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Role of Strategic Leadership, Entrepreneurial Orientation, and Innovation on Small and Medium Enterprises Performance

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ABSTRACT

Small and Medium Enterprises (SME's) is one contributor to employment, growth in gross domestic product (GDP), and non-oil exports. And these types of businesses capable of facing exposure to storms of crisis and also has the ability to recover more quickly than a larger business. As one of the strategic program on poverty alleviation, then Identification of the factors driving the performance of SMEs needs to be done in order to determine its impact on growth and poverty reduction efforts.

This study uses Causal explanatory, which trying to explain the causal relationship between exogenous variables (strategic leadership, entrepreneurial orientation, innovation) with an endogenous variable (SME's performance), and the population is the entire small business in the province of South Sulawesi. Criteria for small businesses based on the criteria according to Law Number 20 The year 2008 on Micro, Small and Medium Enterprises. Samples were taken in some of the Regency/City which is considered to represent the economic growth in the province of South Sulawesi. The data will analyze using statistical tools Multiple Regression Analysis.

Results show that Strategic Leadership, Entrepreneurial Orientation, and Innovation affect Small and Medium Enterprises Performance significantly, both simultaneously and partially.

Keywords: Strategic Leadership, Entrepreneurial Orientation, Innovation, SME's Performance.

1. INTRODUCTION

Small and Medium Enterprises (SME's) are one of the contributors to job opportunities, growth of gross domestic product (GDP), and non-oil and gas exports. This type of business is able to cope with the storm of crisis and also has the ability to recover faster than the larger business units.

These conditions and facts are in line with the results of empirical research by Demirbag et. al., (2006) which conclude that the success of small and medium scale enterprises has a direct impact on economic development in both developed and developing countries. The existence of SMEs today is very important because of the main characteristics it has, one of them because it is a labor-intensive business that absorbs a lot of labor (Tambunan, 2012). SME's have the ability to create employment at minimum cost, they are pioneers in the world of innovation and have the high flexibility that enables such businesses to meet the needs (Acs and Audretsch, 1990).

Data from Indonesia Ministry of Cooperatives and SME shows that the number of small-scaled business units varies by economic sector, and is concentrated in agriculture, livestock, forestry and fishery, which in 2011 amounted to 26,685,710 units and in 2012 increased to 26,967,963 units or increased by 1.06%, as well as small businesses in the trade, hotel and restaurant sectors, the number of small businesses has increased significantly from 15,910,964 in 2011 to 15,918,251 units in 2012 or an increase of 0.05%, on the other hand, small businesses in the building sector has increased significantly from 570,640 units in 2011 to 869,080 units in 2012 or an increase of 52.30%.

Although quantitatively, small businesses are dominant Indonesian economic actors, in reality, this sector is in a marginal position. Small businesses face competition situations with medium and large enterprises both in the input and output markets.

Various past research shows that the small business sector manufacturing sector that experienced growth only business that produces certain superior products. Therefore, efforts to identify investment opportunities in small business activities that produce superior products that have the power to develop a need to be done. In addition to having a high enough added value also absorb a lot of workforces.

Although small businesses contribute significantly to the Indonesian economy, like other small businesses in the world are hindered by various obstacles such as lack of innovation, lack of initiative and capability for new technologies, which contributed to substantial causes that hamper the growth performance of small businesses (Kuswantoro et. al., 2012).

The emergence of problems in small business is caused by several factors. Factors that influenced are human resources include the level of education and skills of entrepreneurs, especially those related to marketing. Entrepreneurs with adequate skills will be able to develop marketing plans and strategies, including product development, pricing policies, promotion and distribution (Tambunan 2012). One of the causes of Indonesia's small business performance is much lower than that of small enterprises in developed countries such as Europe, USA, Taiwan, and South Korea is due to the low degree of development or information technology. Whereas in the era of free trade and globalization of the world economy, technology and human resources are two dominant factors in determining the level of competitive advantage of a product or company.

Generally, entrepreneurs or small business owners/managers are less able to read the environment, due to the lack of accessible information about potential and prospective market opportunities (Hassim et. al., 2011). As a result, product marketing tends to be static and monotonous, both in terms of product diversification, quality, and market. This happens because the knowledge and skills of the entrepreneurs or owners/managers of small businesses are still weak plus the lack of market information access and supporting institutions that have not played their role particularly in terms of helping the marketing (Chandra, 2013).

