

# THE EFFECT OF ENTREPRENEURIAL LEADERSHIP, INNOVATION CAPACITY, WORKPLACE PERFORMANCE ON BUSINESS PROCESS MANAGEMENT AND ITS IMPLICATION ON FINANCIAL GOVERNANCE IN SMALL MEDIUM ENTERPRISES IN BANDUNG CITY

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## ABSTRACT

*The objectives of this study are to identify the effect of Entrepreneurial Leadership, Innovation Capacity, Workplace performance on business process management and its implication on financial governance in small medium enterprises in Bandung City. The methodology used in this study is quantitative research. Quantitative research is an approach for testing objective theories by examining the relationship among variables. The conclusion for this study is Leadership (EL) has an effect on business process management in the development of SME business through a business improvement process, which will have implications for organizational performance both on Financial Governance in SME's of Bandung.*

**Keywords:** Entrepreneurial Leadership, Innovation Capacity, Workplace Performance, Business Process Management, Financial Governance.

## INTRODUCTION

Small businesses are micro medium or commonly abbreviated as MSME, now takes a very important role in the development of the economy in Indonesia. We can see one of them from our daily activities. Many of our daily needs are products or services from SMEs. Ranging from snacks, heavy meals, clothes to washing clothes services are also provided by SMEs around us. Even not a few of the SMEs have been marketing their products and services online through social media, buying and selling sites, online motorcycle taxi food services, and so on.

Reported from an article on the site ayobandung.com, Head of the Office of Cooperatives, Micro, Small and Medium Enterprises, Atet Dedi Handyman in the 2019 UMKM Awards said that according to statistical data he obtained there were 14,000 MSMEs in the city of Bandung but only 6,201 MSMEs which is under the auspices of the Department of Cooperatives and SMEs. Still according to statistical data received by the Office of Cooperatives and MSME states that the Bandung MSMEs contribute 80% of the GDP of the City of Bandung. The number of SMEs in the city of Bandung has increased from year to year. However, business competence is only a small part of MSMEs that are developing. During the intense competition, the MSMEs must move quickly to improve the quality of their business management processes.

Nine business competencies must be owned by business people, especially medium, micro, and small scale, namely: 1) recognizing business, 2) knowing the basics of business

management, 3) strengthening capital, 4) financial efficiency, 5) time efficiency, 6) managing relationships with stakeholders, 7) satisfying customers, 8) mastering business competition and 9) having standard guidelines in carrying out business operations. These nine competencies are included in terms of entrepreneurial leadership, where SMEs must have the characteristics of leaders who can bring change and innovation to the SMEs they manage. Then in terms of innovation capacity, every MSME must be able to know the extent of their ability to innovate in all fields to be able to survive in competition. Because basically, UKM does not have a complicated bureaucracy making it easier to innovate.

To compete MSMEs need to identify business strengths to be able to compete and provide the best performance. One identification that can be done is through business process management, good business management is expected to create a basis for good performance, one of which is in the financial sector, or is feasible in the capital. In business competition two parties offer each other the most favorable prices or conditions for consumers. Their support, MSME competition in the city of Bandung requires a good managerial strategy to compete and provide good financial performance.

Another factor that must be considered is workplace performance or commonly known as work environment performance. The comfort factor of the workplace environment, in general, will affect the comfort of its employees and the company's performance. If the performance is getting better, then operational costs can be controlled. Many SMEs in Bandung have not paid attention to workplace performance as a supporting factor for business development. From this presentation, it is necessary to know the extent of the implications of entrepreneurial leadership, innovation capacity, and workplace performance in the business process management of finance governance MSME in the city of Bandung.

Departing from this understanding, the researcher examines the influence of the three variables namely workplace performance, innovation capacity, and entrepreneurial leadership on business performance management and its implications for financial governance in the Bandung city MSMEs that are registered as social entrepreneurs in 2020.

## LITERATURE REVIEW

### Micro Small Medium Enterprises

Understanding MSMEs according to the Law Law No.20 Article 1 of 2008 concerning Micro, Small and Medium Enterprises is as follows:

Micro Business is a productive business owned by individuals and/or individual business entities that meet the criteria for Micro Business as stipulated in this Law.

Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or non-branch companies that are owned, controlled, or become a part either directly or indirectly of medium-sized businesses or large businesses that meet the Business criteria Small as referred to in this Act.

Medium Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly with a Small Business or large business with a net worth or annual sales proceeds as regulated in this Law.

The MSME criteria according to Law No.20 Article 1 of 2008 concerning Micro, Small and Medium Enterprises can be seen in the Table 1 below:

No	Descriptions	Criteria	
		Asset	Profit
1	Micro Enterprises	Max 50 Million	Max 300 Million
2	Small Enterprises	>50 Million – 500 Million	>300 Million – 2.5 Billion
3	Medium Enterprises	>500 Million – 10 Billion	> 2,5 Million – 50 Billion

### **Business Process Management**

Business process management, abbreviated as BPM, is an efficient method of aligning an organization with the wants and needs of the organization (Wikipedia). Based on the above understanding, it can be seen that the alignment or optimization of an organization is carried out by the wants and needs of the organization. In this case, the business unit that the authors observe is Micro, Small, and Medium Enterprises (MSMEs). Where business capital (physical and non-physical) MSME is not so large but has a fairly large employment absorption with the very tight competition in Indonesia. Business Process Management (BPM) has four dimensions: 1) Modeling; Users can define and design the structure of each process. 2) Integration; BPM can connect each element in the process so that these elements can collaborate and exchange information to complete their goals. 3) Supervision; Users can overcome and control the performance of the ongoing business processes and the performance of each person involved in the business process. 4) Optimization; Users can analyze and monitor a business process also take action to improve its efficiency.

### **Financial Governance**

Financial Governance refers to the way companies collect, manage, monitor, and control financial information. Financial governance covers the way companies track financial transactions, manage performance, and control data, compliance, operations, and disclosure (tagetik.com).

In general, most MSMEs currently have problems in financial management. That has become one of the main factors MSMEs in Indonesia cannot survive in competition. The problem that generally occurs is that many MSMEs do not do financial records properly. Business finance and household finance are mixed in their use so that it is inevitable that they will have difficulty rotating their business capital.

### **Entrepreneurial Leadership**

Leadership or leadership has the potential to encourage innovation to give birth to a new way of working in the context of business development. Leadership is generally defined as the process of influencing an organization's employees to achieve organizational goals (Esmer & Dayi, 2016). Entrepreneurs take business risks for top managers about strategic management (Gupta et al., 2004).

Entrepreneurial leadership is a process to influence and direct the performance of organizational members towards organizational achievement that involves, exploits, and recognizes entrepreneurial opportunities (Renko et al., 2015). Entrepreneurial Leadership has several main characteristics, namely able to motivate, achievement orientated, creative, flexible, patient, persistent, risk-taker, visionary. The three attributes of Entrepreneurial Leadership that will be measured in this study include (Hadi & Harjanti, 2013):

- Innovativeness
- Risk-taking
- Proactiveness

In general, of the four characteristics of entrepreneurial leadership, vision and innovation are the most significant to the performance of a good SME organization (Zainol et al., 2018). In other research, it shows that the entrepreneurial leadership variable influences the competitive advantage of SMEs in the city of Bangka (Yusnita & Wahyudin 2017). From the two research results above it can be seen that in general the application of Entrepreneurial Leadership as part of a business process, can improve the performance of business organizations including financial management, so that MSMEs in Bandung can survive or even excel in today's competition.

Fadzil et al. (2019) found that personal background, work, and business skills are among the important factors in the creation of new e-commerce ventures in Malaysia. As entrepreneurs are motivated internally and externally, findings from this study identified 2 types of entrepreneurial motivation which are related to internal motivation; (i) need for achievement and (ii) interest. On the other hand, external motivation as a result of interactions with conducive environments such as customers, family members, and industries have increased entrepreneur's motivation that gives an impact on business success. Research findings also have found that entrepreneurial competencies in both computer and communication skills largely contribute to the creation of new e-commerce ventures.

Guerrero et al. (2015) explained for entrepreneurship, especially for Internal Factors (IF): As a complementary approach, the resource-based view (RBV) helps to explain the internal factors that generate a competitive advantage within an entrepreneurial university or organization. The main internal factors include (i) human resources; (ii) financial resources from diversified sources of income; (iii) physical resources; (iv) strong networks/alliances; and (v) status and prestige. It also found by Salamzadeh et al. (2014).

