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INVESTIGATING SMEs PERFORMANCE: INNOVATION, LEADERSHIP, OR INVESTMENT DRIVEN?

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ABSTRACT

The main objective of this study is to find out how much influence the leadership orientation and innovation strategies affect the level of SMEs investment, which has implications for improving firm performance. This research uses structural equation modeling (SEM) analysis tools to test hypotheses. While the data in this study were processed using AMOS software. However, before testing, a goodness-of-fits model test is used to determine whether the data used is following the SEM model. This study uses a data collection tool in the form of a questionnaire that is calculated for each variable; the study sample is Central Java and DI Yogyakarta SMEs. Empirically all the hypotheses in this study is supported, then this research can be concluded as follows, improving the performance of SMEs can be achieved through the implementation of the company's innovation strategy, the company's ability to invest and the company's foresight in conducting high leadership orientation. The better application of innovation strategy and the strength of SME entrepreneurs in their leadership orientation and their courage in increasing investment to increase the company's innovation capability, it will have implications for improving business performance.

Keywords: Leadership Orientation, Innovation Strategy, level of Investment, SMEs Performance, Structural Equation Modeling.

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INTRODUCTION

Globalization, expanding interpenetration, and the interdependency of financial on-screen characters require companies to update and alter their competitive procedures (Lee et al., 2019). Businesses within the 21st century will progressively confront challenges since customers are more looking at more high-quality items, moo fetched, and the advertise specified over must too be more responsive to changes exceptionally rapidly (Pilar et al., 2018). In numerous businesses, fast social and political alter will increment the number and quality of modern competitors from remote nations (Lin et al., 2010; Wilkens et al., 2006). The complexity and challenges confronted by companies require companies to have the proper advancement technique so that they can compete with competitors both from national companies and compete with multinational companies (Altman & Tushman, 2017; Fernández et al., 2019; Herrera Madueño et al., 2016).

Small and medium enterprises (SMEs) are accepted to have an basic and vital part, seen from a few perspectives. To begin with, the number of businesses is critical and found in each division of the economy (Rocks et al., 2005; Zhang & Zhang, 2012). Based on the measurements center bureau information and the Service of Cooperatives & SMEs, the number of SMEs was 42.39 million units or 99.9% of the whole trade units (Hanifah et al., 2019). Moment, the great potential in business. Each venture unit within the SME division can make more business openings compared to the same speculation in huge businesses. The SME division retains 79.04 million specialists or 99.4% of the entire workforce utilized. Third, the commitment of SMEs within the arrangement of GDP is very noteworthy at 56.72% of add up to GDP (Hanifah et al., 2019; Wirawan et al., 2019). Encounter in created nations appears that SMEs are a source of generation and innovation advancement, inventive and imaginative entrepreneurial development, the creation of gifted specialists, and the adaptability of the generation handle to bargain with changing showcase requests that are progressively assorted and more particular in their division (Alkhoraif et al., 2019; Meutia & Ismail, 2012). A few components exceptionally much decide the capabilities of the SMEs. Among them are human assets, authority of innovation, get to to data, yield markets, and inputs. Compared to SME accomplices in Asian nations such as Taiwan, China, Thailand, and Singapore, the send out execution of Indonesian SMEs is still delicate. Indeed SMEs in Vietnam, which fair begun its financial improvement since the early 1980s is continuously more prevalent than Indonesian SMEs (Meutia & Ismail, 2012; Wirawan et al., 2019).

Within the final decade, the advancement of a really energetic trade environment has influenced each company, both expansive and medium-sized companies, and little companies (Herrera Madueño et al., 2016). Mechanical changes and fast item varieties are two components that altogether influence business improvement, so frequently the pre-selected techniques are not adequate.

In this manner the determination and assurance of modern approaches are required for more competitive companies (Brown et al., 2007; Yoo-Kyoung & Norton, 2007). Variables of competitive advantage that must be had by each company to be able to compete within the world showcase primarily are dominance of innovation, human assets (laborers, supervisors) with quality and work ethic, inventiveness and tall inspiration (Chen & Yuan, 2007); a high level of efficiency and productivity in the production process (Fatimah & Martadistra, 2019; Hilman & Kaliappen, 2015); good quality and quality of goods produced, management systems and functional organizational structure (Wirawan et al., 2019); a high level of entrepreneurship, which is a businessman who is very innovative, creative and has a broad vision about his products and the environment around his business (economic, social, political, etc.) and how to do it the right way (effective and efficient) in dealing with competition strictly in the global market (Hutahayan, 2020; Kumar et al., 2020; Varadarajan, 2018). Furthermore, from the point of view of the resource-based see methodology emphasizing the significance of assets and capabilities in creating the competitive advantage of the company. Advancement may be a key that leads to competitive advantage; hence, alter, and its relationship to organizational assets and capabilities require advance investigate (Kathuria et al., 2010).

