporate competitive advantage (Menguc *et al.*, 2007). Transformational leadership was related to organizational learning and innovation. A characteristic of transformational leadership encourages an organizational communication and learning process that enables organizations to be more innovative (Bass, 1999; Bass and Avolio, 2000).

Organizational learning was the process of creating, transferring and integrating knowledge and skills, and learning how organizations improve themselves continually (Tohidi *et al.*, 2011). Organizational learning was an important antecedent for innovation (Santos-Vijande *et al.*, 2012) and corporate competitive advantage (Vinayanet *et al.*, 2012). Further innovation will result in a long-term competitive advantage (Wingwon, 2012).

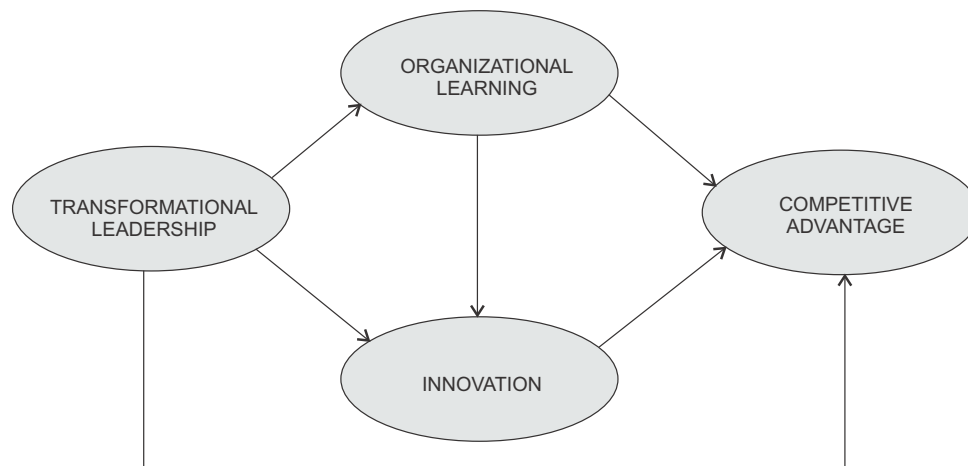


Figure 1: Theoretical Framework Research

2.2. Hypotheses Development

The approach of 7S framework model from Mc Kinsey, Singh (2013) believes that transformational leadership had a role in maintaining and developing a company's sustainable competitive advantage through effective alignment of internal communications. The results study of Menguc et al. (2007) showed that transformational leadership positively affect on marketing differentiation and low cost strategy, both of which were strategies of corporate competitive advantage. Based on conceptual thinking and empirical study results, hypothesis was formulated below:

H1: Transformational leadership had a positive effects on competitive advantage of MSEs.

Transformational leadership provides energy for organizational learning by promoting intellectual stimulation and providing inspiring motivation and self-confidence among members of organization (Coad and Berry, 1998). The results study of Singh's (2008) show that the two main characteristics of transformational leaders, namely, articulate vision and intellectual stimulation tend to enhance organizational learning. This was in line with the results of Garcia-Morales *et al.* (2012); Camps and Rodriguez (2011) who confirm that transformational leadership had a positive and significant impact on organizational learning. Based on this, the hypothesis was proposed:

H2: Transformational leadership had a positive effects on organizational learning of MSEs.

An organization commitment to learn can enhances skills and knowledge to anticipate change and understand strategies to win competition. They had a stronger capacity to understand strengths and weaknesses of competitors and learn from their successes and failures. Organizational learning will support the company's responsiveness to environmental dynamics, and cost leadership, so that it will accumulate a prolonged competitive advantage (Vinayan, Jayashree & Marthandan, 2012). The study of Johannessen & Olsen (2009) shows that organizational learning had a positive effect on company's competitive advantage. Such thoughts and empirical evidence support the hypothesis as follows:

H3: Organizational learning had a positive effect on competitive advantage of MSEs.

Characteristics of transformational leadership encourage an organizational communication and learning process to enables organizations to become more innovative (Bass, 1999; Bass and Avolio, 2000). Transformational leadership had a direct role in maintaining and developing a company's competitive advantage (Singh, 2013; Menguc *et al.*, 2007). Transformational leadership was also positively associated with organizational learning (Coad and Berry, 1998; Camps and Rodriguez, 2011; Singh, 2008). Furthermore, organizational learning encourages prolonged competitive advantage (Vinayan *et al.*, 2012; Johannessen & Olsen, 2009). These empirical ideas and evidence support the synthesis of hypotheses in role of organizational learning capabilities mediation:

H4: Organizational learning capabilities mediate the effects of transformational leadership on competitive advantage of MSEs.

