

OPERATIONAL PERFORMANCE OF SME: THE IMPACT OF ENTREPRENEURIAL LEADERSHIP, GOOD GOVERNANCE AND BUSINESS PROCESS MANAGEMENT

Usman I., Hartani N.H., Sroka M.*

Abstract: The purpose of this study is examines the impact of entrepreneurial leadership and good governance of the entrepreneurs to the operational performance through business process management. The object of this research is SME of Batik product, one of the fastest growing SME in Indonesia. The method of this study is explanatory research, analyze the relationship of entrepreneur leadership, good governance to operational performance and business process management as an intermediate variable. This research conducted in 67 batik entrepreneurs in the center of batik industry in Surabaya and surrounding. The results indicated that entrepreneurial leadership and good governance affect business process management and operational performance. Finding revealed that business process management has no direct impact on operating performance. Based on these findings, concluded that it is important for entrepreneurs to develop entrepreneurial leadership and build a good governance as well in managing their business.

Key words: Business Process management, Entrepreneurial Leadership, Good Governance, Management, Operational Performance.

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Introduction

One of the importance factor in determining the success of a company is the leadership style since leader have a very importance role. Different leadership style entails different strategy, (Afsar, Badir, Saeed, & Hafeez, 2017). The importance of appropriate leadership is needed by companies, including small and medium businesses, because it determines operational performance to achieve company goals. In Business Process Management (BPM) perspective a manager must identify the most critical phases of process in order to achieve value improvement for customers and shareholders. This research was conducted on a number of small and medium businesses that are growing rapidly in Indonesia, the Batik industry. Most of them are small and medium enterprise (SME). Batik is a craft that has high artistic value and has been a part of Indonesian culture. (Steelyana, 2012). Various problems faced by SMEs are technological obsolescence, capital limitations, high interest rates

* **Indrianawati Usman**, PhD. Airlangga University, Management Departement. Faculty of Economic and Business. Surabaya Indonesia. **Nira Hariyatie Hartani**, PhD, UCSI University Kuala Lumpur, Malaysia. **Mariusz Sroka**, PhD, Eng., Czestochowa University of Technology, Faculty of Management, Poland

✉ corresponding author: indrianawati-u@feb.unair.ac.id

✉ Nirahariyatie@ucsiuniversity.edu.my; mariusz.sroka@pcz.pl

from banks, difficult raw materials, ambiguous policies of the government, tight competition, lack of skilled human resources, and easy to imitate due to high capital. The purpose of this study are examines the impact of entrepreneurial leadership and good governance of the entrepreneurs to the operational performance through business process management of Batik industry.

Literature Review

Economic development of countries are supported by the growth of entrepreneurship, and the success of the business are greatly depend on the leadership. (Sandybayev, 2019). Entrepreneurial leadership is important to be implemented in small medium and micro-scale enterprises (Newman, Tse, Schwarz, & Nielsen, 2018). Building entrepreneurial leadership characteristic is very important step to reach to improvement, creativity, innovation, intuition, leadership capability, motivation in organization. A leader must be able to influence the behavior of his/her subordinates so that they want to cooperate and work productively in order to achieve organization goals. (Gupta, MacMillan, & Surie, 2004)), also stated that an entrepreneurial leader needs to do two interrelated things to face any challenges. First is scenario enactment, which need to make scenarios to face all possibilities that might occur in the future and affect well-planned condition. Second is the cast enactment, to restore trust from subordinates and all stakeholders that all transformation processes will be carried out by utilizing all available resources. Cast enactment in this context is to build characters with sufficient capability in order to reach shared goals. (Rahim, Abidin, Mohtar, & Ramli, 2015).