## **Innovation Capacity**

In today's global competition, innovation/ innovation becomes a very powerful weapon for businesses to be able to excel. According to Prof. Suarez-Villa (1990), the concept of innovative capacity can measure the level of discovery and innovation potential in a country, geographical area, or any economic activity. Innovation itself is a renewal that aims to provide more value to a product with new ideas that are different from other products (Wening, 2012). Innovativeness is defined as a basic desire to move from existing technology or operational processes to move forward away from present conditions (Yusnita & Wahyudin 2017). Meanwhile, innovation capacity has been defined as an effort to continuously improve the ability and resources of a company to find opportunities sequentially to be involved in developing new products (Szeto, 2000).

Based on research in Stella Lovinanda and Scarce Elsy Hatane (2016), innovation capability has seven factors that will be explained as follows:

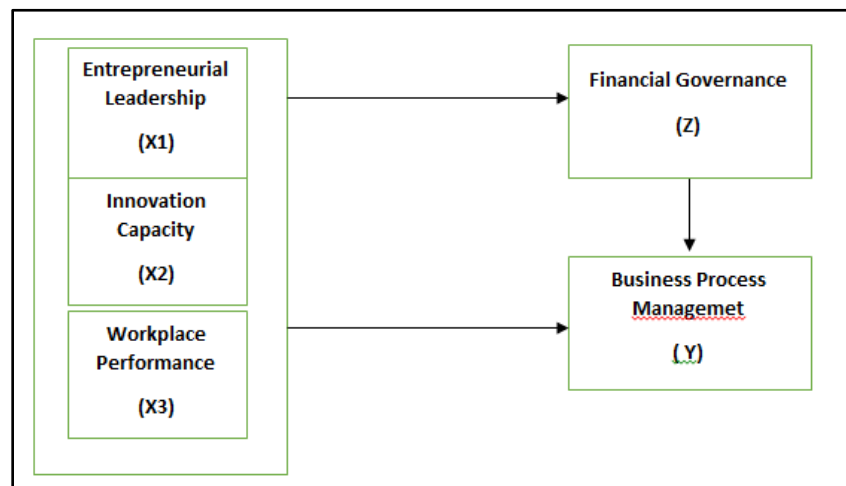
1. Participatory Leadership Culture is defined as the overall activities of an organization in supporting and motivating innovative actions, including leadership styles that can facilitate innovation activities.
2. Work Climate and Well-being are manifested in the way organizations interact with employees so that they can influence work behavior and results. Work climate can be defined as how employees perceive themselves to be treated in the organization.
3. Ideation and Organizing Structures can be interpreted as openness and flexibility of employees will support communication in the organization. Management must have the courage to cross organizational boundaries when carrying out innovative activities.

4. Development Know-how. An organization must also master its environment, which includes customers, competitors, and new technologies that continue to emerge. This information will become the organization's guide in deciding on innovation ideas.
5. External Knowledge is knowing the external environment outside the company. According to the key to successful innovation is when companies can collaborate with the external environment.
6. Regeneration is by learning from previous experience to produce even better innovations.
7. Individual Activity. Employees who have creativity and intrinsic motivation in their work will greatly benefit the organization to create a work environment that supports the creation of innovation. Creative employees will be sensitive to a problem and have various perspectives to overcome their risks.

## Workplace Performance

Understanding the work environment according to Armstrong (Kisworo, 2012), the work environment consists of the system of work, the design of jobs, working conditions, and how people are treated at work by their managers and co-workers. Broadly speaking, the work environment is divided into 2 namely, the physical environment and the non-physical environment. There are several main indicators of work comfort in the physical environment that have been deduced from various opinions of experts, namely: (1) Room coloring; (2) Cleanliness; (3) air exchange; (4) Information; (5) Security; (6) Noise. Whereas for the non-physical environment from the opinion of experts that the main indicators included include the relationship between employees and employee relations with superiors. A pleasant work environment can make employees feel at home in completing their work and able to achieve an optimal result. Conversely, if the working environment is inadequate, it will hurt reducing the level of productivity of employee performance (Rahmawanti et al., 2014) (Figure 1).