By creating and communicating the vision of customer orientation, transformational leaders can provide inspirational motivation to empower followers to act on vision to drive technical innovation (Liw, Chi, & Chuang, 2010). Transformational leadership can also support marketing innovation. All characteristics of transformational leaders simultaneously allow all members of corporate organization involved in marketing to find new ways to better serve customers (Tipu *et al.*, 2012; Garcia Morales, 2012). The results of Cerne *et al.* (2012); Tohidi *et al.* (2012) also supports the positive effect of transformational leadership on organizational innovation. Above theoretical thinking and empirical evidence serve as the basis for the synthesis of following hypotheses:

H5: Transformational leadership had a positive effects on innovation of MSEs.

Innovation was created to lower production costs, useful new knowledge, new products, new production processes, new work techniques and new work procedures that will in turn produce a long-term competitive advantage (Wingwon, B. 2012). Concept of sustainable competitive advantage shows a positive relationship of product and process innovation and sustainable competitive advantage (Chen, Lin, and Chang, 2009). Similarly, Santos-Vijande *et al.* (2012) indicates a positive relationship between innovation (product, process, administration and marketing innovation) and sustainable competitive advantage. The results of empirical studies form the basis of following hypotheses:

H6: Innovation had a positive effects on competitive advantage of MSEs.

Transformational leadership can directly enhance the company's competitive advantage (Singh, 2013; Menguc *et al.*, 2007). Characteristics of transformational leadership also increase innovation (such as Chen *et al.*, 2012; Tipu *et al.* (2012)).These innovations enhance the company's competitive advantage (such as Wingwon, 2012; Santos-Vijande *et al.*, 2012). Empirically it becomes the basis of following hypothesis:

H7: Innovation mediated the effects of transformational leadership on competitive advantage of MSEs.

The process to create organizational knowledge to attracts new knowledge from existing ones (organizational learning) was paramount in innovative activities. Creation of organizational knowledge was a process that reinforces innovation (Nonaka and Takeuchi, 1995). Organizational learning supports creativity, inspires new knowledge and ideas, enhances the ability to understand and apply these ideas, thereby enhancing organizational innovation (Santos-Vijande *et al.*, 2012). The more innovative the product, service or method, the greater the critical capacity level, the necessary new skills and relevant knowledge (Senge *et al.*, 1994). The results of Santos-Vijande *et al.* (2012); Sanz-Valle *et al.* (2011); Skerlavaj *et al.* (2010); Cerne *et al.* (2012) observed a positive relationship between organizational learning and organizational innovation. The above empirical arguments and evidence support the hypothesis as follows:

H8: The organizational learning ability had a positive effects on innovation of MSEs.

Organizational learning will support the company's responsiveness to environmental dynamics, and cost leadership, thus accumulatively promoting competitive advantage (Vinayan *et al.*, 2012; Johannessen & Olsen, 2009). The organizational learning capabilities also positively affect on innovation (Skerlavaj *et al.*, 2010; Cerne *et al.*, 2012).In addition, innovation increases competitive advantage (Wingwon, 2012; Chen *et al.*, 2009). The thoughts and results of se empirical studies form the basis of following hypotheses:

H9: Innovation mediated the effects of organizational learning capabilities on competitive advantage of MSEs.

3. RESEARCH METHODS

The research was designed by explanatory research approach. The population are 172 MSEs under CSR Program of PT. TELKOM Regional Division II which spread in Jakarta, Tangerang, Depok, Bogor, and Bekasi. The samples were 144 leaders / managers of MSEs are selected by proportionate random sampling method based on production area. The primary data was conducted by cross section for 5 months (April-August 2016) using questionnaires with 5 Likert scales ranging from 1 = very low to 5 = very high (Malhotra, 2010). SEM analysis was based on 101 questionnaire contents (response rate 82.64%, usability rate 70.14%) using software SPSS version 22 and WarpPLS (Partial Least Square) 3.0.

