

The Determinant of SME's Performance: The Main Role of Leadership Strategy, Knowledge, and Business Orientation

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Abstract --- The pattern of leadership and knowledge of business, as well as business orientation, certainly plays the role which in turn will ultimately give the final confirmation of what is actually a "pioneer" or a "follower" in a business activity. The purpose of this study is to analyze the extent to which the role of leadership, knowledge of management and business orientation to business performance. This study takes a sample of SME's entrepreneur there was operated in Makassar City. Research approach with Quantitative Analysis and choosing PLS (Partial Least Square) as a method of the analysis. The result of this study stated leadership strategy, knowledge management, and business orientation have significant effects on SME's performance. All of variable have significant value (sig < 0.05). R²- value is 0.650

Keywords: Leadership; Knowledge; Business Orientation; Business Performance

I. INTRODUCTION

Micro, small and medium enterprises have contributed a lot to the national economy [1]. By 2015 the number of SME's is estimated to reach 60.7 million units and as large is micro-scale business (98.73%) [1]. Micro, small and medium enterprises (SME's) have a vital role in the development and economic growth, not only in developing countries like

Indonesia but also in developed countries [2]. In Indonesia the role of SME's, in addition, to playing a role in the growth of development and economy, SME's also have a very important role in addressing the problem of unemployment and poverty [3]. The growth of micro business makes it a source of growth of employment and income. With a lot of employment, SME's also have a strategic role in government efforts to combat poverty and unemployment [1]. The contribution of micro, small and medium enterprises to gross domestic product have increased from 57.84% to 60.34% in the last 5 years. Employment in the SME sector also increased from 96.99% to 97.22% in the period [2].

Various policies are made to facilitate access of SME's movement, from licensing to funding by third parties. However, based on the recent findings of the Asia SME Finance Monitor issued by the Asian Development Bank, the contribution of SME's to Indonesian exports is only 15.7%, still lower than other countries such as Thailand which reached 25.5%, China 41.5 percent and India 42.4% [3] This is because there are still many new SME's active in the local market with sales coverage in certain areas, although the quality of their products is not inferior to foreign products. [4] The fact is influenced by the lack of knowledge of business rather than business people and also a

minimal business orientation so as not to see great market opportunities [5] In the face of market competition of course the mastery of technology and information is very important in order to know the characteristics of consumers psychologically as a target and goal than the business itself [6] Whereas business orientation can be defined as the driving force and motivation to be the winner in the game of market [5], [7]. Marketing methods and corporate planning orientations show a harmonious and successful impact but that alone is not strong enough. To balance the competition, knowledge of business including technology-oriented business is a support that can make the business run smoothly and be able to dominate the market [8].

Market orientation is a big issue and first attention this theoretical construct is predicted since it is studied in terms of market orientation effects on business performance in Narver and Slater's research in 1990 and 1994 then Kohli and Jaworski in 1990 [9]. Equally important is the leadership model of the business. Surely an ideal and desirable figure is a charismatic leader [10] because leaders and leadership patterns will determine the direction to which the company's vision and mission will be brought [10] aside from that as well as factors that can motivate employees when the achievement of targets is not achieved [11] leadership and leadership patterns are the reasons for employees to want or not to do something within the organization.

If the question of difficulty in the development of SME's in Indonesia of the dominant answers found is related to capital issues, including in this case is the difficult access to capital or limited amount of capital obtained lent but also included in it is the lack of business knowledge [12]. The lack of knowledge to develop the business is a major problem for Indonesian SME's. In addition, the market becomes the next obstacle because many SME's starts a business because it is forced; not beginning with what the consumer wants [13]. Nearly 90% of actors start their business "by Accident" [13]. The business knowledge that is superficial one of them is the lowered formal and informal education owned by the businessman [5], [14] Formal education, of course, has a connection with competence and management system [14] while informal education includes about the mastery of skills and soft skills for the businessman.

Based on the outline the basic direction of marketing is centered on the concept of planning, organizing, actuating and controlling on integrated management concepts. However, literally, the concept of marketing is based on integration [15] which means setting the ultimate strategy for achieving corporate goals through vertical processes and activities and the integration of business unit activity horizontally [16] which means that the company not only disseminates the understanding of the goals but also an understanding of the functions and processes of why this business activity takes place. The second outline is Interface [17] which means that communication is well established between company operations and marketers. Good and two-way communication links between tactical and strategic issues and determine the direction and target of the consumer. Third, it is coordination [18] meaning that the result of good communication leads to the creation of superior value "To which" this item is intended. Fourth, it is fit [19] which mean that all forms of strategy and

process of each unit within the internal company to the marketers are able to establish good cooperation and united to the achievement of corporate goals Together [20].