Table 1: Assessment of Entrepreneurial Leadership

Dimensions	Roles	Attributes
Scenario Enactment	Framing the challenge (specifying high challenges but realistic outcomes for the cast of actors to accomplish)	Performance oriented Ambitious Informed Has extra insight
	Absorbing uncertainty (taking the burden of responsibility for the future)	Visionary Foresight Confidence builder
	Path clearing (negotiating opposition and clearing the path for scenario enactment)	Diplomatic Effective bargainer Convincing Encouraging
Cast Enactment Cast Enactment	Building commitment (building as inspired common purpose)	Inspirational Enthusiastic Team builder Improvement-oriented

	Specifying limits (building a common understanding and agreement of what can and cannot be done)	Integrator Intellectually Stimulating Positive Decisive
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Good governance is a terminology that emerged as the result of high demand on the running of good and clean business. The principle of good governance by State-Owned Enterprises related to the decree of Ministry of State-Owned Enterprises Number Kep-117/M-MBU/2002 consists of five components as follows:

1. Fairness, meaning equality in the fulfillment of stakeholder's rights based on the agreement and existing laws.
2. Transparency, meaning openness in decision-making process and material and relevant information disclosure of a company.
3. Accountability, meaning function clarity, execution and organizational accountability so that a company's management can be run effectively.
4. Openness, meaning a situation where a company can be managed professionally without interest disputes and influences or pressures from any parties that do not comply with existing laws and healthy corporation principles.
5. Responsibility and Participation, meaning compliance in company's management with existing laws and corporation principles.

The operational performance is a performance that can be achieved by a person or a group of people in an organization according to respective authority and responsibility in order to achieve organizational goals. (Tuan Luu, 2017), found that there is a positive effect of ambidextrous leadership on EO ambidextrous leadership in fostering entrepreneurial orientation and predict that entrepreneurial orientation to operational performance. (Bunse, Vodicka, Schönsleben, Brühlhart, & Ernst, 2011) argued production performance measurement works for providing information on the current situation of production, and the information can be used by company managers to improve their production processes (Hussain et al., 2020). Fullfilment is identifying how far company's collaboration practice is able to meet consumers' demands such as punctuality of good delivery, good specification accuracy and good quality congruence. Inventory is the ability to manage supply and supply cost reduction. Operational performance indicate that product and service provide by company can fulfill the customer expectation. (Shobayo, 2018). Responsiveness is the ability to respond consumers' demands, for example waiting time reduction, flexibility in accommodating demand, and sensitivity towards consumers' demands.

Business Process Management (BPM) is a discipline of management science that focuses on organization performance improvement through continuous improvement and business control of the management process itself (Dallas & Wynn, 2014). (Smith & Fingar, 2003) said that BPM is a structured-understanding, documentation process, model provision, analysis, simulation, and continuous

performance of business whose resources are relevant with the organization's ability to add business value as well as to reach company operational efficiency. Business Process Management (BPM) is often discerned from various perspectives. Hence, there has been no consensus on the uniform definition of Business Process Management. Nonetheless, it has been proven by some studies that optimal Business Process Management (BPM) is effective when it is implemented in SME (Crick & Chaudhry, 2014). Indicator of BPM in this study consist of the innovation frequencies and the increase of production process in case of product design and efficiency of production by simplifying the business process.

The literature has conceptualized human capital in terms of intangible resource that greatly contributes to the performance and competitive advantage of the firm (Ismail, 2014). (Gupta et al., 2004) asserted that entrepreneurial leadership is an ability to set high expectation and restore confidence in employees so that their skills can help reach the shared expectation. Leadership have an importance role in determining the management, innovation, research and development efficacy, job creation, competitiveness, productivity, and new industry creation. Entrepreneurial leadership can be observed through the values that influence company management. Characters, values, and expectations of owner-manager affecting the company management. It is inevitable that they have direct impact on operational performance of company in particular. Business process management itself has impact on operational performance. This has been proven by a study on relation between business process management and operational performance conducted by (Elbashir, Collier, & Davern, 2008) whose found that there is a positive and significant relation between the two variables.

H1 : Entrepreneurial leadership has significant impact on business process management.

Good governance is a standard parameter of good corporate governance. In similar light, DeBruin (2009) elaborated that good governance can be a key factor in business process management, so the system and real condition in company can run accordingly, resulting in more effective business process management. Good governance is a terminology that emerged after more people demand good and clean governance.

H2 : Good Governance has significant impact on Business Process Management.

Entrepreneurial leadership have two dimensions, first scenario enactment, (Framing the challenge, absorbing uncertainty, path clearing) and Cast Enactment (Building commitment, Specifying limits), moreover the Characters, values, and hopes of the owner/manager affecting the success of company, have a direct impact on operational performance in particular. Company with good governance will have better operational performance. Yeh, Lee, and Ko (2002) said that the major contribution of good governance to company is to improve operating performance and to prevent fraud, company with good corporate governance has better operational performance than company with poor corporate governance.

