



The Influence of Leadership and Innovation on Operational Performance

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Abstract

The purpose of this study is to examine the importance of leadership and innovation in improving the operational performance of an organization. This study aims to prove that leadership and innovation can affect the company's operational performance. This research is a type of quantitative research where data is collected using questionnaires and respondents who are willing to provide information about the actual conditions that occur in the Company through answers to questionnaires that have been distributed by researchers. The research focused on 67 micro-entrepreneurs located in Serang City and District, Indonesia who are engaged in transportation, travel, education, and agriculture. The analytical method used is PLS-SEM with Smart PLS analysis tool. The results of this study are leadership has a positive effect on innovation. Leadership influences Operational Performance. And, Innovation has a positive effect on Operational Performance.

Keywords: Leadership, Innovation, Operational Performance

INTRODUCTION

Operational performance is an effort made by the company in achieving effectiveness by using the resources available to the company. To determine the effectiveness of operational performance goes well or not, the company can make a policy to re-examine and evaluate performance. This aims to motivate employees to improve their performance and provide results that are in line with company expectations to increase company value (Soewarno & Ramadhan, 2020). Thus, the company makes the policy to control workers to further improve their operational performance, because it will affect the level of company value.

In improving operational performance, it can be supported by leadership and innovation factors. Especially the factor that plays an important role is leadership. Leadership is referred to as human resources which is reflected in skills, attitudes, and performance motivation (T. H. Nguyen, 2020). Leadership is the ability to influence productivity, competence, and motivate employees in the company for certain

purposes. The leader's contribution to the company can provide existence for the company by initiating changes in the company (Chan et al., 2018). Leadership must be able to inspire, motivate, and create a friendly environment in developing employee competencies through effective interactions. In addition, leaders are also able to encourage creative thinking for success in carrying out the company's vision (Chan et al., 2019).

In the form of a good leader towards his employees, he is a leader who always supports his employees by providing challenging tasks and providing motivation to overcome risks to the company environment, this leader provides opportunities for employees to innovate in their work. If employees are satisfied with their work, they will contribute more to the success of the company. Thus, leaders not only have professional knowledge and skills for themselves, but also enable their employees to dare to carry out innovation efforts with confidence and support to promote performance innovation behavior. Leaders support employees to produce innovative behavior in the work environment, especially most of the performance innovations depend on their employees, so leaders must pay attention to the company's vision that can inspire and portray positive work for their employees in the future. Employee innovation behavior is behavior that can create changes in ideas or provide suggestions about something new for the team (T. H. Nguyen, 2020).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The grand theory used in this research is signaling theory. Signal theory is an effort made by the company to provide an overview to investors about the company's prospects (Brigham & Houston, 2001). Companies that have good prospects will try to maintain and increase the value of the company by making changes to innovation and the quality of their operational performance. Then, the operational activities carried out by the company will become very important information for investors. This is because company information can provide an overview of the company's condition in the present and in the future. Complete, relevant, and accurate company information is needed by investors in making decisions.

Then, according to Wang et al., (2016) signal theory explains the influence of information from the company's internal parties to the company's external parties in determining investment decisions. The information provided can be in the form of positive or negative information, where positive information is usually in the form of a high net profit value. This positive information can increase the value of the company, which is in line with the desire of the owner of the company, to have a high company value. This effort can increase the value of the company but will also be able to incur costs in the future.

In addition, signal theory is also used as a framework to support the relationship between firm and consumer loyalty. Signal theory is referred to as a signaler by the company, the company sends a signal to consumers which then the signal can be used to provide feedback to the signaler (Connelly et al., 2011).

According to Luu, (2017) Operational performance is the performance that can be achieved by a person or group of people in an organization in accordance with their respective authorities and responsibilities to achieve organizational goals. Operational performance indicators reflect the fruits of managing costs, improving quality, achieving customer satisfaction, responsiveness, and productivity. While operational performance manifests the success of the organization in mobilizing its assets to generate income which is represented in its financial statements (Wang et al., 2016).