Another obstacle faced by small businesses is that innovation. Innovation is one of the basic instruments as a new growth strategy to enter the market, to increase existing market share and provide the company to be competitive. (Gunday et. al., 2009). One way to develop and improve competitive advantage and improve performance is through the utilization of resources and improving innovation for small businesses (Hilmi and Ramayah, 2008).

And the company which is able to innovate will enable it to survive in competition and gain significant benefits. A number of researchers found innovation to have a positive relationship with firm performance (Calantone, et. al., 2002; Erdil et. al., 2004; Greenberg & Baron, 2008; Gunday et. al., 2009; Tewal et. al., 2010). Lin and Tseng (2005) suggest that innovation is an important factor in maintaining the company's global competitiveness.

Because Innovation is a driver of corporate growth, driving future success and driving the company to survive in the global economy (Hog and Chowdhury, 2012). This shows that innovation is important for any commercial company in the world (Hassim et. al., 2011).

Innovation is also a response to the dynamic conditions, the condition of the business environment that is changing rapidly (Awang et. al., 2009). According to Gray, et. al., (2002) the innovation capability of a company will ensure the company's competitive ability. Therefore innovation is an important concept to be studied because it also gives a big impact on the success of the company. In the opinion of Cooper (1998), innovation plays an important role in organizations because innovation creates and sustains sustainable competitive advantage.

Creativity and innovation are central to the entrepreneurial process (Barringer and Ireland, 2006). Creativity and innovation are considered inseparable from entrepreneurship, which in turn translated into actions starting and running a company (Baldacchino, 2009). Creativity is not enough just to come up with ideas. Therefore, to be able to motivate employees in innovation and creativity required leadership that is able to motivate employees (Rowe and Nejad, 2009).

2. LITERATURE REVIEW

2.1. Strategic Leadership

Hitt et. al., (2007) defines strategic leadership as "the ability to anticipate, imagine, maintain flexibility, think strategically, and work with others to make changes that will create a good future for the organization." Meanwhile Daft (2005) defines strategic leadership as a process of providing the direction and inspiration necessary to create and implement organizational vision, mission, and strategy to achieve organizational goals. Strategic leadership should involve managers at the top, middle, and lower levels of the organization. Strategic leadership is one's ability to anticipate, dreaming, maintain flexibility, think strategically, and work with others to initiate change that will create a better future for the organization.

Rowe and Nejad (2009) define strategic leadership as the ability to influence others to make decisions at any time that can achieve organizational viability in the long term while maintaining financial stability in the short term.

The most important aspects of strategic leadership are clear values and visions, both of will allow employees to make informed decisions with minimal official monitoring or control mechanisms. With this accomplishment, a leader will have more time and greater capacity to focus on, other issues, such as adopting a vision for a changing business environment. In addition, strategic leadership will combine visionary and managerial leadership by simultaneously enabling it to take risks and rationality (Rowe and Nejad, 2009).

Hitt et. al., (2007) suggested strategic leadership as the ability to anticipate, create a vision, and maintain flexibility and empower employees to create the necessary strategic changes. Boal & Hooijberg (2001) focuses on the level of individual competence. They suggest that effective strategic leadership must create, maintain, and adjust capacity to gain managerial wisdom. Capacity includes the ability to learn by introducing new information, integrating and using it in the discipline. Adaptive capacity includes the ability to change according to conditions and situations.

2.2. Entrepreneurial Orientation

The entrepreneurial orientation according to Lumpkin and Dess (1996) is the company's overall radical innovation, proactive strategic action and risk-taking activities embodied in support of projects related to those dimensions.

Furthermore, according to Miller (1983), a company is said to be a company with an entrepreneurial orientation is if the company is "first in market product innovation, risk-taking, proactive in innovation". Thus the entrepreneurial orientation is "as processes, practices, and activities that use product innovation, take risks, and strive to proactively innovate in order to beat competitors".

According to Muchtolifah (2009), entrepreneurship orientation is the organizational capability contributes to the creation of unique organizational resources, positional advantages that affect performance. Meanwhile, Ginsberg (1985) said that the notion of an entrepreneurial orientation as the tendency of individuals to innovate, proactive and willing to take risks to start or manage the business. According to Morris and Paul in Fayolle (2007), entrepreneurship orientation is a top management tendency to take calculated, innovative and proactive risks.

Zahra and Covin (1995) argue that entrepreneur-oriented companies can reach their target market and are in a more up front market position than their competitors. The company constantly monitors market changes and responds quickly, then gains profit in risky markets. Innovation puts them in front of competitors, gaining a competitive advantage which will bring financial growth. Proactively gives the company the ability to introduce new products or services in front of competitors, which will also give them a competitive advantage.

