



## DEVELOPMENT OF TRANSFORMATIONAL LEADERSHIP FOR WOMEN ENTREPRENEURS IN INDONESIA

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### Abstract:

The purpose of this study was to determine the effect of Transformational Leadership on Innovation Capability and Business Performance of women entrepreneurs, as well as the role of Innovation capability as a moderating variable. The population in this study was women entrepreneurs. The sample was 286 respondents using particular criteria. The questionnaire was used as a research instrument by using an online application. Data analysis using SEM PLS. The results show that transformational leadership and innovation capability affect the business performance of women entrepreneurs, and transformational leadership affects innovation capability. Besides, innovation capability is capable of being a mediator of transformational leadership in business performance. The management implication is that innovation plays a critical role in running MSME businesses. Innovation can create a competitive advantage.

**Keywords:** transformational leadership, business performance, women entrepreneurs, innovation capability

### 1. Introduction

Small and Medium Enterprises are currently one of the businesses that receive the attention of all countries because SMEs can help the economic growth of a country (Tengeh, 2011). SMEs can adapt more quickly and flexibly than large business companies to changes in the country's economy. The success of SME businesses is that they can create opportunities in the open market (Gonzalez Alvarez & Solis Rodriguez, 2011). More than a third of SMEs are run by women. Women have more democratic and participatory characteristics in leading an organization than men, who have autocratic and democratic characteristics. It affects women being better at approaching employees

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in an organization than men (Bass, 1990). Merchant (2012) states that female leaders can maintain a closer bond with their followers than male leaders. Women's leadership styles run their businesses by bonding closely with their followers. This method is more effective than men's. Besides, women have a transformational leadership style (Alzougool, Elbargathi, Habib, Khalaf, & Al-Qutub, 2015). In line with Robbins & Judge (2017), a transformational leader is a leader who inspires his followers to put aside their interests for the good of the organization and can have a tremendous influence on his followers. The phenomenon of leadership styles in Indonesia has become an interesting problem and had a major influence on political and state life. Currently, out of a large number of MSME actors, 37 million are women. According to Bank Indonesia data, more than 60 percent of MSMEs in Indonesia are run by women. This data shows the participation and role of women in supporting the Indonesian economy (Sindonews, 2022). Women entrepreneurs have an important role in driving the economy in Surabaya in particular and East Java in general. The existence of SMEs can help the movement in creating competitive advantage. A way to make it happen is through innovation. The implementation of innovative activities to change or update the inventory of tangible and intangible assets or competencies acquired through the learning process is the main element of innovation capability (Calantone, Cavusgil, & Zhao, 2002). Research studies related to innovation capability on performance have been carried out by Bowen, Rostami, & Steel (2010) and Saunila, Pekkola, & Ukko (2014). The results of these research studies indicate that the potential for innovation capability has a positive impact on business results, especially on the company's financial performance. The results of the study by Nurputra (2021) show that transformational leadership has a positive and significant effect on company innovation, but transformational leadership has no effect on business performance. The results of research by Samad, Husnawati, & Suryadi (2020) show that transformational leadership has a significant effect on business performance in Malaysia and that innovation affects business performance.

## **2. Literature Review**

### **2.1 Business Performance**

Performance is the result of work that can be achieved by a person or group of people in an organization both quantitatively and qualitatively, under their respective authorities and responsibilities, to achieve the goals of the organization concerned legally, not violating the law and by morals and ethics. Although it is generally argued that increased business performance is a consequence of effective marketing capabilities, temporal testing and evaluation of the contribution of marketing capabilities to firm performance are surprisingly lacking (Merrilees, Rundle-Thiele, & Lye, 2011). The performance of an entrepreneur or business actor is usually measured by the success of his business performance. Business performance is an individual's productivity in running his/her business. Business performance is the result of organizational goals achieved through the effectiveness of applied strategies and method effectiveness (Fairoz, Hirobumi, &

Tanaka, 2010). According to Ho (2011), business performance indicators are a) financial performance, market performance, and technology performance.

