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Transformational Leadership Moderates the Relationship between Innovation and Marketing Performance of Small Businesses: A Case Study of Jambi Batik Business

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Abstract: The title of this article is transformational leadership moderates the relationship between innovation and marketing performance of small businesses: a case study of Jambi batik business. The purpose of this study was to determine whether transformational leadership moderates the relationship between innovation and marketing performance of Jambi batik businesses. For this purpose, data was collected from 120 respondents consisting of owners, leaders (managers), and employees of Jambi batik businesses. The data were collected through questionnaires. To analyse the collected data, there were two stages of analysis. The first stage is simple regression analysis. The purpose of this analysis is to determine whether innovation significantly affects marketing performance. The second stage is MRA analysis. The purpose of the analysis is to determine the moderating effect of transformational leadership on the relationship between innovation and marketing performance. The results of the analysis show that (a) innovation is positively and significantly correlated with marketing performance, and (b) transformational leadership significantly moderates the relationship. Based on these findings, it is recommended that for the development of Jambi batik businesses in the future, especially improving its marketing performance, leaders with transformational characters are needed. It is also recommended that policy makers facilitate transformational leadership training for Jambi batik business owners/managers.

Keyword: Transformational Leadership, Innovation, Marketing Performance, MSMEs.

INTRODUCTION

In Indonesia, MSMEs play an important role in the economy. In addition to driving the economy, MSMEs also play a role as job creators (Simarmata, 2022). BPS (Statistic Center Buerueu) reported that in 2023, MSMEs in Indonesia reached 4.16 million business entities with a workforce absorption of 9.11 million people (BPS, 2023).

However, MSMEs face very tough challenges because the business environment is very dynamic. Changes often occur so quickly that sometimes MSMEs find it difficult to overcome them. In addition, competition from both similar goods and substitute goods is increasing (Simarmata, 2020, 2022).

Therefore, small business actors must try to maintain the existence of their businesses. One effort that can be made is innovation (Simarmata, 2020, 2023).

However, the fact is that innovation in small businesses faces obstacles that are not easy to overcome. One of these obstacles is the low level of leadership in triggering innovation. Therefore, researchers have evaluated how important transformational leadership is in the existence of small businesses. For example, Hayat & Riaz (2011) stated that transformational leadership is closely related to the approach taken by entrepreneurs to develop their businesses, and also to the environment in which entrepreneurs run their businesses. Matzler et al. (2008) also emphasized that transformational leadership style is closely related to entrepreneurship.

In other words, entrepreneurs must have transformational leadership in developing their businesses. In other words, because small businesses operate in a very dynamic business environment and unpredictable business opportunities, transformational leadership is a leadership style that is very suitable to be applied in MSMEs (Afriyie et al., 2019).

Researchers have found the importance of transformational leadership in creating competitive small businesses. Hashim (2012) stated that in order for MSMEs to be competitive, MSMEs must make radical changes by having effective leadership. Effective leadership in MSMEs is transformational leadership. This kind of leadership has the ability to identify the need for business rejuvenation, improve the direction of business goals, create change, and more importantly, improve organizational performance.

Many researchers and practitioners have been interested in studying innovation and organizational performance. However, all of them focus more on studying whether or not there is a correlation between innovation, transformational leadership, and marketing performance. So far, very few have studied these three variables simultaneously (Afriyie et al., 2019). In other words, how transformational leadership interacts with the other two variables, namely innovation and marketing performance, is still rarely studied.

Thus, this study aims to examine the direct relationship between innovation and marketing performance, then examine the moderating role of transformational leadership in the relationship between the two variables.

Empirical data shows that batik Jambi business operations are small businesses with traditional management. This is because Jambi batik businesses are generally run as family businesses.

In general, leadership in family-run businesses is traditional leadership. One characteristic of traditional leadership is the lack of attention to new things and maintaining the status quo.