Miller (1983) devised a scale for empirical measurement of the entrepreneurial orientation. Covin and Slevin (1986, 1989) modified Miller's measurement instruments in his study of 'entrepreneurial posture'. Wiklund (1998) identifies that no less than twelve studies are based on instruments from Miller, Covin, and Slevin. These studies suggest that the measurement instrument is an instrument that can be used to measure the level of company entrepreneurship.

Although the scale of Miller, Covin, and Slevin was successful and popular in measuring the level of entrepreneurship, the measurement scale was criticized for its weaknesses. This may be the case because actual items represent past behavior and attitude at this point. However, many agree to use the concept of Miller because it captures and covers a broad aspect of entrepreneurial activities within the enterprise (Wiklund, 1999). So to create the right business strategy to create goods of value and excel in the market (Lee & Tsang, 2001 in Suci, 2009).

2.3. Innovation

The dimension of innovation as the first dimension of the entrepreneurial orientation reflects the company's propensity to use and support new ideas, new things, experiments, and creative processes that will bring results to new products, new services, new technological processes. Environmental dynamics and competition force companies to become innovative in business development and to develop learning behavior (Erdil et. al., 2004). The importance of managerial emphasis on creating an internal business environment conducive to innovative activities (Hog and Chowdhury, 2012). Similarly, proposed by Zaltman, Duncan, and Hobek (1973) that innovation is defined as an idea, practice, or material considered new by the relevant adoption unit. More clearly and broader, Amabile (1996) defines innovation as a successful implementation of a creative idea within an organization.

Although innovation tendencies may vary considerably (Hage, 1980), innovation is a basic willingness to abandon old and existing technologies and practices to seek new things for the better (Kimberly, 1981). There are several methods that can be done to classify innovations, but the most commonly used to differentiate the degree of corporate innovation is innovation in products and innovation in technology.

In the entrepreneurial process, Penrose (1959) argues that managers with an entrepreneurial orientation are important for organizational growth because they provide important vision and mission to lead to new opportunities. By implementing strategies and innovations important for a manager will increase the chances of survival and development and will improve business performance (Hassim et. al., 2011).

Lieberman and Montgomery (1988) state the importance of companies that proactively address and address opportunities as the best strategy for gaining market opportunities. By exploiting the fluctuation of market changes, the first mover can capture the unusual benefits and get the earliest start in gaining recognition of the existence of the company. Thus, taking initiatives by anticipating and pursuing opportunities and by participating in the emerging markets is also related to entrepreneurship. The second character of entrepreneurship is often referred to as a proactive character.

Dess, et. al., (1984) focuses on innovation, proactive, and risk-taking dimensions used to guide the entrepreneur's orientation. This means emphasizing the process of entrepreneurship rather than the principal (manager) behind it and has some important implications (Gartner, 1988). First, proactive, innovative and risk-taking actions taken by the company may affect other actors inside or outside the organization. Second, emphasizing the actions taken by the company means placing entrepreneurship within the management framework. By doing this, entrepreneurship relationships can be sought in a broader field when compared to a direct relationship to the individual aspect. The study of entrepreneurial orientation in this aspect enables the relationship between traditional management terminology aspects with other variables such as strategy, performance, environment and organizational structure into a study of entrepreneurship. (Wiklund, 1999 in Hog & Chowdhury 2012).

2.4. Performance

According to Harris and Ogbonna (2001) states that performance is a measure of success or achievement that has been achieved by a company that is measured every period of time. The company performance is the achievement of the business as the objective of the company is established that is getting the maximum profit to be able to sustain growth and development. Murphy et. al., (1990) state that the dimensions of corporate performance measurement commonly used in research are the growth, profitability, and efficiency.

According to Sukirman (2012), the definition of performance is the work achieved by an employee in the performance of job assignments assessed based on certain criteria or assessment standards. Performance terms are often used to refer to individual or group success rates. Johnson (2009) in his research measure the performance of a company through the size of market share, sales growth, and the importance of partners that turns out this dimension can also be used to measure company performance. Chandler and Henks (1993) state there are two approaches to measuring company performance that is objective approach and subjective approach. The objective approach is a kind of approach by using the data objectively in the form of financial accounting data, while the subjective approach is the approach to measure company performance based on the perceptions of managers on company performance.

