

THE INFLUENCE OF ENTREPRENEURIAL LEADERSHIP, DYNAMIC CAPABILITY, INNOVATION, AND DIGITALIZATION ON THE PERFORMANCE OF MSME

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Abstract

The role of Micro, Small and Medium Enterprises (MSMEs) in a country's economy is very important. As one of the developing countries, the role of MSMEs in the Indonesian economy is very central, MSMEs are the largest contributor to GDP for Indonesia. However, MSMEs in Indonesia face problems related to low productivity. For this reason, this study tries to analyze the variables that drive MSME business performance. This research will examine how entrepreneurial leadership can drive dynamic capabilities, organizational innovation and digitization in MSMEs, in the end these factors will drive MSME business performance. This research will use the Structural Equation Modeling (SEM) method with the Partial Least Square (PLS). This study uses data from 168 MSME owners/managers in the food and beverage sector in Indonesia. The results of this study indicate that entrepreneurial leadership influences business performance through organizational innovation. Meanwhile, dynamic capabilities and digitization are not proven to be able to drive MSME business performance.

Keywords: MSME, Entrepreneurial Leadership, Digitalization, Dynamic Capabilities, Organizational Innovation.

Abstrak

Peran Usaha Mikro, Kecil dan Menengah (UMKM) dalam perekonomian suatu negara sangatlah penting. Sebagai salah satu negara berkembang, peran UMKM dalam perekonomian Indonesia sangat sentral, UMKM merupakan penyumbang PDB terbesar bagi Indonesia. Namun, UMKM di Indonesia menghadapi masalah terkait rendahnya produktivitas. Untuk itu, penelitian ini mencoba menganalisis variabel-variabel yang mendorong kinerja usaha UMKM. Penelitian ini akan mengkaji bagaimana kepemimpinan wirausaha dapat mendorong kapabilitas dinamis, inovasi organisasi dan digitalisasi pada UMKM, yang pada akhirnya faktor-faktor tersebut akan mendorong kinerja bisnis UMKM. Penelitian ini akan menggunakan metode Structural Equation Modeling (SEM) dengan Partial Least Square (PLS). Studi ini menggunakan data dari 168 pemilik/pengelola UMKM sektor makanan dan minuman di Indonesia. Hasil penelitian ini menunjukkan bahwa kepemimpinan kewirausahaan berpengaruh terhadap kinerja bisnis melalui inovasi organisasi. Sedangkan kapabilitas dinamis dan digitalisasi tidak terbukti mampu mendorong kinerja bisnis UMKM.

Kata Kunci: UMKM, Kepemimpinan Wirausaha, Digitalisasi, Kapabilitas Dinamis, Inovasi Organisasi.

INTRODUCTION

The role of Micro, Small and Medium Enterprises (MSMEs) is very large in the economy of a country. MSMEs are related to the basis of people's economic development. Many facts have

been found around the world which show that MSMEs play an important role in overcoming poverty, inequality, and job creation, especially in rural areas.¹ The definition of MSMEs varies in various countries, in Indonesia the definition of MSMEs previously referred to Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises has changed after the ratification of Presidential Regulation No. 7 of 2021 concerning Ease, Protection and Empowerment of Cooperatives and Enterprises Micro, Small, and Medium. The definition of MSMEs in several countries including the definition in Indonesia after and before changing in 2021 can be seen in the table below:

Table 1. Criteria for MSMEs in Indonesia, the European Union and India

Negara	Usaha Mikro	Usaha Kecil	Usaha Menengah
Indonesia (UU No 20 Tahun 2008)	Maximum assets Rp 50 mio	Assets > Rp 50 mio - Rp 500 mio	Assets > Rp 500 mio - Rp 10 bio
	Maximum turnover Rp 300 mio	Turnover > Rp 300 mio - Rp 2,5 bio	Turnover > Rp. 2,5 bio - Rp 5 bio
Indonesia (PP No 7 Tahun 2021)	Maximum working capital Rp 1 bio	Working capital > Rp 1 bio - Rp 5 bio	Working capital > Rp 5 bio - Rp 10 bio
	Maximum annual sales revenue Rp 2 bio	Annual sales revenue > Rp 2 bio - Rp 15 bio	Annual sales revenue > Rp 15 bio - Rp 50 bio
Uni Eropa	Number of employees < 10 orang	Number of employees < 50 orang	Number of employees < 250 orang
	Maximum annual turnover or annual balanced sheet EUR 2 mio	Maximum annual turnover or annual balanced sheet EUR 10 mio	Maximum annual turnover or annual balanced sheet EUR 43 mio
India	Maximum annual turnover Rs.50 mio	Maximum annual turnover1 Rs.500 mio	Maximum annual turnover Rs.2,5 bio

Source: Processed by the author (2023)

As one of the developing countries, the role of MSMEs in the Indonesian economy is very central, this can be seen from the contribution of Indonesia's GDP from the MSME sector which in 2019 reached 57.14% and in 2020 it rose to 61.97%, besides that MSMEs absorb total existing workforce up to 97% and 60.4% of total investment in 2020.² In addition, the majority or 99% of the number of businesses in Indonesia are MSMEs. Looking at the comparison of the contribution of MSMEs to GDP and the percentage of the number of MSME business units in Indonesia, it shows that the contribution of MSMEs to Indonesia's GDP is still low. This is actually in line with what was found from research in the Asia-Pacific region, which shows that in

¹ Tambunan, Tulus. "Recent evidence of the development of micro, small and medium enterprises in Indonesia." *Journal of Global Entrepreneurship Research* 9.1 (2019): 18.

