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Keterangan : Penulis submit artikel 2 (dua) kali karena artikel ke-1 rejected maka penulis melakukan revisi sesuai dengan komentar reviewer lalu submit kembali artikel ke-2 pada jurnal yang sama dengan kode dan judul artikel yang berbeda.

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ID	TITLE	AUTHOR	JOURNAL	PHASE	STATUS	SUBMISSION DATE	LAST ACTION
MA1089	WHAT IS THE MOST IMPORTANT FOR THE PERFORMANCE OF SMES IN INDONESIA? TRANSFORMATIONAL OR TRANSACTIONAL LEADERSHIP?	NUNGKY VIANA FERANITA	Problems and Perspectives in Management	Desk Review	Rejected	13.08.2019	26.09.2019
MA2522	EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMES IN INDONESIA	NUNGKY VIANA FERANITA, ...	Problems and Perspectives in Management	Publishing Process	Publication Process	12.06.2020	08.10.2020

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Kode MA1089

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No.	Perihal	Tanggal
1	Bukti konfirmasi submit artikel dan artikel yang disubmit	13 Agustus 2019
2	Bukti konfirmasi review dan hasil review pertama	23 Agustus 2019
3	Bukti konfirmasi submit revisi pertama, respon kepada reviewer, dan artikel yang diresubmit	28 Agustus 2019
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The screenshot shows the submission details for MA1089. The journal is 'Problems and Perspectives in Management'. The abstract states: 'This study aims to analyze the effect of transformational and transactional leadership on SMEs performance directly and indirectly with innovation as mediation. The study was conducted in seven regencies / cities in East Java Province which have superior specialty food and beverage businesses with a total sample of 165 SMEs. By using path analysis, the results show that transformational leadership has a positive and significant effect on the innovation and performance of SMEs directly and indirectly. Transactional leadership has a positive but not significant effect on innovation and performance of SMEs directly. However, transactional leadership was found to have a positive and significant effect on the performance of SMEs indirectly. When viewed from the total effect, transformational leadership is more important for improving the performance of SMEs in Indonesia than transactional leadership.' Below the abstract, there are three sections: 'MANUSCRIPT' (MA1089m4_REVISI MANUSCRI...), 'COVER LETTER' (MA1089c1_COVER LETTER - NUN...), and 'PERMISSION' (MA1089p2_TURNITIN REVISED M...). A 'COMMENTS' section is present with a text area for 'Add new comment...' and an 'ADD COMMENT' button. A comment from 'NUNGKY VIANA FERANITA' dated '13.08.2019' reads 'Thank you'.

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From: Manuscript Administration System (noreply@manuscript-adminsystem.com)

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WHAT IS THE MOST IMPORTANT FOR THE PERFORMANCE OF SMEs IN INDONESIA? TRANSFORMATIONAL OR TRANSACTIONAL LEADERSHIP?

Nungky Viana Feranita *, Alifian Nugraha **, Sampir Andrean Sukoco ***

Abstract

This study aims to analyze the effect of transformational and transactional leadership on SMEs performance directly and indirectly with innovation as mediation. The study was conducted in seven regencies / cities in East Java Province which have superior specialty food and beverage businesses with a total sample of 165 SMEs. By using path analysis, the results show that transformational leadership has a positive and significant effect on the innovation and performance of SMEs directly and indirectly. Transactional leadership has a positive but not significant effect on innovation and performance of SMEs directly. However, transactional leadership was found to have a positive and significant effect on the performance of SMEs indirectly. When viewed from the total effect, transformational leadership is more important for improving the performance of SMEs in Indonesia than transactional leadership.

Keywords: transformational leadership, transactional leadership, innovation, performance, SMEs

JEL Classification L25, L26, M10

INTRODUCTION

Small and Medium Enterprises (SMEs) are one of the leading driving forces in economic development in Indonesia. Based on data from the Ministry of Cooperatives and SMEs, the contribution that SMEs make to the economy in Indonesia in 2017 is: 1) business units of 99.99%; 2) labor force of 97.02%; 3) Gross Domestic Product (GDP) of 60%; 4) non-oil and gas exports amounting to 14.17%; and 5) investment of 58.18%. This contribution shows that SMEs have a big potential in driving the economic activities of the community.

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However, SMEs in Indonesia also have significant challenges, especially after Indonesia joined the ASEAN Economic Community (AEC) at the end of 2015. The AEC member countries will experience a free flow of educated goods, services, and labor from and to each -one country. SMEs face competitive pressure from globalization so it is necessary to improve innovation and performance (Khaliq et al., 2014).

Some empirical evidence shows that SMEs performance is directly determined by leadership factors consisting of transformational leadership (Sheshi & Kercini, 2017; Boukamcha, 2019; Iscan et al., 2014; Ozer & Tinaztepe, 2014; Israel, 2016; Afriyie et al., 2019; Singh, 2016; Manzoor et al., 2019; Arham, 2014; Ng et al., 2016; Ur Rehman et al., 2019; Arsawan et al., 2017; Sulistiyani et al., 2018) and transactional leadership (Singh, 2016; Ur Rehman et al., 2019; Mgeni & Nayak, 2016; Israel, 2016; Asiimwe et al., 2016).

However, only a few studies have analyzed the influence of transformational and transactional leadership on the performance of SMEs indirectly through innovation (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). So that becomes the main focus in this study, namely the influence of transformational and transactional leadership on the performance of SMEs directly or indirectly with innovation as a mediating variable.

The Resource-Based View (RBV) theory states that strategic assets owned by a company will influence company performance (Barney, 1991). Innovative organizational culture is considered as one of the strategic assets that will help the company to improve its performance. Some empirical evidence shows that innovation affects the performance of SMEs (Donkor et al., 2018; Afriyie et al., 2019; Yasin et al., 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al. ., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019).

The leadership paradigm has expanded and attracted the attention of practitioners and academics. Burns (1978) distinguishes leadership into two types, namely transformational and transactional. In transformational leadership, leaders are able to provide stimuli and inspiration to employees to achieve extraordinary results. Whereas in transactional leadership, leaders offer financial rewards for

productivity generated by employees or refuse to provide rewards because of low employee productivity.

This study focuses on the four dimensions of transformational leadership, namely charisma, intellectual stimulation, individual consideration, and inspirational motivation. As well as two dimensions in transactional leadership, contingent reward and management exception-passive.

The selected SMEs are SMEs in Probolinggo City, Probolinggo Regency, Lumajang Regency, Jember Regency, Bondowoso Regency, Situbondo Regency, and Banyuwangi Regency because they have a superior food and beverage business. SMEs must be able to take advantage of the potential that is well-owned in order to improve innovation and performance supported by good leadership.

This paper consists of four parts. The first section reviews the literature and builds hypotheses about the effect of transformational and transactional leadership on SME innovation and performance. The second part presents the research method used in this study. The third section presents the results of path analysis. The fourth part discusses the implications of the results of this study which then concludes with conclusions.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1. Transformational Leadership, Innovation, and SME Performance

Transformational leadership can drive innovation through two things. First, a transformational leader is able to increase motivation that arises from employees (intrinsic) so that it will stimulate creativity which is the key to innovation (Shin & Zhou, 2003). Second, a transformational leader is able to provide intellectual stimulation so that it will encourage employees to think "out of the box" (Elkins & Keller, 2003).

Previous research has found the influence of transformational leadership on SMEs innovation. According to Iscan et al. (2014) and Aslan et al. (2011), transformational leadership has a significant influence on the innovation of SMEs in Turkey. Likewise in SMEs in Malaysia, transformational leadership also has a significant influence on innovation (Md Saad & Mazzarol, 2010; Ur Rehman et al.,

2019). In addition, there is the influence of the role of transformational leaders in advancing the innovation of SMEs in East African countries, such as Kenya (Sang, 2017) and Rwanda (Gashema & Gao, 2018). However, different results are shown by Feranita et al. (2017a) who found the fact that transformational leadership did not significantly influence the innovation of SMEs in Indonesia. Thus, this study proposes the following hypothesis:

H₁: transformational leadership affects SMEs innovation.

According to Bass and Riggio (2006), transformational leaders are leaders who are able to move their employees to produce performance that exceeds expectations. In the end, employee satisfaction will increase and employees have a high commitment to the company.

Many empirical evidence shows that transformational leadership can improve the performance of SMEs (Sheshi & Kercini, 2017; Boukamcha, 2019). Transformational leadership influences the performance of SMEs in Turkey (Iscan et al., 2014) even the influence of transformational leadership is stronger than other leadership styles (Ozer & Tinaztepe, 2014).

In West African countries, transformational leadership has a role to improve the financial performance of SMEs in Nigeria (Israel, 2016) and the marketing performance of SMEs in Ghana (Afriyie et al., 2019). Whereas in South Asian countries, there is a significant relationship between transformational leadership and the performance of SMEs in India (Singh, 2016) and in Pakistan (Manzoor et al., 2019).

Transformational leadership also has a significant effect on the performance of SMEs in Southeast Asian countries, such as Malaysia (Arham, 2014; Ng et al., 2016; Ur Rehman et al., 2019) and Indonesia (Arsawan et al., 2017; Sulistiyani et al., 2018). However, these results are different from the results shown by Feranita et al. (2017a) where there is a fact that transformational leadership has no significant effect on the performance of SMEs in Indonesia. So the hypotheses that can be submitted as follows:

H₂: transformational leadership affects SMEs performance.

Dougherty & Hardy (1996) argue that transformational leadership styles are more open in facilitating unconventional and innovative ways of thinking. In addition, transformational leadership leads to work processes that are based on new knowledge and technology, which is fundamental to the performance of the company.

In SMEs in Malaysia, transformational leaders who emphasize product innovation have stronger performance (Md Saad & Mazzarol, 2010). Innovative culture is able to mediate between transformational leadership style and SMEs performance (Ur Rehman et al., 2019). In line with this, the hypothesis that can be proposed:

H₃: innovation mediates the effect of transformational leadership on the SMEs performance.

2. Transactional Leadership, Innovation, and SME Performance

Transactional leadership has a significant influence on corporate innovation. Previous research has found that transactional leadership has an influence on innovation occurring in SMEs in Malaysia. Transactional leaders can emphasize SME innovation specifically on process innovation (Md Saad & Mazzarol, 2010) and transactional leaders able to build innovative cultures of SMEs (Ur Rehman et al., 2019). Similar to Malaysia, transactional leadership has a significant and positive effect on SME innovation in Kenya (Sang, 2017).

However, there is a contradiction in the results of previous studies so that it is still interesting to study. SMEs in Turkey show different results, transactional leadership is found to have no significant influence on SME innovation (Aslan et al., 2011; Iscan et al., 2014). Based on this, it can be hypothesized that:

H₄: transactional leadership affects SMEs innovation.

Transactional leadership is considered an important indicator for measuring company performance. The focus of transactional leadership lies in the status quo that wants to be maintained to increase company income (Bass, 1985).

Several previous studies regarding the effect of transactional leadership on the performance of SMEs showed conflicting results. In Asian countries, transactional leadership has a significant influence on the performance of SMEs in India (Singh, 2016) and Malaysia (Ur Rehman et al., 2019). Even in Indonesia, Arsawan et al. (2017) recommend a transactional leadership style for SMEs to grow and be sustainable.

Transactional leadership was also found to have a positive and significant relationship with the performance of SMEs in African countries, such as in Tanzania (Mgeni & Nayak, 2016), Nigeria (Israel, 2016), and Kenya (Asiimwe et al., 2016). However, different results are shown in SMEs in Turkey (Iskan et al., 2014; Ozer & Tinaztepe, 2014), there is no significant effect of transactional leadership on SME performance. The next hypothesis can be arranged as follows:

H₅: transactional leadership affects SMEs performance.

Transactional leadership can improve company performance through the mediating role of innovation because innovation is one of the company's strategic assets (Barney, 1991). Two previous studies showed different results even though they were conducted in the same country, namely in Malaysia. Ur Rehman et al. (2019) found that SMEs that implement innovative culture significantly mediate between transactional leadership styles and SME performance. Whereas Md Saad & Mazzarol (2010) found that transactional leaders who emphasized product or process innovation did not have a significant effect on SME performance. Therefore, the hypothesis can be formulated, namely:

H₆: innovation mediates the effect of transactional leadership on the SMEs performance.

3. SMEs Innovation and Performance

If SMEs have a good level of innovation, SMEs will be encouraged to improve performance (Li & Mitchell, 2009; Rosenbusch et al., 2011). SMEs with strong innovation capabilities will gain a competitive advantage against competitors, enabling them to achieve superior performance.

Previous research has found that one of the factors that influence SME performance is innovation. Innovation has a strong, positive and significant influence on the performance of SMEs in Ghana (Donkor et al., 2018; Afriyie et al., 2019). SMEs that are at a high level of innovation capacity will increase performance on a large scale.

In SMEs in Asian countries, innovation has a significant influence on the performance of SMEs in Pakistan (Yasin et al., 2014), China (Lu et al., 2018), and Malaysia (Ur Rehman et al., 2019). Even in Vietnam, there is a positive causality relationship that turns from sales growth to SMEs innovation (Nguyen et al., 2018). Likewise for SMEs in America, such as Brazil (Vasconcelos & Oliveria, 2018) and Colombia (Restrepo-Morales et al., 2019), the performance of SMEs is influenced by the innovations they make. Thus, the last hypothesis proposed in this study is: H₇: innovation affects SMEs performance.

Figure 1 shows the research framework and hypothesis based on theoretical and empirical studies.

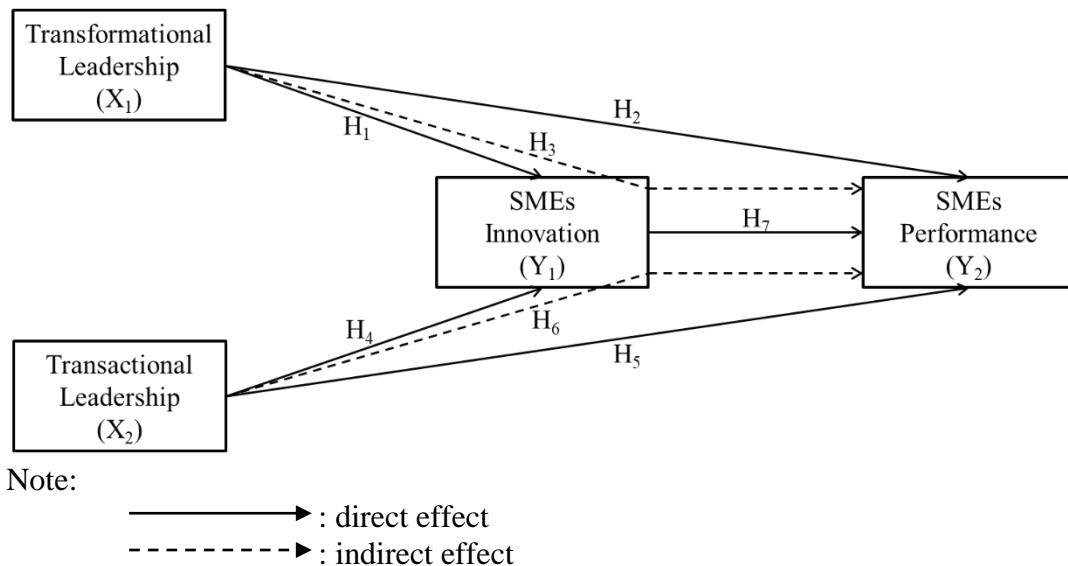


Figure 1. Research's Conceptual Framework

RESEARCH METHODS

This study population across the SMEs sector of food and beverages in the Probolinggo City, Probolinggo Regency, Lumajang Regency, Jember Regency, Bondowoso Regency, Situbondo Regency, and Banyuwangi Regency for 280 SMEs. The selected sector is the food and beverage sector because it is one of the main focuses of the Indonesian government in the "Making Indonesia 4.0" program. The seven regencies / cities were chosen because they have superior food and beverage businesses that are superior in the eastern development corridor area.

This study uses the *proportionate sampling method* in taking samples based on the proportions of each regencies / cities. To determine the number of samples, the method used is the Slovin formula with an error rate of 5%. The number of samples obtained was 165 SMEs.

This study uses a questionnaire in data collection. The study questionnaire used a 5-point Likert scale adapted from the appropriate literature. For transformational and transactional leadership variables, variable measurements were adapted from a questionnaire developed by Aslan et al. (2011). For innovation variables, variable measurements were adapted from a questionnaire developed by Ciang Wu (2017). For performance variables, variable measurements adapted from a questionnaire developed by Ar & Baki (2011) and McDermott & Prajogo (2012).

This study uses path analysis for the purpose of testing hypotheses. Path analysis is used to determine the effect of transformational and transactional leadership on the performance of SMEs both directly and indirectly through innovation. The unit of analysis is the organization represented by the leader / entrepreneur / owner / manager of the SMEs. The questionnaire was submitted to respondents directly from April to May 2019.

RESULTS

Based on the results of the instrument validity test on transformational leadership variables, transactional leadership, innovation, and performance has a correlation value with $p\text{-value} < \alpha$ (0.05) so it was concluded that all variable question items were declared valid. Based on the results of the instrument reliability

test on all variables have the cronbach alpha coefficient value > 0.60 so that the instruments of all variables are declared reliable.

The general description of respondents based on gender, age, marital status, recent education, and length of business lead is shown in Table 1.

Table 1. General Respondents

No	Charecteristics	Description	Distribution	
			Frequency	Percentage (%)
1.	Gender	Male	30	18,2
		Female	135	81,8
		Total	165	100,0
2.	Age (years)	21-30	6	3,6
		31-40	35	21,2
		41-50	90	54,6
		> 50	34	20,6
		Total	165	100,0
3.	Marital Status	Married	159	96,4
		Not Married	1	0,6
		Widow/Widow er	5	3,0
		Total	165	100,0
4.	Last Education	Junior High School	53	32,1
		Senior High School	65	39,4
		Diploma	2	1,2
		Degree (S1)	8	4,9
		Others	37	22,4
		Total	165	100,0
5.	Duration of Leading Business (years)	≤ 3	15	9,1
		4-5	42	25,5
		6-10	74	44,8
		11-15	12	7,3
		> 15	22	13,3
		Total	165	100,0

The results of the normality test show that univariate variables have a normal distribution as indicated by the value of p-value skewness and kurtosis is > 0.05 . Likewise with multivariate normality, the value of p-value skewness and kurtosis was $0.750 > 0.05$. This means that the data has met the multivariate normal distribution.

The results of direct effect testing are presented in Table 2. The overall model is five direct paths, three paths have a significant effect and two paths have no significant effect. Thus, hypotheses 1, 2, and 7 are accepted. While hypotheses 4 and 5 are rejected.

Table 2. Results of Direct Effect Hypothesis Testing

Hypotheses	Regression Model	Estimated Value	t-value
H ₁	Transformational leadership (X1) → SMEs innovation (Y1)	0.35	3.77 *
H ₂	Transformational leadership (X1) → SMEs performance (Y2)	0.16	1.72 **
H ₄	Transactional leadership (X2) → SMEs innovation (Y1)	0.13	1.43
H ₅	Transactional leadership (X2) → SMEs performance (Y2)	0.06	0.66
H ₇	SMEs innovation (Y1) → SMEs performance (Y2)	0.36	4.75 *

Note: * and ** each represents significant at the 5% level and 10%

Indirect effect test results are presented in Table 3. The whole two-way indirect model, all of which have a significant effect. Thus, hypotheses 3 and 6 are accepted.

Table 3. Results of Indirect Effect Hypothesis Testing

Hypotheses	Regression Model	Estimated Value	t-value
H ₃	Transformational leadership (X1) → SMEs innovation (Y1) → SMEs performance (Y2)	0.13	4.00 *
H ₆	Transactional leadership (X1) → SMEs innovation (Y1) → SMEs performance (Y2)	0.05	1.95 **

Note: * and ** each represents significant at the 5% level and 10%

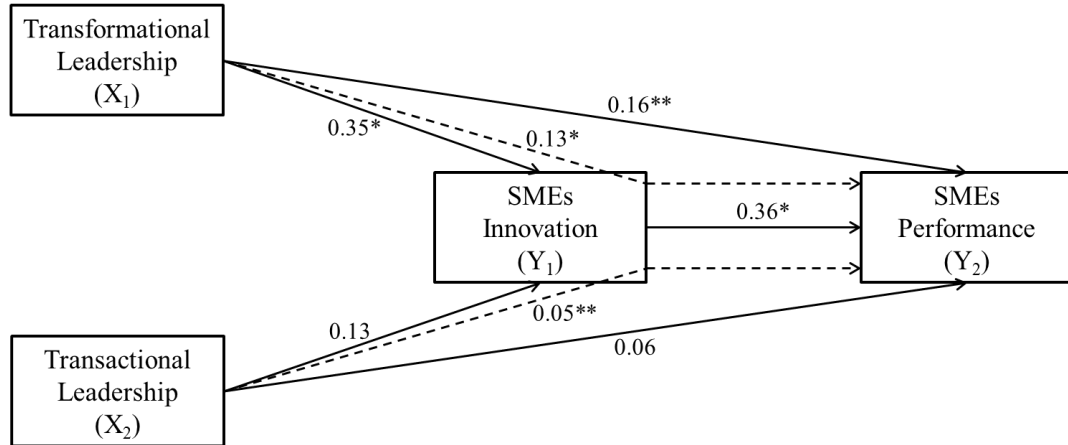
Table 4 shows the results of tests on direct effect, indirect effect, and total effect. It appears that the total effect of each independent variable is as follows: transformational leadership (29%) and transactional leadership (11%).

Table 4. Results of Testing of Direct Effect, Indirect Effect, and Total Effect

Regression Models	Direct Effect	Indirect Effect	Total Effect

Transformational leadership (X ₁) → SMEs performance (Y ₂)	0.16	0.13	0.29
Transactional leadership (X ₂) → SMEs performance (Y ₂)	0.06	0.05	0.11

Figure 2 shows the results of the path analysis briefly.



Note: * and ** each shows a significant level of 5% and 10%.

Figure 2. The Path of Coefficient of Direct and Indirect Effects

DISCUSSION

This study found that transformational leadership has a positive and significant effect on SMEs innovation so that H₁ is accepted. That is, the higher the transformational leadership, the higher the innovation of SMEs. This finding supports the results of previous studies (Iskan et al., 2014; Aslan et al., 2011; Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019; Sang, 2017; Gashema & Gao, 2018). Thus, we can provide evidence that transformational leaders will make it easier for SMEs to innovate.

Transformational leadership was found to have a positive and significant effect on the performance of SMEs so that H₂ was accepted. This can be interpreted that the increase in transformational leadership in SMEs will result in the performance of these SMEs increasing. This finding corroborates the results of previous studies (Sheshi & Kercini, 2017; Boukamcha, 2019; Iskan et al., 2014; Ozer & Tinaztepe, 2014; Israel, 2016; Afriyie et al., 2019; Singh, 2016; Manzoor et al., 2019; Arham, 2014; Ng et al., 2016; Ur Rehman et al., 2019; Arsawan et al., 2017; Sulistiyani et

al., 2018). This finding is also consistent with Bass and Riggio (2006) which states that transformational leaders are able to move their employees to produce performance.

Transformational leadership has a positive and significant effect on the performance of SMEs through innovation so that these results support H₃. This finding supports the findings of two previous researchers (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). If we look at the data in Table 4, it can be seen that the indirect effect of transformational leadership on the performance of SMEs has a smaller value than the direct effect (the indirect effect is only 0.13 and the direct effect is 0.16) so that it contributes smaller compared to its direct effect. However, the contribution given by innovation is quite capable of being a mediation that gives a greater total effect between transformational leadership on the performance of SMEs.

This study found that transformational leadership has a positive and significant effect on SMEs innovation. Transformational leadership also has a positive and significant effect on the performance of SMEs both directly and indirectly (through innovation as mediation variables). So it can be concluded that the mediation of innovation that occurs in the relationship of transformational leadership and performance is partial mediation, meaning that the influence of transformational leadership on the performance of SMEs runs through innovation mediators.

Transactional leadership has a positive but not significant effect on SME innovation so that H₄ is rejected. This indicates that the transactional leadership style has not been able to improve SME innovation. This study is in line with Aslan et al. (2011) and Iscan et al. (2014). Previous research that is able to prove the influence of transactional leadership on SME innovation is research with the object of SMEs research in the manufacturing and service sectors (Sang, 2017; Ur Rehman et al., 2019), while the object of this research is only the manufacturing sector, especially the food and beverage sector. Different results will be possible if research is also conducted on SMEs in the manufacturing and service sectors.

Transactional leadership has a positive but not significant effect on the SMEs performance so that these results do not support H₅. This can be interpreted that the

supporting indicators of transactional leadership possessed by SMEs have not been able to adequately encourage SME performance. In an empirical perspective, the results of this study are not in line with the results of previous studies (Sang, 2017; Ur Rehman et al., 2019). Specifically, there are differences in the use of indicators to measure transactional leadership variables so that they can provide different results. Ur Rehman et al. (2019) uses four indicators, namely contingent rewards, management exception-active, management exception-passive, and management-passive. While this study only uses two indicators, contingent reward and management exception-passive. However, this study is in line with Iscan et al. (2014) and Ozer & Tinaztepe (2014).

Transactional leadership has a positive and significant effect on the performance of SMEs through innovation so that H₆ is accepted. This finding supports the results of previous studies (Ur Rehman et al., 2019). Table 4 shows that the indirect effect of transactional leadership on the performance of SMEs has a smaller value compared to the direct effect (indirect effect is only 0.05 and the direct effect is 0.06) so the contribution given is smaller than the direct effect. However, the contribution of the innovation is quite capable of mediating so that it gives a greater total effect between transactional leadership on the performance of SMEs.

The findings of this study indicate that transactional leadership has a positive but not significant effect on the performance of SMEs directly. However, transactional leadership has a positive and significant effect on SMEs performance indirectly (through innovation as mediation variables). So it can be concluded that the mediation of innovation that occurs in transactional leadership and performance relationships is full mediation, meaning that the influence of transactional leadership on the performance of SMEs runs through innovation mediators.

Innovation has a positive and significant effect on the SMEs performance so that H₇ is accepted. The meaning is, the higher the innovation that is owned by SMEs resulting in an increase in the performance of SMEs. This finding provides evidence that innovation consisting of indicators of product, process, and organizational innovation will significantly influence SME performance as

measured by market share, sales, and profits. Empirically, these findings are in line with previous studies that examined innovation on SME performance (Donkor et al., 2018; Afriyie et al., 2019; Yasin et al., 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019) although using different indicators of measurement variables of innovation and performance.

CONCLUSION

The purpose of this study is to examine and analyze the effect of transformational and transactional leadership on the SMEs performance directly and indirectly through innovation. By using path analysis it was found that transformational leadership was positively and significantly affected the SMEs innovation. Transformational leadership also has a positive and significant effect on the SMEs performance both directly and indirectly through innovation. While transactional leadership has a positive but not significant effect on innovation and performance of SMEs directly. However, transactional leadership was found to have a positive and significant effect on the SMEs performance indirectly through innovation. When viewed from the total effect on the SMEs performance, transformational leadership has a greater total effect (29%) than transactional leadership (11%). So it can be concluded that transformational leadership is more important for improving the performance of SMEs in Indonesia.

There are two limitations to this study. First, samples taken only from the manufacturing sector, especially the typical food and beverage sector. Second, the research was conducted only in seven regencies / cities located in East Java Province. Thus, further research is expected to take on the manufacturing and service sectors, and cover a wider area at the national level so that the results can be generalized.

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Dear NUNGKY VIANA FERANITA,

the manuscript WHAT IS THE MOST IMPORTANT FOR THE PERFORMANCE OF SMES IN INDONESIA? TRANSFORMATIONAL OR TRANSACTIONAL LEADERSHIP?, submitted to Problems and Perspectives in Management Journal, needs to be revised.

Comments:

Our company strictly follows the principles of scientific ethics, citing the works of other scientists and your previous works.

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We have revised the manuscript according to the instructions you gave.

We have run our manuscript for plagiarism using a special tool (plagiarism software) namely Turnitin.

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In the following, I will attach the revised manuscript along with the Turnitin results.

We hope our manuscript can be accepted in the Journal of Problems and Perspectives in Management.

Thank you

Best regards,

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WHAT IS THE MOST IMPORTANT FOR THE PERFORMANCE OF SMEs IN INDONESIA? TRANSFORMATIONAL OR TRANSACTIONAL LEADERSHIP?

Nungky Viana Feranita *, Alifian Nugraha **, Sampir Andrean Sukoco ***

Abstract

This study purpose to analyze the investigate of transformational and transactional leadership on SME attainment directly and indirectly using innovation as mediation. The study was conducted in seven regencies / cities in East Java Province which have superior specialty food and beverage businesses with a total sample of 165 SMEs. By using path analysis, the results show that transformational leadership has a positive and significant effect on the innovation and performance of SMEs directly and indirectly. Transactional leadership has a positive but not significant effect on innovation and performance of SMEs directly. However, transactional leadership was found to have a positive and significant effect on the performance of SMEs indirectly. When viewed from the total effect, transformational leadership is more important for improving the performance of SMEs in Indonesia than transactional leadership.