Small and large companies have different roles in innovation activities, depending on the resources and skills needed (Hartini, 1996; Parkman et al., 2012). Small companies have several unique features, such as scarce resources, low market influence, and informal communication, which makes it different from large companies (Ivanisevic Hernaus, 2019; Koh et al., 2007; Quinton & Khan, 2009). The strengths of SMEs are not in financial resources, but the characteristics of their behavior, such as flexibility and management (Parkman et al., 2012). The choice of innovation strategy by the company itself varies greatly depending on the company's condition and its response to environmental changes (Hanifah et al., 2019; Kraus et al., 2012). The Innovation Strategy is mainly a conceptualization activity, as well as the idea of solving problems by bringing economic value to the company. So the innovation departs from an existing one, then added value (Duarte & Sarkar, 2011). Innovation starts from what seems small by opening eyes and ears to listen to the aspirations or complaints of consumers, employees, the environment, and society (Altman & Tushman, 2017). The subject of applying innovation itself can be individuals, groups, or companies. This means that it can occur in companies that have very brilliant and innovative individuals and groups. In Altman study classified innovation into several types, including administrative innovation, technical innovation, product/service innovation, process innovation, radical innovation, incremental innovation (Altman & Tushman, 2017; Hilman & Kaliappen, 2015; Kumar et al., 2020).

The advancement prepare cannot be isolated from a competitive and vital corporate setting. The company must moreover choose on two methodologies, one of which, the authority introduction advancement, in which the company points to be the primary to offer (first-to-market introduction), which is based on mechanical administration (David & Carolina, 2014; Hilman & Kaliappen, 2015). This requires a dependable company and the capacity to be imaginative and risktaking, with near connections, both being the essential and important source of unused company information (Aryee et al., 2019; Popli & Rizvi, 2015). Administration must guarantee that development is an indispensably portion of a company's commerce attitude (David & Carolina, 2014). Of course, a company's advancement culture is fundamental and gets to be portion of the commerce mindset. Administration now and then incorporates an evaluation of the advancement climate to decide worker recognitions, how well development can be established in a commerce mindset (David & Carolina, 2014; Rocks et al., 2005; Wirawan et al., 2019).

The innovation process is also not a short-term success but supports growth through continued adaptation and innovation. In company terminology, success is related to the whole process of innovation and its ability to support growth consistently (Alkhoraif et al., 2019; Rashid, 2011). Also, innovation is an investment that is used to help and improve the company's ability to innovate continuously (Kyissima et al., 2019). Investment in innovation requires technical resources and managerial capabilities that are integrated from time to time (Shakina et al., 2017). The investment dimension in innovation can be in the form of finance, technology, and investment in human resources related to innovation activities in production (Tan et al., 2013; Young Park & Wook Kim, 2010). The financial investment includes expenditures for R&D projects and purchase or development innovations elsewhere (Rantapuska & Ihanainen, 2008). Technology investment is in the form of purchases of necessary infrastructure equipment and basic facilities needed for change (Wilkens et al., 2006). Human capital investment includes salary, training, and development (T&D), and other costs related to staff capacity building (Ivanisevic Hernaus, 2019). Following the review, the main objective of this study is to find out how much influence the leadership orientation and innovation strategies affect the level of SMEs investment, which has implications for improving firm performance. The importance of formulating an SME innovation strategy because the size of the growth of the mature firm industry is not matched by the added value gained by the sector in SMEs and the loss of competitiveness of Indonesian SMEs compared to SME partners in Asian countries such as Taiwan, China, Thailand, and Singapore.