## **2.2 Transformational Leadership**

Transformational leadership is a charismatic leader and has a central role and strategy in bringing the organization to achieve its goals. According to Bass (Yukl, 2015: 313), transformational leadership is a situation in which the followers of a transformational leader feel trust, admiration, loyalty, and respect for the leader, and they are motivated to do more than they initially expected. According to Robbins & Judge (2017: 90), transformational leaders are leaders who inspire their followers to put aside their interests for the good of the organization and can have a tremendous influence on their followers. The principles that must be created by a transformational leader are namely (Rees, 2001): Simplification, Motivation, Facilitation, Mobilization, Alertness, and Determination. The results of research by Samad et al.(2020) show that transformational leadership has a significant positive effect on business performance in Malaysia. Different results Nurputra (2021) Transformational leadership does not affect business performance.

**H1:** Transformational Leadership affects the business performance of women entrepreneurs

## **2.3 Innovation Capability**

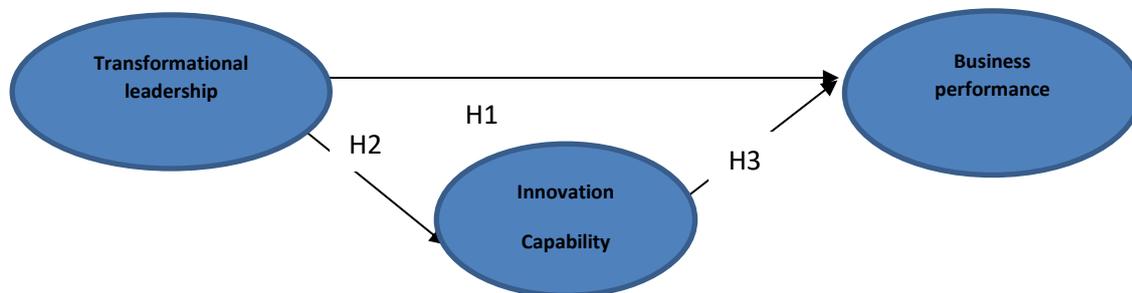
Innovation capability is a conceptual framework that aims to describe actions that can be carried out to increase the success of innovation activities and efforts,( Lawson & Samson 2001). According to Saunila & Ukko (2013), innovation capability is the potential to make this practice with an orientation towards innovation. Innovation can be considered an organizational capability because it is an act of combining existing resource capabilities with new capabilities to create value (Saunila et al., 2014). Implementation of innovative activities to modify or update the inventory of tangible and intangible assets can be considered to some extent as an ability or competence acquired through the learning process and is a major element of innovation capability (Calantone et al., 2002). According to Kasim & Noh (2012), there are three dimensions of innovation capability as follows: Innovativeness, Capacity to innovate, and Willingness to change. So that change and innovation are needed, organizations must be willing to change first to learn new methods and new knowledge, and implement new ideas for progress. Transformational leadership can have a positive influence on product innovation and process innovation. Transformational leadership has a positive and significant influence on product innovation (Al Ahmad, Easa, & Mostapha, 2019). Transformational leadership can also have a positive influence on process innovation. Transformational leadership has a positive and significant influence on process innovation (Weng, Huang, Chen, & Chang, 2015).

**H2:** Transformational Leadership affects Innovation Capability.

**H3:** Innovation Capability affects the business performance of women entrepreneurs.

**H4:** Transformational Leadership influences business performance through Innovation Capability.

## 2.4 Conceptual Framework



**Picture 1:** Conceptual Framework

## 3. Material and Methods

This study used a quantitative approach. The population in this study was women entrepreneurs of SMEs in Surabaya, by using Slovin's calculation, the sample was 202 people. Sampling was done by using non-probability sampling and purposive sampling techniques. This study identifies Transformational Leadership Variables, indicators developed by Robbins & Judge (2015), namely idealized influence, leaders must be good examples, Inspirational motivation, Intellectual stimulation, and Individualized consideration. Variable Innovation capability, indicators developed by Kasim & Noh (2012), namely: Innovativeness, Capacity to innovate, and Willingness to change. Business Performance Variables, indicators developed by Hudson, Smart, & Bourne (2001) are Quality, Time, Finance, Customer Satisfaction, and Human Resources. The data collected by distributing questionnaires. Indicators are measured on a Likert scale of 5, where 1 = strongly disagree; 2 = disagree; 3 = neutral; 4 = agree, and 5 = strongly agree. Data analysis used the Partial Least Square (PLS) approach, a component or variant-based Structural Equation Modeling (SEM) equation model. The formal model defines latent variables as linear aggregates of indicators. The weight estimation for component scoring for latent variables obtained based on the inner and outer model.