H3 : Entrepreneurial leadership has significant impact on operational performance.
 H4 : Good Governance has significant impact on operational performance
 Business process that covers operation effectiveness is related to the profit earned from the use of business intelligence system to support various activities in value chain. The finding of the study is supported with other similar studies that found that business process can augment organizational performance in general and operational performance in particular. Thus, business process has some advantages that can increase operational performance, as explained by Melville et al., (2004) and Tallon et al. (2000).
 H5: Business Process Management has positive and significant impact on operational performance

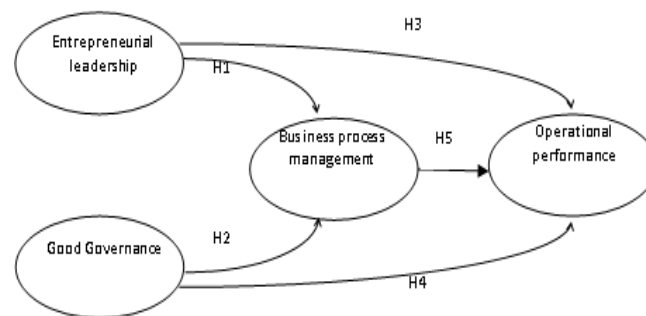


Figure 1: Conceptual model Framework

Research methodology

This study is an explanatory research design supported by quantitative approach. There are two exogenous variables, entrepreneurial leadership and good governance. The endogenous variables were operational performance and business process management. Data analysis was carried out using Partial Least Square (PLS). The study was performed in 67 SMEs of Handmade Batik Industri.. The questionnaires were distributed to the owners who also the leaders of SME of Batik industry in Surabaya Indonesia.

Result

In outer model, indicator validity encompassed convergent validity and discriminant validity, while reliability using the Cronbach's alpha. Discriminant Validity is assessed based on the cross loading measurement. Table 2 shows the AVE value and square roots of the model. A model can be considered to have adequate discriminant validity if the AVE root for each construct is bigger than the correlation between one construct and another in the model.

Table 2: AVE Values and AVE Square Roots

	AVE	AVE Square Root
EL	0.41747	0.6461191841
GG	0.720765	0.8489787983
OP	0.550583	0.7420128031
BPM	0.567921	0.7536053344

Source: Processed Result of SmartPLS

In addition to comparison of AVE square value with the correlation of latent variables, discriminant validity test can also be done by reading the cross loading value. Convergent Validity of the indicators depends on the type of the indicator itself. The item of indicator of each variable is reflective, so if there is any invalid indicator found, it will be eliminated. The indicator of each variable is valid if the T-value of the statistic is ≥ 1.96 . Table 3 and 4 shows cross loading value and outer loading value of entrepreneurial leadership, good governance, operational performance, and management process business variables. Firstly, the variable of business process management has four indicators which all original sample values were > 0.5 , so none of the items was eliminated. Next, for entrepreneurial leadership variable, where cross loading was previously performed and some indicators were eliminated, there are two indicators which original sample values were < 0.5 , EL3 (0.578304) and EL4, after reading the outer loading result (0.674848). As a result, those indicators had to be eliminated.

Table 3: Cross Loading Values

	BPM	EL	GG	OP
BPM 1	0.716281	0.514314	0.489679	0.436098
BPM 2	0.725342	0.488581	0.509649	0.336175
BPM 3	0.685535	0.402534	0.444535	0.393328
BPM 4	0.873239	0.692448	0.78036	0.515266
EL 1	0.343193	0.586192	0.434529	0.317401
EL 10	0.45153	0.7107	0.500353	0.522333
EL 11	0.196193	0.539626	0.439953	0.371119
EL 12	0.241011	0.632883	0.437964	0.529788
EL 13	0.395623	0.657457	0.574009	0.261201
EL 14	0.614881	0.708294	0.607746	0.536908
EL 15	0.583367	0.713986	0.634406	0.633805
EL 18	0.504311	0.549403	0.531672	0.477461
EL 2	0.410491	0.564074	0.401035	0.363926
EL 20	0.63488	0.791841	0.782752	0.64459
EL 6	0.489313	0.621006	0.53869	0.385822
EL 9	0.391221	0.626736	0.561997	0.447812
GG 1	0.674585	0.729334	0.866603	0.590438
GG 3	0.613297	0.66701	0.837754	0.525217