² Capital Investment Coordinating Board. (2022). *Government Efforts to Promote Indonesian MSMEs*. <https://www.bkpm.go.id/id/publikasi/detail/NEWS/Efforts-Government-to-memajukan-umkm-indonesia>. (Access 02 February 2022).

all countries in the Asia-Pacific region more than 90% of total employment is generated by MSMEs but their contribution to GDP is far below 90%.³

There are several structural problems of MSMEs that need to be resolved so that MSMEs can play a more active role in the national economy. These problems include organizational management, access to marketing, product *packaging*, quality and continuity of production, quality of human resources from MSME owners/managers in the fields of technology, finance, production, and managerial.^{4,5}

In the context of MSMEs, the company's steps in dealing with challenges and business dynamics as described above will depend heavily on the role of the leader in the company, whether the owner or manager of the business. Entrepreneurial leadership is the process of influencing organizations through leadership and direct involvement in creating value for stakeholders by bringing together unique innovations and proprietary resource packages to respond to existing opportunities.⁶ Despite the concepts of entrepreneurial leadership it is understood and has been widely used in research in the context of western countries, research that reviews its relevance in eastern and developing countries is arguably not too much studied.⁷

In this digital era, MSME owners and/or managers also need to adapt to all developments in this era. Some of the steps taken by MSMEs such as the use of social media to interact with customers, the use of *e-commerce marketplaces* in marketing products and several other steps. In today's digital era, digital transformation is a strategic necessity on the leadership agenda.⁸ This transformation concerns internal relations such as relations between units and external companies such as expanding market reach.⁹ There are three interrelated phases of digital transformation, namely: digitization, digitization, and digital transformation.¹⁰ MSMEs experience vulnerability in the contemporary business environment which is very competitive and agile, besides that the limited resources they have both in terms of quality and quantity are another factor that causes

³ Yuhua, B. Z. "SMEs in the APEC Region. APEC Policy Support Unit, Policy Brief No. 8. December." (2013).

⁴ Ministry of Cooperatives and SMEs. Strategic Plan of the Ministry of Cooperatives and Small and Medium Enterprises for 2020-2024. Ministry of Cooperatives and SMEs: Jakarta, (2021).

⁵ Sasongko, Dedy. (2020). *MSMEs Rise, Indonesia's Economy Rises. Ministry of Finance*. <https://www.djkn.kemenkeu.go.id/artikel/baca/13317/UMKM-Bangkit-Ekonomi-Indonesia-Terungkit.html>. (Access 03 February 2022)

⁶ Darling, John R., Michael J. Keeffe, and John K. Ross. "Entrepreneurial leadership strategies and values: Keys to operational excellence." *Journal of Small Business & Entrepreneurship* 20.1 (2007): 41-54.

⁷ Paudel, Samundra. "Entrepreneurial leadership and business performance: Effect of organizational innovation and environmental dynamism." *South Asian Journal of Business Studies* (2019).

⁸ Singh, Anna, and Thomas Hess. "How chief digital officers promote the digital transformation of their companies." *MIS Quarterly Executive* 16.1 (2017).

⁹ Pasaribu, Manerep, and Albert Widjaja. *Strategi dan Transformasi Digital*. Kepustakaan Populer Gramedia, 2021.

¹⁰ Verhoef, Peter C., et al. "Digital transformation: A multidisciplinary reflection and research agenda." *Journal of business research* 122 (2021): 889-901.

most MSMEs to not carry out digital transformation within their organizations.¹¹ For this reason, the ideal digital transformation phase is carried out by the majority of MSMEs, namely digitization. The digitalization framework that will be used in this research is DIGROW (*Digitally Enabled Growth*). Because, research that examines capabilities as one of the key factors in value creation in the digital context is still quite limited.^{12,13}

In previous research, indicators related to digital transformation used were related to the adoption of e-commerce usage, adoption of digital marketing, and use of big data.¹⁴ The indicators used in this research study are more focused on digital technology, have not examined organizational capabilities which are the root of the problem of delays in the implementation of digitalization in MSMEs.

Capabilities perspective perfects the Resource-Based View (RBV) view, in which companies are understood as a collection of resources, built on the idea that organizations must develop learning processes to adapt to changing environments.^{15,16} Dynamic capabilities is the ability of companies to integrate, build and reconfigure internal and external competencies in the face of rapid environmental changes.¹⁷ Despite scientific research exploring dynamic capabilities is increasing because the concept is of great interest to researchers, but its contributions are largely conceptual.¹⁸ There are central issues for which empirical evidence remains equivocal due to the complexity of the construct's multidimensional nature, such as dynamic capability effects on company performance.¹⁹ This study will adopt a dynamic capability topology four dimensions namely, sensing capability, learning capability, integrating capability, and coordinating capability.²⁰ Dynamic capabilities can drive MSME business performance, although on the other hand there are studies that find an insignificant effect of dynamic capabilities on firm

¹¹ Troise, Ciro, et al. "How can SMEs successfully navigate VUCA environment: The role of agility in the digital transformation era." *Technological Forecasting and Social Change* 174 (2022): 121227.

¹² Matarazzo, Michela, et al. "Digital transformation and customer value creation in Made in Italy SMEs: A dynamic capabilities perspective." *Journal of Business Research* 123 (2021): 642-656.

¹³ Li, Liang, et al. "Digital transformation by SME entrepreneurs: A capability perspective." *Information Systems Journal* 28.6 (2018): 1129-1157.