## 4. Results and Discussion

### 4.2 Respondent Description

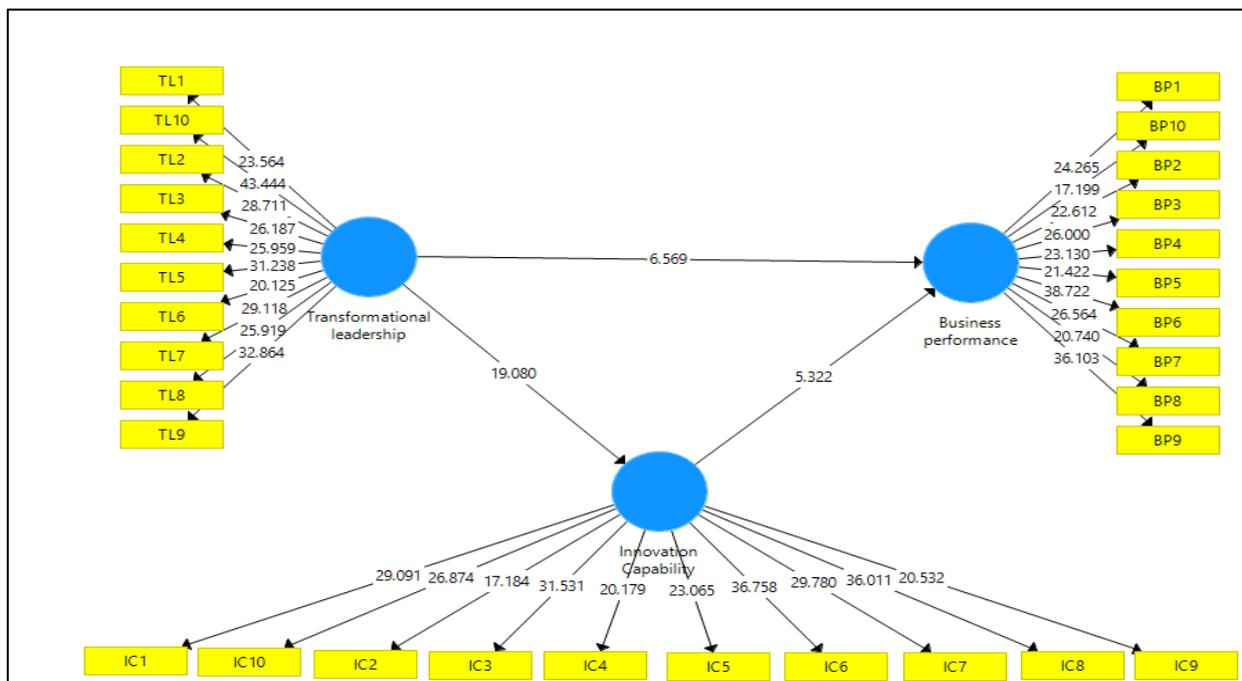
The number of respondents who meet the required criteria was 202. All respondents were business women, most of them are aged 26-35 years with a total of 103 respondents or 50%. It shows that women entrepreneurs show their productive period and maturity in running their businesses. The education of most female entrepreneur respondents is high school graduate with a total of 102 or 50%. These results show that women in running their businesses are supported by their education.

### 4.3 Outer Model Evaluation

The test results show that the loading factor or outer loading has a value above 0.7. It means that the indicators used in this study are valid or meet convergent validity. The AVE value for each variable tested has a value > 0.5. It indicates that all variables in this study meet the criteria for discriminant validity. The test results show that each variable in this study has a value > 0.70. Thus, all the variables tested meet construct reliability.

### 4.4 Inner Model Evaluation

The test results show that the model loading factor value is more than 0.7, so it can be concluded that all indicators have good convergent validity (fulfilled). The AVE (Average Variance Extracted) values for each variable are all above 0.50, so it can be stated that overall these variables have met the requirements of convergent validity and discriminant Validity can be used. Cronbach's Alpha value is more than 0.70 then the model has met the reliability test requirements.