In fact, small businesses such as Jambi batik businesses are very vulnerable to changes and very high market dynamics, which means they require transformational leadership. Experts recommend that in order for small businesses to be competitive in facing market challenges, small businesses must have transformational leaders. With transformational leaders, small businesses such as Jambi batik businesses can make the necessary innovations.

In line with the explanation above, this study also intend to present how transformational leadership affects the market performance of Jambi batik businesses.

Innovation and Marketing Performance of MSMEs

Innovation is one of the most critical (important) aspects in business studies. In the literature, innovation is divided into four categories, namely product innovation, process innovation, marketing innovation, and organizational innovation. Product innovation includes improvements (renewals) of products (goods and services) in order to increase the benefits of these products for customers. Process innovation is related to innovations in the field of ways of doing business in the latest ways. Marketing innovation is the implementation of new marketing methods such as changes in aspects of design, placement, packaging, promotion,

and pricing strategy. Organizational innovation is innovation in the field of business practices, work regulations or rules, decision making, and handling external relations (Afriyie et al., 2019).

Research shows that innovation performance has a positive and significant influence on the growth of MSMEs (Vu Hoang, 2014). Thus, a culture of innovation is stated as an important prerequisite in developing an organization. Aksoy (2017) stated that innovation is an important prerequisite for organizational development, marketing, and entrepreneurship in facing tight competition. Thus, businesses need to adopt more innovative marketing activities.

The innovation capability of the organization and employees has an important influence on the performance of MSMEs (Agyapong et al., 2017). Lee & Hsieh (2010) said that the ability to innovate has a direct, positive and significant influence on company performance.

Some MSMEs ignore or consider marketing less important. Some even claim that they do not have enough funds and experts to innovate. However, researchers reveal that marketing performance is an indicator of business success. Therefore, entrepreneurs such as MSMEs make marketing performance a determinant of achieving business goals. Thus, this study believes that innovation is a determining factor for marketing performance. Based on this explanation, hypothesis one is formulated as follows:

H1: Innovation has a significant and positive effect on marketing performance.

Transformational Leadership as a Moderator

So far, researchers have paid little attention to the moderating role of transformational leadership in the relationship between innovation and business performance. According to Avolio & Bass (2000) and Gregory et al. (2009), a transformative leader is a leader who can improve performance by creating a meaningful and motivating vision.

In leadership theories, it is said that transformational leaders can adapt to a dynamic business environment, Bass et al. (2003) suggest that transformational leaders are effective leaders because they can empower employees by transforming them into a committed, service-focused, quality, and profitable team. Thus, it can be said that transformational leadership has a positive impact on innovation. There are four factors in transformational leadership, namely: idealized influence, inspirational motivation, intellectual stimulation, and individual consideration. Leaders with idealized influence are leaders who give their followers clear goals, become role models in terms of ethics, build respect, and put group interests above personal interests. Leaders who motivate and inspire are leaders who are optimistic about the future, express their confidence in achieving goals, are enthusiastic about talking about what needs to be done, and articulate a clear vision (Bass & Avolio, 1993; Saunila et al., 2014).

Even Perkins (2010) revealed that even though transformational leaders are not physically present, employees still feel inspired and motivated to do their jobs. Leaders with intellectual stimulation are leaders who allow their followers to question things that are 'status quo'. Solving real problems, seeing phenomena from different perspectives, increasing creative thinking. Leaders with individual consideration are leaders who value individuals with all their differences.

Companies, including MSMEs, that have leaders who tend to be very creative have great potential to produce high performance (Vargas, 2015). Therefore, it is necessary to further study the role of transformational leadership moderation in the relationship between innovation and organizational performance. Thus, the following hypothesis is formulated as follows:

H2: Transformational leadership positively moderates the relationship between innovation and marketing performance.

METHOD

This is a survey research with a causal explanatory approach. The type of survey was chosen because this study uses primary data from respondents in the form of respondents' perceptions of the variables studied. Meanwhile, the explanatory causative approach is used because this study aims to explain the causal relationship between the variables studied, namely transformational leadership, innovation, and marketing performance (Nasution et al., 2020; Sugiyono, 2016).