Transformational leadership was measured reflectively by five indicators: idealized influence attributes, idealized influence behaviors, inspiration motivation, intellectual stimulation, and individualized consideration, adapted from Multifactor Leadership Questionnaire (MLQ) from Bass and Avolio (2000). Organizational learning capabilities were organizational and managerial characteristics that facilitate organizational learning. Organizational Learning Capability was measured reflectively from five indicators: managerial commitment and empowerment, experimentation, interaction with the external environment and openness, risk taking, and transfer of knowledge and integrity, adapted from Tohidi *et al.* (2011). Innovation was measured formatively from indicators of product innovation, process innovation, organizational innovation and marketing innovation, adapted from Reniati (2013). The competitive advantage of MSEs was measured

formatively from indicators: uniqueness of products and services, product and service variation, product price / value, company reputation and customer experience, adapted from Reniati (2013). The entire item questionnaire passed the validity test, and measurement of each variable had Alpha Cronbach > 0.80 (very reliable).

4. RESULTS AND DISCUSSION

4.1. Descriptive Analysis Results

MSEs research objects spread in 9 regions with various types of business. Nearly half (48%) of MSEs produce in Bogor and Tangerang, the rest spread in 7 other areas. Type of clothing occupies the highest portion of 36.6%, then the type of drug or food business of 24.4%. Descriptive statistical analysis showed that respondents were dominated by women (64.4%) with mature and adult age range (37 - 50 years), and high school education. Level of education and mature age group makes respondents had maturity in thinking and acting and stability in career choice as an entrepreneur.

The average transformational leadership score was included in high score (score 3.75) supported by almost half (46.78%) of respondents gave a “high” rating and almost none (0.25%) of respondents rated “very low”. All transformational leadership indicators had a high average score, indicating a “high” level of effectiveness. Based on item data, MSEs leaders had excellent ability to understand different characteristics of each individual so that different attention and treatment were needed. This understanding will help leaders build effective communication necessary to improve their leadership effectiveness. However, their ability was medium to criticize the truth of assumptions that existed so far.

The average score of organization’s learning capabilities was 3.72 and was included in “high” predicate supported by almost half (48.37%) of respondents providing an assessment with a “high” rating. No respondents give a “very low” rating. Strong organizational learning skills were also reflected by “high” ratings in risk-taking indicators, knowledge transfer and integration, experimentation, and managerial and empowerment commitments, and “moderate” assessments in interaction indicators with external environment and openness. Based on item data, leader had excellent skills in informing employees of newness in order to support knowledge transfer and integration, but their ability was medium in encouraging employees to interact with the outside environment.

The average innovation score in “high” category (average score 3.76) was supported by almost half (47.09%) of respondents. But it still found 6.44% respondents who gave the assessment “very low”. Based on item data, the price discount had the highest score of 4.42 (very high category), the innovation test to find new product or design had the lowest value of 1.80 (very low category). This was allegedly due to limited capital and MSEs resources.

The average score of competitive advantage of MSEs was in “high” category. It was supported by almost half of respondents, but it its till found 1.32% of respondents who rated the competitive advantage in predicate “very low”. The competitive advantage of MSEs was achieved by offering a short (not time consuming) product purchase. Instead the company provides different purchasing services with the services of other companies having the lowest value. It shows that MSEs had been good at offering short purchases so decrease buyers’ time, but unable to provide different types of services compared to other companies.

Loading factor evaluation indicate that intellectual stimulation had a dominant contribution to reflect transformational leadership with the largest loading factor value of 0.932. Experimental indicator for organizational learning variable was 0.862, product and process innovation for innovation variable had loading factor of 0.895, and uniqueness of product and service for competitive advantage variable had loading factor of 0.805.

5. ANALYSIS RESULTS AND MODEL EVALUATION

5.1. Measurement Model and Overall Model

Transformational leadership and organizational learning variables were measured by reflective indicators. There were three criteria to assess the reflective measurement model in SEM-PLS namely: (1) Internal consistency reliability: Composite reliability and Cronbach alpha > 0.70 (in exploratory studies 0.60 - 0.70 was acceptable); (2) Convergent validity: loading indicator > 0.7; And 3) Discriminant validity: a) Average Variance Extracted (AVE) square roots > correlation between constructs, b) loading indicator to measured constructs larger than loading to other constructs (low cross loading) (Fornell and Larcker 1981).

