The Effect of Entrepreneurial Leadership on MSME Performance in Pasar Lama with Intermediate Variables of Innovation Management and Learning Orientation

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ABSTRACT
This study aims to determine the effect of entrepreneurial leadership on the organisational performance of MSMEs in the Pasar Lama area, Tangerang, with innovation management as a mediating variable and learning orientation as a moderating variable. This study used quantitative analysis methods, and data was collected using a Google Forms questionnaire. There are 100 respondents obtained by the research, all of whom are culinary MSME owners in the Pasar Lama area. The research data was processed using the partial least square structural equation modelling (PLS-SEM) method with SmartPLS 3.2.9 software. The results show that in the context of MSMEs in the Pasar Lama area, entrepreneurial leadership has a positive influence on organisational performance, entrepreneurial leadership has a positive effect on innovation management, innovation management has a positive effect on organisational performance, innovation management mediates the relationship between entrepreneurial leadership and organisational performance, and learning orientation did not moderate the relationship between entrepreneurial leadership and organisational performance.

Keywords: Organisational performance, entrepreneurial leadership, innovation management, learning orientation, MSMEs.

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) has an essential role in the local, national, and global economy and are very important in generating jobs and revenue [1]. MSMEs are the key to economic development in today’s highly competitive business environment [2]. In particular, MSMEs have an essential role in building the global economy by increasing technological development capabilities, diffusion of innovation, and capital mobilisation [3]. Despite their relatively small size, MSMEs are engines of growth and a significant source of innovation and flexibility in the economies of both developed and developing countries [4]. The convenience of MSMEs’ establishment and administrative structure is also very appealing because only a small amount of capital is required to run them [5]. According to Hasan [6], one of the MSME field that is frequently run by the population is the culinary sector. This is because the risks and operational costs of culinary MSMEs are relatively low.

MSMEs have an essential role in people’s lives and play an important role as a support for the progress and development of the Indonesian economy [7]. Most businesses in Indonesia are informal MSMEs that absorb around 90% of the workforce. However, most MSMEs in Indonesia are still traditional and have low competitiveness [8]. Although MSMEs significantly contribute to the
Indonesian economy, they still face difficulties maintaining their performance in a highly competitive environment [9]. Paudel [10] explained that leadership is one of the most important factors towards organisational performance, and committed entrepreneurs with the correct leadership style can be the key to organisational performance’s improvement. Leadership is a form of leadership behaviour that occurs with superior performance [10]. MSMEs need the leadership of an entrepreneur to support the growth, development, and success of business organisations [11]. However, many MSME owners in developing countries lack entrepreneurial leadership skills, so the MSMEs they run have low business innovation and performance [10].

Entrepreneurial leaders adopt management philosophies and practices that lead to innovation management to leverage the knowledge of new methods, processes, and products. They also lead in developing and facilitating innovation [5]. MSMEs can take advantage of innovation management to build unique business models and motivate the development of business creativity [12]. With increasing competition, innovation management has become an essential strategy for business growth and survival [13]. However, MSME leaders have difficulty improving innovation management, especially in encouraging their business members to innovate [14].

Entrepreneurial leadership is also associated with learning orientation that can be used to generate new ideas and innovations in organisations [5]. Researchers have also recognised learning orientation as a contributing factor and determinant of organisational success [15]. Learning orientation increases organisational competitiveness [16]. Business leaders can use a learning orientation to build an environment that can make the most of learning, provide the best solutions for the organisation’s challenges, and translate ideas and challenges into opportunities. Experts have emphasised that MSMEs in developing countries still have an unsatisfactory learning orientation, so MSME owners must understand and use the learning process better [5]. To gain and maintain a competitive advantage, MSMEs must ensure a high level of performance [17]. The potential for business success depends on the organisation’s performance [18]. Therefore, performance should be an organisation’s primary consideration in evaluating its operations [19].

2. THEORETICAL REVIEW

2.1. Entrepreneurial Leadership

According to Renko et al. [20], entrepreneurial leadership is a type of leadership that influences and directs group members’ performance towards achieving the goal of their organization, which involves recognising and exploiting entrepreneurial opportunities. Harrison et al. [21] explained that entrepreneurial leadership is the ability of entrepreneurs or groups to direct the organisation in its development under uncertainty. As stated in Bagheri and Harrison [22], entrepreneurial leadership is a type of leadership that can sustain innovation and adaptation in an uncertain environment. Based on these three definitions, entrepreneurial leadership is the ability of entrepreneurs to direct innovative and adaptive organisational performance in an uncertain environment.