According to Kamal & Abdillah, (2018), leadership can influence the behavior of followers in determining organizational goals, motivates to achieve company goals, influences interpretations of followers' events, maintains cooperative relationships and group work, gains support and cooperation from people. people outside the group or organization. Innovation is the entire process by which an invention is transformed into a commercial product that can be sold for profit. Thus, innovation has a broader meaning than invention, namely innovation is the application of practice and the commercialization of inventions.

Unstable market conditions require every company to increase development in innovative activities, expecting all employees to contribute to improving their performance (Shouyu, 2017). This makes companies demand leadership that can influence the behavior of employees to be able to create new changes for the achievement of company goals (Haq & Chandio, 2017). Nguyen, (2020) states that a leader must have professional knowledge and skills not only for themselves, but also enable their employees to dare to carry out innovation efforts with confidence and support to promote performance innovation behaviours. In addition, leaders also engage themselves to promote company innovation by creating situations where employees are encouraged to convey their ideas and collaborate to incorporate these ideas (Savino et al., 2017). Innovation will be realized with employee performance values that promote new change ideas for companies in the face of unstable market conditions, so that the results of the work of a leader who successfully foster and inspire their employees to dare to innovate (Khalili, 2016).

H¹: Leadership has a significant positive effect on Innovation

A leader's dedication must be known by his employees, such as contributing to work, ways of communicating and acting, being stable in consistency, and supporting employees to create a friendly environment for competency development. When employees receive encouragement and attention from their immediate superiors, this not only increases the company's commitment, but it also improves its operational performance (Hoang & Ngoc, 2019). According to Nguyen, (2020) support from leadership will affect the encouragement of employee participation in company policies, which can ensure an increase in the quality of performance and increase employee contributions. As a result, in improving the quality of performance can meet customer needs and contribute to improving market performance. Then, operational performance will improve management efficiency.

Leadership is very important to improve operational performance in the company. However, companies also need to improve performance in innovating so that companies can show the advantages of new and creative ideas in competitive

conditions. This capability will result in a high level of operational performance (Suifan, 2021). (T. T. Nguyen et al., 2017) also say that leadership in the company affects operational performance through employee contributions.

H²: Leadership has a positive effect on Operational Performance

Unstable market conditions require companies to maximize their ability to innovate because it can be an assessment of the company's operational performance level to compete (Sugiono, 2021). Hoang & Ngoc, (2019) argue that innovation is an object that company managers need to pay attention to to improve their operational performance. Employee contributions have been indirectly supported by leaders through company policies, it is certain that this increase in employee contributions will affect the level of efficiency of operational performance within the company (T. H. Nguyen, 2020). It is widely considered that innovation plays an important role for sustainable company excellence and influences the company's operational performance in the process of continuous improvement which can then help companies survive, grow faster, more efficiently, and be more profitable (OLALERE et al., 2021). According to Hameed et al., (2021) innovation becomes a strategy that is used when market conditions change, as a result, companies need to get results from innovative new thoughts and ideas so that they affect the level of operational performance which can also increase company value and gain loyalty from consumers.

H³: Innovation has a significant positive effect on Operational Performance

RESEARCH METHOD

This research is a type of quantitative research by testing the hypothesis. The source of data in this study is primary data and comes from respondents who are willing to provide information about the actual conditions that occur in the company through answers to questionnaires that have been distributed by researchers. The population used in this study is micro-entrepreneurs located in Serang City and District, Indonesia, which are engaged in transportation, travel, education, and agriculture. Micro-entrepreneurs are defined as small-scale and traditional and informal people's economic activities in the sense that they are not registered, not registered, and not yet incorporated. The annual sales proceeds of the business are at most Rp. 100,000,000.00 and belong to Indonesian citizens. The micro-entrepreneurs involved as samples in this study were 67 companies consisting of entrepreneurs engaged in transportation as many as 10 entrepreneurs, entrepreneurs engaged in travel as many as 12 entrepreneurs, entrepreneurs engaged in education as many as 6 entrepreneurs, entrepreneurs engaged in agriculture as many as 39 entrepreneurs. and 39 entrepreneurs engaged in agricultural fisheries.

The data analysis method used to test the data collected in this study used Partial Least Square (PLS) software. PLS is an application that can provide clear output results. Data collection was carried out using a Structural Equation Model (SEM) approach using Partial Least Square (PLS) software. PLS is a component-based or variant-based structural equation model (SEM). PLS is an alternative approach that shifts from a covariance-based SEM approach to a variance-based approach.