LITERATURE REVIEW

Model Development

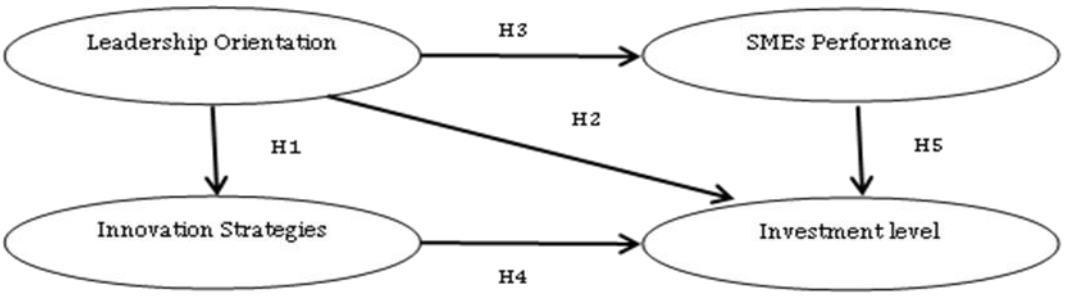
The current era has led to an open economy and poses challenges that change the business environment for organizations to shift focus to corporate leadership (Lin et al., 2010; Wilkens et al., 2006). SME leaders must realize the importance of awareness of this change, because business cannot survive without a clear vision capability and supported by proper implementation. Leaders should use all their resources and efforts to achieve significant growth, competitive advantage, and the ability to adapt in today's disruptive era (Wirawan et al., 2019). Previous research has shown that entrepreneurial pioneer individual competencies empower them to envision a future that is beneficial to their organization; they can define inventive dreams and identify gaps (Sawaean et al 2020). On the other hand, the useful competencies of entrepreneurial pioneers enable them to motivate and influence individual groups to leave the usual execution in carrying out their obligations and strengthen their efforts in making progress and entrepreneurial activities; this can be achieved by changing individuals' understanding of their capacities and talents and maximizing their self-efficacy by including them in progress and program preparation (Wilkens et al., 2006). The goal of leadership orientation is to engage people to differentiate and integrate productive openings. In a similar vein, Parkman et al. (2012) propose that entrepreneurial leadership combines both, opportunity recognition, which is associated with individual affirmation and abuse of aperture, which in turn is associated with activity. Entrepreneurial pioneers express a striking and motivating vision for their organizations that can gain the cooperation of people, in this way raise their awareness to act as organizational operators responsible for future development and sustainability. For this reason, the hypothesis reads as follows:

H1: Leadership orientation has a positive effect on innovation strategies
H2: Leadership orientation has a positive effect on the level of investment
H3: Leadership orientation has a positive effect on SMEs performance

Altman & Tushman (2017) sees innovation as a preparation that begins with the creation of modern components, with the creation of a coordinated thought for the practical advancement of components for commercial use. In addition, Rashid, 2011 characterizes innovation as an act of thinking, honing, or antecedents of questions that are considered important by people or other selection units. This hypothesis accepts that progress spreads throughout society in the design elements of pricing. Some groups will receive progress after hearing the results obtained, other groups take a long time to receive progress. In line with this, Duarte & Sarkar, 2011 states that innovation begins with a thought that turns into a concept. Innovation can be an unused combination of what is now and can be actualized

for several purposes. Another advancement idea is the application of modern step items or basically create, prepare, modern promotion strategy, or modern organizational strategy in respect of trade, work environment organization, or external relations. Past investigations linking innovation and firm performance found by David & Carolina (2014) show that there is an influence between innovation and firm implementation as measured by returns on resources, and the rate of return is determined by other types of finance. In addition, development in a high innovation base was found to be very important in performance measurement, Altman & Tushman (2017); Hilman & Kaliappen (2015); Kumar et al. (2020) analyzed the contrast in the innovation orientation movement based in SMEs. The findings show that in high-tech industries, increased innovation intensity has a positive impact on development activities. . For this reason, the hypothesis reads as follows:

H4: Innovation strategies has a positive effect on the level of investment
H5: The level of investment has a positive effect on SMEs performance.



Source: Various sources gathered by the authors (2020)

Figure 1
Conceptual Framework

METHODOLOGY

The measurement of variables in this study is based on the number of indicators that will be used by companies that will be examined in a specific period. This study uses a data collection tool in the form of a questionnaire that is calculated for each variable, and the study population is SMEs in Central Java and DI Yogyakarta. The unit of analysis of this research is SMEs in the cities of Semarang, Pekalongan, and Yogyakarta. The town was chosen because it has a relatively rapid development of SMEs. The primary respondent of this questionnaire is the owner or manager because the success of a company is strongly influenced by the participation of the owners/managers themselves.

Because this research uses the census method, the respondents are 155 SMEs in Central Java and DI Yogyakarta.

