

# The Role of Organizational Innovation As A Mediator of Relationship Entrepreneurial Leadership on Organizational Performance

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**Abstract:** The uncertainty of the global environment and the increasingly fierce competition requires that Lembaga Perkreditan Desa (LPD) management be conducted by entrepreneurial leadership, hoping to be able to perform better, thereby improving the welfare of local villagers. This study aims to examine the influence of entrepreneurial leadership and organizational innovation on organizational performance at LPD in Bali Province. The sample was determined based on the slovin formula with a precision level of 7.5%, of which 956 healthy LPDs in nine districts / cities in Bali obtained a sample of 151 LPD. Research respondents in each LPD determined as many as 3 people consisting of chairman, treasurer, and secretary of LPD, so the total number of respondents is 453 people. Data analysis was done using SEM-PLS approach with SmartPLS 3.0 program.

The results showed that entrepreneurial leadership had a significant positive effect on organizational innovation and organizational performance. Similarly, organizational performance has a significant positive effect on organizational performance. The most important results of this study indicate that organizational innovation mediates partially the influence of entrepreneurial leadership on organizational performance.

**Keywords -** entrepreneurial leadership, organizational innovation, organizational performance, Lembaga Perkreditan Desa (LPD).

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## I. Introduction

Lembaga Perkreditan Desa (LPD) is one of the non-bank microfinance, established based on indigenous ties in Bali. The role of LPD is to encourage the economic improvement of the *pakraman* villagers. Public confidence has increased against LPD, judging from the third party funds in the form of savings, deposits, loans and various liabilities that continue to increase. However, the increased confidence of the *Pakraman* villagers is not accompanied by the increasing performance of LPDs (LPLPD, 2016). This can be seen from the ratio of non performing loans (NPL) increased from the year 2014 amounted to 7.43 increased to 7.46 in 2015. This can be viewed as one of the benchmarks of declining performance of these institutions. The decline of public trust in an institution can be determined by the leadership of the institution. In the era of increasingly stringent business competition requires the leadership of LPDs who have a strong entrepreneurial spirit, and able to explore new ideas to be able to win the competition (Kuratko & Hornsby, 1999[1a]). Leaders must be able to create conditions to grow new innovations to address the global environmental uncertainty facing organizations (Petuskiene & Glinskiene, 2011[2]; Wang and Tsai, 2013[3]). It is expected that LPDs can continue to grow and develop well, so that efforts to prosper the local villagers is more secure.

## II. Literature Review

### 2.1 Entrepreneurial leadership → Organizational Innovation

Entrepreneurial Leadership is a process of creating organizational innovation and the ability to take opportunities (Darling et al., 2007)[4]. According Kuratko (2007)[1b], entrepreneurial leadership is a factor driving innovation in the organization. Companies that have entrepreneur-oriented leaders can execute corporate change strategies through continuous organizational innovation (Ghoshal and Bartlet, 1996)[5]. The organizational innovation in question is the entrepreneurial character who is responsive to technological renewal, the development of production methods that are more in line with market demands, and organizational

innovation in building effective and efficient enterprise organizations (Bhide, 2000)[6]. The leadership style is one of the most influential predictors of organizational innovation (Manz et al., 1992[7]; Nemanich & Vera, 2009[8]; Yukl, 2009[9]; Kao et al., 2015[10]). According to Shin & Zhou (2007)[11], found a positive influence between leadership and organizational innovation. The results of Rosing et al. (2011)[12] states that leadership style influences organizational-level innovation. Hong et al. (2014)[13] in his research stated that entrepreneurial leadership has a positive effect on innovation behavior

H1: Entrepreneurial leadership has a significant positive effect on organizational innovation