Composite reliability of transformational leadership and organizational learning capabilities variables were 0.923 and 0.893, respectively. Cronbach alpha coefficients were 0.894 and 0.847, respectively. These value are > 0.7 so that the instrument reliability requirements had been met. Combined loading on all indicators > 0.70 with p-value < 0.001, so the construct measurement has fulfilled the convergence validity requirements. The estimated loading values for each indicator shows that the intellectual stimulation indicator was most dominant to reflects transformational leadership variable, and experimentation indicator was dominant to reflects organizational learning. Average variance extracted (AVE) was used for the evaluation of convergent validity. Instruments otherwise meet the requirements of convergent validity when the AVE value is > 0.50 (Fornell and Larcker, 1981). AVE = 0.710 for transformational leadership, and AVE = 0.629 for organizational learning capabilities, so that the criteria have been met. Cross-loadings value was lower than the construct loading, so it fulfills the discriminant validity. In addition, the Square Roots of Average Variance Extracted (AVE root) value in relevant construct was the highest value compared to other constructs. This indicates that the construct measurement has met the discriminant validity criteria. It can be concluded that the instrument of transformational leadership and organizational learning variables measured from its indicators reflectively meets the criteria to be accepted because of its validity and high reliability.

The innovation and competitive advantage variables were measured from the formative indicators. There were two criteria on formative measurement model: 1) Indicator weight must be statistically significant (P-value < 0.05), and 2) Multicollinearity: Variance Inflation Factor (VIF) < 3.3. Computational results with WarpPLS 3.0 obtained P-value indicator weight on all indicators of innovation and competitive advantage < 0.01 with VIF < 3.3. It can be concluded that the research instrument of innovation and competitive advantages variables that were measured from its formative indicators have met the criteria to be accepted because it had a high validity and reliability.

Criteria for data model fit (Kock, 2011) were as follows: 1) APC and ARS values must be significant (smaller than the real level, ie 0.05); 2) The AVIF value as a multicollinearity indicator must be less than 5.

Table 1
Model fit indices and P values

<i>Model Fit Indices</i>	<i>Values</i>	<i>Probabilities</i>
Average Path Coefficient (APC)	0.430	<0.001
Average R-squared (ARS)	0.667	<0.001
Average Variance Inflation Factor (AVIF)	3.087	Good if < 5

Source: Output Warp PLS 3.0, 2017

The general result shows the P value for Average Path Coefficient (APC) and Average R-squared (ARS) is < 0.001 (the means < 0.05). Average Variance Inflation Factor (AVIF) = 2.673 (the means < 5). Thus the model proposed and analyzed was supported by the data.

5.2. Hypothesis Testing Research

Hypothesis testing of research conducted to determine the effect of exogenous variables on endogenous variables. The test results were presented in following table.

Table 2
Direct Effect Between Variables Within Model

	<i>Variables</i>	<i>Path Coefficient</i>	<i>P-Value</i>	<i>Decision</i>
Within Model	Transformational Leadership ⇒ Competitive Advantage	0.030	0.401	Rejected
	Transformational Leadership ⇒ Organizational Learning Capability	0.789	< 0.001	Accepted
	Organizational Learning Capability ⇒ Competitive Advantage	0.255	0.054	Rejected
	Transformational Leadership ⇒ Innovation	0.297	< 0.001	Accepted
	Innovation ⇒ Competitive Advantage	0.608	< 0.001	Accepted
	Organizational Learning Capability ⇒ Innovation	0.599	< 0.001	Accepted
	Transformational Leadership ⇒ Organizational Learning Capability ⇒ Innovation ⇒ Competitive Advantage (3 segment)	0.352	< 0.001	Significant
Without Mediator Variables	Transformational Leadership ⇒ Competitive Advantage	0.622	< 0.001	Significant
	Organizational Learning Capability ⇒ Competitive Advantage	0.737	< 0.001	Significant

Significant at 5% error rate; *n* = 101

Source : Output Warp PLS 3.0, 2017

Based on statistical analysis results, hypothesis testing in this study was described below.

