

## LEADERSHIP EFFECTIVENESS MODEL FOR SMALL AND MEDIUM ENTERPRISES (SME)

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### Abstract

*SMEs will have position, potential and important role in order to realize economic development goals. In Sukabumi District, the role of SMEs can be seen in terms of providing a business opportunity, jobs and increased exports. SMEs in Sukabumi District are able to survive longer than large-scale enterprises in facing the economic crisis, because they have the unique characteristics. The characteristics are more flexible and able to utilize local resources so that they can be relied upon to support the economic security. The role of SMEs which is so great in supporting economic security, should be balanced with leadership effectiveness, so it can improve the performance of SMEs in the future. This study has a specific target such as the appearance of a leadership effectiveness model for SMEs. With the discovery of the leadership effectiveness model, it is expected that the all SMEs can implement the model and improve their performance. The research method applied in this research is quantitative method by using statistical analysis tools such as SEM combined with qualitative method to confirm the statistical results. The results of the research show that the leadership effectiveness takes effect on the performance of SMEs. This research creates output of leadership effectiveness model for SMEs. Leadership effectiveness will be created if it contains three elements, they are leader and subordinate relationship, task structure, and strength of leader position.*

*Keywords: Leadership, effectiveness, performance, SMEs*

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### INTRODUCTION

In Indonesia, Small and Medium Enterprises (SMEs) have a position, potential and a very important role, especially in order to realize the objectives of national development generally and economic development goals particularly. This role can be seen in terms of providing business opportunities, jobs and increased exports. It can be seen that SMEs are better able to last longer to the economic crisis, because they have characteristics that they are more flexible and able to utilize local resources so that they can be relied upon to support the economy's resilience.

The role of SMEs which is so great in supporting economic resilience, should be balanced with effective leadership. Without effective leadership, optimal SMEs would not be beneficial in improving the economic development of Indonesia. Things which can form the leadership effectiveness are a harmonious relationship between leaders and subordinates, the presence of a clear task structure shown with their associated standard working procedure and products, and a strong leadership position that could determine the punishment for violation and the rewards for achievement.

The effectiveness of leadership is what will have an impact on improving the company

(SMEs)'s performance. SME performance can be seen not only on financial factors, but also on other factors such as customer loyalty, the company's work processes, and managerial impact on employees. Thus, the characteristics of SMEs that have a good performance are stable financially, having a customer who is always loyal to the company, having standardized and controlled working processes, and actions of the leadership which influence the employees characterized by increasing their innovation and knowledge.

## **METHODS**

This study was designed using quantitative and qualitative approaches. A quantitative approach was chosen to see the effect of a number of independent variables to the dependent variable. This study was a type of causal research, the meaning is to identify a causal relationship between variables. In this case, researchers are looking for the real type of facts to understand and predict relationships (Zikmund in Ferdinand, 2000). Regarding the qualitative approach, this approach is used to confirm a previous study using a quantitative approach. A qualitative approach is essential to strengthen the quantitative research mainly related to the determination of the model.

The study population was metalworkers consisting of 584 units of SMEs in Sukabumi Regency. And to fulfill qualification of the SEM analysis method, the research must have minimum sample of 100 SMEs. This study establishes a sample size of 110 respondents, so that the data obtained are representative in using SEM analysis techniques. The sampling technique used in this study is a stratified random sampling method. Consideration for the respondent is the owner, manager or head of the company. Then for the sample criteria is SMEs that have the category with age equal to or more than three years.

## **DISCUSSION**

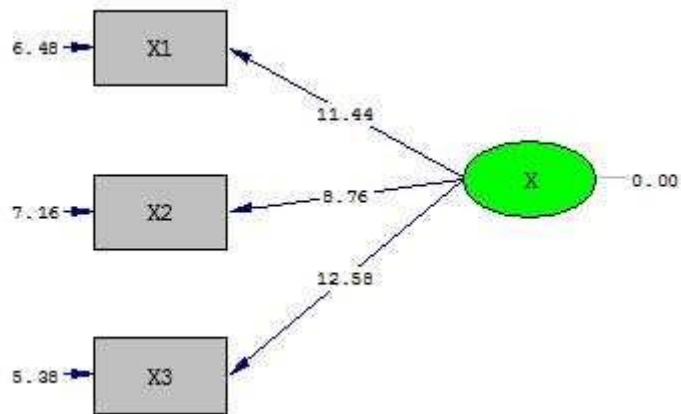
This research is related to leadership. According to Dewi (2009), the theory of leadership is divided into three topics, namely: the theory of the nature of the leader (traits theory), leader behavior (behavioral theory) and situational leadership. According to Muflihin (2008) situational leadership is policy that should be drawn up by leaders in order to achieve the organization's goals, need to consider the condition of the subordinate.