Marketing is the part that not only talks about winning a bargaining process to produce an agreement between the seller and the buyer with the word "Deal". More than that marketing is a blend of the art of speaking, the art of mastering the field and the art of mutually beneficial relationships through the exchange of goods, services or information that mutually benefit each other. To achieve these goals, understanding of self and to prospective consumers is an integral part. Therefore the strategy alone is not enough to be a reliable marketer. Good intrapersonal psychology and communication become the secret recipe that every marketer must have and is a plus for those who own it because not all marketers have that supernatural ability. Keith Ferrazi in his book once revealed that "Not marketers, if he does not have a network, insight and flexible communication" hence the success of marketing is also inseparable from the slogan "Never eat alone" [21]. The essence of marketing alignment is harmony and homogeneity to achieve mutual success.

Leadership is an individual's ability to provide direction and direction to individuals or groups in an activity to gain a common goal [22]. Strategic Leadership is the ability to influence any member to voluntarily comply either in short-term or long-term [23]. A good leader is a leader who has a vision and mission that is clear, measurable, directed and realistic. In the leadership structure for the company, the role of the leader is very good if open to innovation as well as out of the limitations to be able to provide added value for the company. For the progress or retreat of a performance is also determined by the success or failure of leaders in carrying out their leadership activities. Leadership strategy can be measured through the ability of a leader in providing strategic direction, take a role and able to empower its competence so as to influence employees, build a good human capital, always oversee the effectiveness of the company and have a good moral and ethical value to the company as well as to the surrounding environment within his/her presidency [24]. Hatane et al. 201 in 2017 [22] and Zachary et al in 2018 [25] claimed that his research resulted in leadership influencing the company's performance.

Knowledge Management (KM) is the application of concepts and strategies in management. Knowledge of management. In addition, the definition of knowledge management is the formulation of elements and basic principles in management that become intellectual assets that are intangible [26]. Knowledge of management is very important to support a sustainable business. Knowledge management contains knowledge for creation, knowledge for integration and knowledge applies innovation to improve company performance [27], [28]. To improve the knowledge management capabilities, the solution offered is first, starting from learning and applying the result of the training/learning that has been received. Gathering information, evaluating and building experiences through risk-based implementation will always exist but never a valuable experience will take place without taking the risks [29]. Second, Knowledge communities is an effort to encourage

mutual encouragement among the internal company to increase knowledge. Therefore, to obtain a good corporate performance required the integration of knowledge scattered at all levels of the company [27], [30] in which the dissemination of knowledge about management is done at the stage of Education and training routine for employees [31].

The essence of business orientation is about corporate culture or style [32] there are several types of business orientation such as marketing orientation, production orientation or relationship orientation. This business orientation determines the company's strategy in navigating the storm of competition. Business orientation also determines the survival or fragility of a business in a long-term or short-term. Business orientation not only talks about profit and company growth, business orientation must be based on the principle of building and creating justice for the perpetrator, the user and the environment as a resource provider [5]. The results of research ever undertaken by Azlin, et.al in 2014 [33], by Yu Chang in 2018 [34], and Giri Jogaratnam in 2017 [35] suggest that business orientation influences the firm's performance.

Conventional patterns that sometimes are not oriented based on large markets will only make small and medium enterprises players only rotated in one circle only. The more intense competition among small and medium enterprises would make competition in the Creative Industry becomes more difficult to predict coupled with the onslaught of overseas products that flooded the country, of course, add to the list of the long row of problems for SME's in Indonesia. The purpose of this study is to analyze the influence of leadership strategies, knowledge and business orientation on the performance of Small and medium enterprises, especially in the city of Makassar.

II. RESEARCH METHOD

The sample used in this research is as many as 33 SME samples with criteria have employees above 5 people and also turnover above 20 million per month. The sample criteria such as 4 types of business of clothes/clothes production, consists of 6 types of fashion category, 1 business group engaged in the production of ready-to-eat seasoning, and 1 for the type of souvenirs. While engaged in the type of business batik and equipment consists of 5 SME's, 9 SME's engaged in the food business and 3 SME's engaged in the type of catering business, a group of businesses engaged in printing and 6 SME's engaged in handicrafts/handicraft. Measurement data using a Likert scale (1-5) (Strongly Disagree - Strongly Agree) [5]. Sampling is based on stratified quota sampling. The analytical method used is SEM-PLS with the statistical tool of smart pls 3.0.

Dimensional measurement of Leadership strategy variable (X1) is the ability of leadership in giving influence to employees, have a clear mission vision about company activity, have courage in innovating, have a moral and ethical value which good for company and environment. Knowledge Management (X2) is measured by knowledge creation, knowledge integration and knowledge to innovation. Business orientation (X3) is measured by marketing orientation, relationship orientation. SME's Performance is measured by increased profits, increased production, and increased assets. The conceptual framework as below:

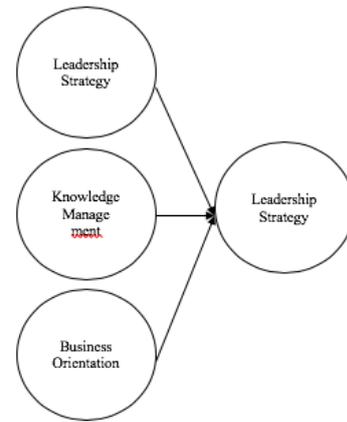


Figure 1. Conceptual Research

Based on prior research that has been presented in the introduction, the hypothesis is built as follows:

- H1: Leadership strategy affects the performance of SME's
- H2: Knowledge management affects the performance of SME's.
- H3: Business orientation affects the performance of SME's

III. RESULT AND DISCUSSION

The Goodness of Fit Model

The following is presented model feasibility test as A pre-requisite test.