- 1. The Effects of Transformational Leadership on Competitive Advantage of MSEs :** The estimated value of path coefficient the direct effects of transformational leadership on competitive advantage was 0.030 with p -value = 0.401. The probability value > 0.05 proves the rejection of H1 that transformational leadership has no direct effect on competitive advantage. On other hand, estimated value the part coefficient of transformational leadership impact to the competitive advantage without involving the mediation variable, equal to 0.622 with p -value < 0.001 . The mediation variables has reduced the direct effect of transformational leadership on competitive advantage of MSEs.

Factor loading analysis shows that intellectual stimulation was an indicator with a dominant role to reflect transformational leadership, as well as the uniqueness and variety of products and services for the competitive advantage variable. But intellectual stimulation also had a low average value, even the unique indicators of products and services had the lowest average value. On contrary, the highest average score for MSEs leaders was on ideal behavioral indicator, so effective in making the leader as an admired role model, but less relevant than the intellectual stimulation indicator in promoting the members of organization develops creativity and innovation, resulting in uniqueness and variation of products and services.

Intellectual stimulation, inspirational motivation and individual considerations were relevant to the support of competitive advantage through organizational learning and innovation. The direct effect of transformational leadership SMEs on competitive advantage in this research model can be interpreted as the effect of transformational leadership on competitive advantage without through organizational learning and innovation. Therefore, the direct effect leads to the effect of ideal characteristics and behavior indicators on uniqueness and variation of products and services. It shows that the implementation effectiveness of low intellectual stimulation and the effect of high ideal behavior by leaders cannot generate uniqueness and variation of products and services. Therefore, the direct effect of transformational leadership (without through organizational learning and innovation) was not significant to the competitive advantage of MSEs.

- 2. The Effects of Transformational Leadership on Organizational Learning Capabilities:** The estimation value of path coefficient the direct effect of transformational leadership toward organizational learning equal to 0,789 with p -value $< 0,001$ proves acceptance of H2 that transformational leadership had positive effect of organizational learning capabilities. These results reflect that the implementation effectively of ideal characteristics, ideal behavior, inspirational motivation, intellectual stimulation, and individual considerations by leaders will improve the learning process in MSEs.

The results reinforce the concept advanced by experts that transformational leadership builds teams and supports them for processes of organizational change and learning (Bass, 1999); Transformational leadership allows leaders to open up to learn, to become a driving force, and to provide whatever was needed to overcome internal and external difficulties to build learning within organizations (Wick and Leon, 1995). These results were also consistent with the results of previous empirical studies such as: Aragon-Correa et al. (2007); Garcia-Morales, Matias-Reche, & Hurtado-Torres (2008); García-Morales, Llorens-Montes, & Verdú-Jover (2006); Garcia-Morales

et al. (2012) which shows that transformational leadership had a positive and significant direct effect on organizational learning.

3. The Effect of Organizational Learning Capabilities on Competitive Advantage of MSEs:

The estimation value of path coefficient of direct influencing of learning organization capabilities toward the competitive advantage equal to 0.255 with p -value = 0.054 proves the rejection of H3 that the organization learning capabilities had no direct effect on competitive advantage. On other hand, the path coefficient estimate of effect of organization learning capabilities to the competitive advantage without involving innovation as the mediation variable was 0.737 with p -value <0.001 (meaning significant). It appears that the presence of innovation as a mediating variable has reduced the direct effect of organizational learning capabilities on competitive advantage of MSEs.

The result of loading factor analysis found that the experimentation (acceptance and handling of new ideas with sympathy) was the dominant indicator to reflect the organizational learning capabilities, as well as the uniqueness and variation of products and services for the competitive advantage of MSEs. But the highest average score on organizational learning capabilities was in risk-taking indicators which had the lowest loading factor, while the uniqueness of products and services indicators that play a dominant role in forming competitive advantage actually had the lowest value. The low value of uniqueness products and services was mainly contributed by the low value of uniqueness of offered services. It appears that high risk taking on MSEs cannot result in a high uniqueness of products and services because it fails to produce the unique sales services offered. The results of in-depth interviews indicate that the limited knowledge and experience of new types of services in product sales, and view that failure in sales will be fatal to business sustainability, keeps them sticking to conventional sales services

4. The Role of Mediation of Organizational Learning Capabilities on Effects of Transformational Leadership on Competitive Advantages of MSEs:

The role of mediation in this study was analyzed through coefficient differences as suggested by Baron and Kenny (1986), Kock (2011). The requirements for the effect of mediation are: 1) the direct effect of exogenous variables on endogenous variables without involving the mediation variables must be significant; 2) the indirect effect of exogenous variables on endogenous variables through mediation variables should be significant. If the requirements were met and direct effect by involving the non-significant mediation variables will form a perfect mediation, on contrary if significant direct effect will constitute partial mediation. The results of analysis show that the direct effect of organizational learning capabilities on competitive advantage was not significant (H3 rejected). This result leads to the indirect effect of transformational leadership on competitive advantage through organizational learning capabilities was not significant so that it does not meet the requirements of mediation effect. This result proves the rejection of H4 that organizational learning capabilities do not mediate the effect of transformational leadership on competitive advantage of MSEs.