Keywords: transformational leadership, transactional leadership, innovation, performance, SMEs

JEL Classification L25, L26, M10

INTRODUCTION

Small and Medium Enterprises (SMEs) are one of the leading driving forces in economic development in Indonesia. Based on data from the Ministry of Cooperatives and SMEs, the contribution that SMEs make to the economy in Indonesia in 2017 is: 1) business units of 99.99%; 2) labor force of 97.02%; 3) Gross Domestic Product (GDP) of 60%; 4) non-oil and gas exports amounting to 14.17%; and 5) investment of 58.18%. This contribution shows that SMEs have a big potential in driving the economic activities of the community.

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However, SMEs in Indonesia also have significant challenges, especially after Indonesia joined the ASEAN Economic Community (AEC) at the end of 2015. The AEC member countries will experience a free flow of educated goods, services, and labor from and to each -one country. SMEs face competitive pressure from globalization so it is necessary to improve innovation and performance (Khaliq et al., 2014).

Some empirical evidence shows that SMEs performance is directly determined by leadership factors consisting of transformational leadership (Sheshi & Kercini, 2017; Boukamcha, 2019; Iscan et al., 2014; Ozer & Tinaztepe, 2014; Israel, 2016; Afriyie et al., 2019; Singh, 2016; Manzoor et al., 2019; Arham, 2014; Ng et al., 2016; Ur Rehman et al., 2019; Arsawan et al., 2017; Sulistiyani et al., 2018) and transactional leadership (Singh, 2016; Ur Rehman et al., 2019; Mgeni & Nayak, 2016; Israel, 2016; Asiimwe et al., 2016).

However, only a several studies have analyzed the predispose of transformational and transactional leadership at the performance of SMEs indirectly through innovation (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). So that becomes the main focus in this study, namely the influence of transformational and transactional leadership at the performance of SMEs directly or indirectly with innovation as a intercede variable.

The Resource-Based View (RBV) theory states that strategic assets owned by a company will influence company performance (Barney, 1991). Innovative organizational practice is considered as one of the strategic wealth that will help the company to develop its performance. Some empirical evidence shows that innovation affects the performance of SMEs (Donkor et al., 2018; Afriyie et al., 2019; Yasin et al., 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al. ., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019).

The leadership paradigm has expanded and attracted the notice of practitioners and academics. Burns (1978) distinguishes leadership into two types, namely transformational and transactional. In transformational leadership, leaders are proof to provide stimuli and inspiration to employees to reach superb results. Whereas in transactional leadership, leaders offer financial rewards for

productivity generated by employees or refuse to provide rewards because of low employee productivity.

This study focuses on the four element of transformational leadership, namely individual consideration, magnetism, intellectual stimulation, and inspirational motivation. As well as two dimensions in transactional leadership, entourage reward and management exception-passive.

The selected SMEs are SMEs in Probolinggo City, Probolinggo Regency, Lumajang Regency, Jember Regency, Bondowoso Regency, Situbondo Regency, and Banyuwangi Regency because they have a superior food and beverage business. SMEs must be able to take advantage of the potential that is well-owned in order to upgrade innovation and performance supported by good leadership.

This paper be composed of four parts. The first section reviews the literature and builds hypotheses about the impact by transformational and transactional leadership on SME innovation and performance. The second part presents the research system used in these study. The third section provide the output of path analysis. The fourth part discusses the implications of the results of this study which then concludes with conclusions.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1. Transformational Leadership, Innovation, and SME Performance

Transformational leadership can drive innovation through two things. First, a transformational leader is capable to upgrade motivation that arises from employees (intrinsic) so that it will stimulate creativity which is the key to innovation (Shin & Zhou, 2003). Second, a transformational leader is able to provide intellectual stimulation so that it will boost employees to think "out of the box" (Elkins & Keller, 2003).

Previous research has found the govern of transformational leadership on SMEs innovation. According from Iscan et al. (2014) and Aslan et al. (2011), transformational leadership possess a significant impress on the innovation of SMEs in Turkey. Likewise in SMEs in Malaysia, transformational leadership also has a significant important effect on innovation (Md Saad & Mazzarol, 2010; Ur

Rehman et al., 2019). In addition, there is the influence the part of transformational leaders in advancing the innovation of SMEs in East African countries, such as Kenya (Sang, 2017) and Rwanda (Gashema & Gao, 2018). However, different results are shown by Feranita et al. (2017a) who found the fact that transformational leadership did not significantly influence the innovation of SMEs in Indonesia. Thus, this study proposes the subsequent hypothesis:

H₁: transformational leadership affects SMEs innovation.

Correspond to Bass and Riggio (2006), transformational leaders are leaders who are able to move their employees to produce performance that exceeds expectations. In the end, employee satisfaction will increase and employees have a high commitment to the company.

Many empirical evidence indicate that transformational leadership can rectify the performance of SMEs (Sheshi & Kercini, 2017; Boukamcha, 2019). Transformational leadership influences the performance of SMEs in Turkey (Iscan et al., 2014) even the influence of transformational leadership is stronger than any leadership styles (Ozer & Tinaztepe, 2014).

In West African countries, transformational leadership possess a role to improve the financial performance of SMEs in Nigeria (Israel, 2016) and marketing performance of SMEs in Ghana (Afriyie et al., 2019). Whereas in South Asian countries, there is a key relationship among transformational leadership and the performance of SMEs in India (Singh, 2016) and in Pakistan (Manzoor et al., 2019).

Transformational leadership also has a important impact on the performance of SMEs in Southeast Asian countries, such as Malaysia (Arham, 2014; Ng et al., 2016; Ur Rehman et al., 2019) and Indonesia (Arsawan et al., 2017; Sulistiyani et al., 2018). However, these results are different from the results shown by Feranita et al. (2017a) where there is a fact that transformational leadership has no important impact on the performance of SMEs in Indonesia. So the hypotheses that can be submitted as follows:

H₂: transformational leadership affects SMEs performance.

Dougherty & Hardy (1996) argue that transformational leadership styles are more open in facilitating unconventional and innovative ways of thinking. In addition, transformational leadership leads to work processes that are based on new knowledge and technology, which is fundamental to the performance of the company.

In SMEs in Malaysia, transformational leaders who emphasize product innovation have stronger performance (Md Saad & Mazzarol, 2010). Innovative culture is able to mediate among transformational leadership kind and SMEs performance (Ur Rehman et al., 2019). In line with this, the hypothesis that can be proposed:

H₃: innovation intercede the effect of transformational leadership on the SMEs performance.

2. Transactional Leadership, Innovation, and SME Performance

Transactional leadership possess a significant influence on corporate innovation. Previous study has found that transactional leadership possesses an influence on innovation occurring in SMEs in Malaysia. Transactional leaders can emphasize SME innovation specifically on process innovation (Md Saad & Mazzarol, 2010) and transactional leaders able to build innovative cultures of SMEs (Ur Rehman et al., 2019). Similar to Malaysia, transactional leadership possess a significant and positive impact on SME innovation in Kenya (Sang, 2017).

However, there is contradiction on the results of previous studies so that it is still interesting to study. SMEs in Turkey show different results, transactional leadership is found to have no significant affect on SME innovation (Aslan et al., 2011; Iscan et al., 2014). Based on this, it can be hypothesized lest:

H₄: transactional leadership affects SMEs innovation.

Transactional leadership is considered an significant indicator for measuring company performance. The focus of transactional leadership lies in the status quo that wants to be maintained to increase company income (Bass, 1985).

Several previous studies regarding the influence of transactional leadership on the performance of SMEs showed conflicting results. In Asian countries, transactional leadership has a notable influence on the performance of SMEs in India (Singh, 2016) and Malaysia (Ur Rehman et al., 2019). Even in Indonesia, Arsawan et al. (2017) recommend a transactional leadership style for SMEs to grow and be sustainable.

Transactional leadership was also found to possess a positive and significant relationship with the performance of SMEs in African countries, such as in Tanzania (Mgeni & Nayak, 2016), Nigeria (Israel, 2016), and Kenya (Asiimwe et al., 2016). However, different results are shown in SMEs in Turkey (Iscan et al., 2014; Ozer & Tinaztepe, 2014), there is no significant impact of transactional leadership on SME performance. The next hypothesis can be arranged as follows:

H₅: transactional leadership affects SMEs performance.

Transactional leadership can improve company performance through the intercede role of innovation because innovation is one of the company's strategic assets (Barney, 1991). Two previous studies showed different results even though they were conducted in the same country, namely in Malaysia. Ur Rehman et al. (2019) found that SMEs that implement innovative civilization significantly mediate between transactional leadership styles and SME performance. Whereas Md Saad & Mazzarol (2010) found that transactional leaders who emphasized product or process innovation did not have a significant impact on SME performance. Therefore, the hypothesis can be formulated, namely:

H₆: innovation intercede the effect of transactional leadership on the SMEs performance.

3. SMEs Innovation and Performance

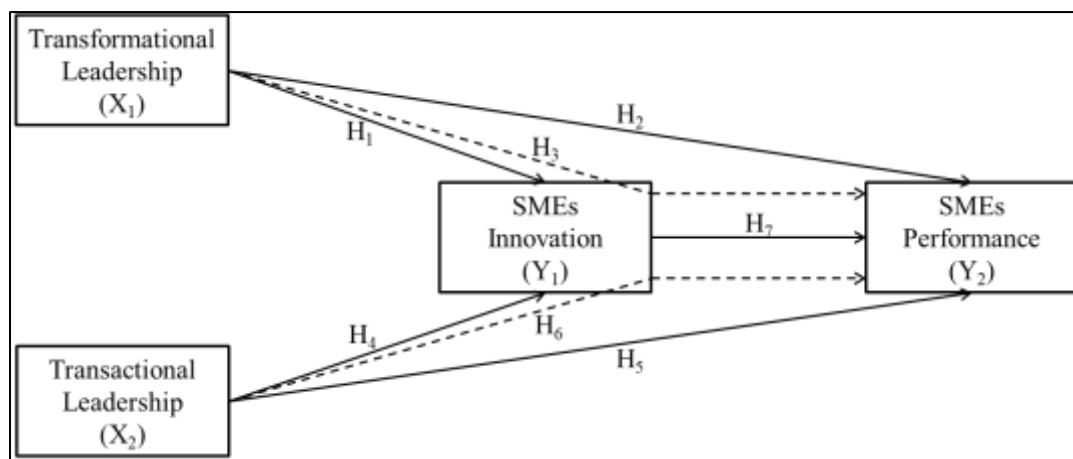
If SMEs have a good level of innovation, SMEs will be encouraged to improve performance (Li & Mitchell, 2009; Rosenbusch et al., 2011). SMEs with strong innovation capabilities will obtain a competitive advantage against competitors, enabling them to reach superb performance.

Previous research has found those one of the indicators that influence SME performance is innovation. Innovation possess a strong, positive and necessary influence on the performance of SMEs in Ghana (Donkor et al., 2018; Afriyie et al., 2019). SMEs that are at a upper level of innovation capacity will increase performance on a large scale.

In SMEs in Asian countries, innovation has a significant influence on the performance of SMEs in Pakistan (Yasin et al., 2014), China (Lu et al., 2018), and Malaysia (Ur Rehman et al., 2019). Even in Vietnam, there is a positive causality relationship that turns from sales growth to SMEs innovation (Nguyen et al., 2018). Likewise for SMEs in America, such as Brazil (Vasconcelos & Oliveria, 2018) and Colombia (Restrepo-Morales et al., 2019), the performance of SMEs is influenced by the innovations they make. Thus, the last hypothesis suggested in this study is:

H₇: innovation affects SMEs performance.

Figure 1 shows the research framework and hypothesis based on theoretical and empirical studies.



Note:

- ▶ : direct effect
- - - - -▶ : indirect effect

Figure 1. Research's Conceptual Framework

RESEARCH METHODS

This study population across the SMEs sector of food and beverages in the Probolinggo City, Probolinggo Regency, Lumajang Regency, Jember Regency, Bondowoso Regency, Situbondo Regency, and Banyuwangi Regency for 280 SMEs. The selected sector is the food and beverage sector because it is one of the main focuses of the Indonesian government in the "Making Indonesia 4.0" program. The seven regencies / cities were chosen because they have superior food and beverage businesses that are superior in the eastern development corridor area.

This study uses the *proportionate sampling method* in taking samples based on the proportions of each regencies / cities. To determine the number of samples, the method used is the Slovin formula with an error rate of 5%. The number of samples obtained was 165 SMEs.

This study uses a questionnaire in data collection. The study questionnaire adopt a 5-point Likert scale adapted from the appropriate literature. For transformational and transactional leadership variables, variable measurements were adapted from a questionnaire developed by Aslan et al. (2011). For innovation variables, variable calculated were adapted of a questionnaire developed by Ciang Wu (2017). For performance variables, variable calculated adapted of a questionnaire developed by Ar & Baki (2011) and McDermott & Prajogo (2012).

This study uses path analysis for the purpose of testing hypotheses. Path analysis is used to determine the effect of transformational and transactional leadership on the performance of SMEs both directly and indirectly through innovation. The entity of analysis is the organization deputized by the leader / entrepreneur / owner / manager of the SMEs. The questionnaire was submitted to respondents directly from April to May 2019.

RESULTS

Based on the output of the instrument validity test on transformational leadership variables, transactional leadership, innovation, and performance has a correlation value with $p\text{-value} < \alpha (0.05)$ so it was concluded that all variable question items were declared valid. Based on the output of the instrument reliability test on all variables have the cronbach alpha coefficient value > 0.60 so that the instruments of all variables are declared reliable.

The general description of respondents based on gender, age, marital status, recent education, and length of business lead is shown in Table 1.

Table 1. General Respondents

No	Charecteristics	Description	Distribution	
			Frequency	Percentage (%)
1.	Gender	Male	30	18,2
		Female	135	81,8
		Total	165	100,0
2.	Age (years)	21-30	6	3,6
		31-40	35	21,2
		41-50	90	54,6
		> 50	34	20,6
		Total	165	100,0
3.	Marital Status	Married	159	96,4
		Not Married	1	0,6
		Widow/Widow er	5	3,0
		Total	165	100,0
4.	Last Education	Junior High School	53	32,1
		Senior High School	65	39,4
		Diploma	2	1,2
		Degree (S1)	8	4,9
		Others	37	22,4
		Total	165	100,0
5.	Duration of Leading Business (years)	≤ 3	15	9,1
		4-5	42	25,5
		6-10	74	44,8
		11-15	12	7,3
		> 15	22	13,3

No	Charecteristics	Description	Distribution	
			Frequency	Percentage (%)
		Total	165	100,0

The results of the normality test show that univariate variables have a normal distribution as indicated by the value of p-value skewness and kurtosis is > 0.05 . Likewise with multivariate normality, the value of p-value skewness and kurtosis was $0.750 > 0.05$. This intend that the data has met the multivariate normal distribution.

The results of direct effect testing are provided in Table 2. The overall model is five direct paths, three paths have a significant effect and two paths have no significant effect. Thus, hypotheses 1, 2, and 7 are accepted. While hypotheses 4 and 5 are rejected.

Table 2. Results of Direct Effect Hypothesis Testing

Hypothes es	Regression Model	Estimated Value	t-value
H ₁	Transformational leadership (X1) → SMEs innovation (Y1)	0.35	3.77 *
H ₂	Transformational leadership (X1) → SMEs performance (Y2)	0.16	1.72 **
H ₄	Transactional leadership (X2) → SMEs innovation (Y1)	0.13	1.43
H ₅	Transactional leadership (X2) → SMEs performance (Y2)	0.06	0.66
H ₇	SMEs innovation (Y1) → SMEs performance (Y2)	0.36	4.75 *

Note: * and ** each represents significant at the 5% level and 10%

Indirect effect test output are provided in Table 3. The whole two-way indirect model, all of which have a significant effect. Thus, hypotheses 3 and 6 are accepted.

Table 3. Results of Indirect Effect Hypothesis Testing

Hypothes es	Regression Model	Estimated Value	t-value
H ₃	Transformational leadership (X1) → SMEs innovation (Y1) → SMEs performance (Y2)	0.13	4.00 *
H ₆	Transactional leadership (X1) → SMEs innovation (Y1) → SMEs	0.05	1.95 **

performance (Y2)		
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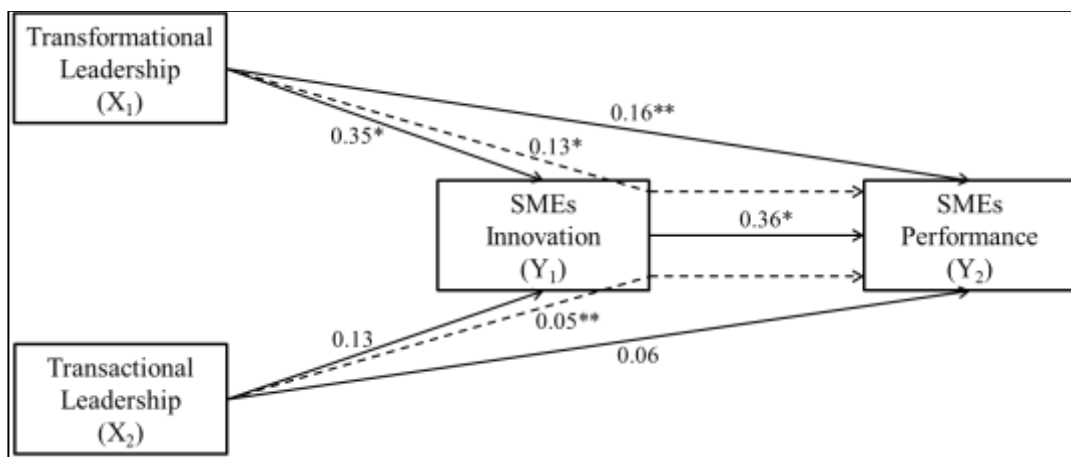
Note: * and ** each represents significant at the 5% level and 10%

Table 4 shows the results of tests on direct effect, indirect effect, and total effect. It appears that the total effect of each independent variable is as follows: transformational leadership (29%) and transactional leadership (11%).

Table 4. Results of Testing of Direct Effect, Indirect Effect, and Total Effect

Regression Models	Direct Effect	Indirect Effect	Total Effect
Transformational leadership (X ₁) → SMEs performance (Y ₂)	0.16	0.13	0.29
Transactional leadership (X ₂) → SMEs performance (Y ₂)	0.06	0.05	0.11

Figure 2 shows the results of the path analysis briefly.



Note: * and ** each shows a significant level of 5% and 10%.

Figure 2. The Path of Coefficient of Direct and Indirect Effects

DISCUSSION

This study found that transformational leadership has a positive and significant impact on SMEs innovation so that H₁ is accepted. That is, the higher the transformational leadership, the higher the innovation of SMEs. This finding supports the results of previous studies (Iscan et al., 2014; Aslan et al., 2011; Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019; Sang, 2017; Gashema & Gao,

2018). Thus, we can provide evidence that transformational leaders will make it easier for SMEs to innovate.

Transformational leadership was found to have a positive and significant impact on the performance of SMEs so H₂ was accepted. This can be interpreted that the increase in transformational leadership in SMEs will result in the performance of these SMEs increasing. This discovery affirms the output of previous studies (Sheshi & Kercini, 2017; Boukamcha, 2019; Iscan et al., 2014; Ozer & Tinaztepe, 2014; Israel, 2016; Afriyie et al., 2019; Singh, 2016; Manzoor et al., 2019; Arham, 2014; Ng et al., 2016; Ur Rehman et al., 2019; Arsawan et al., 2017; Sulistiyani et al., 2018). This finding is also consistent with Bass and Riggio (2006) which states that transformational leaders are able to move their employees to produce performance.

Transformational leadership has a positive and significant impact on the performance of SMEs through innovation so these results support H₃. This discovery supports the findings of two previous researchers (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). If we look at the data in Table 4, it can be seen that the indirect impact from transformational leadership on the performance of SMEs has a smaller value than the direct effect (the indirect effect is only 0.13 and the direct effect is 0.16) so that it contributes smaller compared to its direct effect. However, the contribution given by innovation is quite capable of being a mediation that gives a greater total effect between transformational leadership on the performance of SMEs.

This study found that transformational leadership has a positive and important impact on SMEs innovation. Transformational leadership also has a positive and important effect on the performance of SMEs both directly and indirectly (through innovation as mediation variables). So it can be concluded that the conduction of innovation that occurs in the relationship of transformational leadership and performance is partial mediation, meaning that the affect of transformational leadership on the performance of SMEs runs through innovation mediators.

Transactional leadership has a positive but not significant impact on SME innovation so that H₄ is rejected. This indicates that the transactional leadership

type has not been able to improve SME innovation. This study is in line with Aslan et al. (2011) and Iscan et al. (2014). Previous research that is able to prove the effect of transactional leadership on SME innovation is research with the object of SMEs research in the manufacturing and service sectors (Sang, 2017; Ur Rehman et al., 2019), while the object of this research is only the manufacturing sector, especially the food and beverage sector. Different results will be possible if research is also conducted on SMEs in the manufacturing and service sectors.

Transactional leadership has a positive but not significant impact on the SMEs performance so that these results do not support H₅. This can be interpreted that the supporting indicators of transactional leadership possessed by SMEs have not been able to adequately encourage SME performance. In an empirical perspective, the output from this study are not in line with the results of previous studies (Sang, 2017; Ur Rehman et al., 2019). Specifically, there are differences in the use of indicators to measure transactional leadership variables so that they can provide different results. Ur Rehman et al. (2019) uses four indicators, namely management exception-active, contingent rewards, management-passive and management exception-passive. While this study only uses two indicators, contingent reward and management exception-passive. However, this study is in line with Iscan et al. (2014) and Ozer & Tinaztepe (2014).

Transactional leadership has a positive and significant impact on the performance of SMEs through innovation so that H₆ is accepted. This discovery supports the output of previous studies (Ur Rehman et al., 2019). Table 4 shows that the indirect effect of transactional leadership on the performance of SMEs has a smaller value compared to the direct effect (indirect effect is only 0.05 and the direct effect is 0.06) so the contribution given is smaller than the direct effect. However, the contribution of the innovation is quite capable of mediating so that it gives a greater total effect between transactional leadership on the performance of SMEs.

The findings of this study indicate that transactional leadership has a positive but not significant impact on the performance of SMEs directly. However, transactional leadership has a positive and significant impact on SMEs

performance indirectly (through innovation as mediation variables). So it can be concluded that the mediation of innovation that occurs in transactional leadership and performance relationships is full mediation, meaning that the affect of transactional leadership on the performance of SMEs runs through innovation mediators.

Innovation has a positive and significant impact on the SMEs performance so that H₇ is accepted. The meaning is, the higher the innovation that is owned by SMEs resulting in an increase in the performance of SMEs. This finding provides evidence that innovation consisting of indicators of product, process, and organizational innovation will significantly influence SME performance as measured by sales, market share, and profits. Empirically, these findings are in line with previous studies that examined innovation on SME performance (Donkor et al., 2018; Afriyie et al., 2019; Yasin et al., 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019) although using different indicators of measurement variables of innovation and performance.

CONCLUSION

The goal of this study is to examine and analyze the impact of transformational and transactional leadership on the SMEs performance directly and indirectly through innovation. By using path analysis it was found that transformational leadership was positively and significantly affected the SMEs innovation. Transformational leadership also has a positive and significant impact on the SMEs performance both directly and indirectly through innovation. While transactional leadership has a positive but not significant effect on innovation and performance of SMEs directly. However, transactional leadership was found to have a positive and significant effect on the SMEs performance indirectly through innovation. When viewed from the total effect on the SMEs performance, transformational leadership has a greater total effect (29%) than transactional leadership (11%). So it can be concluded that transformational leadership is more important for improving the performance of SMEs in Indonesia.

There are two limitations to this study. First, samples taken only from the manufacturing sector, especially the typical food and beverage sector. Second, the research was conducted only in seven regencies / cities located in East Java Province. Thus, further research is expected to take on the manufacturing and service sectors, and cover a wider area at the national level so that the results can be generalized.

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**4. Bukti konfirmasi artikel rejected
dengan catatan penolakan (26 September
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MA1089: Notification on Submission

From: k.maschenko@manuscript-adminsystem.com

To: nungky_viana@yahoo.com

Date: Thursday, September 26, 2019 at 03:19 PM GMT+7

Dear NUNGKY VIANA FERANITA,

The manuscript WHAT IS THE MOST IMPORTANT FOR THE PERFORMANCE OF SMES IN INDONESIA? TRANSFORMATIONAL OR TRANSACTIONAL LEADERSHIP? submitted to Problems and Perspectives in Management Journal is rejected.

The rejection reasons are explained below.

Rejection reasons:

Overall, the manuscript needs professional proofread to increase its quality of communication, especially grammatical mistakes.

The title should be reformulated to indicate the study precisely in a correct grammar. The title should be in one sentence or phrase.

Introduction:

The background arguments for studying the topic is poorly outlined. The basic questions on why it focuses on leadership in SMEs, four elements of transformational leadership, two dimensions of transactional leadership, and particular regions are crucial to be addressed significantly. The author(s) failed to do so.

Referring to the title, it seems that the research problem is to identify which leadership styles between transformational and transactional that is most importantly affects the performance. Nevertheless, the author(s) have not sufficiently addressed this matter in the introduction. Innovation emerges suddenly with no sufficient introduction.

Literature review:

The lit review is lack of cohesiveness and this results in the hypothesis development that is supported by very shallow arguments. For example, the author(s) outlined there are inconsistent results of the influence of leadership style on innovation or performance. However, the author(s) conclude it as the hypothesis that the leadership style influences respectively innovation and performance. This way is consistently conducted by the authors in all hypothesis.

Methods:

It will be better if the author(s) present the variables and measurements of each variable in a table summarizing the source from which each item was taken.

Also, the validity of the data collection method can be increased by outlining it in a more systematical way: from whom, how, and when data were gathered. Similarly, it should be done for the analysis method. It is quite crucial to elaborate on how the analysis is used to answer the research problem or to test the hypothesis.

Results:

No data presented for validity and reliability tests that are by the authors to conclude the validity and reliability of the instrument. These tests are supposedly in the method section.

No description provided on profiles of the respondents highlighting the important aspects of the profiles in relation to the leadership style and performance.

The results are not presented comprehensively. Some are not supported by the statistical numbers resulted from the analysis so the readers cannot critically follow it but rather accept it blindly.

Discussion:

It is quite confusing how the author(s) withdraws the conclusion. It is stated that transactional leadership does not affect significantly innovation and performance directly but indirectly it affects significantly.

Conclusion:

They repeat the discussion and impartial

Kind regards,

Katerina Maschenko
Managing Editor
Journal Problems and Perspectives in Management

Bukti proses artikel ke-2**Kode MA2522****Judul “EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMEs IN INDONESIA”**

No.	Perihal	Tanggal
1	Bukti konfirmasi submit artikel dan artikel yang disubmit	12 Juni 2020
2	Bukti konfirmasi revisi cover letter pada bagian kontribusi penulis dan hasil revisi cover letter	21 Juli 2020
3	Bukti konfirmasi review, hasil review pertama, dan artikel yang diresubmit	21 Agustus 2020
4	Bukti konfirmasi review, hasil review kedua, dan artikel yang diresubmit	8 September 2020
5	Bukti konfirmasi review, hasil review ketiga, dan artikel (abstrak) yang diresubmit	23 September 2020
6	Bukti konfirmasi artikel accepted dan LoA	30 September 2020
7	Bukti respon kepada editor dan perjanjian publikasi	1 Oktober 2020
8	Bukti pembayaran	2 Oktober 2020
9	Bukti konfirmasi komentar tambahan dari proof-reader	7 Oktober 2020
10	Bukti konfirmasi submit revisi dari proof-reader, respon kepada editor, dan artikel yang diresubmit	8 Oktober 2020
11	Bukti konfirmasi artikel telah disetujui untuk dipublikasi	8 Oktober 2020
12	Bukti konfirmasi pemeriksaan final sebelum dipublikasikan, respon kepada editor, dan artikel yang diresubmit	8 Oktober 2020
13	Bukti konfirmasi artikel published	9 Oktober 2020

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Stage	Date
New Submission	12.06.2020
Consideration	21.08.2020
Initial Review	21.09.2020
Plagiarism Check	23.09.2020
Desk Review	30.09.2020
Peer review	30.09.2020
Decision Making	30.09.2020
Author's Response	08.10.2020

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General

TITLE
EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMEs IN INDONESIA

AUTHOR AND CO-AUTHORS
NUNGKY VIANA FERANITA, Alifian Nugraha, Sampir Andrean Sukoco

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ABSTRACT
This study analyzed the direct and indirect effect of transformational and transactional leadership on SME performance. This was conducted in seven regencies/cities in East Java Province, with 165 SMEs on superior indigenous food and beverage. The results showed that transformational leadership has a positive and significant effect on the innovation and performance of SMEs directly and indirectly. Transactional leadership has a positive and insignificant effect on SMEs' innovation and performance directly. However, transactional leadership was found to have a positive and significant effect on SME performance indirectly. In conclusion, transformational leadership is more important for improving the performance of SMEs in Indonesia compared to transactional.

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To: nungky_viana@yahoo.com

Date: Friday, June 12, 2020 at 12:01 PM GMT+7

Dear NUNGKY VIANA FERANITA,

NUNGKY VIANA FERANITA has submitted the manuscript EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMEs IN INDONESIA to Problems and Perspectives in Management on 12.06.2020.