¹⁴ Malodia, Suresh, et al. "To digit or to head? Designing digital transformation journey of SMEs among digital self-efficacy and professional leadership." *Journal of Business Research* 157 (2023): 113547.

¹⁵ Teece, David J., Gary Pisano, and Amy Shuen. "Dynamic capabilities and strategic management." *Strategic management journal* 18.7 (1997): 509-533.

¹⁶ Penrose, Edith Tilton. *The Theory of the Growth of the Firm*. Oxford university press, 2009.

¹⁷ Teece, David J., Gary Pisano, and Amy Shuen. "Firm capabilities, resources and the concept of strategy (working paper)." *Berkeley: Center for Research in Management, University of California* (1990).

¹⁸ Vogel, Rick, and Wolfgang H. Güttel. "The dynamic capability view in strategic management: A bibliometric review." *International Journal of Management Reviews* 15.4 (2013): 426-446.

¹⁹ Fainshmidt, Stav, et al. "Dynamic capabilities and organizational performance: a meta-analytic evaluation and extension." *Journal of management studies* 53.8 (2016): 1348-1380.

²⁰ Pavlou, Paul A., and Omar A. El Sawy. "Understanding the elusive black box of dynamic capabilities." *Decision sciences* 42.1 (2011): 239-273.

performance.²¹ For this reason, the results of these studies need to be studied further in different countries and economic conditions.

Innovation is also an important thing that can reflect the way and organizational response in dealing with changes in the business environment. Innovation describes the process of developing and implementing ideas, products, processes, and/or behavior within an organization.²² Innovation can be seen from various sides and covers various activities including product and process development; administrative and managerial processes; and organizational structure. OECD defines organizational innovation or organizational innovation as the implementation of new organizational methods in company business practices, workplace organizations, or external relations. The role of organizational innovation is very central to MSMEs, so that they can continue to compete and deal with changes in their business environment. There is a relationship between organizational innovation and business performance, innovation can be a source of competitive advantage for MSMEs and simultaneously will result in sustainable performance improvements

The focus of this research will be on MSMEs that have an income of more than IDR 300 million per year. Businesses that have revenues below IDR 300 million per year are still struggling to survive so they haven't thought about strategic matters. In addition, the focus of this research will also be carried out on MSME in the food and beverage sector. During the past Covid-19 pandemic, in 2020 there were 30 million MSMEs that went bankrupt, 35% of which were MSMEs in the food and beverage sector, followed by MSMEs in agriculture 26%, fashion 22%, and crafts 17%.²³ On the other hand, based on data from the Central Statistics Agency (BPS) for 2021, the average monthly consumption expenditure of the Indonesian population is 49% or IDR 622 thousand per month allocated for consumption of food and beverages.²⁴ This shows that on the one hand, food and beverage SMEs are vulnerable when faced with uncertain conditions such as the Covid-19 pandemic, but on the other hand, the potential for the food and beverage sector is still very promising, because the majority of people's consumption in Indonesia is food and beverages drink.

²¹ Wilden, Ralf, et al. "Dynamic capabilities and performance: strategy, structure and environment." *Long range planning* 46.1-2 (2013): 72-96.

²² Damanpour, Fariborz. "Organizational innovation: A meta-analysis of effects of determinants and moderators." *Academy of management journal* 34.3 (1991): 555-590.

²³ Puspaningtyas, L. (2021). *30 Million MSMEs Go Bankrupt, The Rest Survive with Digitalization*. Retrieved from *Republika Online*: <https://www.republika.co.id/berita/qqkg48383/30-juta-umkm-bangkrut-isanyabertahan-dengan-digitalisasi> (Access on 28 March 2023)

²⁴ Dihni, A. Rata-Rata Pengeluaran Konsumsi Bulanan Masyarakat Indonesia (2017-2021). <https://databoks.katadata.co.id/datapublish/2022/06/21/berapa-rata-rata-pengeluaran-konsumsi-masyarakat-tiap-bulan>. (Access 28 March 2023), (2022).

Based on the several research gaps and phenomena above, the researcher will analyze how the influence of entrepreneurial leadership will be mediated by dynamic capabilities, organizational innovation, and digitalization on the performance of MSME businesses in the food and beverage sector in Indonesia.

RESEARCH METHODS

Research Design

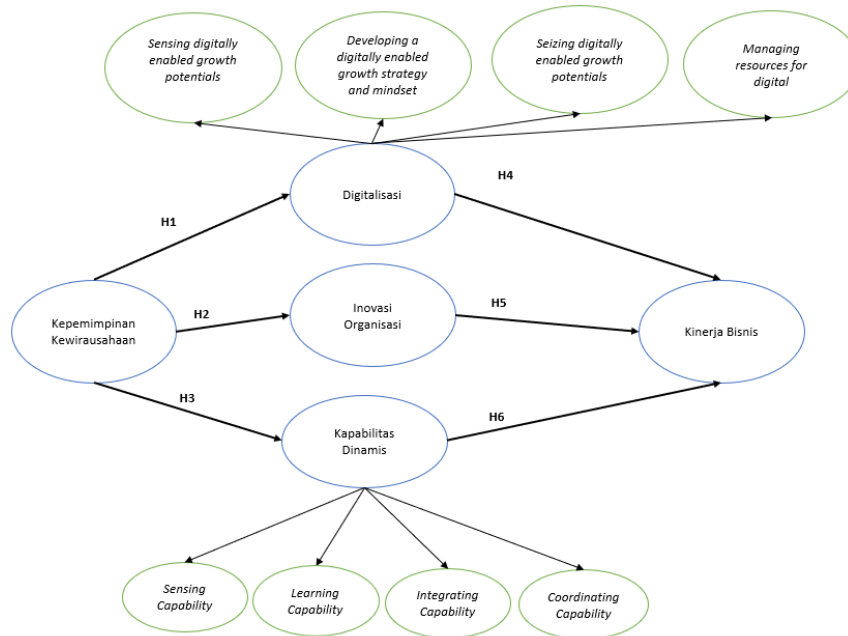


Figure 1. Research Model

Based on Figure 1 above, the hypothesis of this study is:

- H1** : There is a positive relationship between entrepreneurial leadership and digitalization.
- H2** : There is a positive relationship between entrepreneurial leadership with organizational innovation
- H3** : There is a positive relationship between entrepreneurial leadership with dynamic capabilities
- H4** : There is a positive relationship between digitalization with business performance
- H5** : There is a positive relationship between organizational innovation and business performance.
- H6** : There is a positive relationship between dynamic capabilities and business performance.

This study uses a quantitative method with the PLS-SEM technique and in the data processing to measure the relationship between variables will use SmartPLS. The sampling technique will use non-probability sampling. In taking non - probability sampling, each member of the population does not have a known or pre - determined opportunity to be selected as a sample. While the method used is purposive sampling. The types of questions asked in the questionnaire will be designed using closed questions. Closed questions help respondents to make quick decisions to choose between the several alternatives offered. This technique also helps researchers to process information more practically for further analysis.²⁵ This research will use 6 Likert scale.

To measure entrepreneurial leadership variables will use four indicators.²⁶ For digitization variables will use 15 indicators from four dimensions.²⁷ For organizational innovation variables will use 10 indicators.²⁸ For dynamic capabilities variables will use 19 indicators from four dimensions, and business performance will use nine indicators. There are 168 MSMEs in the food and beverage sector in Indonesia who are the samples in this study.

RESULTS AND DISCUSSION

The majority of respondents were in the province of West Java as much as 41 (24%), then in the province of East Java as many as 31 (18%). DKI Jakarta province with 22 (13%), Central Java province with 21 (13%), DI Yogyakarta province with 16 (10%), West Kalimantan province with 9 (5%), Banten province with 7 (4%) and others on the islands of Sumatra, Kalimantan, Bali and Sulawesi as many as 21 (13%). Based on the type of business, the majority of respondents are Micro Enterprises. As many as 167 (98%) of the 168 respondents were micro-enterprises with revenues > IDR 300 million per year. While Small and Medium Enterprises each one.

Based on the age of the business, the majority of respondents were SMEs less than 3 years old , 41 (39%). As for businesses that are 3-5 years old there are 31 (30%), businesses that are 6-10 years old are 22 (21%), and businesses that have been operating for more than 10 years are 11 (10%). Based on the number of employees, the majority of respondents were MSMEs with 5-10 employees, 64 (37%). As for businesses with less than 5 employees, there are 47 (27%),

²⁵ Sekaran, Uma, and Roger Bougie. *Research methods for business: A skill building approach*. John Wiley & Sons, 2016.

²⁶ Nguyen, Phuong V., et al. "The impact of entrepreneurial leadership on SMEs' performance: the mediating effects of organizational factors." *Heliyon* 7.6 (2021): e07326.

²⁷ North, Klaus, Nekane Aramburu, and Oswaldo Jose Lorenzo. "Promoting digitally enabled growth in SMEs: a framework proposal." *Journal of Enterprise Information Management* 33.1 (2020): 238-262.

²⁸ Al-Ansari, Yahya, Simon Pervan, and Jun Xu. "Innovation and business performance of SMEs: the case of Dubai." *Education, Business and Society: Contemporary Middle Eastern Issues* (2013).

businesses with 10-20 employees are 44 (26%), and businesses with more than 20 employees are 18 (10%).

Outer Model Measurement Evaluation

First Order Validity and Reliability Test

The first step is to test the reliability and validity. An indicator is declared valid if it meets the criteria for loading factor > 0.50 and when the Average Variance Extract (AVE) of each construct is > 0.50 .²⁹