## Model of Framework



**FIGURE 1**  
**MODEL OF FRAMEWORK**

## METHODOLOGY

In a study, a researcher is required to use the right research approach. This is intended so that researchers can get a clear picture and results of the problems encountered and can find out the steps in overcoming the problem.

Quantitative research is an approach for testing objective theories by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures (Creswell, 2014). From this explanation, it can be concluded that the Quantitative Research Method is the most appropriate method for conducting this research. Testing in this study uses partial least square, data is processed using the help of the XLSTAT program. The total population in this study is 1500 new West Java MSME entrepreneurs who are registered with the West Java Provincial Industry and Trade Office. Samples were taken using a purposive sampling method with calculations using the Slovin formula. The samples in this study are as follows:

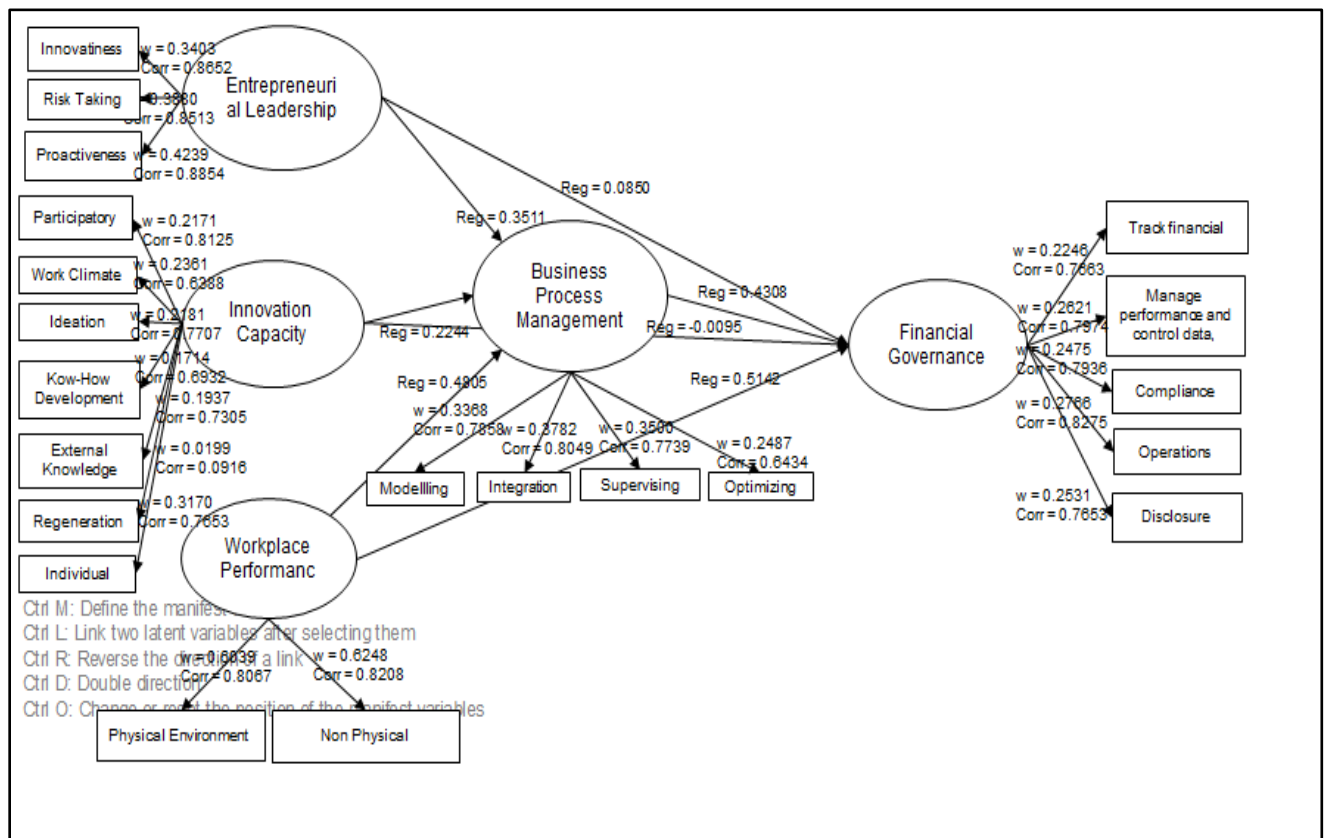
$$n = \frac{N}{N.d^2 + 1}$$

n = number of samples  
 N = total population = 1500  
 d2 = precision (set at 5% and confidence level of 95%)  
 Based on this formula, the following sample sizes are obtained:

$$n = \frac{1500}{1500(0.1)^2 + 1}$$

n = 93.75 = 94 (rounding)