5. The Effects of Transformational Leadership on Innovation :

The estimation of direct path coefficient of transformational leadership toward innovation equal to 0.297 with p -value <0.001 proves the acceptance of H5, that transformational leadership had a significant effect on innovation. These results reflect that the implementation effectively of ideal characteristics,

ideal behavior, inspirational motivation, intellectual stimulation, and individual considerations will improve innovation in MSEs. This result supports the theory and concept of transformational leadership that transformational leaders produce better innovation by using the effect of ideal characteristics, the effect of ideal behavior, inspirational motivation, intellectual stimulation, and individual considerations. The transformational leader had charisma, inspires, and promotes intellectual stimulation. These characteristics encourage an organizational communication and learning process that enables organizations to be more innovative (Bass, 1999). These results were also consistent with the results of previous empirical studies such as: Tipu et al., 2012; Garcia Morales, 2012); Cerne et al. (2012); Tohidi et al. (2012) which shows that transformational leadership positively and significantly affects on innovation.

Based on these findings, the strategies used to improve innovation in MSEs were the implementation of intellectual stimulation, of ideal behavior, affects of ideal characteristics, inspirational motivation, and individual considerations effectively by focusing on product innovation, process innovation, organizational innovation, and marketing innovation.

6. **The Effects of Innovation on Competitive Advantage :** The estimation of path coefficient of effect of innovation on competitive advantage equal to 0.608 with p-value <0.001 proves the acceptance of H6, that innovation had a significant effect on competitive advantage. These results reflect that improved of product innovation, process innovation, and organizational innovation and marketing innovation will increase competitive advantage for MSEs.

These results support the theory of Dynamic Capabilities View (DCV) within Capabilities Base View framework that the company's dynamic capabilities to innovate will determine competitive advantage that was understood as the ability to adapt and reconfigure resources and capabilities (Eisenhardt & Martin, 2000). These results also reinforce the concepts put forward by experts such as: Rojas et al. (2013); Ali Ekber Akgün et al. (2010); Camison and Vilar-Lopez (2011) that innovation was an important factor in modern organizations as it will increase competitive advantage. Innovation was created leads to lower production costs, useful new knowledge, new products, new production processes, new work techniques and new work procedures which in turn will result in long-term competitive advantage (Wingwon, B. 2012).

Based on above findings, the strategies undertaken to increase competitive advantage for MSEs were to improve product innovation, process, organizational and marketing innovation with a focus on uniqueness and variety of products and services, customer experience, product price and value.

7. **The Mediation Role of Innovation on Effects of Transformational Leadership on Competitive Advantage of MSEs:** The result of analysis shows that the direct path coefficient of transformational leadership toward innovation in model was 0.297 with P-value < 0.001 (significant). Furthermore, the coefficient of effect of innovation on competitive advantage was 0.608 with p value < 0.001 (significant). The magnitude of transformational leadership coefficient effect on competitive advantage without involving the mediation variable was 0.622 with p-value < 0.001 (significant). This condition satisfies the requirements of mediation effects, thus proving H7 hypothesis accepted, that innovation mediated the effect of transformational

leadership on competitive advantage. Furthermore, the estimation of path coefficient the direct effect of transformational leadership on competitive advantage by involving innovation as mediation variable was 0.030 with P-value = 0.401 (not significant). These results prove innovation as a complete mediation variable of transformational leadership affects on MSEs competitive advantage.

These results indicate that the improvement of transformational leadership that was reflected primarily through intellectual stimulation can improve the innovation formed primarily by product and process innovation. Furthermore, high innovation will increase the MSEs competitive advantage which was mainly formed by the uniqueness and variety of products and services.