Discussion of this study is effective leadership. In this case, effective leadership depends on situational factors (Mardiana, 2003; Wijaya, 2006; Fiedler (in Robbins, 2006)). Situational factors that influence effective leadership is the quality of the leader-subordinate relationship, the level of structure in the task that will be done, and the strength of the position of leader. This study discusses the effect of effective leadership on company performance. That is, effective leadership can assess the performance of the company. Companies performance assessment implies that a process of assessment of work ability of an enterprise (organization) is based on a specific standard (Kaplan and Norton, 1996; Lingle and Schiemann, 1996; Brandon and Drtina, 1997).

In the perspective of a broader assessment of performance, Hansen and Mowen (1997) states that the performance assessment activity has two types of measurements, namely; financial and non-financial. Meanwhile, according to Dess and Lumpkin (2003), there are two approaches used to assess the performance of the company, they are: financial ratio analysis and the perspective of the interested parties (stakeholder perspective). In this discussion, the author describes the analysis of the measurement model and structural model analysis. The analysis are as follows:

### **Analysis of Measurement Model of the Variable of Effective Leadership.**

Variables effective leadership is measured by 3 (three) dimensions: Relationship of leader and subordinates ( $X_1$ ), Structure of the task ( $X_2$ ) and the Power of the leader position ( $X_3$ ). The results of calculations for pathway coefficient (factor loading) of the variable of effective leadership to the three dimensions will be presented in the following picture:



Source: Research Result, 2016

**Picture 1 Measurement Model of The Variable of Effective Leadership (t-student)**

For more discussion, the summary results of analysis of measurement model of effective leadership variable used to describe the three dimensions more accurately, are analyzed by using the path coefficient, and The t-value is presented in the table below:

<b>Dimensions</b>	<b>Factor Loading</b>	<b>R<sup>2</sup></b>	<b>Error Variance</b>	<b>t calculate</b>	<b>t table</b>	<b>Information</b>
Relations of Leader and Sub-ordinates (X <sub>1</sub> )	3.222	0.752	3.432	11.44	1.98	Significant
Structure of the task (X <sub>2</sub> )	1.274	0.523	1.482	8.76	1.98	Significant
Power of Leader Position (X <sub>3</sub> )	2.090	0.843	0.811	12.58	1.98	Significant
Construct Reliability				1		
Extracted Variance				1		

Source : Research Results, 2016

The table above shows that the construct reliability coefficient has value 1, it is greater than 0.700, so it can be stated that all dimensions consistently can measure latent variables “Effective Leadership”. This value also suggests that 100% diversity of latent variable “Effective Leadership” can be reflected by the three dimensions, they are relationship of manager and subordinates (X<sub>1</sub>), Structure of task (X<sub>2</sub>), and the Power of the leader position (X<sub>3</sub>). Furthermore, the coefficient of extracted variance is equal to 1, it indicates that 100% of the diversity of these three dimensions can be explained by a latent variable “Effective Leadership”. From these three dimensions, will be looked dimension that most able to measure latent variables “Effective Leadership”. The Following are detailed analysis of each dimension:

- a. Dimension of Relationship leader and sub-ordinates (X<sub>1</sub>). Having a path coefficient of 3.222, the test results of path coefficient reveals significant, and coefficients greater than 0.5 indicates that this dimension is valid and able to measure latent variables “Effective Leadership”. Reliability coefficient R<sup>2</sup> is 0.752. This states that 75.2% diversity of the dimension is affected by latent variable “Effective Leadership”.
- b. Dimension of Structure of Task (X<sub>2</sub>). Having a path coefficient of 1.274, the test results of path coefficient reveals significant, and coefficients greater than 0.5 indicates that this dimension is valid and able to measure latent variables “Effective Leadership”. Reliability

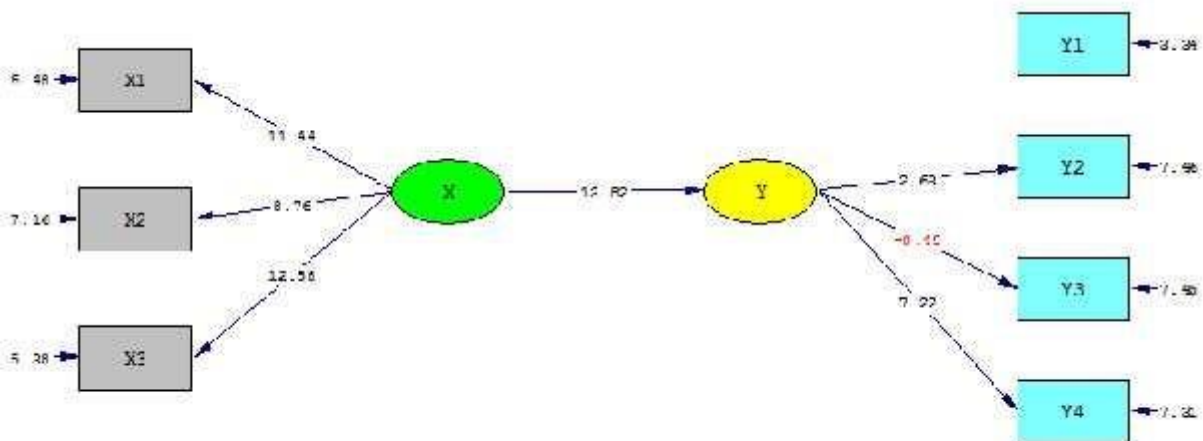
coefficient  $R^2$  is 0.523. This states that 52.3% diversity of the dimension is affected by latent variable “Effective Leadership”.