Submission form contains the following details:

Journal: Problems and Perspectives in Management

Manuscript title: EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMEs IN INDONESIA

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Kind regards,

undefined

EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMEs IN INDONESIA

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Abstract

This study analyzed the direct and indirect effect of transformational and transactional leadership on SME performance. This was conducted in seven regencies/cities in East Java Province, with 165 SMEs on superior indigenous food and beverage. The results showed that transformational leadership has a positive and significant effect on the innovation and performance of SMEs directly and indirectly. Transactional leadership has a positive and insignificant effect on SMEs' innovation and performance directly. However, transactional leadership was found to have a positive and significant effect on SME performance indirectly. In conclusion, transformational leadership is more important for improving the performance of SMEs in Indonesia compared to transactional.

Keywords: transformational leadership, transactional leadership, innovation, performance, SMEs

JEL Classification L25, L26, M10

INTRODUCTION

Small Medium Enterprises (SMEs) is one of the leading forces that drive economic development in Indonesia. According to data obtained from the Ministry of Cooperatives and SMEs, the 2017 contribution is as follows 1) 99.99% business units, 2) 97.02% of labor, 3) 60% of Gross Domestic Product (GDP), 4) 14.17% of non-oil exports, and 5) 58.18% of investments. These show that SMEs have great potential in mobilizing economic activities. Conversely, SMEs are constantly faced with competitive pressure due to globalization;

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therefore, there is a need for improved innovation and performance (Khaliq et al., 2014).

In addition, the widely developed leadership paradigm has attracted numerous practitioners and academics. Burns (1978) reported that leadership is distinguished into two types: transformational and transactional. Subsequently, several studies concerning their direct effects on SME innovation and performance have been conducted. The results from previous studies show that numerous research gaps can be raised as a problem.

According to some studies, transformational leadership influences SME innovation (Md Saad & Mazzarol, 2010; Aslan et al., 2011; Iscan et al., 2014; Sang, 2017; Gashema & Gao, 2018; Ur Rehman et al., 2019). However, Feranita et al. (2017a) reported that it had no significant effect on SME innovation.

In addition to certain researches, it was also stated that it influences SME performance (Iscan et al., 2014; Ozer & Tinaztepe, 2014; Arham, 2014; Hee Song et al., 2016; Israel, 2016; Singh, 2016; Sheshi & Kercini, 2017; Arsawan et al., 2017; Sulistiyanı et al., 2018; Boukamcha, 2019; Afriyie et al., 2019; Manzoor et al., 2019; Ur Rehman et al., 2019). These contradict the results from the study conducted by Feranita et al. (2017b), which stated that transformational leadership has no significant effect on SME performance.

Transactional leadership influences SME innovation (Md Saad & Mazzarol, 2010; Sang, 2017; Ur Rehman et al., 2019). However, Aslan et al. (2011) and Iscan et al. (2014) showed that it does not have a significant effect on SME innovation.

Several studies reported that transactional leadership influences SME performance (Singh, 2016; Mgeni & Nayak, 2016; Israel, 2016; Asimwe et al., 2016; Arsawan et al., 2017; Ur Rehman et al., 2019). Iscan et al. (2014) and Ozer & Tinaztepe (2014) stated that there is no significant effect on SME performance.

Only a few studies have analyzed the indirect effect of both transformational and transactional leadership on SME performance with innovation as a mediator (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). Although, empirical evidence shows that SME performance is also influenced by innovation (Donkor

et al., 2018; Afriyie et al., 2019; Yasin et al., 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019).

Theory Resource-Based View (RBV) states that a company's strategic assets, such as an innovative organizational culture, affect its performance (Barney, 1991). Therefore, this study focuses on the direct and indirect influence of both transformational and transactional leadership on SME performance with innovation as a mediating variable.

The selected SMEs were those situated in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and Banyuwangi Regencies because they have exclusive indigenous food and beverage businesses. SMEs need to be able to utilize its potential properly while depicting good leadership to improve its innovation and performance.

This research consists of four sections. The first section reviews the literature and generates hypotheses concerning the effects of transformational and transactional leadership on SME innovation and performance. The second section examines the research methods applied, while the third presents the results from path analysis. The fourth section discusses the implications of the results with a conclusion.

LITERATURE REVIEW AND THE DEVELOPMENT OF HYPOTHESES

1.1 Transformational Leadership, Innovation, and SME Performance

Transformational leadership drives innovation in two ways. Firstly, it is able to boost the motivation of the employees (intrinsic) by stimulating creativity, which is the primary key to innovation (Shin & Zhou, 2003). Secondly, it offers intellectual stimulation, thereby encouraging employees to think "outside the box" (Elkins & Keller, 2003).

Previous studies discovered the influence of transformational leadership on SME innovation. In Turkey and Malaysia, it has a significant influence on SME innovation (Iscan et al., 2014; Aslan et al., 2011; Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). Transformational leaders also play a huge role in advancing

SME's innovation in East African countries, such as Kenya (Sang, 2017) and Rwanda (Gashema & Gao, 2018). Therefore, the following hypothesis was reported

H1: Transformational leadership influences SME innovation.

According to Bass & Riggio (2006), these leaders motivate their employees to demonstrate an exceptional performance level, which exceeds expectations. This boosts employee satisfaction, as well as their commitment to the company.

Several empirical studies show that transformational leadership tends to improve SME's performance (Sheshi & Kercini, 2017; Boukamcha, 2019). In Turkey, the influence is stronger than other leadership styles (Iscan et al., 2014; Ozer & Tinaztepe, 2014).

In West African countries, transformational leadership improves SME's financial performance in Nigeria (Israel, 2016) and marketing performance in Ghana (Afriyie et al., 2019). Meanwhile, in some Asian countries such as India and Pakistan, there is a significant relationship between transformational leadership and SME performance (Singh, 2016; Manzoor et al., 2019).

Subsequently, transformational leadership significantly influences SME performance in Asian countries, such as Malaysia (Arham, 2014; Hee Song et al., 2016; Ur Rehman et al., 2019) and Indonesia (Arsawan et al., 2017; Sulistiyani et al., 2018). Therefore the second hypothesis is as follows:

H2: Transformational leadership influences SME performance.

Dougherty & Hardy (1996) stated that this style of leadership facilitates unconventional and innovative ways of reasoning. In addition, it leads to work processes that are based on new knowledge and technology, which are fundamental to company performance.

In Malaysia, transformational leaders' emphasis on product innovation exhibits stronger performance (Md Saad & Mazzarol, 2010). Innovative culture serves as a mediator between transformational leadership style and SME

performance (Ur Rehman et al., 2019). In line with this, the third hypothesis is reported as follows:

H3: Innovation mediates the effect of transformational leadership on SME performance.

1.2 Transactional Leadership, Innovation, and SME Performance

According to previous studies conducted in Malaysia, transactional leadership plays a significant influence on company innovation. Transactional leaders can emphasize SME innovation, especially in process innovation (Md Saad & Mazarol, 2010). Transactional leaders are able to develop an innovative SME culture (Ur Rehman et al., 2019). This type of leadership has a significant and positive effect on Kenya's SME innovation (Sang, 2017). It was therefore concluded that:

H4: Transactional leadership influences SME innovation.

Transactional leadership is considered an important indicator to measure company performance. It focuses on the need to maintain the status quo to increase company revenue (Bass, 1985).

In some Asian countries such as India and Malaysia, it has a significant influence on the performance of SMEs (Singh, 2016; Ur Rehman et al., 2019). According to a study conducted by Arsawan et al. (2017), Indonesia's leadership style is recommended for sustainable SMEs growth. Transactional leadership was also discovered to have a positive and significant relationship with SME performance in African countries, such as in Tanzania (Mgeni & Nayak, 2016), Nigeria (Israel, 2016), and Kenya (Asiimwe et al., 2016). The following hypotheses are stated as follows:

H5: Transactional leadership influences SME performance.

It improves performance through the mediating role of innovation, which is one of the company's strategic assets (Barney, 1991). Ur Rehman et al. (2019) reported that in Malaysia, SMEs that implemented innovative culture were

significantly able to mediate between transactional leadership style and SME performance. Therefore, the sixth hypothesis was stated as follows:

H6: Innovation mediates the effect of transactional leadership on SME performance.

1.3 Innovation and SME Performance

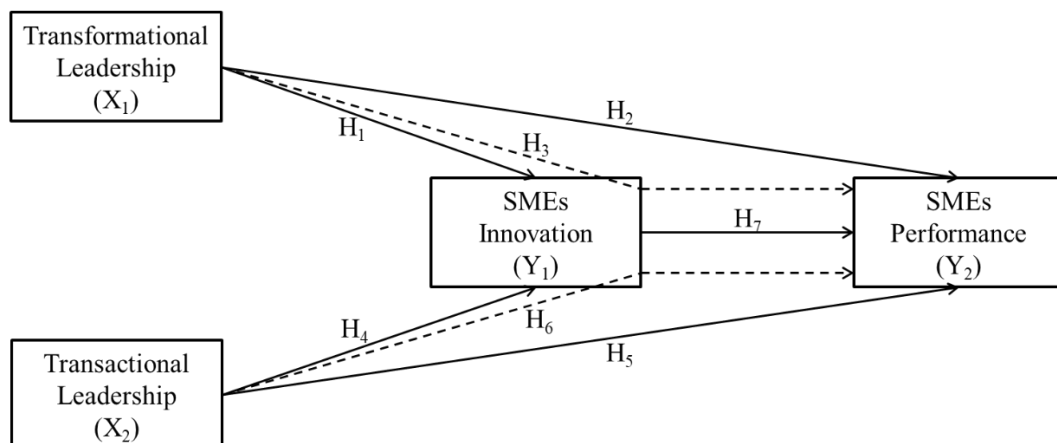
SMEs with strong innovative capabilities are at an advantage over their competitors because it tends to boost performance (Li & Mitchell, 2009; Rosenbusch et al., 2011).

Previous studies stated that one of the factors that influence SME performance is innovation (Donkor et al., 2018; Afriyie et al., 2019). Subsequently, a high level of innovative capacity tends to improve performance on a large scale.

It also has a significant influence on the performance of SMEs in Asian countries, namely Pakistan (Yasin et al., 2014), China (Lu et al., 2018), and Malaysia (Ur Rehman et al., 2019). In Vietnam, there is a positive causality relationship that changes from sales growth to SME innovation (Nguyen et al., 2018). Likewise, in America, such as Brazil (Vasconcelos & Oliveria, 2018) and Colombia (Restrepo-Morales et al., 2019). Therefore, the final hypothesis in this study is:

H7: Innovation influences SME performance.

Figure 1 shows the research framework and hypotheses based on theoretical and empirical studies.



Note:

—————▶ : direct effect
-----▶ : indirect effect

Figure 1. Research Conceptual Structure

RESEARCH METHOD

This research involves all the entire 280 foods and beverage SMEs in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and Banyuwangi Regencies. This sector was chosen because it is one of the main focuses of the government in implementing the "Making of Indonesia 4.0" program. The seven regencies or cities were selected because they excelled more in this sector than in the eastern development corridors.

This research applied a proportionate sampling method to determine the relative size of each regency/city. The number of samples was detected using the Slovin formula with an error rate of 5%, and 165 SMEs were obtained. The unit of analysis is the leader, entrepreneur, owner, or manager of the SMEs. Data collection was obtained from questionnaires shared to the respondents from April to June 2019, with a 5-point Likert scale adapted from the appropriate literature.

According to Burns (1978), transformational leadership provides stimulation and inspiration for employees to achieve extraordinary results. On the contrary, transactional leadership offers financial rewards following the productivity generated by employees. The measurement of these variables was adapted from a study conducted by Aslan et al. (2011). Therefore, this research focuses on three dimensions of transformational leadership, namely charisma, intellectual stimulation, and individual consideration. It also focuses on two dimensions of transactional leadership, such as contingent reward and exception-passive management.

Innovation is the company's ability to adopt new ideas, products, and processes successfully. The measurement of these variables is adapted from a questionnaire developed by Ciang Wu (2017), which consists of three dimensions, namely product, process, and organizational innovation. Performance is defined as the company's achievement, and the variables were measured from the research

conducted by Ar et al. (2011) and McDermott et al. (2012). Its dimensions are measured based on the market shares, sales, and profits of the competitors.

This study used path analysis to determine the direct and indirect effect of both transformational and transactional leadership on SME performance, with innovation serving as its mediator, using the LISREL software for hypothesis testing.

RESULTS

Based on the results from the instrument validity test conducted on the variables such as transformational and transactional leadership, innovation, and performance, a correlation value of $p\text{-value} < \alpha (0.05)$ was obtained; therefore, all items are declared valid. In accordance with the results from the instrument reliability test, the Cronbach Alpha coefficient of > 0.60 was determined; therefore, the variables were declared to be reliable. The results from the validity and reliability tests are shown in Table 1.

Table 1. The result of validity and reliability test

Variable and Dimension	Cronbach Alpha	Correlation
Transformational leadership	0.891	
Charisma		
• A leader respected by the employee.		0.715
• Employees are proud of their leader.		0.506
• The leader considers the results ethically.		0.674
Intellectual Stimulation		
• Leaders have a diverse point of view.		0.712
• The leader advises the employee.		0.751
• Leaders state their expectations.		0.728
Individual considerations		
• Leaders teach and train employees.		0.728
• Leaders' aid the employees		0.779
• Leaders offer feedback		0.851
Transactional leadership	0.791	
Contingent reward		
• Employees support the leader.		0.495
• The leader offers an appreciation.		0.644
• The leader appreciates good work.		0.785
Exception-passive Management		

Variable and Dimension		Cronbach Alpha	Correlation
	• A leader executes an action after a bad situation.		0.624
	• Unprepared leader unless under coercion.		0.718
	• The leader intervenes when an issue becomes serious.		0.375
Innovation		0.846	
	Product innovation		
	• The company introduced or triggered new product innovations.		0.911
	Process Innovation		
	• The company introduced or triggered new process innovation.		0.877
	Organizational Innovation		
	• The company introduced or triggered new managerial innovation.		0.837
Performance		0.908	
	Market Share		
	• Compared to competitors, the company has a better market share.		0.911
	Sales		
	• Compared to competitors, the company has a better sales.		0.950
	Profit		
	• Compared to competitors, the company has a better profit.		0.895

According to Table 2, several conclusions were drawn from the general description of the respondents based on gender, age, marital status, educational background, and duration of business. First, the majority of respondents were women (81.8%). Secondly, the majority were between the ages of 41-50 years (54.5%). Thirdly, almost all the respondents were married (96.4%). Fourthly, they are mostly dominated by senior high school (39.4%) and junior high schools (32.1%) graduates. Fifthly, the duration of the business is 6-10 years (44.8%).

Table 2. Respondent's general description

No	Characteristic	Description	Distribution	
			Frequency	Percentage (%)
1.	Gender	Male	30	18.2
		Female	135	81.8

No	Characteristic	Description	Distribution	
			Frequency	Percentage (%)
		Total	165	100.0
2.	Age (year)	21-30	6	3.6
		31-40	35	21.2
		41-50	90	54.6
		> 50	34	20.6
		Total	165	100.0
3.	Marital Status	Married	159	96.4
		Unmarried	1	0.6
		Widow/widower	5	3.0
		Total	165	100.0
4.	Latest Education	Junior High School	53	32.1
		Senior High School	65	39.4
		Diploma	2	1.2
		Bachelor (S1)	8	4.9
		Other	37	22.4
		Total	165	100.0
		5.	Leading Experience (years)	≤ 3
4-5	42			25.5
6-10	74			44.8
11-15	12			7.3
> 15	22			13.3
Total	165			100.0

According to the normality test results, the entire variables were normally distributed, which is shown by the p-value of skewness and kurtosis, which is determined as > 0.05 . Likewise, multivariate normality shows the p-value of skewness and kurtosis to be $0.750 > 0.05$. This indicates that the data is normally distributed.

The results from the direct influence test are shown in Table 3. The entire model consists of 5 direct paths, 3 of them have a significant effect, while the remaining 2 have a non-significant effect. Therefore, hypotheses 1, 2, and 7 are accepted, while 4 and 5 were rejected.

Table 3. Hypothesis testing results from the direct effect

Hypotheses	Regression Model	Estimation Value	t-value
H ₁	Transformational leadership (X ₁) → SME innovation (Y ₁)	0,35	3,77*
H ₂	Transformational leadership (X ₁) → SME performance (Y ₂)	0,16	1,72**
H ₄	Transactional leadership (X ₂) → SME innovation (Y ₁)	0,13	1,43
H ₅	Transactional leadership (X ₂) → SME performance (Y ₂)	0,06	0,66
H ₇	SME innovation (Y ₁) → SME performance (Y ₂)	0,36	4,75*

Note: * and ** means significant at levels 5% and 10%, respectively. The

Results from testing the indirect effect are shown in Table 4. Generally, the two indirect path models have a significant effect; therefore, hypotheses 3 and 6 are accepted.

Table 4. Hypothesis testing results from indirect effects

Hypotheses	Regression Model	Estimation Value	t-value
H ₃	Transformational leadership (X ₁) → SME innovation (Y ₁) → SME performance (Y ₂)	0,13	4,00*
H ₆	Transactional leadership (X ₁) → SME innovation (Y ₁) → SME performance (Y ₂)	0,05	1,95**

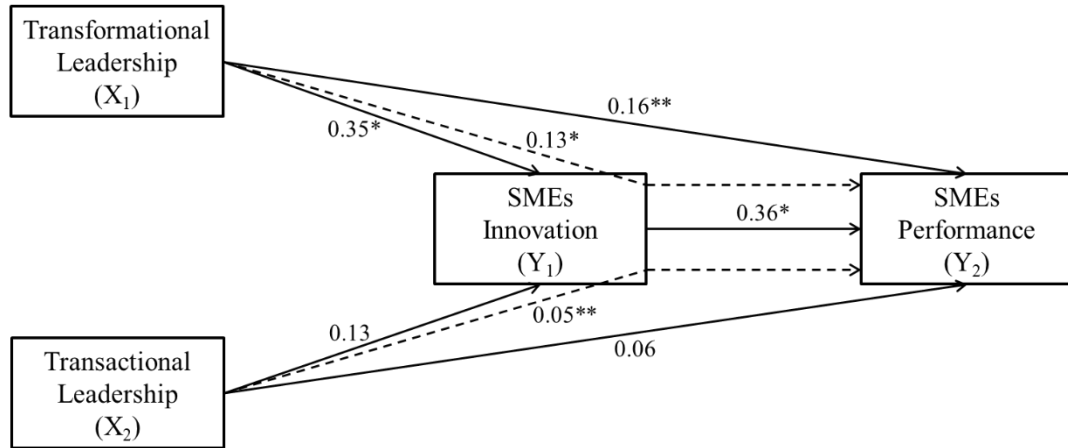
Note: * and ** shows significance at levels 5% and 10%, respectively.

Table 5 shows the test results from the direct, indirect, and total effect. The total effect of each independent variable is stated as follows, 29% of transformational and 11% of transactional leadership.

Table 5. Test results from direct effect, indirect effect, and total effect

Regression Model	Direct Effect	Indirect Effect	Total Effect
Transformational leadership (X ₁) → SME performance (Y ₂)	0.16	0.13	0.29
Transactional leadership (X ₂) → SME performance (Y ₂)	0.06	0.05	0.11

Figure 2 shows concise results from path analysis.



Note: * and ** shows significance at levels 5% and 10% levels, respectively.

Figure 2. The path coefficient of direct and indirect effects

DISCUSSION

According to Table 3, the results from data analysis shows the t-value of 3.77, which is above the critical ratio (1.96); therefore, H₁ is accepted at the level of $\alpha = 5\%$. It was discovered that transformational leadership has a positive and significant effect on SME innovation. This means that transformational leadership boosts SME innovation.

In accordance with the responses of the respondents, its variables show 2 indicators in the very good category, while the remaining 7 are in a good category. This research shows that qualities of SME leaders such as charisma, intellectual stimulation, and individual consideration trigger innovation.

This finding supports the results from previous studies (Md Saad & Mazzarol, 2010; Aslan et al., 2011; Iscan et al., 2014; Sang, 2017; Gashema & Gao, 2018; Ur Rehman et al., 2019). Also, the evidence is provided, which shows that SME innovation is achieved through transformational leadership.

The analysis of the data in Table 3 shows that the t-value is 1.72, which is above the critical ratio (1.645); therefore, H₂ is accepted at the level of $\alpha = 10\%$. Therefore, transformational leadership has a positive and significant effect on

SME performance. This means that this type of leadership boosts SME performance.

Furthermore, the majority of the SME leaders who filled out the research questionnaire were women (81.8%). Lopez-Zafra et al. (2012) reported that transformational leadership is determined by femininity; in other words, women tend to be more transformative. Subsequently, this is the desired leadership style because it has a positive influence on various performance outcomes (Chen et al., 2018).

This finding strengthens the results from previous studies (Iscan et al., 2014; Ozer & Tinaztepe, 2014; Arham, 2014; Hee Song et al., 2016; Israel, 2016; Singh, 2016; Sheshi & Kercini, 2017; Arsawan et al., 2017; Sulistiyani et al., 2018; Boukamcha, 2019; Afriyie et al., 2019; Manzoor et al., 2019; Ur Rehman et al., 2019). Conversely, this study is consistent with the study conducted by Bass and Riggio (2006), which stated that transformational leaders are able to incite their employees to achieve better performances.

Table 4 shows that the results from data analysis show that the t-value is 4.00, which is above the critical ratio (1.96); therefore, H_3 is accepted at the level of α 5%. Transformational leadership has a positive and significant effect on SME performance in accordance with an innovative medium. This supports the findings from 2 previous studies (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). From the data shown in Table 5, the total effect of transformational leadership on SME performance offers a greater value than the total and direct effects of 0.29 and 0.16. respectively. Therefore it provides a greater contribution than the effect. Contributions made by innovation serves as a mediator between transformational leadership and the performances of SMEs.

This study also discovered that transformational leadership has a positive and significant effect on SME's innovation, as well as performance, both directly and indirectly. Therefore it was concluded that innovation mediators trigger an influence on SME performance.

In accordance with the data analysis in Table 3, the t-value is 1.43, which is below the critical ratios of 1.96 and 1.645; therefore, H_4 is rejected at $\alpha = 5\%$ and

10%. Transactional leadership has a positive and insignificant effect on SME innovation. This shows that this leadership style has not been able to improve SME innovation.

This is in line with the studies carried out by Aslan et al. (2011) and Iscan et al. (2014). Previous researches were able to show the effect of transactional leadership on SME innovation by utilizing items in the manufacturing and service sectors (Sang, 2017; Ur Rehman et al., 2019). However, this study is based on SMEs in the manufacturing sector, particularly food and beverages. Although different outcomes are expected, assuming the research is conducted on SMEs in the manufacturing and service sectors.

In accordance with Table 3, the t-value is 0.66, and it is below the critical ratio, which is 1.96 and 1.645; therefore, H_5 is rejected at $\alpha = 5\%$ and 10% . This shows that transactional leadership has a positive and insignificant effect on the performance of SMEs. This means that the supporting indicators of this type of leadership have not effectively driven the performance of SMEs.

From an empirical perspective, the results from this research contradict previous studies (Sang, 2017; Ur Rehman et al., 2019). Ur Rehman et al. (2019) stated that there are 4 indicators: contingent rewards, exception-active management, exception-passive management, and passive management. Consequently, only 2 of the indicators contingent reward and exception-passive management were used in this research. However, this study is in accordance with Iscan et al. (2014) and Ozer & Tinaztepe (2014).

Table 4 shows the results from the data analysis where the t-value is 1.95, which is above the critical ratio of 1.645; therefore, H_6 is accepted at $\alpha = 10\%$. Transactional leadership has a positive and significant effect on the performance of SMEs based on innovative mediators. These findings support the results from previous research (Ur Rehman et al., 2019). Table 5 shows that the total effect of transactional leadership on the performance of SMEs offers a greater value than its direct influence (total and direct effects are 0.11 and 0.06 respectively). Therefore, its contribution is more important than direct effect and serves as a mediator between transactional leadership and the performances of SMEs.

The findings from this study show that it directly has a positive and insignificant effect on the performance of SMEs. However, it indirectly has a positive and significant effect on SME performance (through innovation variables). Therefore, the influence of transactional leadership on the performance of SMEs is triggered by innovation mediators.

Based on the results from the data analysis in Table 3, the t-value is 4.75, which is above the critical ratio 1.96; therefore, H₇ is accepted at the level of $\alpha = 5\%$. Innovation has a positive and significant effect on the performance of SMEs. This means that it boosts SME performance

The respondents' responses show that the innovative variable has two indicators stated in the good enough category and 1 in the good category. In addition, all the performance variables are in a good category.

These findings provide evidence that shows that indicators such as product, process, and organizational innovation have a significant influence on SME performance measured by market shares, sales, and profits. Empirically, these data are in accordance with previous studies that examined its effect on SME performance using different indicators of measurements (Donkor et al., 2018; Afriyie et al., 2019; Yasin et al., 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019).

CONCLUSION

This research examined and analyzed the direct and indirect effect of both transformational and transactional leadership on SME's performance through innovative mediators. The results from the path analysis revealed that transformational leadership has a positive and significant effect on SME innovation and performance.

However, transactional leadership directly has a positive and insignificant effect on SME performance. Subsequently, it has an indirect positive and significant effect on SME performance through innovative mediators. This means that

innovation plays an important role in the relationship between transactional leadership and SME performance.

Additionally, transformational leadership has a greater total effect (29%) than transactional leadership (11%). Therefore this type of leadership plays an important role in improving the performance of SMEs in Indonesia.

In conclusion, two limitations were determined in this study. First, the samples taken are only from the manufacturing sector, specifically the food and beverage industries. Second, the study was conducted in only seven regencies or cities located in East Java Province. Therefore, further research on the manufacturing and service sectors that covers a wider area at the national level needs to be conducted to generalize the results.

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Attached is the manuscript titled “EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMEs IN INDONESIA” to be considered for publication in the «Problems and Perspectives in Management» journal.

The material submitted for publication is my(our) own original work which I(we) agree to submit and publish in «Problems and Perspectives in Management» journal.

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Signature	Date	Author
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	June, 12 th 2020	Alifian Nugraha
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For example, there should be an appropriate structure: Introduction, Literature review (complete it with the formulation of the aim, and then give hypotheses), Method, Result, Discussion, Conclusions. Aim should be one and clear. Do not divide sections into small subsections. Take a look at our recommendations on what exactly should be in particular section.

Write the Abstract according to the following algorithm: first two or three sentences indicate the relevance of the topic; the aim and object of the study; the methodology (methods) of the study (for theoretical studies – its theoretical basis) are described; the obtained results and their practical value are characterized. Dedicate most of the Abstract to the result. The volume of the Abstract is 150-250 words.

The keywords should reflect the area of the research. The number of keywords should be 5-10 in average. There should not be the sentences, but the words or word groups. There is no need to replicate words from the title of the manuscript.

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EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMES IN INDONESIA

Nungky Viana Feranita *, Alifian Nugraha **, Sampir Andrian Sukoco ***

Abstract

Leadership has an important role in achieving SMEs innovation and performance. Various studies were conducted to demonstrate this leadership role. One of great concepts of leadership styles is the Burns concept, which divides leadership into two: transformational and transactional. This study analyzed the direct and indirect effect of transformational and transactional leadership on SME performance. This was conducted in seven regencies/cities in East Java Province, with 165 SMEs on superior indigenous food and beverage. The results showed that transformational leadership has a positive and significant effect on the innovation and performance of SMEs directly and indirectly. Transactional leadership has a positive and insignificant effect on SMEs' innovation and performance directly. However, transactional leadership was found to have a positive and significant effect on SME performance indirectly. In conclusion, transformational leadership is more important for improving the performance of SMEs in Indonesia compared to transactional. These results provide a practical contribution for SME leaders to improve transformational leadership which is oriented towards charismatic leadership, stimulating intellectually, and emphasizing individual consideration.

Keywords: transformational leadership, transactional leadership, innovation, performance, SMEs, Indonesia

JEL Classification L26, L66, M10

INTRODUCTION

Small Medium Enterprises (SMEs) is one of the leading forces that drive economic development in Indonesia. According to data obtained from the Ministry of Cooperatives and SMEs, the 2017 contribution is as follows 1) 99.99% business units, 2) 97.02% of labor, 3) 60% of Gross Domestic Product

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(GDP), 4) 14.17% of non-oil exports, and 5) 58.18% of investments. These show that SMEs have great potential in mobilizing economic activities. Conversely, SMEs are constantly faced with competitive pressure due to globalization; therefore, there is a need for improved innovation and performance (Khaliq et al., 2014).

In addition, the widely developed leadership paradigm has attracted numerous practitioners and academics. Burns (1978) reported that leadership is distinguished into two types: transformational and transactional. Subsequently, several studies concerning their direct effects on SME innovation and performance have been conducted. The results from previous studies show that numerous research gaps can be raised as a problem.

According to some studies, transformational leadership influences SME innovation (Md Saad & Mazzarol, 2010; Aslan et al., 2011; Iscan et al., 2014; Sang, 2017; Gashema & Gao, 2018; Ur Rehman et al., 2019). However, Feranita et al. (2017a) reported that it had no significant effect on SME innovation.

In addition to certain researches, it was also stated that it influences SME performance (Iscan et al., 2014; Ozer & Tinaztepe, 2014; Arham, 2014; Hee Song et al., 2016; Israel, 2016; Singh, 2016; Sheshi & Kercini, 2017; Arsawan et al., 2017; Sulistiyani et al., 2018; Boukamcha, 2019; Afriyie et al., 2019; Manzoor et al., 2019; Ur Rehman et al., 2019). These contradict the results from the study conducted by Feranita et al. (2017b), which stated that transformational leadership has no significant effect on SME performance.