GG 6	0.556356	0.72921	0.829185	0.659007
GG 7	0.724554	0.752692	0.861789	0.685295
OP 2	0.438169	0.61962	0.597728	0.82369
OP 3	0.359385	0.543945	0.507202	0.735345
OP 4	0.501619	0.515868	0.524752	0.699574
OP 5	0.379847	0.497643	0.528085	0.70266

Source : Processed result of SmartPLS

One indicator was eliminated in good governance variable, according to the outer loading result. There are two indicators of good governance variable are eliminated. Lastly, one indicator was eliminated in cross loading in operational performance.

Table 4: Outer Loading Value (Mean, STDEV, T-Values)

	Original Sample (O)	T Statistics (O/STERR)
BPM 1 <- BPM	0.716874	13.94218
BPM 2 <- BPM	0.726179	10.81526
BPM 3 <- BPM	0.68405	10.26984
BPM 4 <- BPM	0.873195	26.20498
EL 1 <- EL	0.586256	5.336044
EL 10 <- EL	0.711036	14.33399
EL 11 <- EL	0.537536	4.035871
EL 12 <- EL	0.63416	6.612561
EL 13 <- EL	0.655553	11.03415
EL 14 <- EL	0.710002	10.6569
EL 15 <- EL	0.714774	12.16694
EL 18 <- EL	0.549122	5.259951
EL 2 <- EL	0.564289	6.116847
EL 20 <- EL	0.79137	11.86038
EL 3 <- EL	0.118038	0.578304
EL 4 <- EL	0.14354	0.674848
EL 6 <- EL	0.622755	6.670139
EL 9 <- EL	0.623192	9.416232
GG 1 <- GG	0.862143	18.25207
GG 2 <- GG	0.386082	1.29738
GG 3 <- GG	0.843987	9.177268
GG 4 <- GG	0.06526	0.281032
GG 6 <- GG	0.824781	13.32196
GG 7 <- GG	0.859799	12.45676
OP 2 <- OP	0.823187	29.37401
OP 3 <- OP	0.73515	11.52076

OP 4 <- OP	0.699744	6.375892
OP 5 <- OP	0.703287	8.373039

Source : Processed Data with SmartPLS

Reliability test as seen in table 5 is needed to assess the stability and consistency of an instrument in measuring a concept or variable. A construct can be deemed as a reliable construct if the applied rule of thumb is > 0.7 .

Table 5: Composite Reliability Values

	Composite Reliability
BPM	0.838937
EL	0.894587
GG	0.911671
OP	0.829876

Source: Processed result with SmartPLS

Inner Model (Structural Model Testing)

Table 6: R-Square Values and Communalities

	R-Square	Communalities
BPM	0,594232	0,567921
EL		0,41747
GG		0,720765
OP	0,580633	0,550583
	0.5874325	0.56418475

Source: Processed result with SmartPLS

According to the table-6, communalities average value is 0.56418475. R-square average value was 0.5874325. Thus, the value of GoF was 0.5756912872 (large GoF). The next testing is the path coefficient value or inner model that displays in table 7. The relation of path between variables is considered significant if it has T-statistics of more than 1.64.

Table 7: Path Coefficient Values (Mean, Standard Deviation, T-Values)

	Original Sample (O)	T Statistics (O/STERR)	Information
EL -> BPM	0.238644	1.828857	Significant
EL -> OP	0.431915	2.916586	Significant
GG -> BPM	0.557802	3.077878	Significant
GG -> OP	0.393403	2.461002	Significant
BPM -> OP	-0.04211	0.47579	Not significant

Source: Processed result with SmartPLS

Entrepreneurial leadership and business process management has positive and significant result. It is in line with the supporting theories that stated businessman's sensitivity towards opportunities, innovation skill, and ability to excel have become a general standard for company in current business process (Kuratko & Hodgetts, 2007). Good governance and business process management has positive and significant result. This converges with one of the supporting theories stated by DeBruin (2009)**Błąd! Nie można odnaleźć źródła odwołania..** Good governance becomes an important key factor in business process management, so the system and real condition in company run accordingly and business process management becomes more effective, Yeh, Lee, and Ko (2002)**Błąd! Nie można odnaleźć źródła odwołania..** Entrepreneurial leadership and operational performance has positive and significant outcome. It is similar to Wilkund's study (2005) about the impact of entrepreneurial on performance of small businesses.