## **2.2 Entrepreneurial leadership → Organizational Performnce**

Entrepreneurial leadership is defined as the type of leadership that creates a visionary scenario for designing and directing members to commit to a vision for the creation of strategic value (Gupta et al., 2004)[14]. Entrepreneurial leadership is the development of transformational leadership oriented entrepreneurs to produce higher organizational performance (Chung, 2008)[15]. According to Darling et al. (2007)[4], the success of entrepreneurial leadership is influenced by the values that the individual believes. Religious personal values (Salwa, 2013)[16] have a significant effect on nonfinancial performance at Zakat Selangor and Amanah Ikhtiar Malaysia institutions. It shows that the religious value that a leader believes will have an effect on the organization's performance. So that entrepreneurial leadership will be able to improve organizational performance if it contains elements of religious values that are believed by a leader. A number of studies have found that entrepreneurial leadership has a positive and significant effect on company performance (Helm & Zyl, 2007[17]; Chen, 2014[18]; Mgeni, 2015)[19]. Thus the behavior of an entrepreneur-oriented leader can encourage the increasing role of employees in achieving organizational goals.

H2: Entrepreneurial leadership has a significant positive effect on organizational performance

## **2.3 Organizational Innovation → Organizational Performnce**

Organizational innovation is the creation of new products and services that are useful to the organization (Woodman et al., 1993)[20]. Organizational innovation is the company's success to develop new products or services according to market needs. Organizational innovation will bring a new and successful change in the market to improve the company's performance (Menguc & Auh, 2010[21]; Jimenez & Valle, 2011)[22]. The results of Darroch (2005)[23]; Setyanti (2013)[24], found that there is a positive and significant influence of organizational innovation on company performance. This is also supported by a number of research results conducted by Rofiaty (2011)[25]; Aragon et al. (2007)[26]; Gunday & Ulusoy (2011)[27]; Hilmi et al. (2011)[28]; Huges & Morgan (2007)[29]; Jimenez & Valle (2010)[22]; Prajogo (2006)[30]; Setyanti et al. (2013) [24] and Uslu et al. (2015) [31], who found that there was a positive influence between the creation of organizational innovation on company performance.

H3: Organizational innovation has a significant positive effect on organizational performance

## **2.4 Entrepreneurial leadership → Organizational Innovation → Organizational Performance**

The role of organizational innovation mediation in entrepreneurial leadership relationship to organizational performance is explained through a number of studies that found significant influence of entrepreneurial leadership toward organizational innovation organizational performance, and organizational innovation influence on organizational performance. Significant influence between leadership styles on organizational innovation was found in the results of research conducted by Manz et al. (1992)[7]; Shin & Zhou (2007)[11]; Nemanich & Vera (2009)[8]; Yukl (2009)[9]; Rosing et al. (2011)[12]; and Kao et al. (2015)[10]. The results of Hong et al. (2014)[13] more specifically find that entrepreneurial leadership has a positive effect on innovation behavior. The significant influence of entrepreneurial leadership on organizational performance is found in research conducted by Helm & Zyl (2007)[17]; Chen (2014)[18]; and Mgeni (2015)[19]. On the other hand, a number of studies have found that organizational innovation has a significant effect on performance, Rofiaty (2011)[25]; Aragon et al. (2007)[26]; Gunday & Ulusoy (2011)[27]; Hilmi et al. (2011)[28]; Huges & Morgan (2007)[29]; Jimenez & Valle (2010)[22]; Prajogo (2006)[30]; Setyanti et al. (2013)[24]; and Uslu et al. (2015)[31].

H4: Organizational innovation acts as a mediator of entrepreneurial leadership relationships on organizational performance

## **III. Method**

The population in this study is *LPD* which is in the healthy category in the regency / city of Bali province which amounted to 956. The number of samples of the study determined based on Slovin formula with a precision level of 7.5%, obtained by 151 *LPD*. Technique of sampling of research done by random sampling. The respondents were *LPD* managers consisting of chairmen, treasurers and secretaries in 151 *LPDs* who became the research samples.

The entrepreneurial leadership variable in this study refers to Tarabishy & Solomon (2005); Chen (2007); Jagdale & Shankar (2014)[32], which consists of 3 dimensions, namely proactiveness with 5 indicators, innovativeness has 3 indicators, and risk taking has 3 indicators, collaborated with ethical value dimension (satya laksana) Rahyuda et al (2015)[33] which has 5 indicators , so that entrepreneurial leadership variable consists of 4 dimensions with 16 indicators. Organizational innovation variables refers to Wang & Wang (2012)[34] consisting of 7 indicators and organizational performance variables referring to Slavkovic & Babic (2013)[35] and Kipasha (2013) [36] with the number of indicators 11 indicators.