Transactional leadership influences SME innovation (Md Saad & Mazzarol, 2010; Sang, 2017; Ur Rehman et al., 2019). However, Aslan et al. (2011) and Iscan et al. (2014) showed that it does not have a significant effect on SME innovation.

Several studies reported that transactional leadership influences SME performance (Singh, 2016; Mgeni & Nayak, 2016; Israel, 2016; Asiimwe et al., 2016; Arsawan et al., 2017; Ur Rehman et al., 2019). Iscan et al. (2014) and Ozer & Tinaztepe (2014) stated that there is no significant effect on SME performance.

Only a few studies have analyzed the indirect effect of both transformational and transactional leadership on SME performance with innovation as a mediator (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). Although, empirical evidence shows that SME performance is also influenced by innovation (Donkor et al., 2018; Afriyie et al., 2019; Yasin et al., 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019).

Theory Resource-Based View (RBV) states that a company's strategic assets, such as an innovative organizational culture, affect its performance (Barney, 1991). SMEs need to be able to utilize its potential properly while depicting good leadership to improve its innovation and performance. The selected SMEs were those situated in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and Banyuwangi Regencies because they have exclusive indigenous food and beverage businesses. Therefore, problem in this research “What kind of leadership is more important for improving SMEs performance with innovation as a mediating variable?”

This research consists of four sections. The first section reviews the literature and generates hypotheses concerning the effects of transformational and transactional leadership on SME innovation and performance. The second section examines the research methods applied, while the third presents the results from path analysis. The fourth section discusses the implications of the results with a conclusion.

1. LITERATURE REVIEW

Transformational leadership drives innovation in two ways. Firstly, it is able to boost the motivation of the employees (intrinsic) by stimulating creativity, which is the primary key to innovation (Shin & Zhou, 2003). Secondly, it offers intellectual stimulation, thereby encouraging employees to think "outside the box" (Elkins & Keller, 2003). Previous studies discovered the influence of transformational leadership on SME innovation. In Turkey and Malaysia, it has a significant influence on SME innovation (Iskan et al., 2014; Aslan et al., 2011;

Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). Transformational leaders also play a huge role in advancing SME's innovation in East African countries, such as Kenya (Sang, 2017) and Rwanda (Gashema & Gao, 2018). Therefore, the following hypothesis was reported

H1: Transformational leadership influences SME innovation.

According to Bass & Riggio (2006), these leaders motivate their employees to demonstrate an exceptional performance level, which exceeds expectations. This boosts employee satisfaction, as well as their commitment to the company. Several empirical studies show that transformational leadership tends to improve SME's performance (Sheshi & Kercini, 2017; Boukamcha, 2019). In Turkey, the influence is stronger than other leadership styles (Iskan et al., 2014; Ozer & Tinaztepe, 2014).

In West African countries, transformational leadership improves SME's financial performance in Nigeria (Israel, 2016) and marketing performance in Ghana (Afriyie et al., 2019). Meanwhile, in some Asian countries such as India and Pakistan, there is a significant relationship between transformational leadership and SME performance (Singh, 2016; Manzoor et al., 2019). Subsequently, transformational leadership significantly influences SME performance in Asian countries, such as Malaysia (Arham, 2014; Hee Song et al., 2016; Ur Rehman et al., 2019) and Indonesia (Arsawan et al., 2017; Sulistiyani et al., 2018). Therefore the second hypothesis is as follows:

H2: Transformational leadership influences SME performance.

Dougherty & Hardy (1996) stated that this style of leadership facilitates unconventional and innovative ways of reasoning. In addition, it leads to work processes that are based on new knowledge and technology, which are fundamental to company performance. In Malaysia, transformational leaders' emphasis on product innovation exhibits stronger performance (Md Saad & Mazzarol, 2010). Innovative culture serves as a mediator between

transformational leadership style and SME performance (Ur Rehman et al., 2019). In line with this, the third hypothesis is reported as follows:

H3: Innovation mediates the effect of transformational leadership on SME performance.

According to previous studies conducted in Malaysia, transactional leadership plays a significant influence on company innovation. Transactional leaders can emphasize SME innovation, especially in process innovation (Md Saad & Mazzarol, 2010). Transactional leaders are able to developed an innovative SME culture (Ur Rehman et al., 2019). This type of leadership has a significant and positive effect on Kenya's SME innovation (Sang, 2017). It was therefore concluded that:

H4: Transactional leadership influences SME innovation.

Transactional leadership is considered an important indicator to measure company performance. It focuses on the need to maintain the status quo to increase company revenue (Bass, 1985). In some Asian countries such as India and Malaysia, it has a significant influence on the performance of SMEs (Singh, 2016; Ur Rehman et al., 2019). According to a study conducted by Arsawan et al. (2017), Indonesia's leadership style is recommended for sustainable SMEs growth. Transactional leadership was also discovered to have a positive and significant relationship with SME performance in African countries, such as in Tanzania (Mgeni & Nayak, 2016), Nigeria (Israel, 2016), and Kenya (Asiimwe et al., 2016). The following hypotheses are stated as follows:

H5: Transactional leadership influences SME performance.

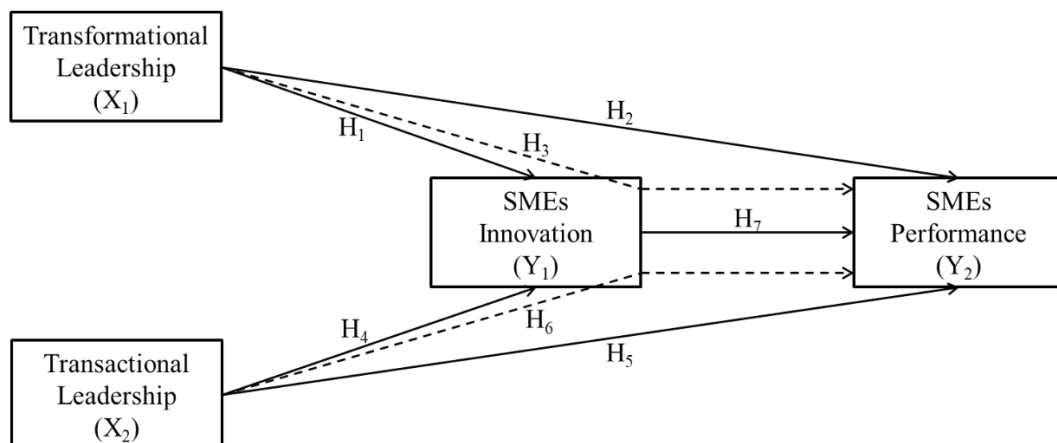
It improves performance through the mediating role of innovation, which is one of the company's strategic assets (Barney, 1991). Ur Rehman et al. (2019) reported that in Malaysia, SMEs that implemented innovative culture were significantly able to mediate between transactional leadership style and SME performance. Therefore, the sixth hypothesis was stated as follows:

H6: Innovation mediates the effect of transactional leadership on SME performance.

SMEs with strong innovative capabilities are at an advantage over their competitors because it tends to boost performance (Li & Mitchell, 2009; Rosenbusch et al., 2011). Previous studies stated that one of the factors that influence SME performance is innovation (Donkor et al., 2018; Afriyie et al., 2019). Subsequently, a high level of innovative capacity tends to improve performance on a large scale. It also has a significant influence on the performance of SMEs in Asian countries, namely Pakistan (Yasin et al., 2014), China (Lu et al., 2018), and Malaysia (Ur Rehman et al., 2019). In Vietnam, there is a positive causality relationship that changes from sales growth to SME innovation (Nguyen et al., 2018). Likewise, in America, such as Brazil (Vasconcelos & Oliveria, 2018) and Colombia (Restrepo-Morales et al., 2019). Therefore, the final hypothesis in this study is:

H7: Innovation influences SME performance.

Figure 1 shows the research framework and hypotheses based on theoretical and empirical studies.



Note:

—————▶ : direct effect
 - - - - -▶ : indirect effect

Figure 1. Research Conceptual Structure

2. AIMS

This research aims to analyze among the transformational and transactional leadership, the one having the greatest contribution in improving the performance of SMEs with an innovation approach.

3. METHODS

This research involves all the entire 280 foods and beverage SMEs in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and Banyuwangi Regencies. This sector was chosen because it is one of the main focuses of the government in implementing the "Making of Indonesia 4.0" program. The seven regencies or cities were selected because they excelled more in this sector than in the eastern development corridors.

This research applied a proportionate sampling method to determine the relative size of each regency/city. The number of samples was detected using the Slovin formula with an error rate of 5%, and 165 SMEs were obtained. The unit of analysis is the leader, entrepreneur, owner, or manager of the SMEs. Data collection was obtained from questionnaires shared to the respondents from April to June 2019, with a 5-point Likert scale adapted from the appropriate literature.

According to Burns (1978), transformational leadership provides stimulation and inspiration for employees to achieve extraordinary results. On the contrary, transactional leadership offers financial rewards following the productivity generated by employees. The measurement of these variables was adapted from a study conducted by Aslan et al. (2011). Therefore, this research focuses on three dimensions of transformational leadership, namely charisma, intellectual stimulation, and individual consideration. It also focuses on two dimensions of transactional leadership, such as contingent reward and exception-passive management.

Innovation is the company's ability to adopt new ideas, products, and processes successfully. The measurement of these variables is adapted from a questionnaire developed by Ciang Wu (2017), which consists of three dimensions, namely product, process, and organizational innovation. Performance is defined as

the company's achievement, and the variables were measured from the research conducted by Ar et al. (2011) and McDermott et al. (2012). Its dimensions are measured based on the market shares, sales, and profits of the competitors.

This study used path analysis to determine the direct and indirect effect of both transformational and transactional leadership on SME performance, with innovation serving as its mediator, using the LISREL software for hypothesis testing.

4. RESULTS

Based on the results from the instrument validity test conducted on the variables such as transformational and transactional leadership, innovation, and performance, a correlation value of $p\text{-value} < \alpha (0.05)$ was obtained; therefore, all items are declared valid. In accordance with the results from the instrument reliability test, the Cronbach Alpha coefficient of > 0.60 was determined; therefore, the variables were declared to be reliable. The results from the validity and reliability tests are shown in Table 1.

Table 1. The result of validity and reliability test

Variable and Dimension	Cronbach Alpha	Correlation
Transformational leadership	0.891	
Charisma		
• A leader respected by the employee.		0.715
• Employees are proud of their leader.		0.506
• The leader considers the results ethically.		0.674
Intellectual Stimulation		
• Leaders have a diverse point of view.		0.712
• The leader advises the employee.		0.751
• Leaders state their expectations.		0.728
Individual considerations		
• Leaders teach and train employees.		0.728
• Leaders' aid the employees		0.779
• Leaders offer feedback		0.851
Transactional leadership	0.791	
Contingent reward		
• Employees support the leader.		0.495
• The leader offers an appreciation.		0.644
• The leader appreciates good work.		0.785

Variable and Dimension		Cronbach Alpha	Correlation
Exception-passive Management			
•	A leader executes an action after a bad situation.		0.624
•	Unprepared leader unless under coercion.		0.718
•	The leader intervenes when an issue becomes serious.		0.375
Innovation		0.846	
Product innovation			
•	The company introduced or triggered new product innovations.		0.911
Process Innovation			
•	The company introduced or triggered new process innovation.		0.877
Organizational Innovation			
•	The company introduced or triggered new managerial innovation.		0.837
Performance		0.908	
Market Share			
•	Compared to competitors, the company has a better market share.		0.911
Sales			
•	Compared to competitors, the company has a better sales.		0.950
Profit			
•	Compared to competitors, the company has a better profit.		0.895

According to Table 2, several conclusions were drawn from the general description of the respondents based on gender, age, marital status, educational background, and duration of business. First, the majority of respondents were women (81.8%). Secondly, the majority were between the ages of 41-50 years (54.5%). Thirdly, almost all the respondents were married (96.4%). Fourthly, they are mostly dominated by senior high school (39.4%) and junior high schools (32.1%) graduates. Fifthly, the duration of the business is 6-10 years (44.8%).

Table 2. Respondent's general description

No	Characteristic	Description	Distribution	
			Frequency	Percentage (%)
1.	Gender	Male	30	18.2

No	Characteristic	Description	Distribution	
			Frequency	Percentage (%)
		Female	135	81.8
		Total	165	100.0
2.	Age (year)	21-30	6	3.6
		31-40	35	21.2
		41-50	90	54.6
		> 50	34	20.6
		Total	165	100.0
3.	Marital Status	Married	159	96.4
		Unmarried	1	0.6
		Widow/widower	5	3.0
		Total	165	100.0
4.	Latest Education	Junior High School	53	32.1
		Senior High School	65	39.4
		Diploma	2	1.2
		Bachelor (S1)	8	4.9
		Other	37	22.4
		Total	165	100.0
5.	Leading Experience (years)	≤ 3	15	9.1
		4-5	42	25.5
		6-10	74	44.8
		11-15	12	7.3
		> 15	22	13.3
		Total	165	100.0

According to the normality test results, the entire variables were normally distributed, which is shown by the p-value of skewness and kurtosis, which is determined as > 0.05 . Likewise, multivariate normality shows the p-value of skewness and kurtosis to be $0.750 > 0.05$. This indicates that the data is normally distributed.

The results from the direct influence test are shown in Table 3. The entire model consists of 5 direct paths, 3 of them have a significant effect, while the remaining 2 have a non-significant effect. Therefore, hypotheses 1, 2, and 7 are accepted, while 4 and 5 were rejected.

Table 3. Hypothesis testing results from the direct effect

Hypotheses	Regression Model	Estimation Value	t-value
H ₁	Transformational leadership (X ₁) → SME innovation (Y ₁)	0,35	3,77*
H ₂	Transformational leadership (X ₁) → SME performance (Y ₂)	0,16	1,72**
H ₄	Transactional leadership (X ₂) → SME innovation (Y ₁)	0,13	1,43
H ₅	Transactional leadership (X ₂) → SME performance (Y ₂)	0,06	0,66
H ₇	SME innovation (Y ₁) → SME performance (Y ₂)	0,36	4,75*

Note: * and ** means significant at levels 5% and 10%, respectively. The

Results from testing the indirect effect are shown in Table 4. Generally, the two indirect path models have a significant effect; therefore, hypotheses 3 and 6 are accepted.

Table 4. Hypothesis testing results from indirect effects

Hypotheses	Regression Model	Estimation Value	t-value
H ₃	Transformational leadership (X ₁) → SME innovation (Y ₁) → SME performance (Y ₂)	0,13	4,00*
H ₆	Transactional leadership (X ₁) → SME innovation (Y ₁) → SME performance (Y ₂)	0,05	1,95**

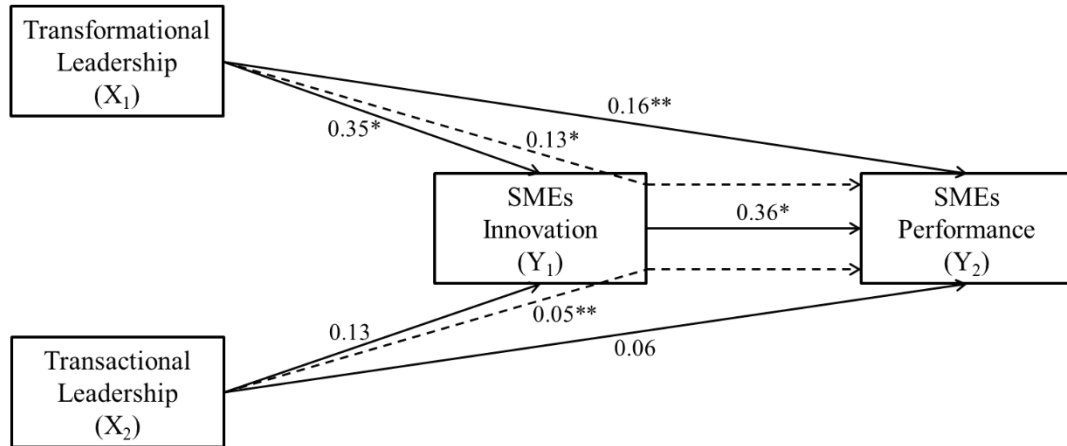
Note: * and ** shows significance at levels 5% and 10%, respectively.

Table 5 shows the test results from the direct, indirect, and total effect. The total effect of each independent variable is stated as follows, 29% of transformational and 11% of transactional leadership.

Table 5. Test results from direct effect, indirect effect, and total effect

Regression Model	Direct Effect	Indirect Effect	Total Effect
Transformational leadership (X ₁) → SME performance (Y ₂)	0.16	0.13	0.29
Transactional leadership (X ₂) → SME performance (Y ₂)	0.06	0.05	0.11

Figure 2 shows concise results from path analysis.



Note: * and ** shows significance at levels 5% and 10% levels, respectively.

Figure 2. The path coefficient of direct and indirect effects

5. DISCUSSION

According to Table 3, the results from data analysis shows the t-value of 3.77, which is above the critical ratio (1.96); therefore, H₁ is accepted at the level of $\alpha = 5\%$. It was discovered that transformational leadership has a positive and significant effect on SME innovation. This means that transformational leadership boosts SME innovation. In accordance with the responses of the respondents, its variables show 2 indicators in the very good category, while the remaining 7 are in a good category. This research shows that qualities of SME leaders such as charisma, intellectual stimulation, and individual consideration trigger innovation. This finding supports the results from previous studies (Md Saad & Mazzarol, 2010; Aslan et al., 2011; Iscan et al., 2014; Sang, 2017; Gashema & Gao, 2018; Ur Rehman et al., 2019). Also, the evidence is provided, which shows that SME innovation is achieved through transformational leadership.

The analysis of the data in Table 3 shows that the t-value is 1.72, which is above the critical ratio (1.645); therefore, H₂ is accepted at the level of $\alpha = 10\%$. Therefore, transformational leadership has a positive and significant effect on SME performance. This means that this type of leadership boosts SME performance. Furthermore, the majority of the SME leaders who filled out the

research questionnaire were women (81.8%). Lopez-Zafra et al. (2012) reported that transformational leadership is determined by femininity; in other words, women tend to be more transformative. Subsequently, this is the desired leadership style because it has a positive influence on various performance outcomes (Chen et al., 2018). This finding strengthens the results from previous studies (Iscan et al., 2014; Ozer & Tinaztepe, 2014; Arham, 2014; Hee Song et al., 2016; Israel, 2016; Singh, 2016; Sheshi & Kercini, 2017; Arsawan et al., 2017; Sulistiyani et al., 2018; Boukamcha, 2019; Afriyie et al., 2019; Manzoor et al., 2019; Ur Rehman et al., 2019). Conversely, this study is consistent with the study conducted by Bass and Riggio (2006), which stated that transformational leaders are able to incite their employees to achieve better performances.

Table 4 shows that the results from data analysis show that the t-value is 4.00, which is above the critical ratio (1.96); therefore, H_3 is accepted at the level of α 5%. Transformational leadership has a positive and significant effect on SME performance in accordance with an innovative medium. This supports the findings from 2 previous studies (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). From the data shown in Table 5, the total effect of transformational leadership on SME performance offers a greater value than the total and direct effects of 0.29 and 0.16. respectively. Therefore it provides a greater contribution than the effect. Contributions made by innovation serves as a mediator between transformational leadership and the performances of SMEs. This study also discovered that transformational leadership has a positive and significant effect on SME's innovation, as well as performance, both directly and indirectly. Therefore it was concluded that innovation mediators trigger an influence on SME performance.

In accordance with the data analysis in Table 3, the t-value is 1.43, which is below the critical ratios of 1.96 and 1.645; therefore, H_4 is rejected at $\alpha = 5\%$ and 10%. Transactional leadership has a positive and insignificant effect on SME innovation. This shows that this leadership style has not been able to improve SME innovation. This is in line with the studies carried out by Aslan et al. (2011) and Iscan et al. (2014). Previous researches were able to show the effect of transactional leadership on SME innovation by utilizing items in the

manufacturing and service sectors (Sang, 2017; Ur Rehman et al., 2019). However, this study is based on SMEs in the manufacturing sector, particularly food and beverages. Although different outcomes are expected, assuming the research is conducted on SMEs in the manufacturing and service sectors.

In accordance with Table 3, the t-value is 0.66, and it is below the critical ratio, which is 1.96 and 1.645; therefore, H_5 is rejected at $\alpha = 5\%$ and 10% . This shows that transactional leadership has a positive and insignificant effect on the performance of SMEs. This means that the supporting indicators of this type of leadership have not effectively driven the performance of SMEs. From an empirical perspective, the results from this research contradict previous studies (Sang, 2017; Ur Rehman et al., 2019). Ur Rehman et al. (2019) stated that there are 4 indicators: contingent rewards, exception-active management, exception-passive management, and passive management. Consequently, only 2 of the indicators contingent reward and exception-passive management were used in this research. However, this study is in accordance with Iscan et al. (2014) and Ozer & Tinaztepe (2014).

Table 4 shows the results from the data analysis where the t-value is 1.95, which is above the critical ratio of 1.645; therefore, H_6 is accepted at $\alpha = 10\%$. Transactional leadership has a positive and significant effect on the performance of SMEs based on innovative mediators. These findings support the results from previous research (Ur Rehman et al., 2019). Table 5 shows that the total effect of transactional leadership on the performance of SMEs offers a greater value than its direct influence (total and direct effects are 0.11 and 0.06 respectively). Therefore, its contribution is more important than direct effect and serves as a mediator between transactional leadership and the performances of SMEs. The findings from this study show that it directly has a positive and insignificant effect on the performance of SMEs. However, it indirectly has a positive and significant effect on SME performance (through innovation variables). Therefore, the influence of transactional leadership on the performance of SMEs is triggered by innovation mediators.

Based on the results from the data analysis in Table 3, the t-value is 4.75, which is above the critical ratio 1.96; therefore, H_7 is accepted at the level of $\alpha = 5\%$. Innovation has a positive and significant effect on the performance of SMEs. This means that it boosts SME performance. The respondents' responses show that the innovative variable has two indicators stated in the good enough category and 1 in the good category. In addition, all the performance variables are in a good category. These findings provide evidence that shows that indicators such as product, process, and organizational innovation have a significant influence on SME performance measured by market shares, sales, and profits. Empirically, these data are in accordance with previous studies that examined its effect on SME performance using different indicators of measurements (Donkor et al., 2018; Afriyie et al., 2019; Yasin et al., 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019).

CONCLUSION

For SMEs to succeed in improving their performance, SMEs must have good innovation. SMEs that are able to innovate are supported by an appropriate leadership style. According to Burns, there are two types of leadership styles: transformational and transactional. The results from the path analysis revealed that transformational leadership has a positive and significant effect on SME innovation and performance. However, transactional leadership directly has a positive and insignificant effect on SME performance. Subsequently, it has an indirect positive and significant effect on SME performance through innovative mediators. This means that innovation plays an important role in the relationship between transactional leadership and SME performance. Additionally, transformational leadership has a greater total effect (29%) than transactional leadership (11%). Therefore this type of leadership plays an important role in improving the performance of SMEs in Indonesia. The recommendation that can be given are government should facilitate trainings to improving leadership. The government can design training programs and mentoring for SMEs that are

sustainable and effective. The program can be oriented towards enhancing transformational leadership that is charismatic, stimulates intellectuality, and emphasizes individual considerations so that SMEs are able to increase innovation and performance. In conclusion, two limitations were determined in this study. First, the samples taken are only from the manufacturing sector, specifically the food and beverage industries. Second, the study was conducted in only seven regencies or cities located in East Java Province. Therefore, further research on the manufacturing and service sectors that covers a wider area at the national level needs to be conducted to generalize the results.

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4. Bukti konfirmasi review, hasil review kedua, dan artikel yang diresubmit (8 September 2020)

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From: k.maschenko@manuscript-adminsystem.com

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Date: Tuesday, September 8, 2020 at 02:44 AM GMT+7

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the manuscript EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMEs IN INDONESIA, submitted to Problems and Perspectives in Management Journal, needs to be revised.

Comments:

The manuscript is interesting to our journal.

The manuscript should be aligned with the Guidelines <https://businessperspectives.org/journals/problems-and-perspectives-in-management#submission-guidelines-for-authors>

It is necessary to specify the title, and indicate the purpose of research in it.

Write the Abstract according to the following algorithm: first two or three sentences indicate the relevance of the topic; the aim and object of the study; the methodology (methods) of the study (for theoretical studies – its theoretical basis) are described; the obtained results and their practical value are characterized. Dedicate most of the Abstract to the result. The volume of the Abstract is 150-250 words.

The keywords should reflect the area of the research. The number of keywords should be 5-10 in average. There should not be the sentences, but the words or word groups. There is no need to replicate words from the title of the manuscript.

Clarify JEL classification codes.

The Introduction should be devoted exclusively to the relevance of the research topic and the formulation of the problem in general. The order should be: Literature review, Aim, then formulate hypotheses, and Methods.

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EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMEs IN INDONESIA

Nungky Viana Feranita *, Alifian Nugraha **, Sampir Andrean Sukoco ***

Abstract

Leadership has an important role in achieving SMEs innovation and performance. Various studies were conducted to demonstrate this leadership role. One of great concepts of leadership styles is the Burns concept, which divides leadership into two: transformational and transactional. This study analyzed the direct and indirect effect of transformational and transactional leadership on SME performance. This was conducted in seven regencies/cities in East Java Province, with 165 SMEs on superior indigenous food and beverage. The results showed that transformational leadership has a positive and significant effect on the innovation and performance of SMEs directly and indirectly. Transactional leadership has a positive and insignificant effect on SMEs' innovation and performance directly. However, transactional leadership was found to have a positive and significant effect on SME performance indirectly. In conclusion, transformational leadership is more important for improving the performance of SMEs in Indonesia compared to transactional. These results provide a practical contribution for SME leaders to improve transformational leadership which is oriented towards charismatic leadership, stimulating intellectually, and emphasizing individual consideration.

Keywords: leadership, innovation, performance, entrepreneurship, Indonesia

JEL Classification L26, L66

INTRODUCTION

Small Medium Enterprises (SMEs) is one of the leading forces that drive economic development in Indonesia. According to data obtained from the Ministry of Cooperatives and SMEs, the 2017 contribution is as follows 1) 99.99% business units, 2) 97.02% of labor, 3) 60% of Gross Domestic Product

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(GDP), 4) 14.17% of non-oil exports, and 5) 58.18% of investments. These show that SMEs have great potential in mobilizing economic activities. Conversely, SMEs are constantly faced with competitive pressure due to globalization; therefore, there is a need for improved innovation and performance (Khaliq et al., 2014).

In addition, the widely developed leadership paradigm has attracted numerous practitioners and academics. Burns (1978) reported that leadership is distinguished into two types: transformational and transactional. Subsequently, several studies concerning their direct effects on SME innovation and performance have been conducted. The results from previous studies show that numerous research gaps can be raised as a problem.

According to some studies, transformational leadership influences SME innovation (Md Saad & Mazzarol, 2010; Aslan et al., 2011; Iscan et al., 2014; Sang, 2017; Gashema & Gao, 2018; Ur Rehman et al., 2019). However, Feranita et al. (2017a) reported that it had no significant effect on SME innovation.

In addition to certain researches, it was also stated that it influences SME performance (Iscan et al., 2014; Ozer & Tinaztepe, 2014; Arham, 2014; Hee Song et al., 2016; Israel, 2016; Singh, 2016; Sheshi & Kercini, 2017; Arsawan et al., 2017; Sulistiyani et al., 2018; Boukamcha, 2019; Afriyie et al., 2019; Manzoor et al., 2019; Ur Rehman et al., 2019). These contradict the results from the study conducted by Feranita et al. (2017b), which stated that transformational leadership has no significant effect on SME performance.

Transactional leadership influences SME innovation (Md Saad & Mazzarol, 2010; Sang, 2017; Ur Rehman et al., 2019). However, Aslan et al. (2011) and Iscan et al. (2014) showed that it does not have a significant effect on SME innovation.

Several studies reported that transactional leadership influences SME performance (Singh, 2016; Mgeni & Nayak, 2016; Israel, 2016; Asiimwe et al., 2016; Arsawan et al., 2017; Ur Rehman et al., 2019). Iscan et al. (2014) and Ozer & Tinaztepe (2014) stated that there is no significant effect on SME performance.

Only a few studies have analyzed the indirect effect of both transformational and transactional leadership on SME performance with innovation as a mediator (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). Although, empirical evidence shows that SME performance is also influenced by innovation (Donkor et al., 2018; Afriyie et al., 2019; Yasin et al., 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019).

Theory Resource-Based View (RBV) states that a company's strategic assets, such as an innovative organizational culture, affect its performance (Barney, 1991). SMEs need to be able to utilize its potential properly while depicting good leadership to improve its innovation and performance. The selected SMEs were those situated in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and Banyuwangi Regencies because they have exclusive indigenous food and beverage businesses. Therefore, problem in this research “What kind of leadership is more important for improving SMEs performance with innovation as a mediating variable?”

This research consists of four sections. The first section reviews the literature and generates hypotheses concerning the effects of transformational and transactional leadership on SME innovation and performance. The second section examines the research methods applied, while the third presents the results from path analysis. The fourth section discusses the implications of the results with a conclusion.