Discussion

The relationship between business process management and operational performance is not significant because some factors were not assessed in those studies, such as competitor business strategy, external circumstance change, and competitiveness level with their competitor that belong to external environment. Entrepreneurial leadership and operational performance is not supported with business process management as intervening variable. Based on the result, business process management does not mediate entrepreneurial leadership and operational performance. It is caused by business process management that does not have positive and significant impact on operational performance although there is a positive and significant relationship between entrepreneurial leadership and operational performance. The relationship between business process management is not have significant impact to operational performance although there is a positive and significant relationship between good governance and entrepreneurial leadership to operational performance.

Conclusion

Most of the hypothesis are supported and proved significantly, except the relationship between business process management and the operational performance is not proved. The further analysis is done and realized the fact that most of the human resources in the batik industries are have their own way to make batik. The main process is standard but the way they draw batik is different from one to another, each individu have their own style. The results of this research are different from previous studies, which generally prove that business process management supports performance. (Elbashir et al., 2008). Batik is an art product which have a unique process, especially handmade batik. The future research can be conducted with another art products such as wood carving products or other handmade products to examine the relationship between business process management and the operations performance. Another research with behavioral

perspective both for the leader and employee also interesting in implementing business process management for entrepreneur.

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WYNIKI OPERACYJNE MŚP: WPLYW PRZEDSIĘBIORCZOŚCI, LIDERA, DOBRE ZARZĄDZANIE I ZARZĄDZANIE PROCESAMI BIZNESOWYMI

Streszczenie: Celem tego badania jest zbadanie wpływu przywództwa przedsiębiorczego i dobrego zarządzania przedsiębiorców na wyniki operacyjne poprzez zarządzanie procesami biznesowymi. Przedmiotem tych badań jest MŚP produktu Batik, jednego z najszybciej rozwijających się MŚP w Indonezji. Metodą tego badania są badania wyjaśniające, analiza relacji kierownictwa przedsiębiorcy, dobrego zarządzania do wyników operacyjnych i zarządzania procesami biznesowymi jako zmiennej pośredniej. Badanie przeprowadzono u 67 przedsiębiorców batikowych w centrum przemysłu batikowego w Surabaya i okolicach. Wyniki wskazują, że przywództwo w zakresie przedsiębiorczości i dobre zarządzanie mają wpływ na zarządzanie procesami biznesowymi i wydajność operacyjną. Odkrycie wykazało, że zarządzanie procesami biznesowymi nie ma bezpośredniego wpływu na wydajność operacyjną. Na podstawie tych ustaleń stwierdzono, że ważne jest, aby przedsiębiorcy rozwijali przywództwo w przedsiębiorstwie i budowali dobre rządy w zarządzaniu swoją firmą.

Słowa kluczowe: zarządzanie procesami biznesowymi, przywództwo przedsiębiorcze, dobre zarządzanie, zarządzanie; Wydajność operacyjna.

中小企业的运营绩效:企业领导,良好治理和业务流程管理的影响

摘要:本研究的目的是检验企业家领导力和企业家的善政对通过业务流程管理的运营绩效的影响。这项研究的目标是蜡染产品的SME,这是印度尼西亚增长最快的SME之一。本研究的方法为解释性研究,分析企业家领导力,良好治理与运营绩效和业务流程管理之间的关系,作为中间变量。这项研究是在泗水及周边蜡染工业中心的67位蜡染企业家中进行的。结果表明,企业家的领导能力和良好的治理会影响业务流程管理和运营绩效。调查发现,业务流程管理对运营绩效没有直接影响。基于这些发现,得出的结论是,对于企业家来说,发展企业家的领导力并建立良好的治理以及管理其业务非常重要。

关键词:业务流程管理,企业家领导,良好治理,管理;运营绩效