8. **The Effect of Organizational Learning Capabilities on Innovation:** The estimation of path coefficient the effect of organizational learning capabilities on innovation is 0.599 with p -value < 0.001 . It proves the acceptance of H8, that the organizational learning capabilities significantly affect on innovation. This result supports the theory of organizational learning as argued by Argyris and Schon (1978) that the double-loop learning model, deuterio-learning or Anticipatory learning, enables organizational members to develop new creativity, knowledge and ideas, improve the ability to understand and apply new ideas innovation oriented. These results also reinforce the concepts advanced by experts that the more innovative the products, services, the greater the critical capacity level, the new skills and relevant knowledge was needed (Senge et al., 1994). The process of creating organizational knowledge, which attracts new knowledge from existing ones (organizational learning), was paramount in innovative activities. Creation of organizational knowledge was a process that reinforces innovation (Nonaka and Takeuchi, 1995).

This study results were consistent with the results of previous empirical studies, such as Sanz-Valle et al. (2011); Skerlavaj et al. (2010), Cerne et al. (2012, Tohidi et al., 2012), Andjarsari et al. (2013), Garcia-Morales et al. (2007) who found a positive effect of organizational learning on innovation.

The strategies employed to improve innovative findings were to enhance the organizational learning capabilities by prioritizing experimentation (awareness and sympathetic treatment of new ideas and employee suggestions), knowledge transfer and integration, interaction with the external environment and openness, managerial commitment and empowerment, and risk taking

9. **The Role of Innovation Mediation on Effects of Organizational Learning Ability on Competitive Advantage:** The result of analysis shows that the path coefficient the effect of organizational learning capabilities toward innovation was 0.599 with P-value < 0.001 (significant). Furthermore, the path coefficient of effect of innovation on competitive advantage was 0.608 with p value < 0.001 (significant). The path coefficient value the effect of organizational learning capabilities on competitive advantage without involving mediation variable was 0.737 with p -value < 0.001 (significant). These conditions satisfy the requirements of mediation effects, thus proving H9 hypothesis accepted that innovation mediated the effect of organizational learning capabilities on competitive advantage. Furthermore, the estimation of path coefficient of direct effect of organizational learning capabilities to competitive advantage by involving innovation as mediation variable was 0.255 with P-value = 0.054 (not significant). These results prove innovation as a perfect mediation variable the effect of organizational learning capabilities on MSEs competitive advantage.

Further analysis of indirect effect of transformational leadership on competitive advantage through organizational learning and innovation (3 segments) resulted in a path coefficient of 0.352 with P-value <0.001 (meaning significant). Path coefficient the direct effect of transformational leadership on competitive advantage without involving mediation variable equal to 0,622 with P-value <0,001 (meaning significant). This condition qualifies for organizational and innovative learning ability variables as a mediation variable. The path coefficient of direct effect of transformational leadership on competitive advantage in model was 0.030 with P-value 0.401 (not significant). It appears that the presence of organizational and organizational learning capacity variables as mediation variables has reduced the direct path coefficient of transformational leadership to significant competitive advantage to insignificant. These results prove that organizational learning and innovation abilities mediate perfectly the effect of transformational leadership on SMEs competitive advantage. This finding was one originality of this study.

6. RESEARCH FINDINGS

Based on results mentioned above, the findings of this study were follows. 1) Creating the conceptual model to integrated the effect of transformational leadership indirectly through organizational learning and innovation significantly to MSEs competitive advantage; 2) innovation fully mediated transformational leadership and organizational learning on MSEs competitive advantage; 3) Organizational learning and innovation of perfect mediation of transformational leadership affects on MSEs competitive advantage; 4) Intellectual stimulation was the dominant indicator to reflect transformational leadership and becoming a key factor in effort to increase competitive advantage of SMEs through organizational learning and innovation.

7. LIMITATIONS OF RESEARCH

Limitations of this study stem from the attitude of most respondents who were very careful in order to maintain good relations with PT. TELKOM as a coach company so that potentially reduce the freedom and objectivity of respondents in filling out questionnaires and express opinions.

8. RESEARCH IMPLICATIONS

This study results reinforce the transformational leadership theory developed by Bass and Avolio (2000) that transformational leaders do more with peers and followers to achieve superior results using one or more of “Four I” namely: Idealized Influence (II), Inspirational Motivation (IM), Intellectual Stimulation (IS), and Individualized Consideration (IC).