Covariance-based SEM generally tests causality/theory, while PLS is more of a predictive model. PLS is a powerful analytical method because it is not based on many assumptions. For example, the data does not have to be normally distributed, the sample does not have to be large. Besides being used to confirm theory, PLS can also be used to explain whether there is a relationship between latent variables. PLS can simultaneously analyse constructs formed with reflexive and formative indicators. This cannot be done by covariance-based SEM because it will be an unidentified model.

The advantage of PLS is that it can map all paths of analysis to many dependent variables in the same research model and can analyse all paths in the structural model simultaneously at the same time. At the measurement model level, PLS estimates item loading and covariance. At the structural level, PLS estimates the path coefficients and correlations between Latent Variables, along with the individual R² and AVE (Average Variance Extracted) of each latent construct. The T-values of the paths and loads are then calculated using one of the bootstrap methods. Good model fit was established with a significant path coefficient, an acceptable high R² and internal consistency (construction reliability) above 0.70 for each construct. Although Partial Least Square is used to confirm the theory, it can also be used to explain whether there is a relationship between latent variables. Partial Least Square can analyse simultaneously constructs formed with reflexive and formative indicators and this is not possible in the Structural Equation Model (SEM) because an unidentified model will occur. PLS has two indicator models in its description, namely: the Reflective Indicator Model and the Formative Indicator Model.

Based on the description that has been described in the introduction and literature review as well as an explanation of the variables used in this study, the research model is depicted in Figure 1. The variables in this study consist of 3 variables, namely Leadership, Innovation, and Operational Performance. Leadership which has 4 indicators, namely Inspire, Motivation, Friendly, Responsible. Innovation that has 6 indicators, namely new product/service introduction rate, new product/service success rate, Degree of new product/service differentiation, first to market with new applications, New product/service cycle time, Acquiring the image of an innovative supplier and Operational Performance which has 4 indicators, namely Efficiency, Product Quality, Process Transparency, Speed and Punctuality.

Each indicator contained in each variable is translated into a statement to make it easier for respondents to answer the questionnaire that was distributed. The measurement of indicators uses an ordinal scale (scale 7) with 1 point for the description of the indicator with bad condition, 4 points for the description of the indicator with sufficient condition and 7 points for the description of the indicator with good condition.

RESULTS AND DISCUSSION

Based on the data obtained from the distribution of questionnaires, there are 67 data that can be processed from the 130 questionnaires distributed to micro-

entrepreneurs in Serang Regency and Serang City. There were 63 non-returning questionnaires. Table 1. is a sample demographic for this research.

Table 1. Sample Demographics.

Measurement	N	%
Gender		
Male	24	35,82
Female	43	64,18
Age (in years)		
20 - 30	9	13,43
31 - 40	21	31,34
41 - 50	23	34,33
> 50	14	20,90
Position		
President Director	29	43,28
Operational Manager	22	32,84
Finance Manager	16	23,88
Category		
Transportation,	10	14,93
Travel,	12	17,91
Education	6	8,96
Agriculture	19	28,36
Fishery	20	29,85

The data is processed and produces a summary of the data as shown in table 2. Table 2 shows the statistical values of Average Variance Extracted (AVE), Composite Reliability and R Square of the variables studied in this study. The AVE value for the Leadership variable is 0.871013, the Innovation variable is 0.851952, and Operational Performance is 0.888009. The AVE value shows the validity test of the indicators contained in each variable declared reliable and able to measure each variable. The Composite Reliability value for the Leadership variable is 0.954933, the Innovation variable is 0.962657, and Operational Performance is 0.970633. The Composite Reliability value in this study shows the value of accuracy, precision or accuracy shown by the measurement instrument. The results of this reliability measurement show that the measurement implementation of the subject group obtained the same results. The reliability test is intended to measure the internal consistency of a questionnaire which is an indicator of the variable and shows an accurate and reliable value. The Rsquare value in table 2 shows the Innovation variable of 0.842974, and Operational Performance of 0.897443.