### RESULTS AND DISCUSSION



**FIGURE 2**  
**RESEARCH TEST RESULTS USING XLSTAT**

Research data with a sample of 97 MSMEs in Bandung tested using the help of the XLSTAT software, the validity results showed a valid statement because it had a cross value loading is greater than 0.5 (Figure 2). The expected value that each indicator has a higher loading for the construct measured compared to the value of loading to the other constructs, from Table 2 below it can be stated that the indicators of each construct are valid. Furthermore, composite reliability was tested to test reliability and AVE to test construct validity, the test results are described in Tables 3 and 4 below.

Table 2 below illustrates the results of the inner measurement validity which indicates that each item variable is declared valid because it has a cross loading value greater than the value of loading to other constructs.

	<b>Entrepreneurial Leadership</b>	<b>Innovation Capacity</b>	<b>Workplace Performance</b>	<b>Business Process Management</b>	<b>Financial Governance</b>
Innovatiness	0.6486	0.6766	0.7559	0.7295	0.8513
Risk Taking	0.5887	0.5497	0.6817	0.6213	0.8652
proactiveness	0.7648	0.6637	0.8286	0.7942	0.8854
Participatory	0.8125	0.4164	0.5957	0.4977	0.4644
Work Climate	0.6388	0.6111	0.5650	0.6242	0.4705
Ideation	0.7707	0.5401	0.5733	0.5251	0.5139
Kow -How Development	0.6932	0.3743	0.4724	0.3908	0.3685
External Knowledge	0.7305	0.4109	0.5269	0.4490	0.6027
Regeneration	0.0916	0.0202	0.0394	0.0610	0.0006
Individual Activity	0.7653	0.6261	0.8182	0.7785	0.8591
Physical Environment	0.5063	0.8067	0.7082	0.7693	0.4491
Non-Physical Environment	0.6231	0.8208	0.7448	0.7841	0.7357
Modelling	0.5822	0.7497	0.7858	0.7936	0.5922
Integration	0.7510	0.6895	0.7836	0.8049	0.8275
Supervising	0.7630	0.6658	0.6522	0.7739	0.7433
Optimizing	0.5063	0.5669	0.4659	0.6434	0.4674
Track financial transactions	0.4666	0.5014	0.7891	0.7021	0.7663
Manage performance and control data,	0.7586	0.6018	0.7821	0.7278	0.7974
Compliance	0.5922	0.5822	0.7497	0.7858	0.7936
Operations	0.7510	0.6895	0.7836	0.8049	0.8275
Disclosure	0.6845	0.6591	0.6720	0.7555	0.7653

Source: Research data processed with XLSTAT 2020

Table 3 below illustrates the respective values of reliability for each variable of reliability for each of the variable variables for each reliability variable have Cronbach Alpha and DG rho values above 0.7, meaning that all variables are said to be reliable and can be tested for hypothesis testing or path analysis.

<b>Latent variable</b>	<b>Dimensions</b>	<b>Cronbach's alpha</b>	<b>DG rho (PCA)</b>
Entrepreneurial Leadership	3	0.8360	0.9015
Innovation Capacity	7	0.8099	0.8229
Workplace Performance	2	0.7900	0.7968
Business Process Management	4	0.7478	0.8412
Financial Governance	5	0.8499	0.8929

Source: Research data processed with XLSTAT 2020

	<b>Entrepreneurial Leadership</b>	<b>Innovation Capacity</b>	<b>Workplace Performance</b>	<b>Business Process Management</b>	<b>Financial Governance</b>	<b>Mean communalities (AVE)</b>
Entrepreneurial Leadership	0.6025	0.5342	0.7682	0.6907	0.7524	1
Innovation Capacity	0.5831	1	0.6904	0.5958	0.5672	0.6025
Workplace Performance	0.5831	0.7976	1	0.9111	0.6622	0.5342
Business Process Management	0.6904	0.7976	0.9153	1	0.5695	0.7682
Financial Governance	0.6907	0.5958	0.9111	0.9153	1	0.6246
Mean Communalities (AVE)	0.7524	0.5672	0.6622	0.5695	0.6246	0