Table 1. The Goodness of Fit Model

Item	Alpha	rho_A	C.R	AVE	Decision
LS (X1)	0.772	0.993	0.849	0.591	Qualify
LS_1	0,634				
LS_2	0,794				
LS_3	0,960				
LS_4	0,640				
KM (X2)	0.834	0.843	0.900	0.750	Qualify
KM_1	0,845				
KM_2	0,844				
KM_3	0,907				
BO (X3)	0.622	0.622	0.697	0.534	Qualify
BO_1	0,717				
BO_2	0,744				
R-Square = 0.650					
Adjusted R-square = 0.604					
f-Square Value					
LS (X1)	0.544				Fit
KM (X2)	0.444				Fit
BO (X3)	0.423				Fit
Multicollinearity (VIF) all item = 1,1 < 10					
SRMR	0.135				Fit
d_ULS	1.208				Fit
Chi-square	133				Fit
NFI	0.4				Fit

The table above shows that in the model feasibility test is all items/variables are fit. The dominant Leadership Strategy (X1) variable is formed by the item LS_3 (having the courage in innovating). The dominant Knowledge Management (X2) variable is formed by the KM_3 (knowledge to innovation) item and the dominant business orientation (X3) variable is formed by the item BO_2 (relationship orientation). The value of R-square (R2) is 0.650 which can be interpreted that leadership strategy, knowledge management, and business orientation have relationship and influence to SME's performance of 65%. The f-square test shows that all items correspond to the model so it is stated that the statistical hypothesis test is all the variables are received or (H0 = Accepted, Ha = Rejected). The multicollinearity test was also declared fit based on VIF value <10. SRMR, d_ULS, Chi-Square and NFI values also showed a fit value and in accordance with the prerequisite test. The conclusion of the goodness of fit model test is that all the testing stages are good and feasible to process at the bootstrapping stage of SEM-PLS.

Further below describes the results of bootstrapping or test influence/test SEM-PLS analysis model of the dependent variable that is SME's Performance (Y) as interpreted below:

Table 2. SEM-PLS Test

Variable	t-stat	Sig. level	Info
LS (X1)	2.012	0.038	Significant
KM (X2)	2.133	0.013	Significant
BO (X3)	3,454	0.001	Significant

The results from table 2 above stated that all the variables significantly influence the level (sig <0.05) to SME's performance. The most dominant variables affect SME's Performance is the business orientation (X3) variable and then the knowledge management (X2) and the last is the leadership strategy (X1).

Discussion

A good business is a business based on a sustainable business orientation. This is proven through test results stating that business orientation is the most dominant variable has to influence. Business orientation must be based on market orientation and oriented on how to establish relationships and connections as widely as possible. The key to success for SME's actors lies in that, especially in an open era like today's ownership of access to information becomes so valuable. Today's information and data is an invaluable asset. This can be done through a good relationship so that based on information and data it also delivers business people to more easily determine the right business in accordance with the needs and market demand. Besides, the knowledge of the business is also a fundamental thing other than business orientation that has an influence on the survival or death of a business.

Knowledge of management certainly allows an entrepreneur to be wise in taking every opportunity amid the risks that exist. Knowledge management is not only mandatory for creating something but also having knowledge about how to integrate what has been created to be sold in the right place and time and the power to innovate is a knowledge management that must be a differentiating factor between entrepreneur one and the other.

Innovation will certainly make entrepreneurs a "leader" and innovation also determine an entrepreneur as a businessman "follower". Knowledge of market-oriented innovation and consumer value will bring significant value to the company. All of these factors work well as long as they are supported by the entrepreneurs' ability to lead their employees. Leadership strategy is a factor that is not less important because not all entrepreneurs can be a good leader and wise. The pattern of leadership to support the rapid or slow process of production activities can take place vertically to the bottom management

Leadership (leadership strategy) not only talks about being a leader and oversees a number of members or employees in accordance with the company's vision and mission as well as the common goal of profit and image. In conducting business, a leader of an ethical and moral company becomes the deciding factor whether a leader deserves to be called a "leader" or not. Ethics and morals not only include within the company internal to members or internal companies only. Ethics and morals in business should also pay attention to environmental aspects.

IV. CONCLUSION

Business orientation has a significant influence as well as being the most dominant factor in building SME's performance either in the short-term or long-term. Knowledge management basic foundation goals and objectives of a business created and leadership strategy is a concrete step in realizing the principles of management

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