1. LITERATURE REVIEW

Transformational leadership drives innovation in two ways. Firstly, it is able to boost the motivation of the employees (intrinsic) by stimulating creativity, which is the primary key to innovation (Shin & Zhou, 2003). Secondly, it offers intellectual stimulation, thereby encouraging employees to think "outside the box" (Elkins & Keller, 2003). Previous studies discovered the influence of transformational leadership on SME innovation. In Turkey and Malaysia, it has a significant influence on SME innovation (Iskan et al., 2014; Aslan et al., 2011;

Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). Transformational leaders also play a huge role in advancing SME's innovation in East African countries, such as Kenya (Sang, 2017) and Rwanda (Gashema & Gao, 2018).

According to Bass & Riggio (2006), these leaders motivate their employees to demonstrate an exceptional performance level, which exceeds expectations. This boosts employee satisfaction, as well as their commitment to the company. Several empirical studies show that transformational leadership tends to improve SME's performance (Sheshi & Kercini, 2017; Boukamcha, 2019). In Turkey, the influence is stronger than other leadership styles (Iskan et al., 2014; Ozer & Tinaztepe, 2014).

In West African countries, transformational leadership improves SME's financial performance in Nigeria (Israel, 2016) and marketing performance in Ghana (Afriyie et al., 2019). Meanwhile, in some Asian countries such as India and Pakistan, there is a significant relationship between transformational leadership and SME performance (Singh, 2016; Manzoor et al., 2019). Subsequently, transformational leadership significantly influences SME performance in Asian countries, such as Malaysia (Arham, 2014; Hee Song et al., 2016; Ur Rehman et al., 2019) and Indonesia (Arsawan et al., 2017; Sulistiyani et al., 2018).

Dougherty & Hardy (1996) stated that this style of leadership facilitates unconventional and innovative ways of reasoning. In addition, it leads to work processes that are based on new knowledge and technology, which are fundamental to company performance. In Malaysia, transformational leaders' emphasis on product innovation exhibits stronger performance (Md Saad & Mazzarol, 2010). Innovative culture serves as a mediator between transformational leadership style and SME performance (Ur Rehman et al., 2019).

According to previous studies conducted in Malaysia, transactional leadership plays a significant influence on company innovation. Transactional leaders can emphasize SME innovation, especially in process innovation (Md Saad & Mazzarol, 2010). Transactional leaders are able to developed an innovative SME

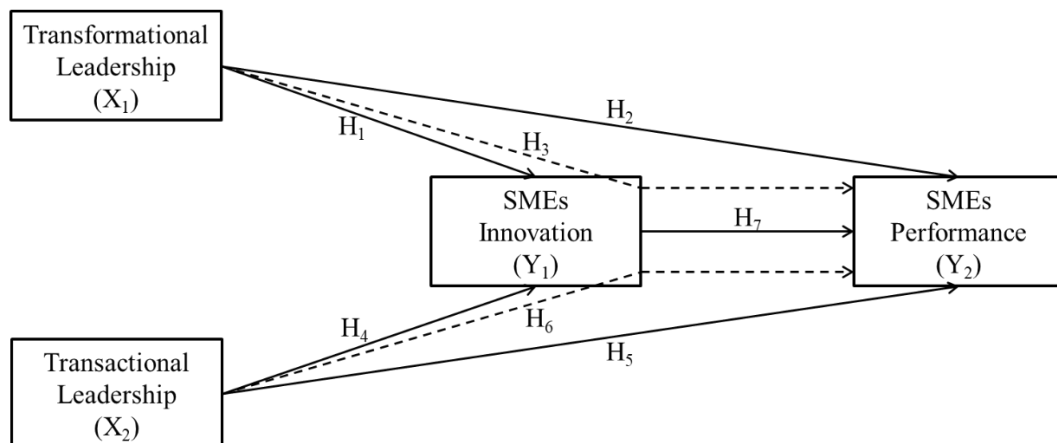
culture (Ur Rehman et al., 2019). This type of leadership has a significant and positive effect on Kenya's SME innovation (Sang, 2017).

Transactional leadership is considered an important indicator to measure company performance. It focuses on the need to maintain the status quo to increase company revenue (Bass, 1985). In some Asian countries such as India and Malaysia, it has a significant influence on the performance of SMEs (Singh, 2016; Ur Rehman et al., 2019). According to a study conducted by Arsawan et al. (2017), Indonesia's leadership style is recommended for sustainable SMEs growth. Transactional leadership was also discovered to have a positive and significant relationship with SME performance in African countries, such as in Tanzania (Mgeni & Nayak, 2016), Nigeria (Israel, 2016), and Kenya (Asiimwe et al., 2016).

It improves performance through the mediating role of innovation, which is one of the company's strategic assets (Barney, 1991). Ur Rehman et al. (2019) reported that in Malaysia, SMEs that implemented innovative culture were significantly able to mediate between transactional leadership style and SME performance.

SMEs with strong innovative capabilities are at an advantage over their competitors because it tends to boost performance (Li & Mitchell, 2009; Rosenbusch et al., 2011). Previous studies stated that one of the factors that influence SME performance is innovation (Donkor et al., 2018; Afriyie et al., 2019). Subsequently, a high level of innovative capacity tends to improve performance on a large scale. It also has a significant influence on the performance of SMEs in Asian countries, namely Pakistan (Yasin et al., 2014), China (Lu et al., 2018), and Malaysia (Ur Rehman et al., 2019). In Vietnam, there is a positive causality relationship that changes from sales growth to SME innovation (Nguyen et al., 2018). Likewise, in America, such as Brazil (Vasconcelos & Oliveria, 2018) and Colombia (Restrepo-Morales et al., 2019).

Figure 1 shows the research framework and hypotheses based on theoretical and empirical studies.



Note:

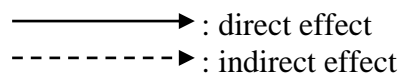


Figure 1. Research Conceptual Structure

2. AIM AND HYPOTHESES

This research aims to analyze among the transformational and transactional leadership, the one having the greatest contribution in improving the performance of SMEs with an innovation approach.

Therefore, the hypotheses in this study are:

H1: Transformational leadership influences SME innovation.

H2: Transformational leadership influences SME performance.

H3: Innovation mediates the effect of transformational leadership on SME performance.

H4: Transactional leadership influences SME innovation.

H5: Transactional leadership influences SME performance.

H6: Innovation mediates the effect of transactional leadership on SME performance.

H7: Innovation influences SME performance.

3. METHODS

This research involves all the entire 280 foods and beverage SMEs in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and

Banyuwangi Regencies. This sector was chosen because it is one of the main focuses of the government in implementing the "Making of Indonesia 4.0" program. The seven regencies or cities were selected because they excelled more in this sector than in the eastern development corridors.

This research applied a proportionate sampling method to determine the relative size of each regency/city. The number of samples was detected using the Slovin formula with an error rate of 5%, and 165 SMEs were obtained. The unit of analysis is the leader, entrepreneur, owner, or manager of the SMEs. Data collection was obtained from questionnaires shared to the respondents from April to June 2019, with a 5-point Likert scale adapted from the appropriate literature.

According to Burns (1978), transformational leadership provides stimulation and inspiration for employees to achieve extraordinary results. On the contrary, transactional leadership offers financial rewards following the productivity generated by employees. The measurement of these variables was adapted from a study conducted by Aslan et al. (2011). Therefore, this research focuses on three dimensions of transformational leadership, namely charisma, intellectual stimulation, and individual consideration. It also focuses on two dimensions of transactional leadership, such as contingent reward and exception-passive management.

Innovation is the company's ability to adopt new ideas, products, and processes successfully. The measurement of these variables is adapted from a questionnaire developed by Ciang Wu (2017), which consists of three dimensions, namely product, process, and organizational innovation. Performance is defined as the company's achievement, and the variables were measured from the research conducted by Ar et al. (2011) and McDermott et al. (2012). Its dimensions are measured based on the market shares, sales, and profits of the competitors.

This study used path analysis to determine the direct and indirect effect of both transformational and transactional leadership on SME performance, with innovation serving as its mediator, using the LISREL software for hypothesis testing.

4. RESULTS

Based on the results from the instrument validity test conducted on the variables such as transformational and transactional leadership, innovation, and performance, a correlation value of $p\text{-value} < \alpha (0.05)$ was obtained; therefore, all items are declared valid. In accordance with the results from the instrument reliability test, the Cronbach Alpha coefficient of > 0.60 was determined; therefore, the variables were declared to be reliable. The results from the validity and reliability tests are shown in Table 1.

Table 1. The result of validity and reliability test

Variable and Dimension	Cronbach Alpha	Correlation
Transformational leadership	0.891	
Charisma		
• A leader respected by the employee.		0.715
• Employees are proud of their leader.		0.506
• The leader considers the results ethically.		0.674
Intellectual Stimulation		
• Leaders have a diverse point of view.		0.712
• The leader advises the employee.		0.751
• Leaders state their expectations.		0.728
Individual considerations		
• Leaders teach and train employees.		0.728
• Leaders' aid the employees		0.779
• Leaders offer feedback		0.851
Transactional leadership	0.791	
Contingent reward		
• Employees support the leader.		0.495
• The leader offers an appreciation.		0.644
• The leader appreciates good work.		0.785
Exception-passive Management		
• A leader executes an action after a bad situation.		0.624
• Unprepared leader unless under coercion.		0.718
• The leader intervenes when an issue becomes serious.		0.375
Innovation	0.846	
Product innovation		
• The company introduced or triggered new product innovations.		0.911
Process Innovation		
• The company introduced or triggered new		0.877

Variable and Dimension		Cronbach Alpha	Correlation
	process innovation.		
	Organizational Innovation		
	• The company introduced or triggered new managerial innovation.		0.837
	Performance	0.908	
	Market Share		
	• Compared to competitors, the company has a better market share.		0.911
	Sales		
	• Compared to competitors, the company has a better sales.		0.950
	Profit		
	• Compared to competitors, the company has a better profit.		0.895

According to Table 2, several conclusions were drawn from the general description of the respondents based on gender, age, marital status, educational background, and duration of business. First, the majority of respondents were women (81.8%). Secondly, the majority were between the ages of 41-50 years (54.5%). Thirdly, almost all the respondents were married (96.4%). Fourthly, they are mostly dominated by senior high school (39.4%) and junior high schools (32.1%) graduates. Fifthly, the duration of the business is 6-10 years (44.8%).

Table 2. Respondent's general description

No	Characteristic	Description	Distribution	
			Frequency	Percentage (%)
1.	Gender	Male	30	18.2
		Female	135	81.8
		Total	165	100.0
2.	Age (year)	21-30	6	3.6
		31-40	35	21.2
		41-50	90	54.6
		> 50	34	20.6
		Total	165	100.0
3.	Marital Status	Married	159	96.4
		Unmarried	1	0.6
		Widow/widower	5	3.0
		Total	165	100.0
4.	Latest Education	Junior High	53	32.1

No	Characteristic	Description	Distribution	
			Frequency	Percentage (%)
		School		
		Senior High School	65	39.4
		Diploma	2	1.2
		Bachelor (S1)	8	4.9
		Other	37	22.4
		Total	165	100.0
5.	Leading Experience (years)	≤ 3	15	9.1
		4-5	42	25.5
		6-10	74	44.8
		11-15	12	7.3
		> 15	22	13.3
		Total	165	100.0

According to the normality test results, the entire variables were normally distributed, which is shown by the p-value of skewness and kurtosis, which is determined as > 0.05 . Likewise, multivariate normality shows the p-value of skewness and kurtosis to be $0.750 > 0.05$. This indicates that the data is normally distributed.

The results from the direct influence test are shown in Table 3. The entire model consists of 5 direct paths, 3 of them have a significant effect, while the remaining 2 have a non-significant effect. Therefore, hypotheses 1, 2, and 7 are accepted, while 4 and 5 were rejected.

Table 3. Hypothesis testing results from the direct effect

Hypotheses	Regression Model	Estimation Value	t-value
H ₁	Transformational leadership (X ₁) → SME innovation (Y ₁)	0,35	3,77*
H ₂	Transformational leadership (X ₁) → SME performance (Y ₂)	0,16	1,72**
H ₄	Transactional leadership (X ₂) → SME innovation (Y ₁)	0,13	1,43
H ₅	Transactional leadership (X ₂) → SME performance (Y ₂)	0,06	0,66
H ₇	SME innovation (Y ₁) → SME performance (Y ₂)	0,36	4,75*

Note: * and ** means significant at levels 5% and 10%, respectively.

The results from testing the indirect effect are shown in Table 4. Generally, the two indirect path models have a significant effect; therefore, hypotheses 3 and 6 are accepted.

Table 4. Hypothesis testing results from indirect effects

Hypotheses	Regression Model	Estimation Value	t-value
H ₃	Transformational leadership (X ₁) → SME innovation (Y ₁) → SME performance (Y ₂)	0,13	4,00*
H ₆	Transactional leadership (X ₁) → SME innovation (Y ₁) → SME performance (Y ₂)	0,05	1,95**

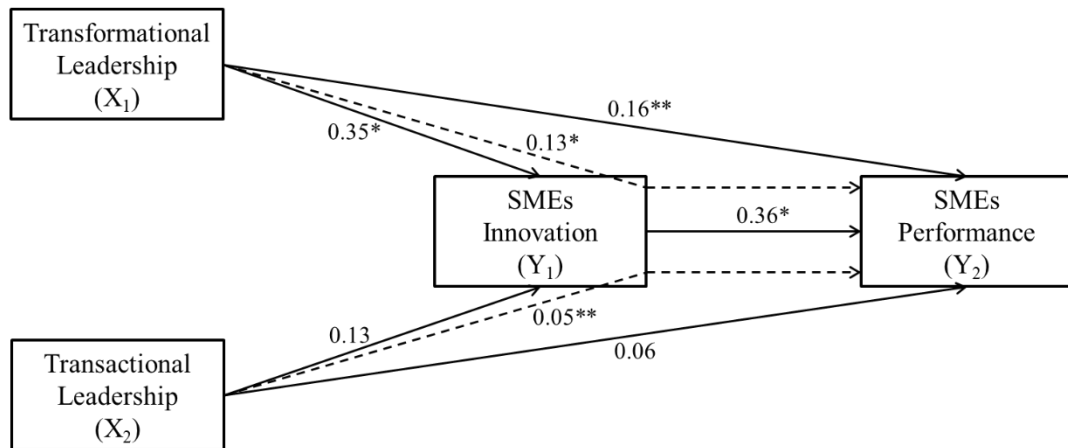
Note: * and ** shows significance at levels 5% and 10%, respectively.

Table 5 shows the test results from the direct, indirect, and total effect. The total effect of each independent variable is stated as follows, 29% of transformational and 11% of transactional leadership.

Table 5. Test results from direct effect, indirect effect, and total effect

Regression Model	Direct Effect	Indirect Effect	Total Effect
Transformational leadership (X ₁) → SME performance (Y ₂)	0.16	0.13	0.29
Transactional leadership (X ₂) → SME performance (Y ₂)	0.06	0.05	0.11

Figure 2 shows concise results from path analysis.



Note: * and ** shows significance at levels 5% and 10% levels, respectively.

Figure 2. The path coefficient of direct and indirect effects

5. DISCUSSION

According to Table 3, the results from data analysis shows the t-value of 3.77, which is above the critical ratio (1.96); therefore, H₁ is accepted at the level of $\alpha = 5\%$. It was discovered that transformational leadership has a positive and significant effect on SME innovation. This means that transformational leadership boosts SME innovation. In accordance with the responses of the respondents, its variables show 2 indicators in the very good category, while the remaining 7 are in a good category. This research shows that qualities of SME leaders such as charisma, intellectual stimulation, and individual consideration trigger innovation. This finding supports the results from previous studies (Md Saad & Mazzarol, 2010; Aslan et al., 2011; Iscan et al., 2014; Sang, 2017; Gashema & Gao, 2018; Ur Rehman et al., 2019). Also, the evidence is provided, which shows that SME innovation is achieved through transformational leadership.

The analysis of the data in Table 3 shows that the t-value is 1.72, which is above the critical ratio (1.645); therefore, H₂ is accepted at the level of $\alpha = 10\%$. Therefore, transformational leadership has a positive and significant effect on SME performance. This means that this type of leadership boosts SME performance. Furthermore, the majority of the SME leaders who filled out the research questionnaire were women (81.8%). Lopez-Zafra et al. (2012) reported that transformational leadership is determined by femininity; in other words,

women tend to be more transformative. Subsequently, this is the desired leadership style because it has a positive influence on various performance outcomes (Chen et al., 2018). This finding strengthens the results from previous studies (Iscan et al., 2014; Ozer & Tinaztepe, 2014; Arham, 2014; Hee Song et al., 2016; Israel, 2016; Singh, 2016; Sheshi & Kercini, 2017; Arsawan et al., 2017; Sulistiyani et al., 2018; Boukamcha, 2019; Afriyie et al., 2019; Manzoor et al., 2019; Ur Rehman et al., 2019). Conversely, this study is consistent with the study conducted by Bass and Riggio (2006), which stated that transformational leaders are able to incite their employees to achieve better performances.

Table 4 shows that the results from data analysis show that the t-value is 4.00, which is above the critical ratio (1.96); therefore, H₃ is accepted at the level of α 5%. Transformational leadership has a positive and significant effect on SME performance in accordance with an innovative medium. This supports the findings from 2 previous studies (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). From the data shown in Table 5, the total effect of transformational leadership on SME performance offers a greater value than the total and direct effects of 0.29 and 0.16. respectively. Therefore it provides a greater contribution than the effect. Contributions made by innovation serves as a mediator between transformational leadership and the performances of SMEs. This study also discovered that transformational leadership has a positive and significant effect on SME's innovation, as well as performance, both directly and indirectly. Therefore it was concluded that innovation mediators trigger an influence on SME performance.

In accordance with the data analysis in Table 3, the t-value is 1.43, which is below the critical ratios of 1.96 and 1.645; therefore, H₄ is rejected at α = 5% and 10%. Transactional leadership has a positive and insignificant effect on SME innovation. This shows that this leadership style has not been able to improve SME innovation. This is in line with the studies carried out by Aslan et al. (2011) and Iscan et al. (2014). Previous researches were able to show the effect of transactional leadership on SME innovation by utilizing items in the manufacturing and service sectors (Sang, 2017; Ur Rehman et al., 2019). However, this study is based on SMEs in the manufacturing sector, particularly

food and beverages. Although different outcomes are expected, assuming the research is conducted on SMEs in the manufacturing and service sectors.

In accordance with Table 3, the t-value is 0.66, and it is below the critical ratio, which is 1.96 and 1.645; therefore, H_5 is rejected at $\alpha = 5\%$ and 10% . This shows that transactional leadership has a positive and insignificant effect on the performance of SMEs. This means that the supporting indicators of this type of leadership have not effectively driven the performance of SMEs. From an empirical perspective, the results from this research contradict previous studies (Sang, 2017; Ur Rehman et al., 2019). Ur Rehman et al. (2019) stated that there are 4 indicators: contingent rewards, exception-active management, exception-passive management, and passive management. Consequently, only 2 of the indicators contingent reward and exception-passive management were used in this research. However, this study is in accordance with Iscan et al. (2014) and Ozer & Tinaztepe (2014).

Table 4 shows the results from the data analysis where the t-value is 1.95, which is above the critical ratio of 1.645; therefore, H_6 is accepted at $\alpha = 10\%$. Transactional leadership has a positive and significant effect on the performance of SMEs based on innovative mediators. These findings support the results from previous research (Ur Rehman et al., 2019). Table 5 shows that the total effect of transactional leadership on the performance of SMEs offers a greater value than its direct influence (total and direct effects are 0.11 and 0.06 respectively). Therefore, its contribution is more important than direct effect and serves as a mediator between transactional leadership and the performances of SMEs. The findings from this study show that it directly has a positive and insignificant effect on the performance of SMEs. However, it indirectly has a positive and significant effect on SME performance (through innovation variables). Therefore, the influence of transactional leadership on the performance of SMEs is triggered by innovation mediators.

Based on the results from the data analysis in Table 3, the t-value is 4.75, which is above the critical ratio 1.96; therefore, H_7 is accepted at the level of $\alpha = 5\%$. Innovation has a positive and significant effect on the performance of SMEs.

This means that it boosts SME performance. The respondents' responses show that the innovative variable has two indicators stated in the good enough category and 1 in the good category. In addition, all the performance variables are in a good category. These findings provide evidence that shows that indicators such as product, process, and organizational innovation have a significant influence on SME performance measured by market shares, sales, and profits. Empirically, these data are in accordance with previous studies that examined its effect on SME performance using different indicators of measurements (Donkor et al., 2018; Afriyie et al., 2019; Yasin et al., 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019).

CONCLUSION

For SMEs to succeed in improving their performance, SMEs must have good innovation. SMEs that are able to innovate are supported by an appropriate leadership style. According to Burns, there are two types of leadership styles: transformational and transactional. The results from the path analysis revealed that transformational leadership has a positive and significant effect on SME innovation and performance. However, transactional leadership directly has a positive and insignificant effect on SME performance. Subsequently, it has an indirect positive and significant effect on SME performance through innovative mediators. This means that innovation plays an important role in the relationship between transactional leadership and SME performance. Additionally, transformational leadership has a greater total effect (29%) than transactional leadership (11%). Therefore this type of leadership plays an important role in improving the performance of SMEs in Indonesia. The recommendation that can be given are government should facilitate trainings to improving leadership. The government can design training programs and mentoring for SMEs that are sustainable and effective. The program can be oriented towards enhancing transformational leadership that is charismatic, stimulates intellectuality, and emphasizes individual considerations so that SMEs are able to increase innovation

and performance. In conclusion, two limitations were determined in this study. First, the samples taken are only from the manufacturing sector, specifically the food and beverage industries. Second, the study was conducted in only seven regencies or cities located in East Java Province. Therefore, further research on the manufacturing and service sectors that covers a wider area at the national level needs to be conducted to generalize the results.

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5. Bukti konfirmasi review, hasil review ketiga, dan artikel (abstrak) yang diresubmit (23 September 2020)

MA2522: Notification on Submission

From: k.maschenko@manuscript-adminsystem.com

To: nungky_viana@yahoo.com

Date: Wednesday, September 23, 2020 at 02:36 PM GMT+7

Dear NUNGKY VIANA FERANITA,

the manuscript EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMEs IN INDONESIA, submitted to Problems and Perspectives in Management Journal, needs to be revised.

Comments:

In the Abstract present the result more thoroughly and to remove sentences that do not carry a meaningful load. Remove this from the Introduction - This research consists of four sections. The first section reviews the literature and generates hypotheses concerning the effects of transformational and transactional leadership on SME innovation and performance. The second section examines the research methods applied, while the third presents the results from path analysis. The fourth section discusses the implications of the results with a conclusion.

The deadline for revisions is 2020-09-30

To revise a manuscript please don't forget to log in to the system and to upload a revised manuscript!

Kind regards,

Katerina Maschenko
Managing Editor
Journal Problems and Perspectives in Management

EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMEs IN INDONESIA

Nungky Viana Feranita *, Alifian Nugraha **, Sampir Andrean Sukoco ***

Abstract

Leadership has an important role in achieving SMEs innovation and performance. One of great concepts of leadership styles is the Burns concept, which divides leadership into two: transformational and transactional. This study analyzed the direct and indirect effect of transformational and transactional leadership on SME performance. This was conducted in seven regencies/cities in East Java Province, with 165 SMEs on superior indigenous food and beverage. The main research data were obtained by distributing the questionnaires. It uses path analysis to determine the direct and indirect effect using the LISREL software. The results showed that transformational leadership has a positive and significant effect on the innovation and performance of SMEs directly and indirectly. Transactional leadership has a positive and insignificant effect on SMEs' innovation and performance directly. However, transactional leadership was found to have a positive and significant effect on SME performance indirectly. In conclusion, transformational leadership is more important for improving the performance of SMEs in Indonesia compared to transactional. These results provide a practical contribution for SME leaders to improve transformational leadership which is oriented towards charismatic leadership, stimulating intellectually, and emphasizing individual consideration.

Keywords: leadership, innovation, performance, entrepreneurship, Indonesia

JEL Classification L26, L66

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**6. Bukti konfirmasi artikel accepted dan
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The submitted manuscript EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL ON SMEs IN INDONESIA to Problems and Perspectives in Management Journal has passed the review process and is waiting for your decision regarding the publishing.

Please log in to the system to start or decline the publishing process.

Thanks.

Kind regards,

Katerina Maschenko
Managing Editor
Journal Problems and Perspectives in Management

MA2522 accepted

From: Katerina Maschenko_Managing Editor of PPM journal (k.maschenko@businessperspectives.org)
To: nungky_viana@yahoo.com
Date: Wednesday, September 30, 2020 at 07:29 PM GMT+7

Dear Nungky Viana Feranita,

I would like to inform you that your manuscript titled "Effect of transformational and transactional on SMEs in Indonesia" has been accepted for publication, and will be published in the issue 3, 2020 of the journal "Problems and Perspectives in Management".

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30th of September, 2020

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DBA
Faculty of Business Administration
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ACCEPTANCE LETTER

Dear Nungky Viana Feranita,

We are pleased to inform you that your manuscript “Effect of transformational and transactional on SMEs in Indonesia”, co-authored with Alifian Nugraha and Sampir Andean Sukoco, has been double blind peer-reviewed and accepted for publication in the international journal “Problems and Perspectives in Management”, which is scheduled to be published in Volume 18, Issue 3, 2020.

With cordial regards,
Katerina Maschenko

Managing Editor
International research journal
“Problems and Perspectives in Management”

E-mail: k.maschenko@businessperspectives.org

7. Bukti respon kepada editor dan perjanjian publikasi (1 Oktober 2020)

Re: MA2522 accepted

From: Nungky Feranita (nungky_viana@yahoo.com)
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Date: Thursday, October 1, 2020 at 10:06 PM GMT+7

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We look forward to receiving your further communications.

Yours sincerely,

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On Wednesday, September 30, 2020, 7:29:30 PM GMT+7, Katerina Maschenko_Managing Editor of PPM journal <k.maschenko@businessperspectives.org> wrote:

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As soon as the payment will be done, I'll provide you with APC confirmation letter to let you have the reimbursement from your institution (if you need).

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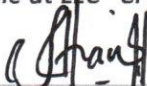
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The Author


(sign here)

Date: October, 1st 2020

Nungky Viana Feranita
DBA
Faculty of Business Administration
College of Development Administration
Indonesia

8. Bukti pembayaran (2 Oktober 2020)



Validasi :

Tanggal/ Date : October 2nd 2020

Formulir Kiriman Uang Remittance Application

Penerima/Beneficiary Penduduk/ Resident Bukan Penduduk/ Non Resident

Perorangan/Personal Perusahaan/Company

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Nama/Name : LIUDMYLA OSTAPENKO
 Alamat/Address : Ukraine City 40022, Hryhorii Shvachko lane, 10
 Telepon/Phone :
 Kota/City : Negara/Country :

Bank Penerima/Beneficiary Bank : Public Joint Stock Company "UkrSibbank"
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Pengirim/Remitter Penduduk/ Resident Bukan Penduduk/ Non Resident

Perorangan/Personal Perusahaan/Company

Pemerintah/Government Remittance

Nama/Name : NUNGKY VIANA FERANITA
 Nama Alias/Alias Name : NUNGKY
 No. ID : 3509105304240003
 KTP/SIM/Passport/KITAS
 Alamat/Address : Jl. Antulu No.14, Balunglor, Balung
 Telepon/Phone : 081234700771
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Jenis Pengiriman/ Type of Transfer LLG/Clearing Draft RTGS SWIFT KHAFUAK

Sumber Dana/ Source of fund Tunai/Cash Cek/BG No. Debit Rek./Debit Acc. No. 0908308572

Mata Uang/Currency : IDR USD EUR

Jumlah Dana yang dikirim/Amount Transfer : 685

Jumlah/Amount	Kurs/Rate	Nilai/Total Amount

Biaya/Charge	Valas/Amount in Foreign Exchange	Kurs/Amount	Nilai/Total Amount

Komisi/Commission
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 Total yang dibayarkan/Total Amount : 685

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IBOC - Maintenance (S10)

BNI
Caller ID
Date
Time

: 87030
: 02/10/2020
: 10:25:24

Sender's Reference:

:20:S10JBR00014620

Bank Operation Code:

:23B:CRED

Value Date/Currency/Interbank Settled Amount:

:32A:201002EUR685,

Ordering Customer:

:50K:/0000000908308572

IBU NUNGKY VIANA FERANITA

JALAN AMBULU NOMER 14 RT 02 RW 09

BALUNG JEMBER

INDONESIA

Ordering Institution:

:52A:BNINIDJAXXX

Account With Institution:

:57D:PUBLIC JOINT STOCK COMPANY

UKRSIBBANK

07205696 UKRSIBBANK ANDRIIVSKA

STREET 2 12 KYIV UKRAINE

Beneficiary Customer:

:59:/UA873510050000026203805377369

LIUDMYLA OSTAPENKO

UKRAINE SUMY 40022

HRYHORII

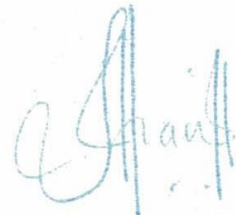
SKOVORODA LANE 10

Remittance Information:

:70:HONORARIUM

Details Of Charges:

:71A:OUR



REFERENCE : SLOJBR00014620 /

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NO. REK. : 000000908308572 Ibu NUNGKY VIANA KRAN
JUMLAH : IDR 564,530- 1568
030 - JKMBKR



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NO. REK. : 030360420801001 PENDAPATAN PROPISTI KU
JUMLAH : IDR 35,000 1568
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030 - JKMBKR

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**9. Bukti konfirmasi komentar tambahan
dari proof-reader (7 Oktober 2020)**

MA2522 comments of a proofreader

From: Katerina Maschenko_Managing Editor of PPM journal (k.maschenko@businessperspectives.org)

To: nungky_viana@yahoo.com

Date: Wednesday, October 7, 2020 at 01:07 PM GMT+7

Dear Nungky Viana Feranita,

Attached you will find the additional comments of a proof-reader in the text of a paper. Pay attention to the marked words and check these corrections and revise if required. Please do ONLY the required changes in the attached file as soon as possible. We will prepare this manuscript for publication.