Data analysis was done with SEM-PLS through the stages of evaluation of measurement model, structural model evaluation, and hypothesis testing. The evaluation of the measurement model is based on convergent validity (outer loading), Average Variance Extracted (AVE), each should be > 0.50. The structural model evaluation refers to the coefficients of R-Square (R<sup>2</sup>), Cronbach's Alpha (> 0.60), and composite reliability (> 0.60). The feasibility of the model was evaluated based on Q-square predictive relevance (Q<sup>2</sup>) and Goodness of Fit (GoF).

#### IV. Result And Discussion

##### 1.1 Testing validity, Reliability, and Fit Model

Based on the results of the data with SmartPLS 3.0 obtained the results of outer loading coefficient and AVE greater 0.50, as well as Cronbach's Alpha and composite reliability is also greater than 0.60, as shown in Table 1. Based on the criteria of validity and reliability as mentioned, otherwise the supporting data of this research is valid and reliable.

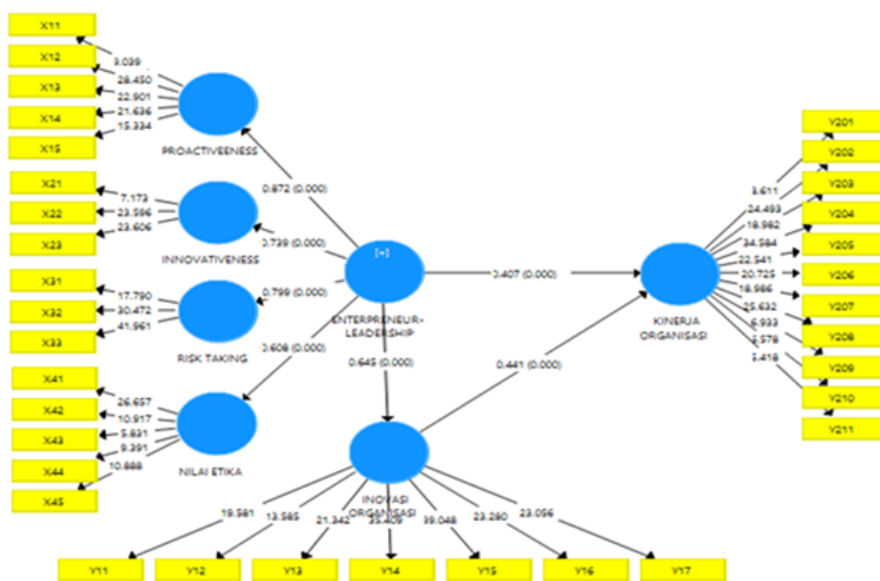
**Table 1** R<sup>2</sup>, Cronbach's Alpha, Composite Reliability, and AVE

Variabel	R <sup>2</sup>	Cronbach's Alpha	Composite Reliability	AVE
Entrepreneurial leadership	-	0,857	0,881	0,527
Organizational Innovation	0,416	0,900	0,921	0,625
Organizational Performance	0,592	0,893	0,911	0,589

Based on Q<sup>2</sup> calculated by the formulation  $Q^2 = 1 - \{(R^2_1) (R^2_2)\}$  obtained a value of 0.7617, which means that 76.17% research model is able to predict the influence between independent variables to the dependent variable. Whereas if the feasibility of the model seen from GoF is calculated by the formulation of  $GoF = \sqrt{(AVE \times R^2)}$ , the result is 0.5408, quite large (Akter, et al., 2011)[38]. The results of this feasibility test indicate that the research model has a strong level of feasibility

##### 4.2 Hypothesis Testing

The results of hypothesis testing are shown in Figure 1, and Table 2 which shows the amount of path coefficient along with p-value