This research uses structural equation modeling (SEM) analysis tools to test hypotheses. While the data in this study were processed using AMOS software. However, before testing, a goodness-of-fits model test is used to determine whether the data used is following the SEM model (Hair et al., 2010). The next theoretical model that has been built will be realized in a path diagram, which aims to make it easier to see the causality relationship to be tested (see figure 2). SEM is used because of the complexity of the model in this study so that that hypothesis testing can be adequately analyzed (Anwar et al., 2018; Camgoz-Akdag & Zaim, 2012; Hair et al., 2010).

Table 1.
Research Indicator and Variable

No	Variable	Indicator	Symbol
		Mastery of technology	X1
1	Leadership Orientation	Industry/market leader	X2
		Product pioneer	X3
		Product innovation	X4
2	Innovation Strategies	Source of Innovation	X5
		Process Innovation	X6
		Financial investment	X7
3	Investment Level	Technology Investment	X8
		HR investment	X9
		Operational Reliability	X10
4	SMEs Performance	Productivity	X11
		Sales growth	X12

Source: Various sources gathered by the authors (2020)

RESULT

Before testing the hypothesis, the first step taken is to check the instrument. The instrument test was carried out with two criteria, namely the validity test and the reliability test. The validity test used in this study is Pearson's correlation, while the reliability test uses the Cronbach's alpha value. Table 2 shows the results of the validity and reliability tests. The overall model feasibility test is carried out using the Structural Equation Model (SEM) analysis, which is also used to analyze the proposed hypothesis. The result of the data processing analysis shows that all constructs are used to form a research model, the SEM model full analysis process meets the established goodness of fit criteria. The goodness of fit (see table 3) measure that shows the suitable condition is caused

by the Chi-square number of 21.774 which is smaller than the cut-off value specified (21.77) with a probability value of 0.243 or above 0.05, this value indicates no difference between the sample covariance matrix and the estimated population covariance matrix. Other measures of goodness of fit also show in good condition, namely TLI (0.986); CFI (0.988); RMSEA (0.034); GFI (0.908) meets the criteria for the goodness of fit while the AGFI value (2.192) is still within the tolerance range so it can be accepted.

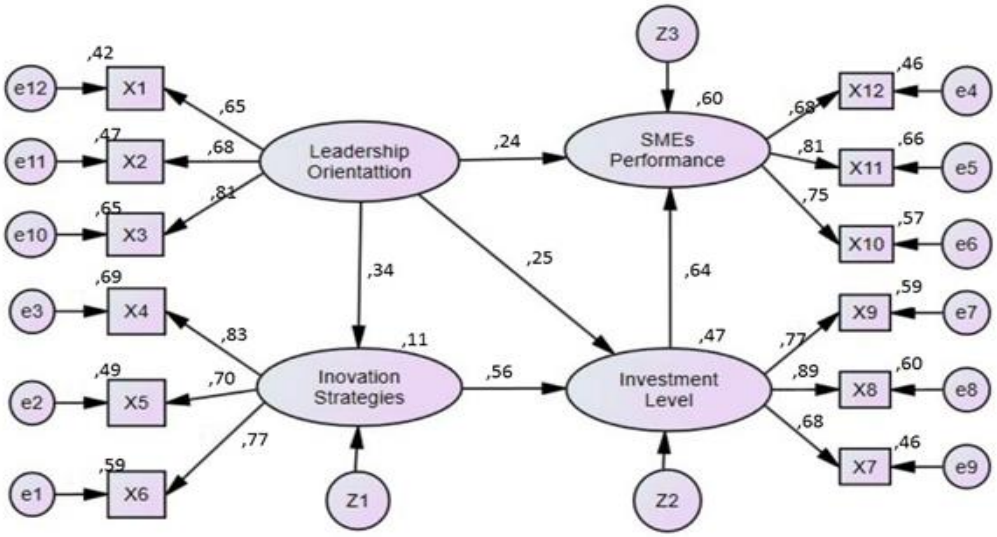
Table 2.
Reliability and Validity Test

No	Variable	Cronbach Alpha	Item-Total Correlation	Conclusion
1	Leadership Orientation	0.829	0.827	Accepted
2	Inovation Strategies	0.819	0.835	Accepted
3	Investment Level	0.832	0.837	Accepted
4	SMEs Performance	0.829	0.832	Accepted