Source: Research data processed with XLSTAT 2020

The AVE value in Table 4 already has a value of more than 0.5 and below 1 means that the variable passed the outer validity test measurement. after being tested, the next step is to test the direct and indirect effects of the three variables. The results below (Table 5) indicate that there is a significant influence between entrepreneurial leadership, workplace performance and business process management on the financial performance of MSMEs in the city of Bandung while innovation capacity has not been proven to significantly influence MSME finance governance in Bandung, the role of business process management as a moderator variable is proven to be able to increase the role of entrepreneurial leadership and workplace performance in finance governance.

<b>Latent variable</b>	<b>Value</b>	<b>Standard error</b>	<b>t</b>	<b>Pr&gt;  t </b>	<b>f<sup>2</sup></b>
Entrepreneurial Leadership	0.0850	0.0418	2.0338	0.0449	0.0460
Innovation Capacity	-0.0095	0.0357	-0.2653	0.7914	0.0008
Workplace Performance	0.5142	0.0448	11.4769	0.0000	1.4635
Business Process Management	0.4308	0.0699	6.1671	0.0000	0.4226

Source: Research data processed with XLSTAT 2020 the Equity



The Model from research will show below:

$$\text{Equation of the } \textit{Financial} = 0.08501 * \textit{Entrepreneurial Leadership} - 0.00948 * \textit{Innovation Capacity} + 0.51422 * \textit{Workplace Performance} + 0.43082 * \textit{Business Process Management}$$

Entrepreneurship found from this research if we compare with other entrepreneurship research will show below:

Leong (2020) found that entrepreneurial energy is seen as an important force contributing to existing approaches towards a greater understanding of the entrepreneurial journey and process concepts by examining the inter-connection, interactivity, and inter-dependability between the entrepreneurial process, journey, venture emergence, maturity, time and space.

Roshanaei (2020) have an option for entrepreneur, especially for youth. The importance of youth engagement and empowerment has been systematically overlooked by the top decision-makers and youth have been ignored through all tiers of economic and sociopolitical spectrums. This calls for an overhaul of policymaking to give young people from all over the world the credit they deserve by allowing them to actively participate in all relevant levels of the decision-making process, considering that those decisions not only affect their present lives but their future as well. Empowered youth are responsible citizens, professionals, and leaders who are positively shaping and affecting the future through navigating and managing the complexities of global challenges. In this research, the focus will be on how entrepreneurial opportunities for youth empowerment will lead to a sustainable future.

Salamzadeh et al. (2014), for characteristics of entrepreneurship are eight traits, namely: 1) open-mindedness; 2) need for achievement; 3) pragmatism; 4) tolerance of ambiguity; 5) visionary; 6) challenge taking; 7) risk-taking; 8) internal locus of control. Results show in sum, the difference between entrepreneurial characteristics and fields of study are suggestive.

Salamzadeh et al. (2019) in the study of the Effect of Media Convergence on Exploitation of Entrepreneurial Opportunities found that four types of divergence, including media distribution channels, media content producers, audiences, and advertisers, affect exploitation of entrepreneurial opportunities in small and medium-sized media firms.

## CONCLUSION

Leadership (EL) has effect for SMEs in Bandung. That's because through EL some previous studies give very good influence and significantly, especially in the development of SME business through a business improvement process, which will have implications for organizational performance both on Financial Governance.

Innovation capacity is also very necessary to be developed in Bandung's SME units today. That is due to the innovations carried out not only on products but also on management and technology will be able to improve performance and improvement in business processes so that it will have implications for the good governance of MSME financial management itself.

Improved work environment performance (workplace performance) at the Bandung SMEs must also be considered. That is because the comfort of the work environment will have a major effect on the MSME business process where the more comfortable the work environment both physical and non-physical will affect the performance of its employees. The better the performance of its employees will also have implications for financial management because there are no operational costs wasted.

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