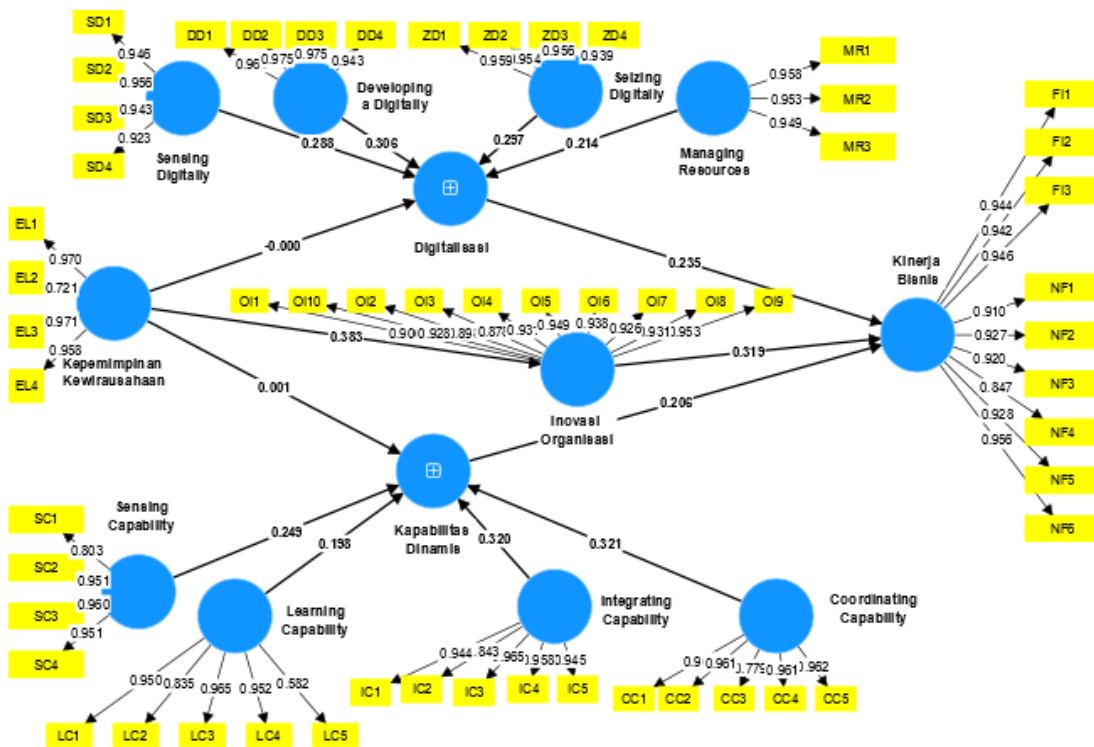


Figure 2. Measurement Models

Looking at Figure 2 above, for the entrepreneurial leadership variable the indicator that has the greatest outer loading is EL1. For the digitalization variable, the largest dimension of sensing digitally is SD2, while the dimension of developing a digitally is DD2 and DD3, while the dimension of seizing digitally is ZD1, and the dimension of managing resources is MR1. For the organizational innovation variable, the indicator that has the greatest outer loading is OI9. For the dynamic capability variable on the sensing capability dimension, the indicator organization that

²⁹ Hair Jr, Joseph F., et al. *Advanced issues in partial least squares structural equation modeling*. Sage publications, 2017.

has the largest outer loading is SC3. Whereas the learning capability dimension is LC3, the integrating capability dimension is IC3, the coordinating capability dimension is CC1. For business performance variables, the indicator that has the greatest outer loading is NF6.

Based on table 3, it is known that all AVE values > 0.50, which means that they have fulfilled the validity requirements based on the outer loading and AVE values.

Furthermore, discriminant validity testing was carried out with the Fornell-Larcker approach. Table 2 presents the results of discriminant validity testing.

Table 2. Discriminant Validity Test for First Order

	Coordinating_Capability	Developing_a_Digitally	Inovasi_Organisasi	Integrating_Capability	Kepemimpinan_Kewirausahaan	Kinerja_Bisnis	Learning_Capability	Managing_Resources	Seizing_Digitally	Sensing_Digitally	Sensing_Capability
Coordinating_Capability	0.929										
Developing_a_Digitally	0.425	0.964									
Inovasi_Organisasi	0.479	0.502	0.924								
Integrating_Capability	0.823	0.408	0.483	0.932							
Kepemimpinan_Kewirausahaan	0.355	0.357	0.383	0.369	0.911						
Kinerja_Bisnis	0.465	0.463	0.555	0.452	0.347	0.925					
Learning_Capability	0.711	0.411	0.446	0.712	0.294	0.414	0.869				
Managing_Resources	0.360	0.743	0.484	0.395	0.425	0.459	0.343	0.953			
Seizing_Digitally	0.440	0.799	0.497	0.415	0.314	0.467	0.393	0.714	0.952		
Sensing_Digitally	0.420	0.761	0.483	0.428	0.336	0.464	0.388	0.739	0.765	0.942	
Sensing_Capability	0.851	0.469	0.510	0.825	0.391	0.458	0.759	0.392	0.486	0.443	0.918

In testing discriminant validity, the AVE square root value of a latent variable is compared with the correlation value between that latent variable and other latent variables (Hair et al, 2014) . It is known that the AVE square root value for each latent variable is greater than the correlation value between the latent variable and other latent variables. So it is concluded that it meets the requirements of discriminant validity.

Table 3. Reliability Test Results

Variable	Dimensions	Composite Reliability	Cronbach Alpha	AVE
Entrepreneurial Leadership	-	0.951	0.930	0.831
Digitization	Sensing Digitally	0,969	0,958	0,887
	Developing a Digitally	0,981	0,975	0,930
	Seizing Digitally	0,975	0,965	0,906
	Managing Resources	0,968	0,950	0,909
Inovasi Organisasi	-	0,983	0,981	0,854
Kapabilitas Dinamis	Sensing Capabilities	0,955	0,937	0,843
	Learning Capabilities	0,937	0,913	0,755
	Integrating Capabilities	0,971	0,962	0,869
	Coordinating Capabilities	0,969	0,959	0,863
Business Performance	-	0.982	0.979	0.856

In addition to validity, a variable is declared reliable if it has a Cronbach alpha value > 0.6 (Cortina, 1993) and a composite reliability (CR) > 0.7 . Seen from table 3, all variables have Cronbach alpha values > 0.6 and composite reliability (CR) > 0.7 so that all variables are declared reliable.

Second Order Validity and Reliability Test

Next, an evaluation of the second phase of the outer model was carried out. It is known that the digitalization and dynamic capability variables are latent variables that are measured in two stages (second order construct) and the indicators are formative.

- The Digitalization variable has four formative indicators, namely sensing digitally, developing digitally, seizing digitally, and managing resources.
- The Dynamic Capability Variable has four formative indicators, namely sensing capability, learning capability, integrating capability, and coordinating capability.