Picture 2: PLS Model

Table 1: Results of Path Coefficient and P-Value

Direct Relationship	Path Coefficient	P-Value	explanation
TL -> BP	0.486	0,000	Significant
TL -> IC	0.816	0.000	Significant
IC -> BP	0.411	0,000	Significant
TL -> IC -> BP	0.335	0.000	Significant

Source: Primary data processed in 2022.

## 5. Discussion

These results indicate that women in running their businesses use a leadership style that pays attention to and is directly involved in business activities, including helping their employees to increase SME sales. It means that women entrepreneurs in leadership reflect themselves as being able to encourage their work teams to deepen further and master the skills that promote SME businesses in Surabaya to develop more and increase sales. Transformational leadership emphasizes relationship-based performance that includes ethical practices, cooperation, fair competition, and a selfless approach to goal attainment (Edward, 2016). Transformational leadership inspires the workforce to work extraordinarily to achieve organizational goals (Majeed, Ramayah, Mustamil, Nazri, & Jamshed, 2017). These results support Samad's (2020) research that Transformational Leadership has a significant positive effect on business performance in Malaysia. However, this study does not support Nurputra (2021) who states that transformational leadership has no effect on business performance.

The transformational leadership of SME entrepreneurs in Surabaya can generate innovation capabilities. Women Entrepreneurs must have innovation capability so that the businesses they run can produce quality products and have a competitive advantage, especially facing globalization. The results of this study show that the innovation capability of women entrepreneurs is not only supported by transformational leadership but also by the level of education and their age. The level of education and knowledge will affect the development of the passion of women entrepreneurs to carry out their innovative businesses. In this study, the dominance of the respondent's education was high school, and the business was running more than 2 years. Experience gained during running the business makes women entrepreneurs able to face business challenges. One of which must be done is to innovate products and company management. Women entrepreneurs who are highly educated have a strong will to increase their knowledge, especially in the field of business. The results of this study are in line with Weng et al., (2015) Transformational leadership has a positive and significant effect on innovation, but does not support Makena (2017) which states that transformational leadership does not affect innovation.

The business performance of women entrepreneurs of SMEs can improve both financially and non-financially by developing innovation capabilities to create new products and processes that are more innovative than competitors. Innovation is an crucial determinant of SME business performance in facing today's competition (Calantone et al., 2002). Women entrepreneurs of SMEs in Surabaya in terms of increasing innovation capabilities have applied innovative ways in their business processes including strategies for determining quality. Through innovation activities carried out by SMEs, even in tough competition, SMEs will always be able to provide new ideas and flexibility in operating a business. It is intended to minimize the impact of problems and risks faced by SMEs as a result of intense business competition. The results of this study are in line with the results of research by Calantone et al., (2002), Jiménez-Jiménez & Sanz-Valle (2011), and Bowen et al., (2010), reveal that innovation capability is an important

requirement to improve performance and increase firm value. Laily and Wahyuni (2018), Aristanto (2017) stated that innovation behavior affects the business performance of SMEs.

The results of the fourth hypothesis test indicate that innovation capability is a mediator of the influence of transformational leadership on business performance. These results indicate that women entrepreneurs as leaders who have employees support all employee activities and improve employee innovation capabilities to improve the performance of SMEs in Surabaya. The transformational leadership style applied by women entrepreneurs can increase the ability to innovate so that it ultimately has an impact on improving the business performance of SMEs in Surabaya. Women Entrepreneurs in managing their businesses must have the character of the ability to innovate by taking advantage of technological developments in the current digital era. The ability of innovation to result in increased business performance today is supported by strong mainstream consistency, performance, speed, and flexibility capabilities (Lawson & Samson, 2001). Innovation can help a company position itself for business. The results of this study support Nurputra (2021) that innovation plays a role in mediating the relationship between transformational leadership and business performance.

## 5. Conclusion and Recommendations

Transformational leadership and innovation capability directly affect the business performance of SMEs in Surabaya. Furthermore, transformational leadership, either directly or indirectly mediated by innovation capacity, has a major impact on SME business performance. While the results of the direct influence on the innovation capability of the transformational leadership variable indicate that transformational leadership is directly a factor that shapes the innovation capability of women entrepreneurs. This study recommends that human resource practices with an emphasis on the transformational leadership of women entrepreneurs and innovation capabilities will lead to improving the business performance of women entrepreneurs in Indonesia.

### Conflict of Interest Statement

The authors declare no conflicts of interest.

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