This study results reinforce the concepts and results of empirical studies presented by experts (Garcia-Morales et al., 2008; Gumusluoglu and İlsev, 2009; Liaw, Chi, & Chuang, 2010) that transformational leaders had charisma, inspire, and promote stimulation Intellectual. These characteristics drive the process of communication and organizational learning that enables organizations to be more innovative. Furthermore, with the ability of organizational learning and high innovation allows companies to gain high competitive advantage.

This study results reinforce the concepts and results of empirical studies presented by experts (such as Coad and Berry, 1998; Senge et al., 1994; Wick and Leon; 1995; Aragon-Correa et al., 2007; Garcia-Morales et al. Garcia-Morales et al., 2012; Camps and Rodriguez, 2011) that transformational leadership was positively associated with organizational learning.

This result supports the theory of organizational learning as argued by Argyris and Schon (1978) that the double-loop learning model, deutero-learning or Anticipatory learning, enables organizational members to develop new creativity, knowledge and ideas, improve the ability to understand and apply ideas-oriented technical and non-technical innovations within organization.

These results also reinforce the concepts and results of empirical studies of experts (such as Nonaka and Takeuchi, 1995; Senge et al., 1994; Skerlavaj et al., 2010; Cerne et al., 2012; Tohidi et al., 2012; Garcia-Morales, et al., 2007; that organizational learning had a positive effect on innovation, both technical and non-technical.

This study results reinforce the theory of Dynamic Capabilities View (DCV) within Capabilities Base View framework that the company's dynamic ability to innovate will determine competitive advantage that was understood as the ability to adapt and reconfigure resources and capabilities (Eisenhardt& Martin, 2000).

This study results reinforce the concepts and results of empirical studies presented by experts (Wingwon, B. 2012; Camison and Vilar-Lopez, 2011; Rojas et al., 2013; Ali EkberAkgün et al., 2010; Johannessen& Olsen, 2009; Naidoo, V., 2010; Santos-Vijande et al., 2012) that there was a positive relationship between technical and non-technical innovations with the company's competitive advantage.

The global implications of this research provide an understanding of conceptual integration of structural relationships and importance of transformational leadership aspects in enhancing organizational learning and innovation to achieve competitive advantage of SMEs through intellectual stimulation, experimentation, product and process innovation, and uniqueness and variety of products and services.

9. CONCLUSIONS AND RECOMMENDATIONS

9.1 Conclusion

Effective transformational leadership through the implementation of influence of ideal characteristics, the influence of ideal behavior, inspirational motivation, intellectual stimulation, and individual considerations directly cannot to increase the competitive advantage of MSEs. Effective transformational leadership was able to improve organizational learning ability, but strong organizational learning ability directly cannot improve the MSEs competitive advantage. Therefore, organizational learning does not mediate the effect of transformational leadership on competitive advantage of MSEs.

Effective transformational leadership can improve MSE innovation. Furthermore, high innovation can improve the MSEs competitive advantage. Innovation mediated perfectly the effect of transformational leadership on competitive advantage of MSEs. Strong organizational learning ability can improve innovation and further innovation was high able to increase the SMEs competitive advantage. Innovation mediated perfectly the effect of organizational learning on competitive advantage of MSEs. The ability of organizational learning and innovation mediated perfectly the effect of organizational learning on MSEs competitive advantage.

9.2. Suggestion

SMEs leaders / managers should focus attention on intellectual stimulation to improve effectiveness of transformational leadership, experimentation in organizational learning, product innovation and process to shape innovation, and uniqueness and variety of products and services to shape the competitive advantage of MSE enterprises.

The model accuracy of this study was 0.694, it shows that 69.4 percent variance of competitive advantage can be explained by transformational leadership, organizational learning, and innovation variables, and remaining 30.6 percent was explained by other variables. Future research should develop research model by adding other variables such as entrepreneurship orientation and business strategy, or can also develop other measurement model. Some empirical studies show that business strategies were can generate a performance for the company (eg, Ritter & Gemenden, 2004; Hankinson, 2000). The study results of Mustikowati and Tyasari (2014) in small and medium enterprises at Central Malang Regency confirm that entrepreneurship orientation and business strategy and innovation had positive and significant effect to SME performance, and it was expected to affect on SMEs competitive advantages.

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