In the formative measurement model, there are three stages of examination, namely the evaluation of convergent validity, collinearity and the significance of the formative indicators. Convergent validity will be carried out, namely by examining the correlation value.

Table 4. Second Order Convergent Validity Evaluation Results

Dimensions	Dynamic Capability	Digitization
Sensing Capability	0.957	-
Learning Capability	0.844	-
Integrating Capability	0.928	-
Coordinating Capability	0.93	-
Sensing Digitally	-	0.868
Developing Digitally	-	0.888
Seizing Digitally	-	0.85
Managing Resources	-	0.951

The correlation value > 0.8 indicates that it has good convergent validity³². It is known that all correlation values from dimensions to variables are > 0.8 so that they have good convergent validity. Next, an evaluation of collinearity will be carried out. In evaluating collinearity, testing whether there is a strong correlation or relationship between dimensions. VIF value expected < 5 .

Table 5. Second Order Collinearity Evaluation Results

Dimensions	VIF
Coordinating Capabilities	4,419
Developing Digitally	3,555
Integrating Capabilities	3,874
Learning Capabilities	2,725
Managing Resources	2,730
Seizing Digitally	3,388
Sensing Capabilities	4,930
Sensing Digitally	3.165

Based on table 5, it is known that all VIF values are < 5 , so it can be concluded that there are no collinearity problems. Next, an outer weight evaluation will be carried out. In evaluating the outer weight, the following conditions will be checked:

1. If the indicator (dimensional) is significant, then the indicator (dimensional) is maintained.
2. If the indicator (dimensional) is not significant, then it is checked whether the outer loading value is > 0.5 . If the outer loading value is > 0.5 , then the indicator is maintained.
3. If the outer weight and outer loading are not significant, there is no evidence that these indicators should not be maintained.

Table 6. Evaluation of Outer Weight and Outer Loading Second Order

	Outer Weight	Outer Loading	T-statistics	P Values
Coordinating Capability -> DC	0.250	0.930	1.161	0.123
Integrating Capability -> DC	0.299	0.928	1.521	0.064
Learning Capability -> DC	0.142	0.844	0.756	0.225
Sensing Capability -> DC	0.387	0.957	1.632	0.052
Managing -> Digitalisasi	0.544	0.951	3.646	0.000
Seizing -> Digitalisasi	0.128	0.850	0.662	0.254
Sensing Digitally -> Digitize	0.185	0.957	0.761	0.224
Developing -> Digitization	0.241	0.888	1.153	0.125

Based on table 6, most of the outer weight values are not significant, with P-Values > 0.05 . However, based on existing provisions, if the indicator (dimensional) is not significant, then it is checked whether the outer loading value is > 0.5 . If the outer loading value is > 0.5 , then the indicator is maintained. It is known that all outer loading values are > 0.5 , so that the indicators (dimensions) are maintained in the analysis process.

Evaluation of Inner Model Measurement

Based on the results of the model fit test in table 7, based on the SRMR indicator, it is known that the SRMR value is $0.042 < 0.1$, so it is concluded that the model fit test is fulfilled.

Table 7. Goodness of Fit Calculation Results

	Saturated Model
SRMR	0.042

Based on table 8, the R-Square value (coefficient of determination) of dynamic capabilities is 0.156, which means that entrepreneurial leadership is able to explain dynamic capabilities by 15.6%. It is known that the R-Square value of digitalization is 0.176, which means that entrepreneurial leadership is able to explain digitalization by 17.6%. It is known that the R-Square value of organizational innovation is 0.147, which means that entrepreneurial leadership is able to explain organizational innovation by 14.7%. It is known that the R-Square value of business performance is 0.398, which means that digitalization, organizational innovation, and dynamic capabilities can explain business performance by 39.8%.

The following are the results of the significance test between variables and the conclusions from the hypotheses that have been determined by the author.

Table 8. Calculation and Hypothesis Results

hypothesis	Original Sample (O)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values	Conclusion
Entrepreneurial Leadership -> Digitalization (H1)	0.420	0.090	4,691	0.000	Accepted
Entrepreneurial Leadership -> Organizational Innovation (H2)	0.384	0.093	4,120	0.000	Accepted
Entrepreneurial Leadership -> Dynamic Capabilities (H3)	0.395	0.094	4,208	0.000	Accepted
Digitalization -> Business Performance (H4)	0.235	0.125	1,883	0.060	Rejected
Organizational Innovation -> Business Performance (H5)	0.320	0.136	2,352	0.019	Accepted
Dynamic Capability -> Business Performance	0.207	0.120	1,721	0.085	Rejected

hypothesis	Original Sample (O)	Standard Deviation (STDEV)	T Statistics ((O/STDEV)	P Values	Conclusion
(H6)					

Discussion of the Effect of Entrepreneurial Leadership on Digitalization

The results of this study based on data in table 7 support hypothesis 1 which states that there is a positive relationship between entrepreneurial leadership and digitalization. This is based on the t-statistics (4.691), p-values (0.000), and the original sample (0.420). This shows that in the context of food and beverage MSMEs in Indonesia, entrepreneurial leadership can significantly and positively encourage digitization in MSMEs in the food and beverage sector in Indonesia.