Pelham and Wilson (1996) define company performance as a successful new product and market development, where company performance can be measured through sales growth and market share. Hadjimanolis in Prakosa (2005) said that the researchers suggested sales growth, labor growth, revenue growth and market share growth as the most important performance measurement. It is also based on the argument that growth is a more appropriate and accessible indicator than accounting measurement. It is appropriate to look at financial performance and growth as different aspects of company performance, where each has unique and important information. Together, financial and growth indicators provide a richer description of the actual performance of firms when compared to using their own measurements.

Company performance is a multi-faceted phenomenon that is difficult to measure (Sanchez, 2005: 296). Various literature indicates that both quantitative and qualitative indicators have certain limitations, and are recommended for use in combination. Quantitative measurements such as Return on investment (ROI), profit, sales, and so forth. While qualitative measurement or often referred to as performance indicators, is a performance measurement by using a certain scale approach to performance variables such as: knowledge and business experience; the ability to offer quality products or services; capacity to develop new processes; ability to manage and work in groups; labor productivity; and the company's responsibility to its environment.

Business organizations can measure their performance by using financial and nonfinancial measures. Financial finance is usually sales and profit before tax, while non-financial measures such as customer satisfaction, employee turnover, productivity (Chong, 2008). To measure company performance and the effectiveness of resource use can be done by four approaches, namely objectives, resource system approach, stakeholders approach, and competitive value approach evaluating company performance based on its ability to meet the needs and expectations of external stakeholders, eg, customers, suppliers, and competitors.

Verreyne (2005: 8) measures the performance of small businesses by using measures of the scale of financial performance developed by Covin and Slevin (1989), and Gupta and Govindarajan (1984) whose primary purpose is to describe the limitations of financial data in measuring the performance of small and medium enterprises (SME's). The procedures for measuring the performance of small and medium-sized businesses by Covin and Slevin (1989), Gupta and Govindarajan (1984), include the Likert-scale respondents' assessment of ten financial measures including sales level, sales growth rate, cash flow, own capital control level, gross profit, net operating profit, profit-on-sale ratio, payback rate, ability to finance the company's growth from profit, and overall performance.

Camison in Sanchez & Marin (2005: 294) measures the performance of small and medium enterprises (SMEs) using 3 (three) measurement; profitability, productivity, and market share. Company performance is measured by respondents' wishes for the performance measures (how large the respondents consider or assess the importance of those measures) and the respondents' assessment of how large they are in accordance with what the company achieved (how much satisfaction performance of the company), and its assessment of how big the performance is in accordance with the performance of the company (the level of satisfaction of the company's performance items). The level of importance is calculated based on the level or satisfaction assessment of respondents reaching each item of the performance measure.

3. RESEARCH METHODOLOGY

This research was conducted in several cities in South Sulawesi Province of Indonesia with the consideration that the city is the center of economic activity in South Sulawesi. Type of research is explanatory research conducted to test the influence of variables hypothesized (Cooper & Emory, 1998 in Munir & Ilyas, 2017). The target population in this study are SME's located in several big cities in South Sulawesi.

To determine the number of minimum sample units, criteria in multivariate research including multiple regression analysis was used, ie sample size should be 10 times larger than the number of research variables (Roscoe, 1975 in Munir, 2013). Thus the minimum sample size will be determined 40 samples. With consideration of representation, it will be taken as many as 100 SME's sample in South Sulawesi Province.

The sampling technique used is purposive sampling, that is the sampling technique that is adjusted to the research needs. Implementation of questionnaires distributed in this study was conducted by accidental sampling that is doing research when the researchers met directly with the respondents.

Validity test is done by using Corrected Item-Total Correlation which will produce the value of each indicator of the latent variable. The value greater than 0.30 (Sugiyono, 2010) is used as a cut off value of the validity of the construct indicator. Test reliability is done by using Cronbach alpha. Cronbach alpha value greater than 0.60 (Ghozali, 2011). which is used as a cut off value of construct reliability. To assess the causality relationship between research variables used Multiple Regression Analysis using SPSS software version 23.

4. HYPOTHESES

Hypotheses 1: Strategic Leadership has a positive effect on SME's Performance.

Hypotheses 2: Entrepreneurial Orientation has a positive effect on SME's Performance.

Hypotheses 3: Innovation has a positive effect on SME's Performance.