- c. Dimension of Power of Leader Position ( $X_3$ ). Having a path coefficient of 2.090, the test results of path coefficient reveals significant, and coefficients greater than 0.5 indicates that this dimension is valid and able to measure latent variables “Effective Leadership”. Reliability coefficient  $R^2$  is 0.843. This states that 84.3% diversity of the dimension is affected by latent variable “Effective Leadership”.

### Structural Model Analysis and Hypotheses Testing

This sub discussion will be describe the structural model analysis and hypothesis testing about the Effect of Effective Leadership on the Performance of SMEs in Sukabumi Regency. Analysis of the structural model is an advanced step of the analysis in the measurement model analysis by using structural equation modeling or known as SEM. Based on the analysis of the measurement model of each study variable, can be described in complete model (basic model) of the relationship among the variables in the path diagram form a structural model and the measurement model about the effect of the latent variables to other latent variables. In the present study, the analysis of structural model is the analysis of the effects of Effective Leadership on the Performance of SMEs.

Analysis of the structural model includes the significance testing of The Effect of effective leadership on the Performance of SMEs in Sukabumi Regency and how much the influence of exogenous variables on endogenous variables on the pictures below:



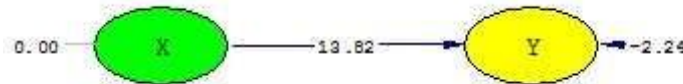
(Chi-Square=52.85, df=13, P-value=0.00000, RMSEA=0.16)

Source : Research Result, 2016

Picture 2 Path Diagram of The Effect of Effective Leadership on SMEs Performance (t-student)

The picture above is a structural equation model in this study that reflects the structural equation and measurement equation. Structural equation shows the relationship between exogenous latent variable (Effective Leadership) with endogenous variable (SMEs performance). Meanwhile the measurement equation shows the relationship between the dimensions of the latent exogenous variable and endogenous latent variable dimensions (as described in the previous inference analysis).

Furthermore, the path diagram of structural model explains the relation of variable “Effective Leadership” (Ksi) to variable “SMEs Performance” (Eta), which can be described as follows:



Source: Research Result, 2016

Picture 3 Structural Model of The Effect of Effective Leadership to SMEs Performance (t-Student)

The picture above shows the relationship about the influence of exogenous latent variables (Effective Leadership) to endogenous variable (SMEs Performance). From the calculation, the path coefficient of effective leadership variable on SME performance is 1.06 with t-value of 13.82 by the error variance of 0.30. Path coefficient of 1.06 indicates that the influence of the effective leadership to the SMEs Performance by 1.06 one standard deviation.

Table 2

Test Results of Influence of The Effective Leadership on Performance of SMEs

Variable	Coefficient	T-calculate	t-table	Information
Effective Leadership	1.06	13.82	1.98	Significant

Source: Research Result, 2016

Referring to the results of the analysis of the structural model above (see table) can be stated that the test results by using student t test statistics showed exogenous variable “Effective Leadership” has the t-calculate (13.82) greater than t table (1.98), so it can be concluded that: "Effective Leadership has a significant influence on the performance of SMEs in Sukabumi Regency".

## CONCLUSIONS

It can be concluded that the results of the study reveal three dimensions as follows:

- a. Dimensions of Relationship leader and subordinates ( $X_1$ ), Structure of task ( $X_2$ ) and Power of Leader Position ( $X_3$ ) have path coefficients with test results reveal significant path coefficients. The path coefficients show that these dimensions are valid and able to measure latent variable “Effective leadership”.
- b. Effective leadership has a significant influence on the performance of SMEs. Effective leadership influence on performance is strongest determined by the dimension of relationship of manager and subordinates, if compared with the structure of the task and the Power of the leader position.

## RECOMMENDATIONS

- a. The results of this study still indicate the proportion of variance (deviation of result) of variables “Effective leadership” and “performance of SMEs”. Therefore, author suggests that further similar research is needed (quantitative design) to assess the presence of each of the variables that exist so that the existence of effective leadership variable as a variable that affects the performance of SMEs can be tested.
- b. Obtained information says that the leaders and or owners of SMEs in Sukabumi Regency have given positive feedback on the importance of effective leadership through the dimension of the

leadership and subordinate relationship. Following up on this response, the Regional Government through Diskopperindag should exploit the potential of SMEs choose the leadership and subordinate relationships as a practical way in creating an effective leadership to be able to improve the performance of SMEs.

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