2.2. Innovation Management

Volberda et al. [23] explained that innovation management is the process of managing innovation procedures within an organisation, starting from the initial stage of generating an idea to the final stage of successful innovation implementation. According to Lopez et al. [24], innovation management is the innovation development system in the organisation that includes the processes and tasks of the innovation. Ratten et al [25] defined innovation management as the process of introducing something new to an organisation, be it a product, service, or event. Based on the definitions above, innovation management can be defined as a system of developing and managing something new in the organisation.
2.3. Learning Orientation

Keskin [26] defined learning orientation as the organisational activities that increase competitive advantage by creating and using knowledge. Rhee et al [27] explained that learning orientation is the development of new knowledge or insights that can affect organisational performance. According to Nasution et al [28], learning orientation is a cultural aspect that focuses on the process of increasing insight, knowledge, and understanding to improve organisational performance. Based on these definitions, learning orientation can be defined as organisational culture and activities in creating, enhancing, and using knowledge, insight, and understanding.

2.4. Organisational Performance

Antony and Bhattacharyya [29] stated that organisational performance is a measure of how well an organisation is managed and the value that the organisation provides to customers and other stakeholders. Organisational performance according to Ramezan et al. [30] is the ability to properly obtain and process resources to achieve organisational goals. Leitão et al. [31] defined organisational performance as the organisation’s ability to use its resources efficiently to achieve relevant goals. Based on these definitions, organisational performance can be defined as the ability and measure of the organisation to obtain and process its resources to achieve its goals.

The hypotheses of this study is as follows:

H1: Entrepreneurial leadership has a positive influence on the organisational performance of MSMEs in the Pasar Lama area.
H2: Entrepreneurial leadership has a positive influence on the innovation management of MSMEs in the Pasar Lama area.
H3: Innovation management has a positive influence on the organisational performance of MSMEs in the Pasar Lama area.
H4: Innovation management mediates the relationship between entrepreneurial leadership and organisational performance of MSMEs in the Pasar Lama area.
H5: Learning orientation moderates the relationship between entrepreneurial leadership and organisational performance of MSMEs in the Pasar Lama area.

Figure 1. Research Model

3. RESEARCH METHOD

This study uses a causal research design with quantitative analysis methods. Survey research is the form of this research strategy. The population used in this study are the owners of Micro, Small, and Medium Enterprises (MSMEs) of the culinary sector located in the Pasar Lama area, especially in Sukasari and Babakan, two sub-districts that are part of the City of Tangerang. This study uses non-probability sampling and purposive sampling. The study will use 100 respondents as the number of...
samples. This study uses primary data collected using a questionnaire. Each variable in this study will be measured using a Likert scale.

4. RESULTS & DISCUSSIONS

This study uses the partial least square-structural equation modelling (PLS-SEM) with the SmartPLS program version 3.2.9.

4.1. Measurement Model Analysis

The measurement model consists of validity and reliability tests. The validity test consists of convergent validity and determinant validity. Convergent validity was measured by outer loadings and average variance extracted (AVE). Based on the criteria that the acceptable outer loading and AVE values are those with a value of 0.5 and above, each indicator and variable in the study meets the prerequisites for convergent validity [32]. Discriminant validity was evaluated using the Fornell-Larcker criterion, cross-loadings, and the heterotrait-monotrait correlation ratio (HTMT). Reliability testing was conducted with composite reliability and Cronbach's alpha coefficient (Cronbach's alpha). Based on the criteria that the acceptable HTMT value is below 0.9, the construct correlation value must be higher than the correlation with other constructs, and the outer loadings value of each indicator in the construct must be higher than the value in other constructs; it is proven that each variable correlation and indicator in the study meet the prerequisites for discriminant validity. All indicators and variables in the study met the criteria of convergent validity, discriminant validity, and reliability and so the research instrument can be declared valid and reliable.