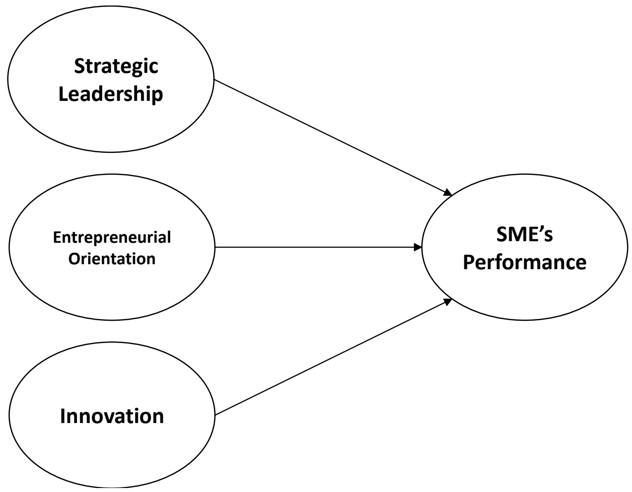

Figure 1: Conceptual Frame

5. RESULT AND DISCUSSION

The result of validity and reliability of research variables shows that all indicators used in this study are valid, it can be seen from all Corrected Item-Total Correlation values which have value above 0.3 which means that all indicators are valid tools for measuring construct research (Munir, 2005). While Cronbach alpha values which are all above 0.60 indicates the reliability of good research constructs.

Multiple Regression Analysis produces the following results:

Model Summary

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.873[a]	.763	.744	.50554171

[a]*Predictors:* (Constant), X3, X1, X2

ANOVA[a]

Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	Regression	32.033	3	10.678	41.779	.000[b]
	Residual	9.967	39	.256		
	Total	42.000	42			

[a]*Dependent Variable:* Y
[b]*Predictors:* (Constant), X3, X1, X2

Coefficients[a]

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
		B	*Std. Error*	*Beta*		
1	(Constant)	–.480	.077		.000	1.000
	X1	.478	.129	.478	3.705	.001
	X2	.364	.129	.364	2.812	.008
	X3	.171	.083	.171	2.048	.047

[a]*Dependent Variable:* Y

It can be seen from the results above that model of Strategic Leadership, Entrepreneurship Orientation and Innovation influence of Small and Medium Enterprises Performance (SME's) has the power of prediction with the value of F-count = 8,227 which is significant at 0.000. While the *t*-test results to test the direct effect, all show significant numbers below 0.005 thus all the hypotheses which mention the influence of Strategic Leadership, Orientation of Entrepreneurship and Innovation on the SME's Performance are accepted.

With Coefficient of Determination (R^2) of 0,873 concluded that about 87,3% variation of change in variables of SME's Performance influenced by Strategic Leadership, Entrepreneurial Orientation, and Innovation variables while the rest influenced by another variable not included in this research.

6. CONCLUSION

There is an influence of Strategic leadership on SME's performance. This result shows that if there is an increase of strategic leadership, it will be followed by improvement of SME's performance. The application of strategic leadership can be done with the entrepreneurial vision of the owner trying to be the person who put forward his business vision, the effective organizational culture giving rewards to the achievement of the employees and balanced control providing constructive feedback to the employees. Implementation of strategic leadership is one of the main efforts to maintain competitive advantage and improve small and medium business performance.

There is an effect of entrepreneurial orientation on small and medium enterprises (SME's) performance. These results indicate that the entrepreneurial orientation in the form of a need for achievement, self-reliance and extraversion are able to improve the performance of small and medium enterprises. Thus the success of the business depends on the motivation of the owner/manager. In other words, the entrepreneurial orientation determines business performance.

There is a positive and significant effect of innovation on SME's performance. These results indicate that one effort to improve small and medium enterprises performance by owner/manager as much as possible is innovation because Innovation is a corporate mechanism to adapt to a dynamic business environment. Therefore the company is required to be able to create new assessments and ideas and offer innovative products.

Suggestions from the results of this study are as follows; Strategic leadership is a variable that can determine the innovation of small and medium businesses. Therefore good Strategic leadership is a concern for owners/managers of small and medium enterprises. Steps that can be taken is to consider the vision of entrepreneurship, effective organizational culture, and balanced controls that exist in small and medium businesses. The entrepreneurial orientation is a variable that can significantly improve the performance of small and medium enterprises. Therefore, the owners/managers of small and medium enterprises always need for achievement and have a high fighting power in trying to achieve business achievement by improving self-reliance and develop attitude extroversion to the surrounding environment. Innovation is a variable that can significantly improve the performance of small and medium enterprises. Because innovation is a key driver for companies to pursue better competitiveness. Therefore, innovation in the scope of small and medium enterprises should be improved and become part of the planning that must be done by the owners/managers of small and medium enterprises to produce superior products and have sustainable competitiveness.

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