Sincerely yours,
Katerina

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Effect of transformational and transactional leadership on SMEs in Indonesia
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(Indonesia)

Nungky Viana Feranita, Alifian Nugraha, Sampir Andrean Sukoco, 2020

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Abstract

Leadership has an important role in achieving the SMEs' innovation and performance. One of the great concepts of leadership styles is the Burns' (1978) concept, which divides leadership into two: transformational and transactional. This study analyzed the direct and indirect effect of transformational and transactional leadership on SMEs' performance. This was conducted in seven regencies/cities in East Java Province, with 165 SMEs on superior indigenous food and beverage. The main research data were obtained by distributing the questionnaires. It uses path analysis to determine the direct and indirect effect using the LISREL software. The results showed that transformational leadership has a positive and significant effect on SMEs' innovation and performance directly and indirectly. Transactional leadership has a direct positive and insignificant effect on SMEs' innovation and performance. However, transactional leadership was found to have an indirect positive and significant effect on SMEs' performance. In conclusion, transformational leadership is more important for improving SMEs' performance in Indonesia than transactional. These results provide a practical contribution for SMEs' leaders to improve transformational leadership, which is oriented towards charisma, intellectual stimulation, and individual consideration.

Keywords: leadership, innovation, performance, entrepreneurship, Indonesia

JEL Classification: L26, L66

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Introduction

Small and medium enterprises (SMEs) are among the leading forces that drive economic development in Indonesia. According to the data obtained from the Ministry of Cooperatives and SMEs, the 2017 contribution is as follows: 1) 99.99% business units, 2) 97.02% of labor, 3) 60% of Gross Domestic Product (GDP), 4) 14.17% of non-oil exports, and 5) 58.18% of investments. These show that SMEs have great potential in mobilizing economic activities. Conversely, SMEs are constantly faced with competitive pressure due to globalization; therefore, there is a need for improved innovation and performance (Khaliq, Rehman, Roomi, Rehman, & Irem, 2014).

Besides, the widely developed leadership paradigm has attracted numerous practitioners and academics. Burns (1978) reported that leadership is distinguished into two types: transformational and

transactional. Subsequently, several studies concerning their direct effects on SMEs' innovation and performance have been conducted. The results from previous studies show that numerous research gaps can be raised as a problem.

According to some studies, transformational leadership influences SMEs' innovation (Md Saad & Mazzarol, 2010; Aslan, Diken, & Sendogdu, 2011; Iscan, Ersari, & Naktiyok, 2014; Sang, 2017; Gashema & Gao, 2018; Ur Rehman, Bhatti, & Chaudhry, 2019). However, Feranita, Gumanti, Wahyudi, and Puspitaningtyas (2017a) reported no significant effect on SMEs' innovation.

In addition to certain researches, it was also stated that it influences SMEs' performance (Iscan et al., 2014; Ozer & Tinaztepe, 2014; Arham, 2014; Hee Song et al., 2016; Israel, 2016; Singh, 2016; Sheshi & Kercini, 2017; Arsawan, Pasek, & Suryantini, 2017; Sulistiyani, Udin, & Rahardja, 2018; Boukamcha, 2019; Afriyie, Du, & Ibn Musah, 2019; Manzoor et al., 2019; Ur Rehman et al., 2019). These contradict the results from the study conducted by Feranita, Gumanti, Wahyudi, and Puspitaningtyas (2017b), which stated that transformational leadership has no significant effect on SMEs' performance.

Transactional leadership influences SMEs' innovation (Md Saad & Mazzarol, 2010; Sang, 2017; Ur Rehman et al., 2019). However, Aslan et al. (2011) and Iscan et al. (2014) showed that it does not significantly affect SMEs' innovation.

Several studies reported that transactional leadership influences SMEs' performance (Singh, 2016; Mgeni & Nayak, 2016; Israel, 2016; Asiimwe, Linge, & Sikalieh, 2016; Arsawan et al., 2017; Ur Rehman et al., 2019). Iscan et al. (2014) and Ozer and Tinaztepe (2014) stated that there is no significant effect on SMEs' performance.

Only a few studies have analyzed the indirect effect of both transformational and transactional leadership on SMEs' performance with innovation as a mediator (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019), although empirical evidence shows that SMEs' performance is also influenced by innovation (J. Donkor, G. Donkor, Kwarteng, & Aidoo, 2018; Afriyie et al., 2019; Yasin, Nawab, Bhatti, & Nazir, 2014; Lu, Dai, & Zhang, 2018; Ur Rehman et al., 2019; D. Nguyen, H. Nguyen, & K. S. Nguyen, 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales, Loaiza, & Vanegas, 2019).

Theory Resource-Based View (RBV) states that a company's strategic assets, such as an innovative organizational culture, affect its performance (Barney, 1991). SMEs need to utilize its potential properly while depicting good leadership to improve its innovation and performance. The selected SMEs were those situated in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and Banyuwangi Regencies because they have exclusive indigenous food and beverage businesses. Therefore, the problem in this research is "What kind of leadership is more important for improving SMEs' performance with innovation as a mediating variable?"

Transfer highlighted text to the Literature review section. The Introduction should be devoted exclusively to the relevance of the research topic and the formulation of the problem in general.

1. Literature review

Transformational leadership drives innovation in two ways. Firstly, it can boost the motivation of the employees (intrinsic) by stimulating creativity, which is the primary key to innovation (Shin & Zhou, 2003). Secondly, it offers intellectual stimulation, thereby encouraging employees to think “outside the box” (Elkins & Keller, 2003). Previous studies discovered the influence of transformational leadership on SMEs’ innovation. In Turkey and Malaysia, it has a significant influence on SMEs’ innovation (Iskan et al., 2014; Aslan et al., 2011; Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). Transformational leaders also play a huge role in advancing SMEs’ innovation in East African countries, such as Kenya (Sang, 2017) and Rwanda (Gashema & Gao, 2018).

According to Bass and Riggio (2006), these leaders motivate their employees to demonstrate an exceptional performance level, which exceeds expectations. This boosts employee satisfaction and commitment to the company. Several empirical studies show that transformational leadership improves SMEs’ performance (Sheshi & Kercini, 2017; Boukamcha, 2019). In Turkey, the influence is stronger than other leadership styles (Iskan et al., 2014; Ozer & Tinaztepe, 2014).

In West African countries, transformational leadership improves SMEs’ financial performance in Nigeria (Israel, 2016) and marketing performance in Ghana (Afriyie et al., 2019). Meanwhile, in some Asian countries such as India and Pakistan, there is a significant relationship between transformational leadership and SMEs’ performance (Singh, 2016; Manzoor, Wei, Nurunnabi, Subhan, Shah, & Fallatah, 2019). Subsequently, transformational leadership significantly influences SMEs’ performance in Asian countries, such as Malaysia (Arham, 2014; Hee Song et al., 2016; Ur Rehman et al., 2019) and Indonesia (Arsawan et al., 2017; Sulistiyani et al., 2018).

Dougherty and Hardy (1996) stated that this leadership style facilitates unconventional and innovative ways of reasoning. Besides, it leads to work processes based on new knowledge and technology, which are fundamental to company performance. In Malaysia, transformational leaders’ emphasis on product innovation exhibits stronger performance (Md Saad & Mazzarol, 2010). Innovative culture serves as a mediator between transformational leadership style and SMEs performance (Ur Rehman et al., 2019).

According to previous studies conducted in Malaysia, transactional leadership has a significant influence on company innovation. Transactional leaders can emphasize SMEs’ innovation, especially in process innovation (Md Saad & Mazzarol, 2010). Transactional leaders can develop an innovative SMEs culture (Ur Rehman et al., 2019). This type of leadership has a significant and positive effect on Kenya’s SMEs’ innovation (Sang, 2017).

Transactional leadership is considered an important indicator to measure company performance. It focuses on maintaining the status quo to increase company revenue (Bass, 1985). In some Asian countries such as India and Malaysia, it significantly influences SMEs’ performance (Singh, 2016; Ur Rehman et al., 2019). According to a study conducted by Arsawan et al. (2017), Indonesia’s leadership style is recommended for sustainable SMEs growth. Transactional leadership was also discovered to have a

positive and significant relationship with SMEs' performance in African countries, such as Tanzania (Mgeni & Nayak, 2016), Nigeria (Israel, 2016), and Kenya (Asiimwe et al., 2016).

It improves performance through innovation's mediating role, which is one of the company's strategic assets (Barney, 1991). Ur Rehman et al. (2019) reported that SMEs that implemented innovative culture in Malaysia could significantly mediate between transactional leadership style and SMEs' performance.

SMEs with strong innovative capabilities are at an advantage over their competitors because it tends to boost performance (Li & Mitchell, 2009; Rosenbusch, Brinckmann, & Bausch, 2011). Previous studies stated that one of the factors influencing SMEs' performance is innovation (Donkor et al., 2018; Afriyie et al., 2019). Subsequently, a high level of innovative capacity tends to improve performance on a large scale. It also has a significant influence on SMEs' performance in Asian countries, namely Pakistan (Yasin et al., 2014), China (Lu et al., 2018), and Malaysia (Ur Rehman et al., 2019). In Vietnam, there is a positive causality relationship that changes from sales growth to SMEs' innovation (Nguyen et al., 2018), likewise, in America, such as Brazil (Vasconcelos & Oliveria, 2018) and Colombia (Restrepo-Morales et al., 2019).

Figure 1 shows the research framework and hypotheses based on theoretical and empirical studies.

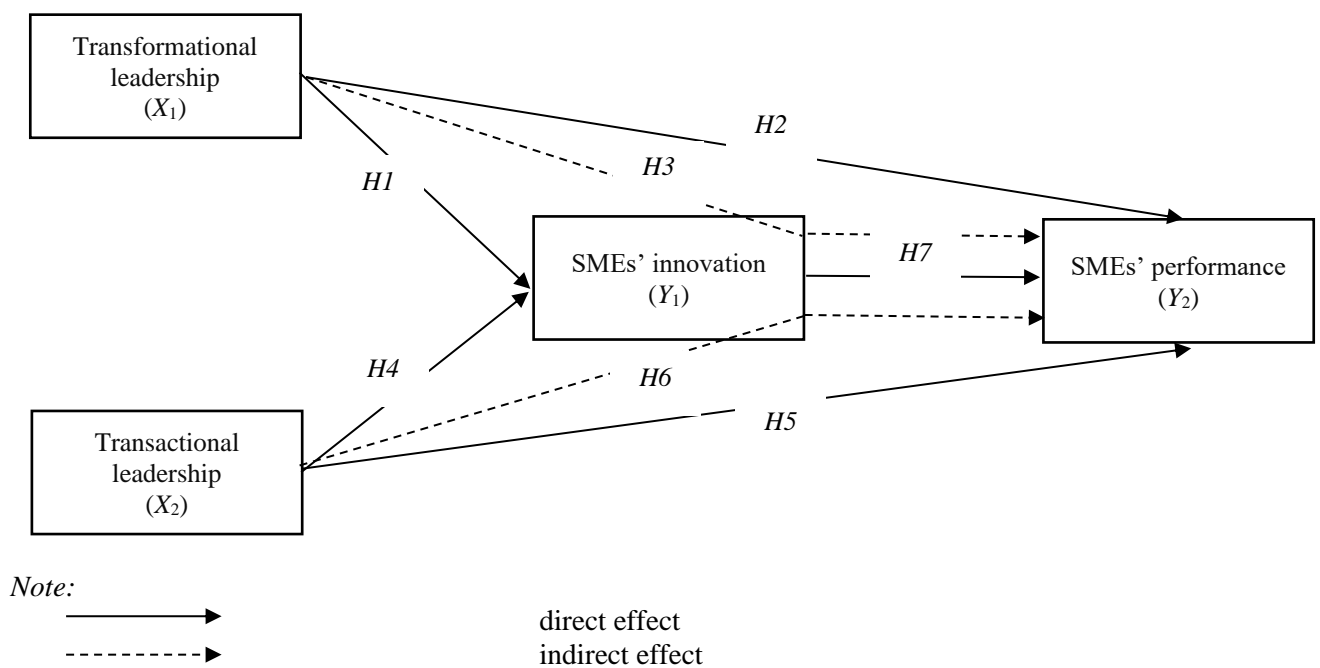


Figure 1. Research conceptual structure **Should it be in the Literature Review section?**

2. Aims and hypotheses

This research aims to analyze the one having the greatest contribution to improving SMEs' performance and innovation among the transformational and transactional leadership.

Therefore, the hypotheses in this study are:

H1: Transformational leadership influences SMEs' innovation.

H2: Transformational leadership influences SMEs' performance.

H3: Innovation mediates the effect of transformational leadership on SMEs' performance.

H4: Transactional leadership influences SMEs' innovation.

H5: Transactional leadership influences SMEs' performance.

H6: Innovation mediates the effect of transactional leadership on SMEs' performance.

H7: Innovation influences SMEs' performance.

3. Data and Methods

This research involves all the entire 280 foods and beverage SMEs in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and Banyuwangi Regencies. This sector was chosen because it is one of the government's main focuses in implementing the "Making of Indonesia 4.0" program. The seven regencies or cities were selected because they excelled more in this sector than in the eastern development corridors.

This research applied a proportionate sampling method to determine the relative size of each regency/city. The number of samples was detected using the Slovin formula with an error rate of 5%, and 165 SMEs were obtained. The unit of analysis is the leader, entrepreneur, owner, or manager of the SMEs. Data collection was obtained from questionnaires shared to the respondents from April to June 2019, with a 5-point Likert scale adapted from the appropriate literature.

According to Burns (1978), transformational leadership provides stimulation and inspiration for employees to achieve extraordinary results. On the contrary, transactional leadership offers financial rewards following the productivity generated by employees. The measurement of these variables was adapted from a study conducted by Aslan et al. (2011). Therefore, this research focuses on three dimensions of transformational leadership: charisma, intellectual stimulation, and individual consideration. It also focuses on two dimensions of transactional leadership, such as contingent reward and exception-passive management.

Innovation is the company's ability to adopt new ideas, products, and processes successfully. The measurement of these variables is adapted from a questionnaire developed by Ciang Wu (2017), which consists of three dimensions: product, process, and organizational innovation. Performance is defined as the company's achievement, and the variables were measured from the research conducted by Murat, Ar. and Baki (2011) and McDermott and Prajogo (2012). Its dimensions are measured based on the market shares, sales, and profits of the competitors.

This study used path analysis to determine the direct and indirect effect of transformational and transactional leadership on SMEs' performance, with innovation serving as its mediator, using the LISREL software for hypothesis testing.

4. Results

Based on the instrument validity test results on the variables such as transformational and transactional leadership, innovation, and performance, a correlation value of $p\text{-value} < \alpha(0.05)$ was obtained; therefore, all items are declared valid. Following the instrument reliability test results, the Cronbach Alpha coefficient of > 0.60 was determined; therefore, the variables were declared reliable. The results from the validity and reliability tests are shown in Table 1.

Table 1. The result of the validity and reliability test

Variable and dimension	Cronbach Alpha	Correlation
Transformational leadership	0.891	
Charisma		
– A leader respected by the employee		0.715
– Employees are proud of their leader		0.506
– The leader considers the results ethically		0.674
Intellectual stimulation		
– Leaders have a diverse point of view.		0.712
– The leader advises the employee.		0.751
– Leaders state their expectations.		0.728
Individual considerations		
– Leaders teach and train employees		0.728
– Leaders' aid the employees		0.779
– Leaders offer feedback		0.851
Transactional leadership	0.791	
Contingent reward		
– Employees support the leader		0.495
– The leader offers an appreciation		0.644
– The leader appreciates good work		0.785
Exception-passive management		
– A leader executes an action after a bad situation		0.624
– Unprepared leader unless under coercion		0.718
– The leader intervenes when an issue becomes serious		0.375
Innovation	0.846	
Product innovation		
– The company introduced or triggered new product innovation		0.911
Process innovation		
– The company introduced or triggered new process innovation		0.877
Organizational innovation		
– The company introduced or triggered new organizational innovation		0.837
Performance	0.908	
Market share		
– Compared to competitors, the company has better market share		0.911
Sales		
– Compared to competitors, the company has better sales		0.950
Profit		
– Compared to competitors, the company has better profit		0.895

According to Table 2, several conclusions were drawn from the respondents' general description based on gender, age, marital status, educational background, and duration of business. First, most respondents were women (81.8%). Second, most were between the ages of 41-50 years (54.5%). Third, almost all the respondents were married (96.4%). Fourth, they are mostly dominated by senior high school (39.4%) and junior high school (32.1%) graduates. Fifth, the duration of the business is 6-10 years (44.8%).

Table 2. Respondents' general description

No.	Characteristic	Description	Distribution	
			Frequency	Percentage (%)
1	Gender	Male	30	18.2
		Female	135	81.8
		Total	165	100.0
2	Age (years)	21-30	6	3.6
		31-40	35	21.2

		41-50	90	54.6
		> 50	34	20.6
		Total	165	100.0
3	Marital status	Married	159	96.4
		Unmarried	1	0.6
		Widow/widower	5	3.0
		Total	165	100.0
4	Latest education	Junior high school	53	32.1
		Senior high school	65	39.4
		Diploma	2	1.2
		Bachelor (S1)	8	4.9
		Other	37	22.4
		Total	165	100.0
5	Leading experience (years)	≤ 3	15	9.1
		4-5	42	25.5
		6-10	74	44.8
		11-15	12	7.3
		> 15	22	13.3
		Total	165	100.0

According to the normality test results, the entire variables were normally distributed, shown by the p -value of skewness and kurtosis, which is determined as > 0.05 . Likewise, multivariate normality shows the p -value of skewness and kurtosis to be $0.750 > 0.05$. This indicates that the data are normally distributed.

The results from the direct influence test are shown in Table 3. The entire model consists of 5 direct paths; 3 of them have a significant effect, while the remaining 2 have a non-significant effect. Therefore, hypotheses 1, 2, and 7 are accepted, while 4 and 5 were rejected.

Table 3. Hypothesis testing results from the direct effect

Hypotheses	Regression model	Estimation value	t -value
<i>H1</i>	Transformational leadership (X_1) → SMEs' innovation (Y_1)	0.35	3.77*
<i>H2</i>	Transformational leadership (X_1) → SMEs' performance (Y_2)	0.16	1.72**
<i>H4</i>	Transactional leadership (X_2) → SMEs' innovation (Y_1)	0.13	1.43
<i>H5</i>	Transactional leadership (X_2) → SMEs' performance (Y_2)	0.06	0.66
<i>H7</i>	SMEs innovation (Y_1) → SMEs' performance (Y_2)	0.36	4.75*

Note: * and ** show significance at 5% and 10% levels, respectively.

The results from testing the indirect effect are shown in Table 4. Generally, the two indirect path models have a significant effect; therefore, hypotheses 3 and 6 are accepted.

Table 4. Hypothesis testing results from indirect effects

Hypotheses	Regression model	Estimation value	t -value
<i>H3</i>	Transformational leadership (X_1) → SMEs' innovation (Y_1) → SMEs' performance (Y_2)	0.13	4.00*
<i>H6</i>	Transactional leadership (X_1) → SMEs' innovation (Y_1) → SMEs' performance (Y_2)	0.05	1.95**

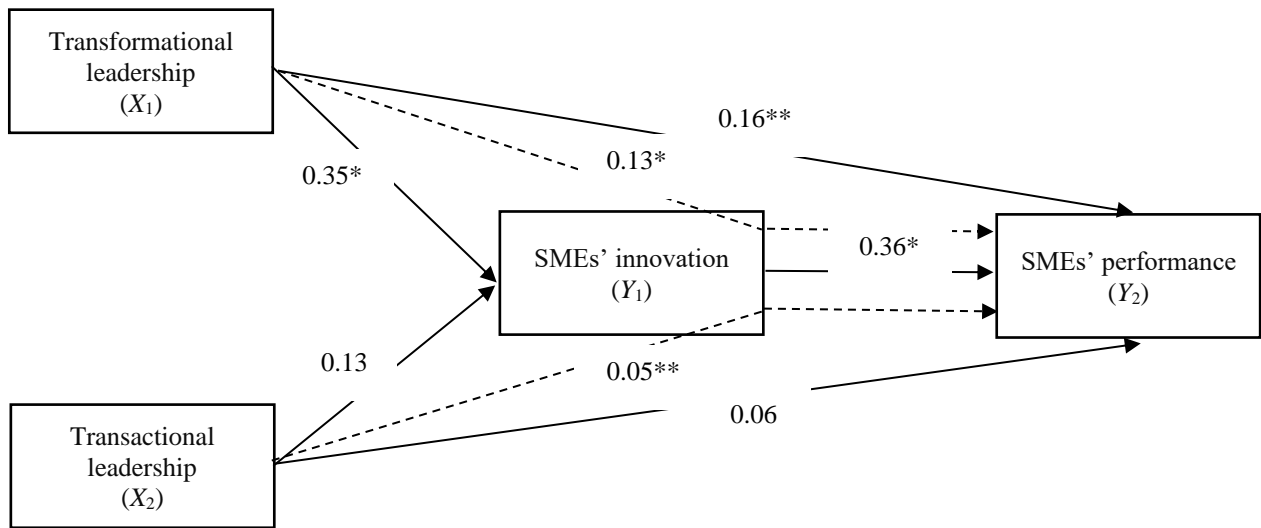
Note: * and ** show significance at 5% and 10% levels, respectively.

Table 5 shows the test results from the direct, indirect, and total effect. Each independent variable's total effect is stated as follows: 29% of transformational and 11% of transactional leadership.

Table 5. Test results from the direct effect, indirect effect, and total effect

Regression model	Direct effect	Indirect effect	Total effect
Transformational leadership (X_1) \rightarrow SMEs' performance (Y_2)	0.16	0.13	0.29
Transactional leadership (X_2) \rightarrow SMEs' performance (Y_2)	0.06	0.05	0.11

Figure 2 shows concise results from path analysis.



Note: * and ** show significance at 5% and 10% levels, respectively.

Figure 2. The path coefficient of direct and indirect effects

5. Discussion

According to Table 3, the data analysis results show the t -value of 3.77, which is above the critical ratio (1.96); therefore, $H1$ is accepted at the level of $\alpha = 5\%$. It was discovered that transformational leadership has a positive and significant effect on SMEs' innovation. This means that transformational leadership boosts SMEs' innovation. Following the respondents' responses, its variables show 2 indicators in the very good category, while the remaining 7 are in a good category. This research shows that qualities of SMEs' leaders such as charisma, intellectual stimulation, and individual consideration trigger innovation. This finding supports previous studies (Md Saad & Mazzarol, 2010; Aslan et al., 2011; Iscan et al., 2014; Sang, 2017; Gashema & Gao, 2018; Ur Rehman et al., 2019). Also, the evidence is provided, which shows that SMEs' innovation is achieved through transformational leadership.

The data analysis in Table 3 shows that the t -value is 1.72, which is above the critical ratio (1.645); therefore, $H2$ is accepted at the level of $\alpha = 10\%$. Therefore, transformational leadership has a positive and significant effect on SMEs' performance. This means that this type of leadership boosts SMEs' performance. Furthermore, most SMEs' leaders who filled out the research questionnaire were women (81.8%). Lopez-Zafra, Garcia-Retamero, and Martos (2012) reported that transformational leadership is determined by femininity; in other words, women tend to be more transformative. Subsequently, this is the desired leadership style because it positively influences various performance outcomes (Chen et al., 2018). This finding strengthens the results from previous studies (Iscan et al., 2014; Ozer & Tinaztepe, 2014; Arham, 2014; Hee Song et al., 2016; Israel, 2016; Singh, 2016; Sheshi & Kercini, 2017; Arsawan et al., 2017; Sulistiyani et al., 2018; Boukamcha, 2019; Afriyie et al., 2019; Manzoor et al., 2019; Ur Rehman et

al., 2019). Conversely, this study is consistent with the study conducted by Bass and Riggio (2006), which stated that transformational leaders could incite their employees to achieve better performance.

Table 4 shows that the results from data analysis show that the t -value is 4.00, which is above the critical ratio (1.96); therefore, $H3$ is accepted at the level of α 5%. Transformational leadership has a positive and significant effect on SMEs' performance in accordance with an innovative medium. This supports the findings from 2 previous studies (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). From the data shown in Table 5, the total effect of transformational leadership on SMEs' performance offers a greater value than the total and direct effects of 0.29 and 0.16, respectively. Therefore it provides a greater contribution than the effect. Contributions made by innovation serve as a mediator between transformational leadership and the performances of SMEs. This study also discovered that transformational leadership has a direct and indirect positive and significant effect on SMEs' innovation and performance. Therefore, it was concluded that innovation mediators trigger an influence on SMEs' performance.

In accordance with the data analysis in Table 3, the t -value is 1.43, which is below the critical ratios of 1.96 and 1.645; therefore, $H4$ is rejected at $\alpha = 5\%$ and 10% . Transactional leadership has a positive and insignificant effect on SMEs' innovation. This shows that this leadership style could not improve SMEs' innovation. This is in line with the studies carried out by Aslan et al. (2011) and Iscan et al. (2014). Previous research showed the effect of transactional leadership on SMEs' innovation by utilizing items in the manufacturing and service sectors (Sang, 2017; Ur Rehman et al., 2019). However, this study is based on SMEs in the manufacturing sector, particularly food and beverages. Although different outcomes are expected, assuming the research is conducted on SMEs in the manufacturing and service sectors.

In Table 3, the t -value is 0.66, and it is below the critical ratio, which is 1.96 and 1.645; therefore, $H5$ is rejected at $\alpha = 5\%$ and 10% . This shows that transactional leadership has a positive and insignificant effect on SMEs' performance. This means that the supporting indicators of this type of leadership have not effectively driven SMEs' performance. From an empirical perspective, this research's results contradict previous studies (Sang, 2017; Ur Rehman et al., 2019). Ur Rehman et al. (2019) stated that there are 4 indicators: contingent reward, exception-active management, exception-passive management, and passive management. Consequently, only 2 of the indicators, contingent reward and exception-passive management, were used in this research. However, this study follows Iscan et al. (2014) and Ozer and Tinaztepe (2014).

Table 4 shows the data analysis results where the t -value is 1.95, which is above the critical ratio of 1.645; therefore, $H6$ is accepted at $\alpha = 10\%$. Transactional leadership has a positive and significant effect on SMEs' performance based on innovative mediators. These findings support the results from previous research (Ur Rehman et al., 2019). Table 5 shows that transactional leadership's total effect on SMEs' performance offers a greater value than its direct influence (total and direct effects are 0.11 and 0.06, respectively). Therefore, its contribution is more important than direct effect and serves as a mediator

between transactional leadership and SMEs' performance. The findings from this study show that it directly has a positive and insignificant effect on SMEs' performance. However, it has an indirect positive and significant effect on SMEs' performance (through innovation variables). Therefore, the influence of transactional leadership on SMEs' performance is triggered by innovation mediators.

Based on the data analysis results in Table 3, the t -value is 4.75, which is above the critical ratio of 1.96; therefore, $H7$ is accepted at the level of $\alpha = 5\%$. Innovation has a positive and significant effect on SMEs' performance. This means that it boosts SMEs' performance. The respondents' responses show that the innovative variable has two indicators stated in the good enough category and 1 in the good category. Besides, all the performance variables are in a good category. These findings provide evidence that shows that indicators such as product, process, and organizational innovation have a significant influence on SMEs' performance measured by market shares, sales, and profits. Empirically, these data are following previous studies that examined its effect on SMEs' performance using different indicators of measurements (Donkor et al., 2018; Afriyie et al., 2019; Yasin, Nawab, Bhatti, & Nazir, 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019).

Conclusion

For SMEs to succeed in improving their performance, SMEs must have good innovation. An appropriate leadership style supports SMEs that can innovate. According to Burns (1978), there are two types of leadership styles: transformational and transactional. The path analysis results revealed that transformational leadership has a positive and significant effect on SMEs' innovation and performance. However, transactional leadership directly has a positive and insignificant effect on SMEs' performance. Subsequently, it has an indirect positive and significant effect on SMEs' performance through innovative mediators. This means that innovation plays an important role in the relationship between transactional leadership and SMEs' performance. Additionally, transformational leadership has a greater total effect (29%) than transactional leadership (11%). Therefore this type of leadership plays an important role in improving SMEs' performance in Indonesia. The recommendations that can be given are that the government should facilitate training to improve leadership. The government can design training programs and mentoring for sustainable and effective SMEs. The program can be oriented towards enhancing charismatic and transformational leadership, stimulates intellectuality, and emphasizes individual considerations so that SMEs can increase innovation and performance. In conclusion, two limitations were determined in this study. First, the samples taken are only from the manufacturing sector, specifically the food and beverage industries. Second, the study was conducted in only seven regencies or cities located in East Java Province. Therefore, further research on the manufacturing and service sectors covering a wider area at the national level needs to be conducted to generalize the results.