Source: Data processed, 2020

After all assumptions are fulfilled, the hypothesis testing is analyzed (see table 4), using the value of the critical ratio (CR) and probability (P) of a causality relationship through the operation of structural equation modeling, using CR value parameters >1.96 and P < 0.05. The effect of estimated parameters for leadership orientation testing on innovation strategies shows a CR value of 2,830 with a probability of 0.005. This value meets the requirements for acceptance of hypothesis 1, namely the CR value is more significant than 1.96, and the probability is smaller than 0.05. Thus it can be concluded that leadership orientation has a positive effect on innovation strategies (hypothesis 1 is accepted). The effect of estimated parameters for leadership orientation testing on investment levels shows a CR value of 2.431 with a probability of 0.015. This value meets the requirements for acceptance of hypothesis 2, namely the CR value is more significant than 1.96, and the probability is smaller than 0.05. Thus it can be concluded that leadership orientation influences the level of investment (hypothesis 2 is accepted). Effect of estimated parameters for testing Leadership orientation on SMEs performance shows a CR value of 2.183 with a probability of 0.029. This value meets the requirements for acceptance of hypothesis 3, namely the CR value is more significant than 1.96, and the probability is smaller than 0.05. Thus it can be concluded that leadership orientation influences company performance (hypothesis 3 is accepted). The effect of estimated parameters for testing the innovation strategy on the level of investment shows a CR value of 4.853 with a probability of less than 0.001. This value meets the requirements for

acceptance of hypothesis 4, namely the CR value is more significant than 1.96, and the probability is smaller than 0.05. Thus it can be concluded that the innovation strategy affects the level of investment (hypothesis 4 is accepted). The effect of estimated parameters for testing the level of investment on company performance shows a CR value of 5.033 with a probability of less than 0.001. This value meets the requirements for acceptance of hypothesis 5, namely the CR value is more significant than 1.96, and the probability is smaller than 0.05. Thus it can be concluded that the level of investment affects company performance (hypothesis 5 is accepted).



Source: Data processed (2020)

Figure 2
Output Full Model

Table 3.
Goodness of Fit Model

Goodness Of Fit Indeks	Cut-Off Value	Full Model	
		Result	Evaluation
Chi-Square	< 21.774	21.772	Good
Probability	≥ 0.05	0.24	Good
RMSEA	≤ 0.08	0.034	Good
GFI	≥ 0.90	0.90	Good
AGFI	≥ 0.90	0.95	Good
CMIN/DF	≤ 2.00	2.19	Marginal
TLI	≥ 0.95	0.98	Good
CFI	≥ 0.95	0.98	Good

Source: Data processed (2020)

Table 4.
Regression Weight Structural Equational Model

Relationship			Estimate	S.E.	C.R.	P
Innovation Strategies	<--	Leadership Orientation	0.336	0.120	2.830	0.005
Level of Investment	<--	Innovation Strategies	0.560	0.105	4.853	***
Level of Investment	<--	Leadership Orientation	0.254	0.097	2.431	0.015
SMEs Performance	<--	Level of Investment	0.642	0.099	5.033	***
SMEs Performance	<--	Leadership Orientation	0.238	0.078	2.183	0.029

Source: Data processed (2020)

Table 5.
Hypothesis Result

Relationship		P	Result
H1	Leadership orientation has a positive effect on innovation strategies	0.00	Accepted
H2	Leadership orientation has a positive effect on the level of investment	0.01	Accepted
H3	Leadership orientation has a positive effect on SMEs performance	0.03	Accepted
H4	Innovation strategies has a positive effect on the level of investment	***	Accepted
H5	The level of investment has a positive effect on SMEs performance	***	Accepted

Source: Data processed (2020)

CONCLUSION

The main objective of this study is to find out how much influence the leadership orientation and innovation strategies affect the level of SMEs investment, which has implications for improving business performance. Empirically all the hypotheses in this study can be accepted, and this research can be concluded as follows, enhancing the performance of SMEs can be achieved through the implementation of the company's innovation strategy, the company's ability to invest, and the company's foresight in conducting high leadership orientation. The better application of the innovation strategy and knowledge of SME entrepreneurs in their leadership orientation and their courage in increasing investment to increase the company's innovation capability, it will have implications for improving business performance.

This research needs to be defined carefully because it has some limitations. The sample used in this study was limited to SMEs in several cities and regions. Future studies are expected to use a larger sample with more heterogeneous

respondents with a more significant number and with full enough regional coverage so that the results obtained can better explain the relationship between variables in the study. In addition to the variables that have been used, there are other influencing variables, such as bricolage strategy and entrepreneurial orientation. Therefore, the two variables can be added in subsequent studies.

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