4.2. Structural Model Analysis

The coefficient of determination ($R^2$) score of organisational performance is of 0.466 or 46.6%. These results indicate that the variable of organisational performance is influenced as much as 46.6% by the entrepreneurial leadership variable and innovation management and is influenced as much as 53.4% by other variables outside the study. The organisational performance variable has a predictive relevance ($Q^2$) value of 0.237 or 23.7% (above 0), indicating that the organisational performance variable has significant predictive relevance. The results of the effect size ($f^2$) test show that the entrepreneurial leadership variable has a small effect on the organisational performance variable with an $f^2$ value of 0.070 (0.02 < 0.07 < 0.15), the entrepreneurial leadership variable has a moderate effect on the innovation management variable with an $f^2$ value of 0.319 (0.15 < 0.319 < 0.35), and the innovation management variable has a small effect on the organisational performance variable with an $f^2$ value of 0.112 (0.02 < 0.112 < 0.15).

All relationships between variables in the study have path coefficients close to +1, so entrepreneurial leadership has a positive influence on organisational performance, entrepreneurial leadership has a positive influence on innovation management, and innovation management has a positive influence on organisational performance. All relationships between variables in the test have t-statistics values above 1.96 and p-values below 0.05, indicating that entrepreneurial leadership has a significant effect on organisational performance, entrepreneurial leadership has a significant effect on innovation management, and innovation management has a significant effect on organisational performance.

The mediating effect resulted in a t-statistics value of 2.796 (above 1.96); the p-value is 0.005 (below 0.05) indicates that the innovation management variable mediates the relationship between the entrepreneurial leadership variable and the organisational performance variable.

The moderating effect resulted in a t-statistics value of 1.485 (below 1.96) and a p-value of 0.138 (above 0.05), indicating that the learning orientation variable did not moderate the relationship between entrepreneurial leadership and organisational performance. Path coefficients test for moderating effect, which produces a value of -0.105 (close to the value of -1), indicates that the learning orientation variable has a negative effect on the relationship between entrepreneurial
leadership and organisational performance. Moderation has no effect on organisational performance variables with an $I^2$ value of 0.019 ($0.019 < 0.02$).

Based on the results of hypothesis testing, it was found that entrepreneurial leadership has a positive influence on organisational performance, so H1 is accepted. Entrepreneurial leadership has a positive influence on innovation management, so H2 is accepted. Innovation management has a positive influence on organisational performance, so H3 is accepted. Innovation management mediates the relationship between entrepreneurial leadership and organisational performance, so H4 is accepted. Learning orientation does not moderate the relationship between entrepreneurial leadership and organisational performance, so H5 is rejected. The table below shows the results of hypothesis testing based on the test results of path coefficients, t-statistics, and p-values.

### Table 1. Hypothesis Test Results

<table>
<thead>
<tr>
<th>Code</th>
<th>Relationship Between Variables</th>
<th>t-Statistics</th>
<th>p-Values</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Entrepreneurial Leadership -&gt; Organizational Performance</td>
<td>2.553</td>
<td>0.011</td>
<td>Accepted</td>
</tr>
<tr>
<td>H2</td>
<td>Entrepreneurial Leadership -&gt; Innovation Management</td>
<td>6.552</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
<tr>
<td>H3</td>
<td>Innovation Management -&gt; Organizational Performance</td>
<td>3.168</td>
<td>0.002</td>
<td>Accepted</td>
</tr>
<tr>
<td>H4</td>
<td>Entrepreneurial Leadership -&gt; Innovation Management -&gt; Organizational Performance</td>
<td>2.796</td>
<td>0.005</td>
<td>Accepted</td>
</tr>
<tr>
<td>H5</td>
<td>Moderating Effect</td>
<td>1.485</td>
<td>0.138</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

### 4.3. Discussions

The first hypothesis (H1) examines the relationship between entrepreneurial leadership and organisational performance. Entrepreneurial leadership has a positive effect on organisational performance with t-statistics values of 2.553 (above 1.96) and p-values of 0.011 (below 0.05), so H1 is supported. This finding is in accordance with the theory stated by Mehmood et al. [33] explaining that entrepreneurial leadership develops business performance. This finding is also in line with the research done by Paudel [10] on the same variable relationship in Nepalese SMEs, which found that entrepreneurial leadership positively affects business performance. Based on the research hypotheses and research results, as well as previous research findings, it can be determined that an entrepreneurial leader can improve organisational performance by enhancing the quality and implementation of entrepreneurial leadership practices.