The population of this study were Jambi batik business practitioners. They consisted of owners, leaders/managers, and employees. The sampling technique was stratified random sampling while the number of samples was determined by the Slovin method.

Data collection used a questionnaire compiled by the researcher himself by modifying from various previous studies. Questionnaires are data collection tools commonly used in survey research, but this method can have weaknesses, namely that respondents can choose answers non-objectively. However, this weakness was overcome by testing the validity and reliability of the data.

The collected data were analyzed with the help of SPSS Version 24. There are two stages used to analyze the data. The first stage is a simple regression analysis that aims to determine whether innovation has a direct effect on marketing performance. The second stage is an MRA analysis that aims to determine whether transformational leadership moderates the relationship between innovation and marketing performance.

Variable Measurement

In this study, there are three variables, namely innovation, marketing performance, and transformational leadership. To facilitate understanding of these variables, measurements were taken.

(1) Innovation. Innovation in this study is an independent variable measured from four dimensions, namely product innovation, process innovation, marketing innovation, and organizational innovation.

Product innovation consists of 4 elements, namely: introduction of new products (item1), development of new aspects in existing products (item2), repositioning of existing products (item3), and new products for market penetration (item4). Each is measured with 7 levels of Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree).

Process innovation consists of four items, namely: acceleration of implementation (item5), increasing the ability to access information (item6), updating work instruction methods (item7), and cutting variable costs (item8). Each is measured with 7 levels of Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree).

Marketing innovation is measured by seven items, namely: market innovation programs to stay ahead in the market (item9), finding new ways to build and improve customer relationships (item10), always revising sales techniques (item11), implementing marketing innovation programs (item12), finding new business models (item13), continuously updating product designs according to buyer tastes and competition (item14), and always looking for ways and means of promotion (item15). Each is measured by a 7-level Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree).

Organizational innovation consists of: cooperation between departments (item16), encouraging not to always be 'obedient' (item17), encouraging employees to be multi-skilled (item 18), improving employee work welfare (item19), and rewarding employees (item20). Each is measured with a 7-level Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree).

(2) Marketing Performance. Marketing performance as a dependent variable is measured with three items, namely: profitability (item21), customer satisfaction (item22), and

sales (item23). Each is measured with a 7-level Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree).

(3) Transformational Leadership. Measurement of transformational leadership as a moderator variable using the Multifactor Leadership Questionnaire (MLQ-5x) developed by Avolio & Bass (1995). In this perspective, transformational leadership is measured from four dimensions, namely: 'idealized influence behaviour' (item24), 'inspired motivation' (item25), 'intellectual stimulation' (item26), and 'individualized consideration' (item27). Each is measured with a 7-level Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree).

RESULT AND DISCUSSION

Respondent Characteristics

There were 120 respondents who participated in filling out the questionnaire in this study. Table 1 shows the characteristics of respondents in terms of gender, age, and education level.

From Table 1, it is known that the majority (75%) of respondents are women. This means that the Jambi batik industry is dominated by women. This is understandable because batik making activities are to increase family income. It is known that the main breadwinners in the research area are men while women are additional breadwinners.

The fact that women dominate Jambi batik industry proves that the batik business is actually a creative business that requires innovation. Innovations in the batik business are important because the dynamics of change in this industry are very high.

Table 1 also shows that the age of Jambi batik actors is dominated by those aged 36-40 years as much as 38%, which means that the Jambi batik industry is dominated by those of productive age. Thus, it can be predicted that the Jambi batik industry has the opportunity to be further developed.