The results of this study are in line with the results of research conducted by previous studies which found that entrepreneurial leadership has a significant effect in driving the digital transformation process in MSMEs. In the context of MSMEs, decision makers who are very strategic are centralized in the owners or managers, so that the role of leaders in driving the digitization process is very significant.^{30,31}

Discussion of the Effect of Entrepreneurial Leadership on Organizational Innovation

The results of this study based on the data in table 7 support hypothesis 2 which states that there is a positive relationship between entrepreneurial leadership and organizational innovation. The t-statistics (4.120), p-values (0.000) and the original sample (0.384). This shows that entrepreneurial leadership can encourage organizational innovation, the higher the entrepreneurial leadership possessed by the owner/manager/manager of an MSME, the better the organizational innovation within the MSME. This is in line with several previous studies which found that there is a positive relationship between entrepreneurial leadership and organizational innovation.³²

Discussion of the Effect of Entrepreneurial Leadership on Dynamic Capabilities

The results of this study based on the data in table 7 support hypothesis 3 which states that there is a positive relationship between entrepreneurial leadership and dynamic capabilities. This is based on the t-statistic value (4.208), p-value (0.000), and the original sample (0.395). This

³⁰ Bresciani, Stefano, et al. *Digital transformation management for agile organizations: A compass to sail the digital world*. Emerald Group Publishing, 2021.

³¹ Zimmermann, Alexander, et al. "Complements or substitutes? A microfoundations perspective on the interplay between drivers of ambidexterity in SMEs." *Long Range Planning* 53.6 (2020): 101927.

³² Huang, Shenglan, Donghong Ding, and Zhi Chen. "Entrepreneurial leadership and performance in Chinese new ventures: a moderated mediation model of exploratory innovation, exploitative innovation and environmental dynamism." *Creativity and Innovation Management* 23.4 (2014): 453-471.

shows that in the context of food and beverage MSMEs in Indonesia, entrepreneurial leadership can significantly boost the dynamic capabilities of MSMEs in the food and beverage sector in Indonesia.

The results of this study are in line with previous studies which have found a positive relationship between entrepreneurial leadership and dynamic capabilities.³³

Discussion of the Effect of Entrepreneurial Leadership on Digitalization

The results of this study based on the data in table 7 do not support hypothesis 4 which states that there is a positive relationship between digitalization and business performance. The t-statistic value (1.883), p-value (0.060), and the original sample (0.235). This shows that in the context of food and beverage MSMEs in Indonesia, digitalization has not been proven to significantly drive organizational business performance.

This result is different from some of the results of previous studies, in several studies of digital transformation or digitization it was found to be proven to be able to boost MSME business performance.³⁴ However, the approaches in these two studies are related to the adoption of e-commerce usage, adoption of digital marketing, the use of big data, and the use of other ICT in running business operations. The indicators used in this research study are more focused on digital technology, have not examined organizational capabilities which are the root of the problem of delays in the implementation of digitalization in MSMEs.

If we look at the theories that shape the constructs, dimensions, and variables of the digitization concept used by the author, we will find that the theory of dynamic capabilities is used.³⁵ Of course the characteristics and complexity of this theory are also a challenge for MSMEs to practice the concept of digitization. The problem encountered is very similar to the explanation in hypothesis 6 below. MSMEs are still having quite a hard time making digitalization a capability in their organizations, but if you look at the current phenomenon, MSMEs are in the process of transitioning to making digitalization a capability within their organizations.³⁶

³³ Wu, Chendong. *Entrepreneurial leadership, organisational creativity, and firm performance in Chinese SMEs context*. Diss. University of Nottingham, 2016.

³⁴ Gruber, Marc, Ian C. MacMillan, and James D. Thompson. "From minds to markets: How human capital endowments shape market opportunity identification of technology start-ups." *Journal of management* 38.5 (2012): 1421-1449.

³⁵ Felin, Teppo, et al. "Microfoundations of routines and capabilities: Individuals, processes, and structure." *Journal of management studies* 49.8 (2012): 1351-1374.

³⁶ Tarutè, Asta, and Rimantas Gatautis. "ICT impact on SMEs performance." *Procedia-social and behavioral Sciences* 110 (2014): 1218-1225.

Discussion on the Influence of Organizational Innovation on Business Performance

The results of this study based on the data in table 7 support hypothesis 5 which states that there is a positive relationship between organizational innovation and business performance. This is based on the t-statistics (2.352), p-values (0.019), and the original sample (0.320). This shows that organizational innovation can drive organizational business performance, the higher the organizational innovation in an MSME, the better the business performance of the MSME. This is in line with previous research which found that there is a positive relationship between organizational innovation and business performance.^{37,38}

Discussion of the Effect of Dynamic Capabilities on Business Performance

The results of this study based on the data in table 7 do not support hypothesis 6 which states that there is a positive relationship between dynamic capabilities and business performance. The t-statistics values (1.721), p-values (0.085), and the original sample (0.235). This shows that in the context of food and beverage MSMEs in Indonesia, dynamic capabilities do not significantly drive organizational business performance.

The results of this study are in line with the results of several previous studies.³⁹ In this study, dynamic capabilities were found to have no direct positive effect on business performance. This confirms several opinions about dynamic capabilities that have been conveyed by the author in the background section of this research. Several other researchers, assessing that the contribution of the majority of dynamic capabilities research is still conceptual.⁴⁰ There is still very limited empirical evidence showing that dynamic capabilities can directly drive a company's business performance.⁴¹

In the context of SMEs, the dimensions and indicators used to measure dynamic capability constructs are indeed quite complex. So it is not easy for MSME owners/managers to implement this in order to achieve the expected business performance. The owners/managers of food and beverage MSMEs in Indonesia prioritize to carry out innovation processes in achieving and improving their business performance. This can be seen from the results of the fifth hypothesis. In addition, the limited resources owned by MSMEs are also another factor that

³⁷ Omri, Waleed. "Innovative behavior and venture performance of SMEs: The moderating effect of environmental dynamism." *European Journal of Innovation Management* 18.2 (2015): 195-217.