Author contributions

Conceptualization: Nungky Viana Feranita, Alifian Nugraha, Sampir Andean Sukoco.

Data curation: Nungky Viana Feranita.

Formal analysis: Sampir Andrean Sukoco.

Funding acquisition: Nungky Viana Feranita.

Investigation: Alifian Nugraha, Sampir Andrean Sukoco.

Methodology: Nungky Viana Feranita, Alifian Nugraha, Sampir Andrean Sukoco.

Project administration: Nungky Viana Feranita, Alifian Nugraha.

Resources: Sampir Andrean Sukoco.

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Supervision: Nungky Viana Feranita, Alifian Nugraha.

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Visualization: Sampir Andrean Sukoco.

Writing – original draft: Sampir Andrean Sukoco.

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10. Bukti konfirmasi submit revisi dari proof-reader, respon kepada editor, dan artikel yang diresubmit (8 Oktober 2020)

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From: Nungky Feranita (nungky_viana@yahoo.com)

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Date: Thursday, October 8, 2020 at 01:19 PM GMT+7

Dear Katerina Maschenko,

We've made revisions to the marked words and based on additional comments from a proof-reader.

The revised file is attached.

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On Wednesday, October 7, 2020, 1:07:33 PM GMT+7, Katerina Maschenko_Managing Editor of PPM journal <k.maschenko@businessperspectives.org> wrote:

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Effect of transformational and transactional leadership on SMEs in Indonesia
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Nungky Viana Feranita, Alifian Nugraha, Sampir Andrean Sukoco, 2020

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Abstract

Leadership has an important role in achieving the SMEs' innovation and performance. One of the great concepts of leadership styles is the Burns' (1978) concept, which divides leadership into two: transformational and transactional. This study analyzed the direct and indirect effect of transformational and transactional leadership on SMEs' performance. This was conducted in seven regencies/cities in East Java Province, with 165 SMEs on superior indigenous food and beverage. The main research data were obtained by distributing the questionnaires. It uses path analysis to determine the direct and indirect effect using the LISREL software. The results showed that transformational leadership has a positive and significant effect on SMEs' innovation and performance directly and indirectly. Transactional leadership has a direct positive and insignificant effect on SMEs' innovation and performance. However, transactional leadership was found to have an indirect positive and significant effect on SMEs' performance. In conclusion, transformational leadership is more important for improving SMEs' performance in Indonesia than transactional. These results provide a practical contribution for SMEs' leaders to improve transformational leadership, which is oriented towards charisma, intellectual stimulation, and individual consideration.

Keywords: leadership, innovation, performance, entrepreneurship, Indonesia

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Introduction

Small and medium enterprises (SMEs) are among the leading forces that drive economic development in Indonesia. According to the data obtained from the Ministry of Cooperatives and SMEs, the contribution of SMEs in 2017 is as follows: 1) 99.99% business units, 2) 97.02% of labor, 3) 60% of Gross Domestic Product (GDP), 4) 14.17% of non-oil exports, and 5) 58.18% of investments. These show that SMEs have great potential in mobilizing economic activities. Conversely, SMEs are constantly faced with competitive pressure due to globalization; therefore, there is a need for improved innovation and performance (Khaliq, Rehman, Roomi, Rehman, & Irem, 2014).

The highly competitive and rapidly changing environment enhance the importance of leadership in achieving a competitive advantage over their competitors to improve organizational performance. Effective leadership plays an important role to determine the success or failure of organization (Tourish, 2014). Effective leadership can help to improve the organizational performance in situations where the organization faces a lot of new problems and challenges. Several studies show that SMEs faces problems related to leadership styles that reduce organizational performance because they do not identify effective or ineffective leaders (Nazarian, Soares, & Lottermoser, 2017).

Besides, the widely developed leadership paradigm has attracted numerous practitioners and academics. Burns (1978) reported that leadership is distinguished into two types: transformational and transactional. Subsequently, several studies concerning their direct effects on SMEs' innovation and performance have been conducted. The results from previous studies show that numerous research gaps can be raised as a problem.

Transactional leaders generate sufficient confidence in followers and support them in completing their tasks. They acknowledge follower's needs and desires but also explain how those needs will be fulfilled if follower performs the expected performance. However, transactional leadership can be satisfying and effective in a limited way. Instead, transformational leadership substantially adds to the impact of transactional leadership (Bass, 1985). Due to the ineffectiveness of contingent negative reinforcement and several other reasons, transactional leadership is regarded as producing in expected performance with little possibility to achieve significant improvement in effort and results. Transformational leadership, in contrast, results in broader change according to effort, performance, and development.

Despite the wider quantity of research on leadership, only a few studies have analyzed the indirect effect of both transformational and transactional leadership on SMEs performance with innovation as a mediator (Md Saad & Mazzarol, 2010; Ur Rehman, Bhatti, & Chaudhry, 2019). Theory Resource-Based View (RBV) states that a company's strategic assets, such as an innovative organizational culture, affect its performance (Barney, 1991). An innovative organizational culture is considered as one of the strategic assets that will help a company improve its performance.

SMEs need to utilize its potential properly while depicting good leadership to improve its innovation and performance. The selected SMEs were those situated in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and Banyuwangi Regencies because they have exclusive indigenous food and beverage businesses. Therefore, the problem in this research is "What kind of leadership is more important for improving SMEs' performance with innovation as a mediating variable?"

1. Literature review

Transformational leadership drives innovation in two ways. Firstly, it can boost the motivation of the employees (intrinsic) by stimulating creativity, which is the primary key to innovation (Shin & Zhou,

2003). Secondly, it offers intellectual stimulation, thereby encouraging employees to think “outside the box” (Elkins & Keller, 2003). Previous studies discovered the influence of transformational leadership on SMEs’ innovation. In Turkey and Malaysia, it has a significant influence on SMEs’ innovation (Iscan, Ersari, & Naktiyok, 2014; Aslan, Diken, & Sendogdu, 2011; Md Saad & Mazzarol, 2010; Ur Rehman, et al., 2019). Transformational leaders also play a huge role in advancing SMEs’ innovation in East African countries, such as Kenya (Sang, 2017) and Rwanda (Gashema & Gao, 2018). However, Feranita, Gumanti, Wahyudi, and Puspitaningtyas (2017a) reported no significant effect on SMEs’ innovation.

According to Bass and Riggio (2006), these leaders motivate their employees to demonstrate an exceptional performance level, which exceeds expectations. This boosts employee satisfaction and commitment to the company. Several empirical studies show that transformational leadership improves SMEs’ performance (Sheshi & Kercini, 2017; Boukamcha, 2019). In Turkey, the influence is stronger than other leadership styles (Iscan, et al., 2014; Ozer & Tinaztepe, 2014).

In West African countries, transformational leadership improves SMEs’ financial performance in Nigeria (Israel, 2016) and marketing performance in Ghana (Afriyie, Du, & Ibn Musah, 2019). Meanwhile, in some Asian countries such as India and Pakistan, there is a significant relationship between transformational leadership and SMEs’ performance (Singh, 2016; Manzoor, Wei, Nurunnabi, Subhan, Shah, & Fallatah, 2019). Subsequently, transformational leadership significantly influences SMEs’ performance in Asian countries, such as Malaysia (Arham, 2014; Ur Rehman et al., 2019) and Indonesia (Arsawan, Pasek, & Suryantini, 2017; Sulistiyani, Udin, & Rahardja, 2018).

Dougherty and Hardy (1996) stated that this leadership style facilitates unconventional and innovative ways of reasoning. Besides, it leads to work processes based on new knowledge and technology, which are fundamental to company performance. In Malaysia, transformational leaders’ emphasis on product innovation exhibits stronger performance (Md Saad & Mazzarol, 2010). Innovative culture serves as a mediator between transformational leadership style and SMEs performance (Ur Rehman et al., 2019).

According to previous studies conducted in Malaysia, transactional leadership has a significant influence on company innovation. Transactional leaders can emphasize SMEs’ innovation, especially in process innovation (Md Saad & Mazzarol, 2010). Transactional leaders can develop an innovative SMEs culture (Ur Rehman et al., 2019). This type of leadership has a significant and positive effect on Kenya’s SMEs’ innovation (Sang, 2017). However, Aslan et al. (2011) and Iscan et al. (2014) showed that it does not significantly affect SMEs’ innovation.

Transactional leadership is considered an important indicator to measure company performance. It focuses on maintaining the status quo to increase company revenue (Bass, 1985). In some Asian countries such as India and Malaysia, it significantly influences SMEs’ performance (Singh, 2016; Ur Rehman et al., 2019). According to a study conducted by Arsawan et al. (2017), Indonesia’s leadership style is recommended for sustainable SMEs growth. Transactional leadership was also discovered to have a

positive and significant relationship with SMEs' performance in African countries, such as Tanzania (Mgeni & Nayak, 2016), Nigeria (Israel, 2016), and Kenya (Asiimwe, Linge, & Sikalieh, 2016).

It improves performance through innovation's mediating role, which is one of the company's strategic assets (Barney, 1991). Ur Rehman et al. (2019) reported that SMEs that implemented innovative culture in Malaysia could significantly mediate between transactional leadership style and SMEs' performance.

SMEs with strong innovative capabilities are at an advantage over their competitors because it tends to boost performance (Li & Mitchell, 2009; Rosenbusch, Brinckmann, & Bausch, 2011). Previous studies stated that one of the factors influencing SMEs' performance is innovation (J. Donkor, G. Donkor, Kwarteng, & Aidoo, 2018; Afriyie et al., 2019). Subsequently, a high level of innovative capacity tends to improve performance on a large scale. It also has a significant influence on SMEs' performance in Asian countries, namely Pakistan (Yasin, Nawab, Bhatti, & Nazir, 2014), China (Lu, Dai, & Zhang, 2018), and Malaysia (Ur Rehman et al., 2019). In Vietnam, there is a positive causality relationship that changes from sales growth to SMEs' innovation (D. Nguyen, H. Nguyen, & K. S. Nguyen, 2018), likewise, in America, such as Brazil (Vasconcelos & Oliveria, 2018) and Colombia (Restrepo-Morales, Loaiza, & Vanegas, 2019).

2. Aims and hypotheses

This research aims to analyze the one having the greatest contribution to improving SMEs' performance and innovation among the transformational and transactional leadership.

Therefore, the hypotheses in this study are:

H1: Transformational leadership influences SMEs' innovation.

H2: Transformational leadership influences SMEs' performance.

H3: Innovation mediates the effect of transformational leadership on SMEs' performance.

H4: Transactional leadership influences SMEs' innovation.

H5: Transactional leadership influences SMEs' performance.

H6: Innovation mediates the effect of transactional leadership on SMEs' performance.

H7: Innovation influences SMEs' performance.

Figure 1 shows the research framework and hypotheses based on theoretical and empirical studies.

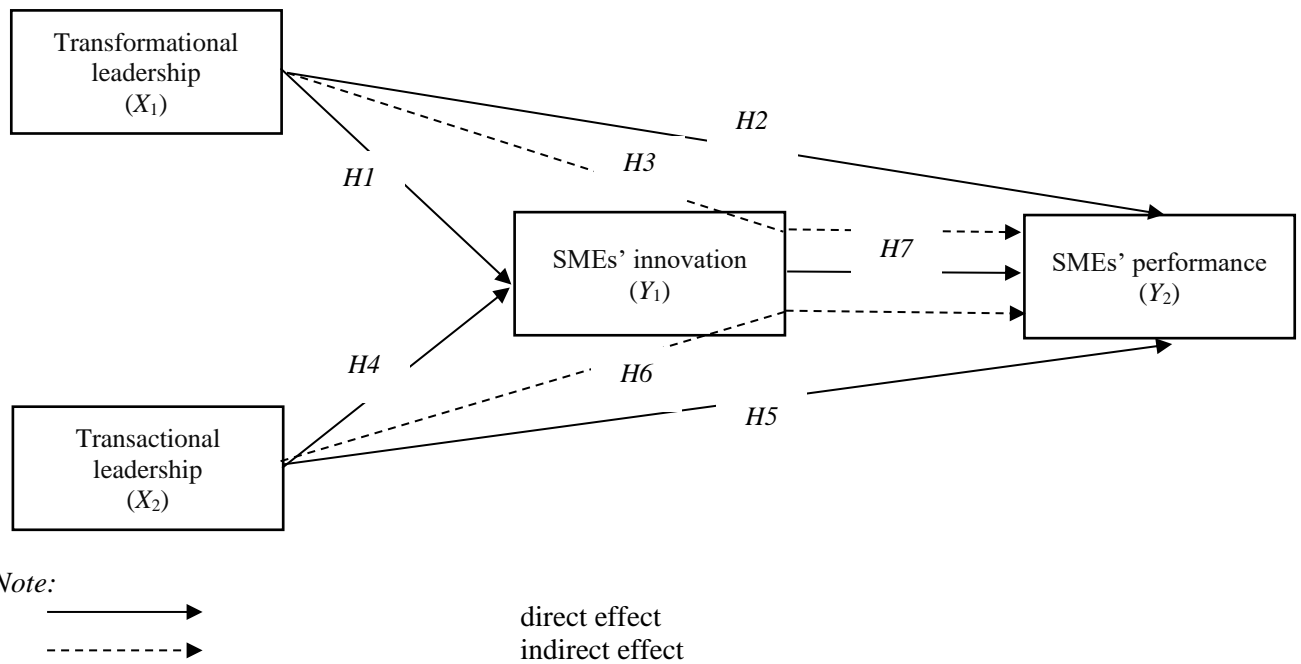


Figure 1. Research conceptual structure

3. Methods

This research involves all the entire 280 foods and beverage SMEs in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and Banyuwangi Regencies. This sector was chosen because it is one of the government's main focuses in implementing the "Making of Indonesia 4.0" program. The seven regencies or cities were selected because they excelled more in this sector than in the eastern development corridors.

This research applied a proportionate sampling method to determine the relative size of each regency/city. The number of samples was detected using the Slovin formula with an error rate of 5%, and 165 SMEs were obtained. The unit of analysis is the leader, entrepreneur, owner, or manager of the SMEs. Data collection was obtained from questionnaires shared to the respondents from April to June 2019, with a 5-point Likert scale adapted from the appropriate literature.

According to Burns (1978), transformational leadership provides stimulation and inspiration for employees to achieve extraordinary results. On the contrary, transactional leadership offers financial rewards following the productivity generated by employees. The measurement of these variables was adapted from a study conducted by Aslan et al. (2011). Therefore, this research focuses on three dimensions of transformational leadership: charisma, intellectual stimulation, and individual consideration. It also focuses on two dimensions of transactional leadership, such as contingent reward and exception-passive management.

Innovation is the company's ability to adopt new ideas, products, and processes successfully. The measurement of these variables is adapted from a questionnaire developed by Ciang Wu (2017), which consists of three dimensions: product, process, and organizational innovation. Performance is defined as the company's achievement, and the variables were measured from the research conducted by Murat, Ar.

and Baki (2011) and McDermott and Prajogo (2012). Its dimensions are measured based on the market shares, sales, and profits of the competitors.

This study used path analysis to determine the direct and indirect effect of transformational and transactional leadership on SMEs' performance, with innovation serving as its mediator, using the LISREL software for hypothesis testing.

4. Results

Based on the instrument validity test results on the variables such as transformational and transactional leadership, innovation, and performance, a correlation value of $p\text{-value} < \alpha(0.05)$ was obtained; therefore, all items are declared valid. Following the instrument reliability test results, the Cronbach Alpha coefficient of > 0.60 was determined; therefore, the variables were declared reliable. The results from the validity and reliability tests are shown in Table 1.

Table 1. The result of the validity and reliability test

Variable and dimension	Cronbach Alpha	Correlation
Transformational leadership	0.891	
Charisma		
– A leader respected by the employee		0.715
– Employees are proud of their leader		0.506
– The leader considers the results ethically		0.674
Intellectual stimulation		
– Leaders have a diverse point of view.		0.712
– The leader advises the employee.		0.751
– Leaders state their expectations.		0.728
Individual considerations		
– Leaders teach and train employees		0.728
– Leaders' aid the employees		0.779
– Leaders offer feedback		0.851
Transactional leadership	0.791	
Contingent reward		
– Employees support the leader		0.495
– The leader offers an appreciation		0.644
– The leader appreciates good work		0.785
Exception-passive management		
– A leader executes an action after a bad situation		0.624
– Unprepared leader unless under coercion		0.718
– The leader intervenes when an issue becomes serious		0.375
Innovation	0.846	
Product innovation		
– The company introduced or triggered new product innovation		0.911
Process innovation		
– The company introduced or triggered new process innovation		0.877
Organizational innovation		
– The company introduced or triggered new organizational innovation		0.837
Performance	0.908	
Market share		
– Compared to competitors, the company has better market share		0.911
Sales		
– Compared to competitors, the company has better sales		0.950
Profit		

– Compared to competitors, the company has better profit		0.895
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According to Table 2, several conclusions were drawn from the respondents' general description based on gender, age, marital status, educational background, and duration of business. First, most respondents were women (81.8%). Second, most were between the ages of 41-50 years (54.5%). Third, almost all the respondents were married (96.4%). Fourth, they are mostly dominated by senior high school (39.4%) and junior high school (32.1%) graduates. Fifth, the duration of the business is 6-10 years (44.8%).

Table 2. Respondents' general description

No.	Characteristic	Description	Distribution	
			Frequency	Percentage (%)
1	Gender	Male	30	18.2
		Female	135	81.8
		Total	165	100.0
2	Age (years)	21-30	6	3.6
		31-40	35	21.2
		41-50	90	54.6
		> 50	34	20.6
		Total	165	100.0
3	Marital status	Married	159	96.4
		Unmarried	1	0.6
		Widow/widower	5	3.0
		Total	165	100.0
4	Latest education	Junior high school	53	32.1
		Senior high school	65	39.4
		Diploma	2	1.2
		Bachelor (S1)	8	4.9
		Other	37	22.4
		Total	165	100.0
5	Leading experience (years)	≤ 3	15	9.1
		4-5	42	25.5
		6-10	74	44.8
		11-15	12	7.3
		> 15	22	13.3
		Total	165	100.0

According to the normality test results, the entire variables were normally distributed, shown by the p -value of skewness and kurtosis, which is determined as > 0.05 . Likewise, multivariate normality shows the p -value of skewness and kurtosis to be $0.750 > 0.05$. This indicates that the data are normally distributed.

The results from the direct influence test are shown in Table 3. The entire model consists of 5 direct paths; 3 of them have a significant effect, while the remaining 2 have a non-significant effect. Therefore, hypotheses 1, 2, and 7 are accepted, while 4 and 5 were rejected.

Table 3. Hypothesis testing results from the direct effect

Hypotheses	Regression model	Estimation value	t -value
$H1$	Transformational leadership (X_1) → SMEs' innovation (Y_1)	0.35	3.77*
$H2$	Transformational leadership (X_1) → SMEs' performance (Y_2)	0.16	1.72**
$H4$	Transactional leadership (X_2) → SMEs' innovation (Y_1)	0.13	1.43
$H5$	Transactional leadership (X_2) → SMEs' performance (Y_2)	0.06	0.66
$H7$	SMEs innovation (Y_1) → SMEs' performance (Y_2)	0.36	4.75*

Note: * and ** show significance at 5% and 10% levels, respectively.

The results from testing the indirect effect are shown in Table 4. Generally, the two indirect path models have a significant effect; therefore, hypotheses 3 and 6 are accepted.

Table 4. Hypothesis testing results from indirect effects

Hypotheses	Regression model	Estimation value	t-value
H3	Transformational leadership (X_1) → SMEs' innovation (Y_1) → SMEs' performance (Y_2)	0.13	4.00*
H6	Transactional leadership (X_1) → SMEs' innovation (Y_1) → SMEs' performance (Y_2)	0.05	1.95**

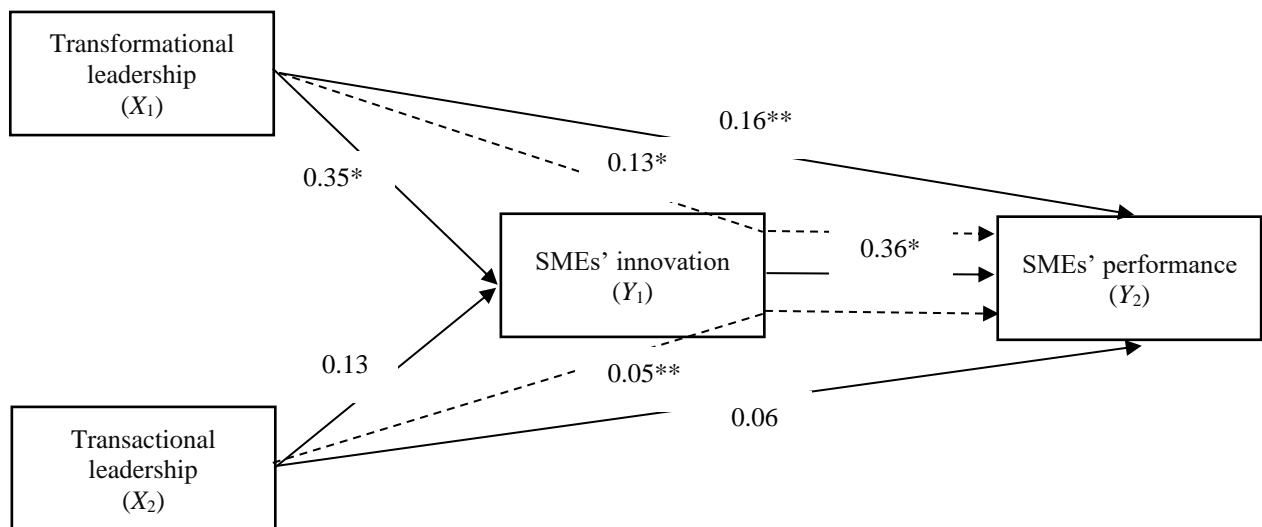
Note: * and ** show significance at 5% and 10% levels, respectively.

Table 5 shows the test results from the direct, indirect, and total effect. Each independent variable's total effect is stated as follows: 29% of transformational and 11% of transactional leadership.

Table 5. Test results from the direct effect, indirect effect, and total effect

Regression model	Direct effect	Indirect effect	Total effect
Transformational leadership (X_1) → SMEs' performance (Y_2)	0.16	0.13	0.29
Transactional leadership (X_2) → SMEs' performance (Y_2)	0.06	0.05	0.11

Figure 2 shows concise results from path analysis.



Note: * and ** show significance at 5% and 10% levels, respectively.

Figure 2. The path coefficient of direct and indirect effects

5. Discussion

According to Table 3, the data analysis results show the t -value of 3.77, which is above the critical ratio (1.96); therefore, $H1$ is accepted at the level of $\alpha = 5\%$. It was discovered that transformational leadership has a positive and significant effect on SMEs' innovation. This means that transformational leadership boosts SMEs' innovation. Following the respondents' responses, its variables show 2 indicators in the very good category, while the remaining 7 are in a good category. This research shows that qualities of SMEs' leaders such as charisma, intellectual stimulation, and individual consideration trigger innovation. This finding supports previous studies (Md Saad & Mazzarol, 2010; Aslan et al., 2011; Iscan

et al., 2014; Sang, 2017; Gashema & Gao, 2018; Ur Rehman et al., 2019). Also, the evidence is provided, which shows that SMEs' innovation is achieved through transformational leadership.

The data analysis in Table 3 shows that the t -value is 1.72, which is above the critical ratio (1.645); therefore, $H2$ is accepted at the level of $\alpha = 10\%$. Therefore, transformational leadership has a positive and significant effect on SMEs' performance. This means that this type of leadership boosts SMEs' performance. Furthermore, most SMEs' leaders who filled out the research questionnaire were women (81.8%). Lopez-Zafra, Garcia-Retamero, and Martos (2012) reported that transformational leadership is determined by femininity; in other words, women tend to be more transformative. Subsequently, this is the desired leadership style because it positively influences various performance outcomes (Chen et al., 2018). This finding strengthens the results from previous studies (Iskan et al., 2014; Ozer & Tinaztepe, 2014; Arham, 2014; Israel, 2016; Singh, 2016; Sheshi & Kercini, 2017; Arsawan et al., 2017; Sulistiyani et al., 2018; Boukamcha, 2019; Afriyie et al., 2019; Manzoor et al., 2019; Ur Rehman et al., 2019). Conversely, this study is consistent with the study conducted by Bass and Riggio (2006), which stated that transformational leaders could incite their employees to achieve better performance.

Table 4 shows that the results from data analysis show that the t -value is 4.00, which is above the critical ratio (1.96); therefore, $H3$ is accepted at the level of $\alpha 5\%$. Transformational leadership has a positive and significant effect on SMEs' performance in accordance with an innovative medium. This supports the findings from 2 previous studies (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). From the data shown in Table 5, the total effect of transformational leadership on SMEs' performance offers a greater value than the total and direct effects of 0.29 and 0.16, respectively. Therefore it provides a greater contribution than the effect. Contributions made by innovation serve as a mediator between transformational leadership and the performances of SMEs. This study also discovered that transformational leadership has a direct and indirect positive and significant effect on SMEs' innovation and performance. Therefore, it was concluded that innovation mediators trigger an influence on SMEs' performance.

In accordance with the data analysis in Table 3, the t -value is 1.43, which is below the critical ratios of 1.96 and 1.645; therefore, $H4$ is rejected at $\alpha = 5\%$ and 10% . Transactional leadership has a positive and insignificant effect on SMEs' innovation. This shows that this leadership style could not improve SMEs' innovation. This is in line with the studies carried out by Aslan et al. (2011) and Iskan et al. (2014). Previous research showed the effect of transactional leadership on SMEs' innovation by utilizing items in the manufacturing and service sectors (Sang, 2017; Ur Rehman et al., 2019). However, this study is based on SMEs in the manufacturing sector, particularly food and beverages. Although different outcomes are expected, assuming the research is conducted on SMEs in the manufacturing and service sectors.

In Table 3, the t -value is 0.66, and it is below the critical ratio, which is 1.96 and 1.645; therefore, $H5$ is rejected at $\alpha = 5\%$ and 10% . This shows that transactional leadership has a positive and insignificant effect on SMEs' performance. This means that the supporting indicators of this type of leadership have not

effectively driven SMEs' performance. From an empirical perspective, this research's results contradict previous studies (Sang, 2017; Ur Rehman et al., 2019). Ur Rehman et al. (2019) stated that there are 4 indicators: contingent reward, exception-active management, exception-passive management, and passive management. Consequently, only 2 of the indicators, contingent reward and exception-passive management, were used in this research. However, this study follows Iscan et al. (2014) and Ozer and Tinaztepe (2014).

Table 4 shows the data analysis results where the t -value is 1.95, which is above the critical ratio of 1.645; therefore, $H6$ is accepted at $\alpha = 10\%$. Transactional leadership has a positive and significant effect on SMEs' performance based on innovative mediators. These findings support the results from previous research (Ur Rehman et al., 2019). Table 5 shows that transactional leadership's total effect on SMEs' performance offers a greater value than its direct influence (total and direct effects are 0.11 and 0.06, respectively). Therefore, its contribution is more important than direct effect and serves as a mediator between transactional leadership and SMEs' performance. The findings from this study show that it directly has a positive and insignificant effect on SMEs' performance. However, it has an indirect positive and significant effect on SMEs' performance (through innovation variables). Therefore, the influence of transactional leadership on SMEs' performance is triggered by innovation mediators.

Based on the data analysis results in Table 3, the t -value is 4.75, which is above the critical ratio of 1.96; therefore, $H7$ is accepted at the level of $\alpha = 5\%$. Innovation has a positive and significant effect on SMEs' performance. This means that it boosts SMEs' performance. The respondents' responses show that the innovative variable has two indicators stated in the good enough category and 1 in the good category. Besides, all the performance variables are in a good category. These findings provide evidence that shows that indicators such as product, process, and organizational innovation have a significant influence on SMEs' performance measured by market shares, sales, and profits. Empirically, these data are following previous studies that examined its effect on SMEs' performance using different indicators of measurements (Donkor et al., 2018; Afriyie et al., 2019; Yasin, Nawab, Bhatti, & Nazir, 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019).

Conclusion

For SMEs to succeed in improving their performance, SMEs must have good innovation. An appropriate leadership style supports SMEs that can innovate. According to Burns (1978), there are two types of leadership styles: transformational and transactional. The path analysis results revealed that transformational leadership has a positive and significant effect on SMEs' innovation and performance. However, transactional leadership directly has a positive and insignificant effect on SMEs' performance. Subsequently, it has an indirect positive and significant effect on SMEs' performance through innovative mediators. This means that innovation plays an important role in the relationship between transactional leadership and SMEs' performance. Additionally, transformational leadership has a greater total effect (29%) than transactional leadership (11%). Therefore this type of leadership plays an important role in

improving SMEs' performance in Indonesia. The recommendations that can be given are that the government should facilitate training to improve leadership. The government can design training programs and mentoring for sustainable and effective SMEs. The program can be oriented towards enhancing charismatic and transformational leadership, stimulates intellectuality, and emphasizes individual considerations so that SMEs can increase innovation and performance. In conclusion, two limitations were determined in this study. First, the samples taken are only from the manufacturing sector, specifically the food and beverage industries. Second, the study was conducted in only seven regencies or cities located in East Java Province. Therefore, further research on the manufacturing and service sectors covering a wider area at the national level needs to be conducted to generalize the results.

Author contributions

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2. In the Literature Review, the third paragraph, please add this sentence to the last part of the paragraph.