Table 1: Respondent characteristics

| Variables | Frequency (person) | % |
|---------------------------------|--------------------|----|
| Gender | | |
| – Laki-laki | 30 | 25 |
| – Perempuan | 90 | 75 |
| Usia (tahun) | | |
| – <25 | 3 | 3 |
| – 25 – 30 | 7 | 6 |
| – 31 – 35 | 16 | 13 |
| – 36 – 40 | 46 | 38 |
| – 41 – 45 | 30 | 25 |
| – 46 – 50 | 13 | 11 |
| – 51 – 55 | 5 | 4 |
| – >55 | 0 | 0 |
| Education: | | |
| – Junior High School/Equivalent | 54 | 45 |
| – Senior High School/Equivalent | 66 | 55 |
| – College | 0 | |

Source: Primary data

In terms of education, respondents are divided into two categories, namely junior high school/equivalent at 45% and high school/equivalent at 55%. From this data, it can be concluded that the relatively low human resource capability, seen from the level of formal education, is one of the serious challenges in the development of the Jambi batik industry. The data above shows that effective leadership is needed in the Jambi batik industry to direct the craftsmen and to do their jobs more effectively. In this case, effective leadership is transformational leadership. Transformational leadership has a vision to improve the creativity of organizational members.

Validity Test and Reliability Test

The validity and reliability test were conducted using the SPSS Version 24 program. This test was conducted to ensure that the data used in this study has strong validity and reliability so that conclusions can be drawn correctly and properly.

The data is considered valid if the calculated r is greater than the r -table at $N = 120$ (the number of samples in this study). The data is considered reliable if the Cronbach alpha value is > 0.60 . The results of the analysis show that all items in the questionnaire have a calculated r greater than the r -table (1.980). Hence, it can be concluded that the data is valid. The results of the analysis also show that the Cronbach alpha value is > 0.60 . Hence, it can be concluded that the data is reliable. Thus, further analysis can be carried out.

Classical Assumption Test

In this study, there are three types of classical assumption tests used, namely the normality test, the multicollinearity test, and the heteroscedasticity test using the SPSS version 24 program. The normality test is carried out using the Kolmogorov-Smirnov model with the following criteria: if the sig value > 0.05 , it means the data is normally distributed. The criteria used in the multicollinearity test are if the tolerance value > 0.10 or the VIF value < 10.00 , it means the data does not have symptoms of multicollinearity. The criteria used in the heteroscedasticity test are if the sig value > 0.05 , it means the data does not have symptoms of heteroscedasticity.

The analysis output shows that the significance value of all items is above 0.05, the tolerance value is above 0.10 and the VIF value is less than 10.00. Thus, it can be concluded that the data used in this study is normally distributed, does not have symptoms of multicollinearity and heteroscedasticity symptoms. Hence, that the data can be used for hypothesis testing.

Table 2: Variable Description

| Variables | Items | Score | Index (%) | Avarage |
|---|--------|-------|-----------|---------|
| Product Innovation | | | | 47 |
| Product introduction | Item1 | 251 | 30 | |
| Development of new aspects in existing products | Item2 | 394 | 47 | |
| Repositioning of exisiting products | Item3 | 461 | 55 | |
| New product for market penetration | Item4 | 454 | 54 | |
| Process Innovation | | | | 51 |
| Acceleration of implementation | Item5 | 457 | 54 | |
| Increased ability to access information | Item6 | 382 | 45 | |
| Updating of work instruction method | Item7 | 438 | 52 | |
| variable cost | Item8 | 437 | 52 | |
| Marketing Innovation | | | | 60 |
| Market innovation program to stay ahead | Item9 | 482 | 57 | |
| Seeking for new ways to build and improve customer relationship | Item10 | 480 | 57 | |

| | | | | |
|---|--------|-----|----|----|
| Always revising sales techniques | Item11 | 525 | 63 | |
| Implementing marketing innovation program | Item12 | 523 | 62 | |
| Seeking for new business models | Item13 | 478 | 57 | |
| Continuously updating product designs in line with customer taste and competition | Item14 | 526 | 63 | |
| Always seeking for new ways and promotional tools | Item15 | 523 | 63 | |
| Organizational Innovation | | | | |
| Cooperation between departments | Item16 | 416 | 50 | |
| Encourage no to always be 'obidient' | Item17 | 497 | 47 | |
| Encourage employees to become multi-skilled | Item18 | 407 | 48 | 52 |
| Improve employee work welfare | Item19 | 485 | 58 | |
| Reward employees | Item20 | 475 | 57 | |
| Marketing Performance | | | | |
| Profits | Item21 | 448 | 53 | |
| Customer satisfaction | Item22 | 449 | 53 | 55 |
| Sales | Item23 | 485 | 58 | |
| Transformational Leadership | | | | |
| idealized influence behavior | Item24 | 481 | 57 | |
| inspired motivation | Item25 | 459 | 55 | 57 |
| intellectual stimulation | Item26 | 492 | 59 | |
| individualized consideration | Item27 | 482 | 57 | |