Table 2: Sample Quality

Variable	AVE	Composite Reliability	R Square
Empathetic Leadership	0,871013	0,954933	
Innovation Performance	0,851952	0,962657	0,842974
Operational Performance	0,888009	0,970633	0,897443

These results indicate that the proportion of the value of the dependent variable is influenced by the independent variable. The ability of the variables that affect other variables is very high. Looking at the results of the data processing presented in table 2, it can be explained that this research model is very good (fit). It can be seen from the AVE value above 0.7, Composite Reliability value above 0.9 and a very convincing R Square value above 0.8.

Table 3: Paht Coefficient

Paht Effect	Original Sample (O)	T Statistics (O/STERR)
<i>Leadership-> Innovation</i>	0,898727	3,319826
<i>Leadership->Operational Performance</i>	0,286637	2,944429
<i>Innovation-> Operational Performance</i>	0,407128	4,479471

The results of processing using SmartPLS can be seen in table 3 which shows that the relationship between Leadership and Innovation is 0.898727 with a significance value of p-value 0.000 and a T-statistical value more than T-table (1.96) which is 3.319826. In this study, the results of hypothesis 1, namely Leadership has a positive effect on Innovation. This is shown based on the value that has been obtained based on data processing with SmartPLS software which results that the coefficient value of the leadership variable is 0.898727 and the T-statistic value is 53.319826 which is more than the T-table value is 1.96. Thus, hypothesis 1 is accepted. Leadership has a positive effect on innovation, meaning that good leadership can improve the mindset of its employees, which from this mindset will make employees more creative and more innovative. Leadership within the company can establish learning routines that facilitate the formation and implementation of innovative ideas, as well as enable employees to put into practice new ideas and methods they discovered previously. In addition, leadership also has an impact on increasing employee potential in implementing innovations which ultimately helps positively in company activities. As stated by Savino et al., (2017) that leaders also involve themselves to build situations where employees feel motivated in issuing their ideas which are then combined with these ideas.

The relationship between Leadership and Operational Performance is 0.286637 with a significance value of p-value 0.000 and T-statistics more than T-table (1.96) which is 2.944429. In this study, hypothesis 2 is Leadership on Operational Performance. Based on the results of data processing output shows that the coefficient value of the leadership variable is 0.286637 and the T-statistic value is 2.944429 which is more than the T-table value is 1.96. Thus, hypothesis 2 is accepted. Leadership has a positive effect on Operational Performance, where the ability of a leader is to influence employees through good communication in moving employees to follow the will give and run it with full understanding and awareness so that it has an impact on improving the company's operational performance. In addition, when employees receive encouragement and attention from leadership, this not only increases the company's commitment, but it also increases its operational performance (Hoang & Ngoc, 2019).

The relationship between Innovation and Operational Performance is 0.407128 with a significance value of p-value 0.000 and T-statistics more than T-table (1.96) which is 4.479471. In this study, hypothesis 4 is Innovation on Operational Performance. Based on the results of the data processing output shows that the coefficient value of the variable is 0.407128 and the T-statistic value is 4.479471 where it can be stated that hypothesis 4 is accepted. Innovation has a positive effect on Operational Performance. That is, a creative idea proves that it has a good impact on increasing productivity and can provide added value to the company's competitiveness such as processes, products, markets, and management within the company. In addition, innovation also encourages changes in all aspects of the company to realize improvements in quality and operational performance. In addition, innovation is also a strategy that is used when market conditions change which can affect the level of operational performance (Hameed et al., 2021).

CONCLUSION

This research has succeeded in proving the influence of Leadership on Innovation, and Operational Performance in micro-enterprises in Serang Regency and City. Companies really need a leader who has excellent characteristics. A good leader has the criteria of Inspire, Motivation, Friendly, and Responsible. Leaders are not only leaders in an organization, but also can inspire, motivate subordinates in carrying out their work and responsibilities. With a leader who inspires and motivates subordinates, it is hoped that subordinates can create ideas and innovations within the company. Theoretically, this research has been able to provide a theoretical model of the influence of Leadership on Innovation and Operational Performance. A company with good innovation and efficient operational performance is a must-have performance model. This is very important, because micro-enterprises in Serang Regency and City are mushrooming. Besides that, micro-enterprises in Serang Regency and City have an important role to support the Indonesian economy in this pandemic era.

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