The second hypothesis (H2) examines the relationship between entrepreneurial leadership and innovation management. Entrepreneurial leadership has a positive effect on innovation management with t-statistics values of 6.552 (above 1.96) and p-values of 0.000 (below 0.05), so H2 is supported. This finding is in accordance with the theory stated by Renko et al. [20] explaining that entrepreneurial leadership has a good effect on innovation management in all businesses. This finding is also in line with the findings of previous research done by Fontana and Musa [12], which found that entrepreneurial leadership positively affects organisational performance. Based on the research hypotheses and research results, as well as the findings of previous studies, it can be determined that entrepreneurial leadership has an active and vital role in developing practice, leading to innovation management.

The third hypothesis (H3) examines the relationship between innovation management and organisational performance. Innovation management has a positive effect on organisational performance with t-statistics values of 3.168 (above 1.96) and p-values of 0.002 (below 0.05), so H3 is supported. This finding is in accordance with the theory stated by Abdallah et al. [34] explaining that innovation management has been recognised as contributing to organisational performance development. This finding is also in line with a study done by Mir et al. [35] on business in Spain which confirmed a positive relationship between standard innovation management and business performance. Based on the research hypotheses and research results, as well as previous research
findings, it can be determined that a leader can improve organisational performance by encouraging and enhancing business innovation management.

The fourth hypothesis (H4) examines the role of innovation management in mediating the relationship between entrepreneurial leadership and organisational performance. Innovation management mediates the relationship between entrepreneurial leadership and organisational performance with t-statistics of 2.796 (above 1.96) and p-values of 0.005 (below 0.05), so H4 is supported. This finding is in accordance with the theory stated by Zhang et al. [36] explaining that innovation management is related to changes made by entrepreneurial leaders, ultimately improving company performance. This finding is also in line with previous research done by Paudel [10] on SMEs in Nepal, which showed that the relationship between entrepreneurial leadership and SME performance was mediated by organisational innovation. The path coefficient value of the mediation effect (0.146), which is lower than the path coefficient value of the direct influence of entrepreneurial leadership on organisational performance (0.223), indicates that the mediating effect reduces the contribution of entrepreneurial leadership to organisational performance. According to Li et al. [14], this can be caused by business leaders who have not been able to take full advantage of management innovation. Based on the research hypotheses, research results, and previous research findings, it can be determined that entrepreneurial leadership should be integrated with innovation management to achieve optimal organisational performance.

The fifth hypothesis (H5) examines the role of learning orientation in moderating the relationship between entrepreneurial leadership and organisational performance. Learning orientation does not moderate the relationship between entrepreneurial leadership and organisational performance, with t-statistics values of 1.485 (below 1.96) and p-values of 0.138 (above 0.05), so H5 is rejected. A study done by Beneke et al. [37] in Cape Town, South Africa, also found that learning orientation did not moderate the relationship related to organisational performance. This could be due to the socio-economic environment in certain areas that creates unwillingness for SMEs to formally adopt learning orientation and it is effect on business strategy. Based on the results of the research hypothesis and the results of research as well as the findings of previous studies, it can be determined that learning orientation can only strengthen entrepreneurial leadership in improving organisational performance if the organisation is willing and supports the learning orientation process. If the organisation is reluctant to support the learning orientation process, the learning orientation will not have a significant effect on the relationship between entrepreneurial leadership and organisational performance.

5. CONCLUSIONS

Based on the research and discussion that has been shown previously, it can be concluded that, Entrepreneurial leadership has a positive influence on the organisational performance of MSMEs in the Pasar Lama area. Entrepreneurial leadership has a positive influence on MSME innovation management in the Pasar Lama area. Innovation management has a positive influence on the organisational performance of MSMEs in the Pasar Lama area. Innovation management mediates the relationship between entrepreneurial leadership and organisational performance of MSMEs in the Pasar Lama area. Learning orientation does not moderate the relationship between entrepreneurial leadership and MSME organisational performance in the Pasar Lama area.

REFERENCES