Source: Analysis

Variable Description

The results of the descriptive analysis as seen in Table 2 show that respondents gave an average assessment of the observed variables ranging from 47 to 60. This means that respondents assessed that innovation practices, marketing performance, and transformational leadership in batik Jambi businesses were not optimal.

The lowest value was given to product innovation with a value of 47. There are two things that can be concluded from this data. First, Jambi batik entrepreneurs have relatively low education as seen in Table 1. It can be suspected that the level of education of these respondents affects innovation ability. Second, transformational leadership also received a fairly low score, namely 57. This shows that leaders or managers and also owners of Jambi batik businesses do not have transformational characters. Theoretically, this condition affects the respondents' innovation capabilities.

Respondents also gave relatively low scores to marketing performance. This data can provide an understanding that Jambi batik does not yet have strong competitiveness so that sales are less competitive with similar products from other regions. This data also shows that transformational leadership has not had much influence on the Jambi batik business which makes innovation not very supportive.

Marketing innovation received a fairly high score of 60 compared to other innovations. However, it seems that this market innovation does not sufficiently support sales in the market. It can be assumed that consumers do not make decisions to buy based on advertising offers, but are more interested in product quality. This is understandable because batik is generally 'fashion' which makes product quality an important factor in purchasing decisions.

Hypothesis Testing

There are two hypotheses in this study. The first hypothesis states that innovation has a significant effect on marketing performance. The second hypothesis states that transformational leadership significantly moderates the relationship between innovation and marketing performance. For the first hypothesis, a simple regression test is used and for the second hypothesis, the MRA test is used.

Simple Regression Test. To test the first hypothesis, a simple regression test is used with the following equation model:

$$Y = a + b_1X_1 \quad (1)$$

The SPSS version 24 output for this simple regression test is shown in Table 3 and Table 4 below.

Tabel 3: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1 | .655a | .429 | .424 | 4.22078 |

a. Predictors: (Constant), Innovation

Tabel 4: Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 6.553 | 1.069 | | 6.129 | .000 |
| | Innovation | .135 | .014 | .655 | 9.422 | .000 |

Dependent Variable: Marketing Performance

Table 3 shows that the R² value = 0.429, which means that innovation affects marketing performance by 42.9% or rounded up to 43%. Furthermore, Table 4 shows that the significance value of innovation is 0.000 < 0.05. Thus, it can be concluded that innovation has a positive and significant effect on marketing performance, meaning the first hypothesis saying that innovation has a positive and significant effect on marketing performance is accepted.

Moderating Regression Analysis (MRA) Test. To test the second hypothesis, the MRA model is used with the equation model as below:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_1 \times X_2 \quad (2)$$

The SPSS Version 24 output for this MRA test is shown in Table 5 and Table 6 as below:

Tabel 5: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1 | .892a | .796 | .791 | 2.54228 |

a. Predictors: (Constant), Innovation*Transformational Leadership, Innovation, Transformational Leadership

Tabel 6: Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|--|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 9.783 | 1.813 | | 5.397 | .000 |
| | Innovation | -.062 | .023 | -.302 | -2.744 | .007 |
| | Transformational leadership | .384 | .175 | .305 | 2.195 | .030 |
| | Innovation*Transformational leadership | .007 | .002 | .845 | 4.091 | .000 |

a. Dependent Variable: Marketing Performance

From table 5, it is known that the R² value = 0.796, which means that innovation and transformational leadership together affect marketing performance by 79.6% or rounded to 80%. This also means that the influence of innovation on marketing performance increases by 37% after the transformational leadership variable is added.