These contradict the results from the study conducted by Feranita, Gumanti, Wahyudi, and Puspitaningtyas (2017b), which stated that transformational leadership has no significant effect on SMEs' performance.

3. In the Literature Review, the sixth paragraph, please add this sentence to the last part of the paragraph.

Iscan et al. (2014) and Ozer and Tinaztepe (2014) stated that there is no significant effect on SMEs' performance.

4. After Conclusion, please add Acknowledgment

The researcher thanked the Ministry of Research, Technology and Higher Education, Republic of Indonesia, for funding this research.

5. References number 2 for Murat, Ar., I. M., & Baki, B. (2011), should be put in number 28.

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Effect of transformational and transactional leadership on SMEs in Indonesia
Nungky Viana Feranita (Indonesia), Alifian Nugraha (Indonesia), Sampir Andrian Sukoco,
(Indonesia)

Nungky Viana Feranita, Alifian Nugraha, Sampir Andrian Sukoco, 2020

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Abstract

Leadership has an important role in achieving the SMEs' innovation and performance. One of the great concepts of leadership styles is the Burns' (1978) concept, which divides leadership into two: transformational and transactional. This study analyzed the direct and indirect effect of transformational and transactional leadership on SMEs' performance. This was conducted in seven regencies/cities in East Java Province, with 165 SMEs on superior indigenous food and beverage. The main research data were obtained by distributing the questionnaires. It uses path analysis to determine the direct and indirect effect using the LISREL software. The results showed that transformational leadership has a positive and significant effect on SMEs' innovation and performance directly and indirectly. Transactional leadership has a direct positive and insignificant effect on SMEs' innovation and performance. However, transactional leadership was found to have an indirect positive and significant effect on SMEs' performance. In conclusion, transformational leadership is more important for improving SMEs' performance in Indonesia than transactional. These results provide a practical contribution for SMEs' leaders to improve transformational leadership, which is oriented towards charisma, intellectual stimulation, and individual consideration.

Keywords: leadership, innovation, performance, entrepreneurship, Indonesia

JEL Classification: L26, L66

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Introduction

Small and medium enterprises (SMEs) are among the leading forces that drive economic development in Indonesia. According to the data obtained from the Ministry of Cooperatives and SMEs, the contribution of SMEs in 2017 is as follows: 1) 99.99% business units, 2) 97.02% of labor, 3) 60% of Gross Domestic Product (GDP), 4) 14.17% of non-oil exports, and 5) 58.18% of investments. These show that SMEs have great potential in mobilizing economic activities. Conversely, SMEs are constantly faced with competitive pressure due to globalization; therefore, there is a need for improved innovation and performance (Khaliq, Rehman, Roomi, Rehman, & Irem, 2014).

The highly competitive and rapidly changing environment enhance the importance of leadership in achieving a competitive advantage over their competitors to improve organizational performance. Effective leadership plays an important role to determine the success or failure of organization (Tourish, 2014). Effective leadership can help to improve the organizational performance in situations where the organization faces a lot of new problems and challenges. Several studies show that SMEs faces problems related to leadership styles that reduce organizational performance because they do not identify effective or ineffective leaders (Nazarian, Soares, & Lottermoser, 2017).

Besides, the widely developed leadership paradigm has attracted numerous practitioners and academics. Burns (1978) reported that leadership is distinguished into two types: transformational and transactional. Subsequently, several studies concerning their direct effects on SMEs' innovation and performance have been conducted. The results from previous studies show that numerous research gaps can be raised as a problem.

Transactional leaders generate sufficient confidence in followers and support them in completing their tasks. They acknowledge follower's needs and desires but also explain how those needs will be fulfilled if follower performs the expected performance. However, transactional leadership can be satisfying and effective in a limited way. Instead, transformational leadership substantially adds to the impact of transactional leadership (Bass, 1985). Due to the ineffectiveness of contingent negative reinforcement and several other reasons, transactional leadership is regarded as producing in expected performance with little possibility to achieve significant improvement in effort and results. Transformational leadership, in contrast, results in broader change according to effort, performance, and development.

Despite the wider quantity of research on leadership, only a few studies have analyzed the indirect effect of both transformational and transactional leadership on SMEs performance with innovation as a mediator (Md Saad & Mazzarol, 2010; Ur Rehman, Bhatti, & Chaudhry, 2019). Theory Resource-Based View (RBV) states that a company's strategic assets, such as an innovative organizational culture, affect its performance (Barney, 1991). An innovative organizational culture is considered as one of the strategic assets that will help a company improve its performance.

SMEs need to utilize its potential properly while depicting good leadership to improve its innovation and performance. The selected SMEs were those situated in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and Banyuwangi Regencies because they have exclusive indigenous food and beverage businesses. Therefore, the problem in this research is "What kind of leadership is more important for improving SMEs' performance with innovation as a mediating variable?"

1. Literature review

Transformational leadership drives innovation in two ways. Firstly, it can boost the motivation of the employees (intrinsic) by stimulating creativity, which is the primary key to innovation (Shin & Zhou, 2003). Secondly, it offers intellectual stimulation, thereby encouraging employees to think “outside the box” (Elkins & Keller, 2003). Previous studies discovered the influence of transformational leadership on SMEs’ innovation. In Turkey and Malaysia, it has a significant influence on SMEs’ innovation (Iscan, Ersari, & Naktiyok, 2014; Aslan, Diken, & Sendogdu, 2011; Md Saad & Mazzarol, 2010; Ur Rehman, et al., 2019). Transformational leaders also play a huge role in advancing SMEs’ innovation in East African countries, such as Kenya (Sang, 2017) and Rwanda (Gashema & Gao, 2018). However, Feranita, Gumanti, Wahyudi, and Puspitaningtyas (2017a) reported no significant effect on SMEs’ innovation.

According to Bass and Riggio (2006), these leaders motivate their employees to demonstrate an exceptional performance level, which exceeds expectations. This boosts employee satisfaction and commitment to the company. Several empirical studies show that transformational leadership improves SMEs’ performance (Sheshi & Kercini, 2017; Boukamcha, 2019). In Turkey, the influence is stronger than other leadership styles (Iscan, et al., 2014; Ozer & Tinaztepe, 2014).

In West African countries, transformational leadership improves SMEs’ financial performance in Nigeria (Israel, 2016) and marketing performance in Ghana (Afriyie, Du, & Ibn Musah, 2019). Meanwhile, in some Asian countries such as India and Pakistan, there is a significant relationship between transformational leadership and SMEs’ performance (Singh, 2016; Manzoor, Wei, Nurunnabi, Subhan, Shah, & Fallatah, 2019). Subsequently, transformational leadership significantly influences SMEs’ performance in Asian countries, such as Malaysia (Arham, 2014; Ur Rehman et al., 2019) and Indonesia (Arsawan, Pasek, & Suryantini, 2017; Sulistiyani, Udin, & Rahardja, 2018). **These contradict the results from the study conducted by Feranita, Gumanti, Wahyudi, and Puspitaningtyas (2017b), which stated that transformational leadership has no significant effect on SMEs’ performance.**

Dougherty and Hardy (1996) stated that this leadership style facilitates unconventional and innovative ways of reasoning. Besides, it leads to work processes based on new knowledge and technology, which are fundamental to company performance. In Malaysia, transformational leaders’ emphasis on product innovation exhibits stronger performance (Md Saad & Mazzarol, 2010). Innovative culture serves as a mediator between transformational leadership style and SMEs performance (Ur Rehman et al., 2019).

According to previous studies conducted in Malaysia, transactional leadership has a significant influence on company innovation. Transactional leaders can emphasize SMEs’ innovation, especially in process innovation (Md Saad & Mazzarol, 2010). Transactional leaders can develop an innovative SMEs culture (Ur Rehman et al., 2019). This type of leadership has a significant and positive effect on Kenya’s SMEs’ innovation (Sang, 2017). However, Aslan et al. (2011) and Iscan et al. (2014) showed that it does not significantly affect SMEs’ innovation.

Transactional leadership is considered an important indicator to measure company performance. It focuses on maintaining the status quo to increase company revenue (Bass, 1985). In some Asian countries

such as India and Malaysia, it significantly influences SMEs' performance (Singh, 2016; Ur Rehman et al., 2019). According to a study conducted by Arsawan et al. (2017), Indonesia's leadership style is recommended for sustainable SMEs growth. Transactional leadership was also discovered to have a positive and significant relationship with SMEs' performance in African countries, such as Tanzania (Mgeni & Nayak, 2016), Nigeria (Israel, 2016), and Kenya (Asimwe, Linge, & Sikalieh, 2016). Iscan et al. (2014) and Ozer and Tinaztepe (2014) stated that there is no significant effect on SMEs' performance.

It improves performance through innovation's mediating role, which is one of the company's strategic assets (Barney, 1991). Ur Rehman et al. (2019) reported that SMEs that implemented innovative culture in Malaysia could significantly mediate between transactional leadership style and SMEs' performance.

SMEs with strong innovative capabilities are at an advantage over their competitors because it tends to boost performance (Li & Mitchell, 2009; Rosenbusch, Brinckmann, & Bausch, 2011). Previous studies stated that one of the factors influencing SMEs' performance is innovation (J. Donkor, G. Donkor, Kwarteng, & Aidoo, 2018; Afriyie et al., 2019). Subsequently, a high level of innovative capacity tends to improve performance on a large scale. It also has a significant influence on SMEs' performance in Asian countries, namely Pakistan (Yasin, Nawab, Bhatti, & Nazir, 2014), China (Lu, Dai, & Zhang, 2018), and Malaysia (Ur Rehman et al., 2019). In Vietnam, there is a positive causality relationship that changes from sales growth to SMEs' innovation (D. Nguyen, H. Nguyen, & K. S. Nguyen, 2018), likewise, in America, such as Brazil (Vasconcelos & Oliveria, 2018) and Colombia (Restrepo-Morales, Loaiza, & Vanegas, 2019).

2. Aims and hypotheses

This research aims to analyze the one having the greatest contribution to improving SMEs' performance and innovation among the transformational and transactional leadership.

Therefore, the hypotheses in this study are:

H1: Transformational leadership influences SMEs' innovation.

H2: Transformational leadership influences SMEs' performance.

H3: Innovation mediates the effect of transformational leadership on SMEs' performance.

H4: Transactional leadership influences SMEs' innovation.

H5: Transactional leadership influences SMEs' performance.

H6: Innovation mediates the effect of transactional leadership on SMEs' performance.

H7: Innovation influences SMEs' performance.

Figure 1 shows the research framework and hypotheses based on theoretical and empirical studies.

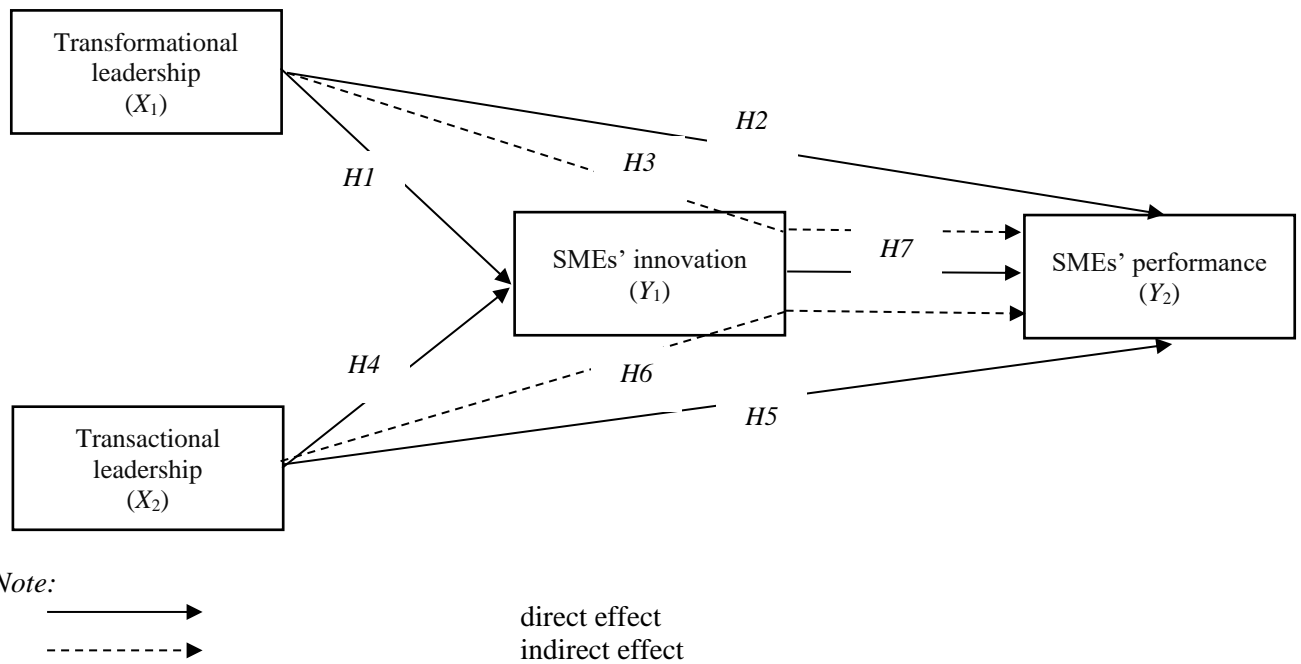


Figure 1. Research conceptual structure

3. Methods

This research involves all the entire 280 foods and beverage SMEs in Probolinggo City, Probolinggo, Lumajang, Jember, Bondowoso, Situbondo, and Banyuwangi Regencies. This sector was chosen because it is one of the government's main focuses in implementing the "Making of Indonesia 4.0" program. The seven regencies or cities were selected because they excelled more in this sector than in the eastern development corridors.

This research applied a proportionate sampling method to determine the relative size of each regency/city. The number of samples was detected using the Slovin formula with an error rate of 5%, and 165 SMEs were obtained. The unit of analysis is the leader, entrepreneur, owner, or manager of the SMEs. Data collection was obtained from questionnaires shared to the respondents from April to June 2019, with a 5-point Likert scale adapted from the appropriate literature.

According to Burns (1978), transformational leadership provides stimulation and inspiration for employees to achieve extraordinary results. On the contrary, transactional leadership offers financial rewards following the productivity generated by employees. The measurement of these variables was adapted from a study conducted by Aslan et al. (2011). Therefore, this research focuses on three dimensions of transformational leadership: charisma, intellectual stimulation, and individual consideration. It also focuses on two dimensions of transactional leadership, such as contingent reward and exception-passive management.

Innovation is the company's ability to adopt new ideas, products, and processes successfully. The measurement of these variables is adapted from a questionnaire developed by Ciang Wu (2017), which consists of three dimensions: product, process, and organizational innovation. Performance is defined as the company's achievement, and the variables were measured from the research conducted by Murat, Ar.

and Baki (2011) and McDermott and Prajogo (2012). Its dimensions are measured based on the market shares, sales, and profits of the competitors.

This study used path analysis to determine the direct and indirect effect of transformational and transactional leadership on SMEs' performance, with innovation serving as its mediator, using the LISREL software for hypothesis testing.

4. Results

Based on the instrument validity test results on the variables such as transformational and transactional leadership, innovation, and performance, a correlation value of $p\text{-value} < \alpha(0.05)$ was obtained; therefore, all items are declared valid. Following the instrument reliability test results, the Cronbach Alpha coefficient of > 0.60 was determined; therefore, the variables were declared reliable. The results from the validity and reliability tests are shown in Table 1.

Table 1. The result of the validity and reliability test

Variable and dimension	Cronbach Alpha	Correlation
Transformational leadership	0.891	
Charisma		
– A leader respected by the employee		0.715
– Employees are proud of their leader		0.506
– The leader considers the results ethically		0.674
Intellectual stimulation		
– Leaders have a diverse point of view.		0.712
– The leader advises the employee.		0.751
– Leaders state their expectations.		0.728
Individual considerations		
– Leaders teach and train employees		0.728
– Leaders' aid the employees		0.779
– Leaders offer feedback		0.851
Transactional leadership	0.791	
Contingent reward		
– Employees support the leader		0.495
– The leader offers an appreciation		0.644
– The leader appreciates good work		0.785
Exception-passive management		
– A leader executes an action after a bad situation		0.624
– Unprepared leader unless under coercion		0.718
– The leader intervenes when an issue becomes serious		0.375
Innovation	0.846	
Product innovation		
– The company introduced or triggered new product innovation		0.911
Process innovation		
– The company introduced or triggered new process innovation		0.877
Organizational innovation		
– The company introduced or triggered new organizational innovation		0.837
Performance	0.908	
Market share		
– Compared to competitors, the company has better market share		0.911
Sales		
– Compared to competitors, the company has better sales		0.950
Profit		

– Compared to competitors, the company has better profit		0.895
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According to Table 2, several conclusions were drawn from the respondents' general description based on gender, age, marital status, educational background, and duration of business. First, most respondents were women (81.8%). Second, most were between the ages of 41-50 years (54.5%). Third, almost all the respondents were married (96.4%). Fourth, they are mostly dominated by senior high school (39.4%) and junior high school (32.1%) graduates. Fifth, the duration of the business is 6-10 years (44.8%).

Table 2. Respondents' general description

No.	Characteristic	Description	Distribution	
			Frequency	Percentage (%)
1	Gender	Male	30	18.2
		Female	135	81.8
		Total	165	100.0
2	Age (years)	21-30	6	3.6
		31-40	35	21.2
		41-50	90	54.6
		> 50	34	20.6
		Total	165	100.0
3	Marital status	Married	159	96.4
		Unmarried	1	0.6
		Widow/widower	5	3.0
		Total	165	100.0
4	Latest education	Junior high school	53	32.1
		Senior high school	65	39.4
		Diploma	2	1.2
		Bachelor (S1)	8	4.9
		Other	37	22.4
		Total	165	100.0
5	Leading experience (years)	≤ 3	15	9.1
		4-5	42	25.5
		6-10	74	44.8
		11-15	12	7.3
		> 15	22	13.3
		Total	165	100.0

According to the normality test results, the entire variables were normally distributed, shown by the p -value of skewness and kurtosis, which is determined as > 0.05 . Likewise, multivariate normality shows the p -value of skewness and kurtosis to be $0.750 > 0.05$. This indicates that the data are normally distributed.

The results from the direct influence test are shown in Table 3. The entire model consists of 5 direct paths; 3 of them have a significant effect, while the remaining 2 have a non-significant effect. Therefore, hypotheses 1, 2, and 7 are accepted, while 4 and 5 were rejected.

Table 3. Hypothesis testing results from the direct effect

Hypotheses	Regression model	Estimation value	t -value
$H1$	Transformational leadership (X_1) → SMEs' innovation (Y_1)	0.35	3.77*
$H2$	Transformational leadership (X_1) → SMEs' performance (Y_2)	0.16	1.72**
$H4$	Transactional leadership (X_2) → SMEs' innovation (Y_1)	0.13	1.43
$H5$	Transactional leadership (X_2) → SMEs' performance (Y_2)	0.06	0.66
$H7$	SMEs innovation (Y_1) → SMEs' performance (Y_2)	0.36	4.75*

Note: * and ** show significance at 5% and 10% levels, respectively.

The results from testing the indirect effect are shown in Table 4. Generally, the two indirect path models have a significant effect; therefore, hypotheses 3 and 6 are accepted.

Table 4. Hypothesis testing results from indirect effects

Hypotheses	Regression model	Estimation value	t-value
H3	Transformational leadership (X_1) → SMEs' innovation (Y_1) → SMEs' performance (Y_2)	0.13	4.00*
H6	Transactional leadership (X_1) → SMEs' innovation (Y_1) → SMEs' performance (Y_2)	0.05	1.95**

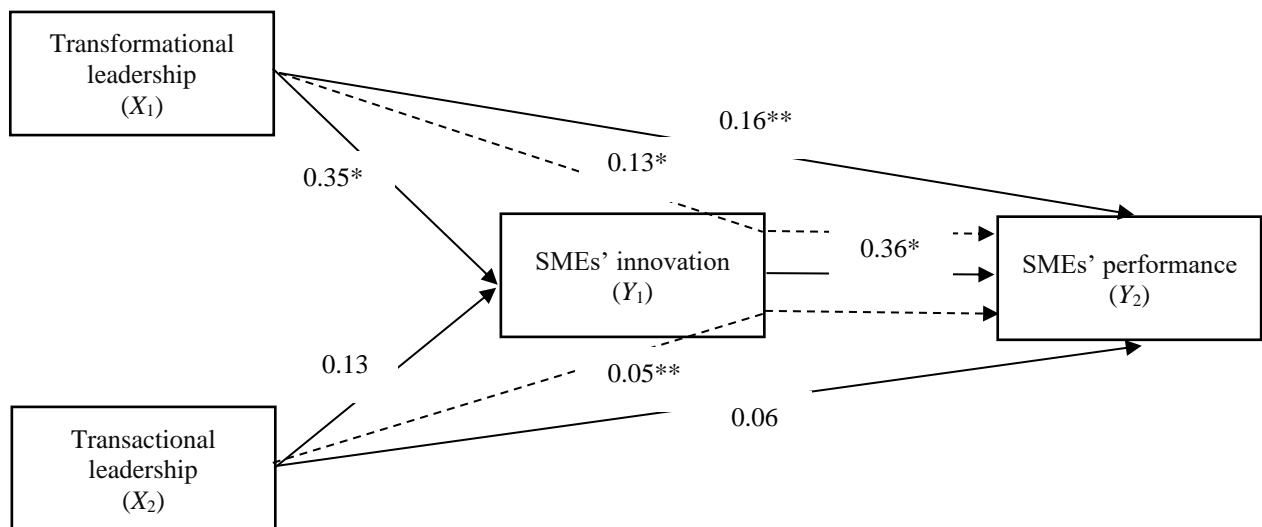
Note: * and ** show significance at 5% and 10% levels, respectively.

Table 5 shows the test results from the direct, indirect, and total effect. Each independent variable's total effect is stated as follows: 29% of transformational and 11% of transactional leadership.

Table 5. Test results from the direct effect, indirect effect, and total effect

Regression model	Direct effect	Indirect effect	Total effect
Transformational leadership (X_1) → SMEs' performance (Y_2)	0.16	0.13	0.29
Transactional leadership (X_2) → SMEs' performance (Y_2)	0.06	0.05	0.11

Figure 2 shows concise results from path analysis.



Note: * and ** show significance at 5% and 10% levels, respectively.

Figure 2. The path coefficient of direct and indirect effects

5. Discussion

According to Table 3, the data analysis results show the t -value of 3.77, which is above the critical ratio (1.96); therefore, $H1$ is accepted at the level of $\alpha = 5\%$. It was discovered that transformational leadership has a positive and significant effect on SMEs' innovation. This means that transformational leadership boosts SMEs' innovation. Following the respondents' responses, its variables show 2 indicators in the very good category, while the remaining 7 are in a good category. This research shows that qualities of SMEs' leaders such as charisma, intellectual stimulation, and individual consideration trigger innovation. This finding supports previous studies (Md Saad & Mazzarol, 2010; Aslan et al., 2011; Iscan

et al., 2014; Sang, 2017; Gashema & Gao, 2018; Ur Rehman et al., 2019). Also, the evidence is provided, which shows that SMEs' innovation is achieved through transformational leadership.

The data analysis in Table 3 shows that the t -value is 1.72, which is above the critical ratio (1.645); therefore, $H2$ is accepted at the level of $\alpha = 10\%$. Therefore, transformational leadership has a positive and significant effect on SMEs' performance. This means that this type of leadership boosts SMEs' performance. Furthermore, most SMEs' leaders who filled out the research questionnaire were women (81.8%). Lopez-Zafra, Garcia-Retamero, and Martos (2012) reported that transformational leadership is determined by femininity; in other words, women tend to be more transformative. Subsequently, this is the desired leadership style because it positively influences various performance outcomes (Chen et al., 2018). This finding strengthens the results from previous studies (Iskan et al., 2014; Ozer & Tinaztepe, 2014; Arham, 2014; Israel, 2016; Singh, 2016; Sheshi & Kercini, 2017; Arsawan et al., 2017; Sulistiyani et al., 2018; Boukamcha, 2019; Afriyie et al., 2019; Manzoor et al., 2019; Ur Rehman et al., 2019). Conversely, this study is consistent with the study conducted by Bass and Riggio (2006), which stated that transformational leaders could incite their employees to achieve better performance.

Table 4 shows that the results from data analysis show that the t -value is 4.00, which is above the critical ratio (1.96); therefore, $H3$ is accepted at the level of $\alpha 5\%$. Transformational leadership has a positive and significant effect on SMEs' performance in accordance with an innovative medium. This supports the findings from 2 previous studies (Md Saad & Mazzarol, 2010; Ur Rehman et al., 2019). From the data shown in Table 5, the total effect of transformational leadership on SMEs' performance offers a greater value than the total and direct effects of 0.29 and 0.16, respectively. Therefore it provides a greater contribution than the effect. Contributions made by innovation serve as a mediator between transformational leadership and the performances of SMEs. This study also discovered that transformational leadership has a direct and indirect positive and significant effect on SMEs' innovation and performance. Therefore, it was concluded that innovation mediators trigger an influence on SMEs' performance.

In accordance with the data analysis in Table 3, the t -value is 1.43, which is below the critical ratios of 1.96 and 1.645; therefore, $H4$ is rejected at $\alpha = 5\%$ and 10% . Transactional leadership has a positive and insignificant effect on SMEs' innovation. This shows that this leadership style could not improve SMEs' innovation. This is in line with the studies carried out by Aslan et al. (2011) and Iskan et al. (2014). Previous research showed the effect of transactional leadership on SMEs' innovation by utilizing items in the manufacturing and service sectors (Sang, 2017; Ur Rehman et al., 2019). However, this study is based on SMEs in the manufacturing sector, particularly food and beverages. Although different outcomes are expected, assuming the research is conducted on SMEs in the manufacturing and service sectors.

In Table 3, the t -value is 0.66, and it is below the critical ratio, which is 1.96 and 1.645; therefore, $H5$ is rejected at $\alpha = 5\%$ and 10% . This shows that transactional leadership has a positive and insignificant effect on SMEs' performance. This means that the supporting indicators of this type of leadership have not

effectively driven SMEs' performance. From an empirical perspective, this research's results contradict previous studies (Sang, 2017; Ur Rehman et al., 2019). Ur Rehman et al. (2019) stated that there are 4 indicators: contingent reward, exception-active management, exception-passive management, and passive management. Consequently, only 2 of the indicators, contingent reward and exception-passive management, were used in this research. However, this study follows Iscan et al. (2014) and Ozer and Tinaztepe (2014).

Table 4 shows the data analysis results where the t -value is 1.95, which is above the critical ratio of 1.645; therefore, $H6$ is accepted at $\alpha = 10\%$. Transactional leadership has a positive and significant effect on SMEs' performance based on innovative mediators. These findings support the results from previous research (Ur Rehman et al., 2019). Table 5 shows that transactional leadership's total effect on SMEs' performance offers a greater value than its direct influence (total and direct effects are 0.11 and 0.06, respectively). Therefore, its contribution is more important than direct effect and serves as a mediator between transactional leadership and SMEs' performance. The findings from this study show that it directly has a positive and insignificant effect on SMEs' performance. However, it has an indirect positive and significant effect on SMEs' performance (through innovation variables). Therefore, the influence of transactional leadership on SMEs' performance is triggered by innovation mediators.

Based on the data analysis results in Table 3, the t -value is 4.75, which is above the critical ratio of 1.96; therefore, $H7$ is accepted at the level of $\alpha = 5\%$. Innovation has a positive and significant effect on SMEs' performance. This means that it boosts SMEs' performance. The respondents' responses show that the innovative variable has two indicators stated in the good enough category and 1 in the good category. Besides, all the performance variables are in a good category. These findings provide evidence that shows that indicators such as product, process, and organizational innovation have a significant influence on SMEs' performance measured by market shares, sales, and profits. Empirically, these data are following previous studies that examined its effect on SMEs' performance using different indicators of measurements (Donkor et al., 2018; Afriyie et al., 2019; Yasin, Nawab, Bhatti, & Nazir, 2014; Lu et al., 2018; Ur Rehman et al., 2019; Nguyen et al., 2018; Vasconcelos & Oliveria, 2018; Restrepo-Morales et al., 2019).

Conclusion

For SMEs to succeed in improving their performance, SMEs must have good innovation. An appropriate leadership style supports SMEs that can innovate. According to Burns (1978), there are two types of leadership styles: transformational and transactional. The path analysis results revealed that transformational leadership has a positive and significant effect on SMEs' innovation and performance. However, transactional leadership directly has a positive and insignificant effect on SMEs' performance. Subsequently, it has an indirect positive and significant effect on SMEs' performance through innovative mediators. This means that innovation plays an important role in the relationship between transactional leadership and SMEs' performance. Additionally, transformational leadership has a greater total effect (29%) than transactional leadership (11%). Therefore this type of leadership plays an important role in

improving SMEs' performance in Indonesia. The recommendations that can be given are that the government should facilitate training to improve leadership. The government can design training programs and mentoring for sustainable and effective SMEs. The program can be oriented towards enhancing charismatic and transformational leadership, stimulates intellectuality, and emphasizes individual considerations so that SMEs can increase innovation and performance. In conclusion, two limitations were determined in this study. First, the samples taken are only from the manufacturing sector, specifically the food and beverage industries. Second, the study was conducted in only seven regencies or cities located in East Java Province. Therefore, further research on the manufacturing and service sectors covering a wider area at the national level needs to be conducted to generalize the results.

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