**Figure 1.** Relationship between Entrepreneurial leadership, Organizational Innovation, and Organizational Performance

**Table 2** Path Coefficients Entrepreneurial leadership, Organizational Innovation, and Organizational Performance

Relationship between Variables	Path Coefficients	p-value	Ref.
Entrepreneurial-leadership → Organizational Innovation	0,645	0,000	support
Entrepreneurial-leadership → Organizational Performance	0,407	0,000	support
Organizational Innovation → Organizational Performance	0,411	0,000	support
Entrepreneurial-leadership → Organizational Innovation → Organizational Performance	0,285	0,000	support

Considering Figures 1 and Table 2, it can be explained that there is a significant positive effect between entrepreneurial leadership on organizational innovation and organizational performance. This shows that entrepreneurial leadership is increasingly strong able to grow organizational innovation and organizational performance is also higher.

Similarly, organizational innovation exhibits a significant positive effect on organizational performance, meaning that organizational innovation is increasingly capable of increasing organizational performance in LPDs in Bali. Based on this, then hypothesis 1, hypothesis 2, and hypothesis 3 can be proven. Since Entrepreneurial leadership significantly influences Organizational Innovation and organizational performance, Organizational Innovation also has a significant effect on organizational performance, Organizational Innovation acts as a mediator between Entrepreneurial leadership toward organizational performance. Thus, hypothesis 4 is also proven.

Based on the results of the hypothesis test, where all hypotheses are accepted, the results of this study can confirm a number of previous research results. The most important finding in this study, that entrepreneurial-oriented leadership if integrated with innovation oragnisasi able to further improve organizational performance.

## V. Conclusion, Recommendation, Limitation, and Future Research

The results of this study clearly demonstrate that entrepreneurial-based leadership is able to encourage the improvement of organizational innovation and organizational performance. Similarly, improving the ability of organizational innovation is able to encourage the improvement of organizational performance. In this case, organizational innovation acts as a mediator partially the relationship between entrepreneurial leadership on organizational performance. Therefore, in an effort to improve organizational performance, it is necessary to consider renewing a leader's entrepreneurial perspective, as well as improving organizational innovation.

This research is limited to LPD in Bali which is included in healthy category, supported by entrepreneurial leadership, organizational innovation, and organizational performance variables. Future research can be done by inserting unhealthy LPDs, and adding other relevant variables.

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Variables	Dimmension and Indicators	Source
	c.Ethical Value (X <sub>1.4</sub> ) 1. Transparency (X <sub>1.4.1</sub> ) 2. Taking into account the interests of stakeholders (X <sub>1.4.2</sub> ) 3. Responsible (X <sub>1.4.3</sub> ) 4. Faithful (X <sub>1.4.4</sub> ) 5. Obey the rules (X <sub>1.4.5</sub> )	
Organizational Innovation (Y <sub>1</sub> )	a. New ideas (Y <sub>1.1</sub> ) b. Looking for a new method (Y <sub>1.2</sub> ) c. A creative operational system (Y <sub>1.3</sub> ) d. Marketing of leading products (Y <sub>1.4</sub> ) e. The leading service system (Y <sub>1.5</sub> ) f. Managing risk (Y <sub>1.6</sub> ) g. New product upgrades (Y <sub>1.7</sub> )	Wang & Wang (2012)[34]
Organizational Performance (Y <sub>2</sub> )	a. Cost reduction (Y <sub>2.1</sub> ) b. Employee productivity (Y <sub>2.2</sub> ) c. Increased profitability (Y <sub>2.3</sub> ) d. Improved service quality (Y <sub>2.4</sub> ) e. Product quality improvement (Y <sub>2.5</sub> ) f. Increased customer satisfaction (Y <sub>2.6</sub> ) g. Problem solving (Y <sub>2.7</sub> ) h. Reponsive to technological change (Y <sub>2.8</sub> ) i. Good Reputation (Y <sub>2.9</sub> ) j. Profit allocation for the development of pakraman village (Y <sub>2.10</sub> ) k. Profit allocation for social funds (Y <sub>2.11</sub> )	Slavkovic & Babic (2013)[35]  Kipesha (2013)[36]

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