From table 6, it is known that the regression coefficient of innovation is $0.007 < 0.05$, the regression coefficient of transformational leadership is $0.030 < 0.05$, and the regression coefficient of innovation x transformational leadership is $0.000 < 0.05$. This shows that innovation and transformational leadership simultaneously have a significant effect on marketing performance. Thus, the second hypothesis that states that transformational leadership moderates the relationship between innovation and marketing performance is accepted.

DISCUSSION

To achieve success in the batik business, innovation is needed, both product innovation, process innovation, organizational innovation, and marketing innovation. There are at least two reasons for this. First, batik business is the matter of creativity and innovation. Creativity is the ability to generate new ideas while innovation is the ability to implement those new ideas. Both are interrelated. Both can create added value to a product.

The second reason is that the batik business is a business that is very vulnerable to market changes. The market always demands change. In addition, the batik market is also very competitive. There are many types of batik circulating in the market. All of them offer products and services that meet consumer tastes. All of this makes the batik market very competitive.

Therefore, Jambi batik must innovate if it does not want to be left behind in the market. If it does not innovate, consumers will immediately switch to other types of batik that better meet their tastes.

This study found that the majority of Jambi batik entrepreneurs are women (75%). This further shows that the Jambi batik business is a creative and innovative business. However, creativity and innovation cannot run well if not accompanied by transformational leadership. The reason is that leaders with transformational characters are able to encourage their members to make the necessary innovations.

This is evident from the findings of this study. This study found that the influence of innovation on marketing performance without transformational leadership only reached 40%. However, after being added with transformational leadership, the influence increased sharply to 80%.

The findings of this study show that innovation has a positive and significant effect on the marketing performance of MSMEs. This finding is supported by research by Yıldız et al. (2014) and Afriyie et al. (2019). Carrying out innovations such as product innovation, process innovation, marketing innovation, and organizational innovation can improve marketing performance. Thus, batik Jambi MSME practitioners are advised not to hesitate to invest in innovation activities. In product innovation, batik Jambi MSME practitioners are advised to do various things such as introducing new products, developing new aspects of old products, repositioning old products, and creating new products for market penetration.

In process innovation, batik Jambi MSME practitioners are advised to accelerate implementation, increase access to information, update work instruction methods, and save variable costs in various ways. In marketing innovation, batik Jambi MSME practitioners are advised to carry out various innovations to maintain market advantage, build and improve customer relationships, update sales techniques, build marketing innovation programs, find new business models, update product designs, and update promotional methods and tools.

In organizational innovation, batik Jambi MSME practitioners are advised to improve cooperation between individuals and units within the organization, encourage employees to always think critically and not just be 'obedient' employees, encourage employees to be 'multi-skilled', improve employee welfare, and reward high-achieving employees.

The following findings show that transformational leadership strengthens the relationship between innovation and marketing performance. This finding is supported by the

findings of Chen et al. (2012) and Raymond et al. (2013). This means that transformational leadership has an important role in improving the performance of MSMEs, especially marketing performance. Therefore, batik Jambi MSME practitioners are highly recommended to have transformational leadership. According to this study, there are four aspects that MSME leaders must have, namely idealized influence behavior, inspired motivation, intellectual stimulation, and individualized consideration.

CONCLUSION

Conclusion

From the results of this study, it can be concluded that: (1) innovation has a positive and significant effect on marketing performance, (2) transformational leadership strengthens the relationship between innovation and marketing performance. In other words, leadership can act as a moderator in the relationship between innovation and marketing performance.

Suggestions

Based on the results of the study above, there are two suggestions that are put forward. First, to develop Jambi batik business, especially marketing performance, it is suggested that Jambi batik business actors consider using leaders with transformational characters. Second, it is suggested that policy makers in Jambi Province increasingly encourage Jambi batik businesses to have leaders with transformational characters, for example by facilitating transformational leadership training.

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