³⁸ Park, Kyongseok, and Byung-Keun Kim. "Dynamic capabilities and new product development performance: Korean SMEs." *Asian Journal of Technology Innovation* 21.2 (2013): 202-219.

³⁹ Ireland, R. Duane, Michael A. Hitt, and David G. Sirmon. "A model of strategic entrepreneurship: The construct and its dimensions." *Journal of management* 29.6 (2003): 963-989.

⁴⁰ Seo, Young Wook, and Yoo Hwan Lee. "Effects of internal and external factors on business performance of start-ups in South Korea: The engine of new market dynamics." *International Journal of Engineering Business Management* 11 (2019): 1847979018824231.

⁴¹ Palmié, Maximilian, Bernhard Lingens, and Oliver Gassmann. "Towards an attention-based view of technology decisions." *R&D Management* 46.4 (2016): 781-796.

causes the dynamic capabilities of MSMEs to not directly and significantly influence this study. These limitations owned by MSMEs also make it difficult for MSME actors/managers to implement dynamic capabilities in running the company's business, in contrast to large companies which already have more adequate resources.^{42,43}

Based on table 4 it can be seen that the sensing capability dimension has the highest loading factor in the dynamic capability variable. This is in line with what was conveyed by previous research which stated that the characteristics of small companies are very good in the exploration process but weak in the exploitation process.⁴⁴ This is also reflected in the loading factor value of the learning capability dimension which has the lowest value compared to the other dimensions. Learning capability is defined as the ability to change the existing organizational operational capabilities with new knowledge. This weak opportunity exploitation process is due to the limited resources owned by MSMEs.⁴⁵

This limited resource can be seen from the demographics of the number of MSME employees who are respondents to this study. 27% of these MSMEs have employees less than 5 people and 37% have employees between 5-10 people. If you look at one aspect of the resources owned by MSMEs, MSMEs will have quite a hard time implementing dynamic capability practices. In addition, when looking at the age of business activities, the majority of respondents are MSMEs that are less than 3 years old (39%). The age of an MSME business will greatly affect the business performance of the MSME. For MSMEs that are just starting out, they will focus more on finding opportunities, studying market conditions, ensuring that their businesses can remain operational, stable, and slowly generate profits.

CONCLUSION

In this study, the authors wanted to examine the influence of entrepreneurial leadership, digitization, organizational innovation, dynamic capabilities on the business performance of MSMEs in the food and beverage sector in Indonesia. The results show that organizational innovation is the most significant positive factor driving MSME business performance, besides that organizational innovation also bridges or mediates entrepreneurial leadership owned by

⁴² Hadiyati, Ernani, and Ferdian Hendrasto. "Entrepreneurial Marketing Strategy of Micro, Small and Medium Enterprises in Pandemic Covid-19 Era." *International Journal of Economics & Business Administration (IJEBA)* 9.2 (2021): 178-191.

⁴³ Islam, Md Aminul, et al. "Effect of entrepreneur and firm characteristics on the business success of small and medium enterprises (SMEs) in Bangladesh." *International journal of business and management* 6.3 (2011): 289.

⁴⁴ Hernández-Linares, Remedios, Franz W. Kellermanns, and María Concepción López-Fernández. "Dynamic capabilities and SME performance: The moderating effect of market orientation." *Journal of Small Business Management* 59.1 (2021): 162-195.

⁴⁵ F. Hair Jr, Joe, et al. "Partial least squares structural equation modeling (PLS-SEM) An emerging tool in business research." *European business review* 26.2 (2014): 106-121.

MSME owners/managers in encouraging MSME business performance. Innovation that is able to translate entrepreneurial leadership in the form of new products, services or processes for MSMEs.

This research also shows that entrepreneurial leadership has proven to be positively significant in encouraging dynamic capabilities and digitalization processes in MSMEs. This proves that in the context of SMEs, owners/managers of SMEs are central figures in building and determining the strategic direction of these SMEs. Dynamic capabilities and digitalization have not been proven to be significantly positive in driving MSME business performance. One of the main factors that causes this is the limited resources owned by MSMEs, besides that the age of MSMEs also affects the ability of MSMEs to practice dynamic capabilities and digitalization within their organizations.

For managerial implications, owners or managers of SMEs must be able to apply entrepreneurial leadership practices in running and leading their business. As a central figure in MSMEs, MSME owners/managers must be able to act as entrepreneurs and leaders. MSME owners/managers must be braver to invest in new opportunities and take risks. Risk in a business is a common thing, the term *high risk high return* is indeed a relevant condition. Owners/managers need to manage risks, analyze mitigations that can be done better than always avoiding risks.

MSMEs also need to optimize all innovative ideas that exist in their organizations. MSMEs must also slowly implement digitalization in carrying out their business operations. If difficulties due to limited resources are the main obstacle for MSMEs to practice dynamic capabilities in their organizations, MSMEs can consider collaborating with other parties such as associations, relevant government agencies, and business incubators.

There are several limitations in this study such as the context of this research is the MSME food and beverage sector in Indonesia, so the results of this study need to be tested again if they want to be used in the context of MSME in other sectors or in other countries. In addition, the amount of data in this study is still quite limited, for this reason future research needs to be carried out with a larger amount of data spread across all regions in Indonesia, and the majority of respondents are managers/owners of Micro Enterprises. For this reason, in the future it is necessary to carry out further research in the context of a larger amount of data on Small and Medium Enterprises.

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