



Published by:

International Office, Universitas Pendidikan Nasional, Jalan Bedugul No. 39, Sidakarya, Denpasar, Bali, Indonesia  
Email: journal.revenue@undiknas.ac.id Website: <https://journal.undiknas.ac.id/index.php/REVENUE>

p-ISSN : 2723-4584  
e-ISSN : -

## Model of improving the business performance through innovation capability based on transformational leadership

Enita Fatmawati<sup>1</sup>, Nurhidayati<sup>2</sup>

### ABSTRACT

This study aimed to analyze the effect of transformational leadership through innovation capability on business performance studies at Village-Owned Enterprises (Village-Owned Enterprises) in Semarang Regency. Innovation capability is a measure of the achievement of good business performance in Village-Owned Enterprises in Semarang Regency. Respondents in this study were the managers of Village-Owned Enterprises in Semarang Regency. Data were collected through a questionnaire method that was filled out independently by 125 selected respondents where the respondents had managed Village Owned Enterprises in their respective villages in 19 sub-districts in Semarang Regency. The analytical method used is Structural Equation Modeling (SEM) analysis which is run with the SMART-PLS 3.2.9 program. The results of hypothesis testing with SMART-PLS 3.2.9 showed that transformational leadership had a direct effect on innovation capability, transformational leadership had a direct effect on business performance, innovation capability had a direct effect on business performance, and innovation capability was proven to be able to mediate transformational leadership in improving the business performance of Village-Owned Enterprises.

**Keywords:** business performance, innovation capability, and transformational leadership

### Affiliation

<sup>1</sup> Faculty of Economics

Sultan Agung University (Unissula)

Jl. Kaligawe Raya No.Km.4, Terboyo Kulon, Kec. Genuk, Kota Semarang, Jawa Tengah.

Email: enitafatmawati@std.unissula.co.id

<sup>2</sup> Faculty of Economics

Sultan Agung University (Unissula)

Jl. Kaligawe Raya No.Km.4, Terboyo Kulon, Kec. Genuk, Kota Semarang, Jawa Tengah.

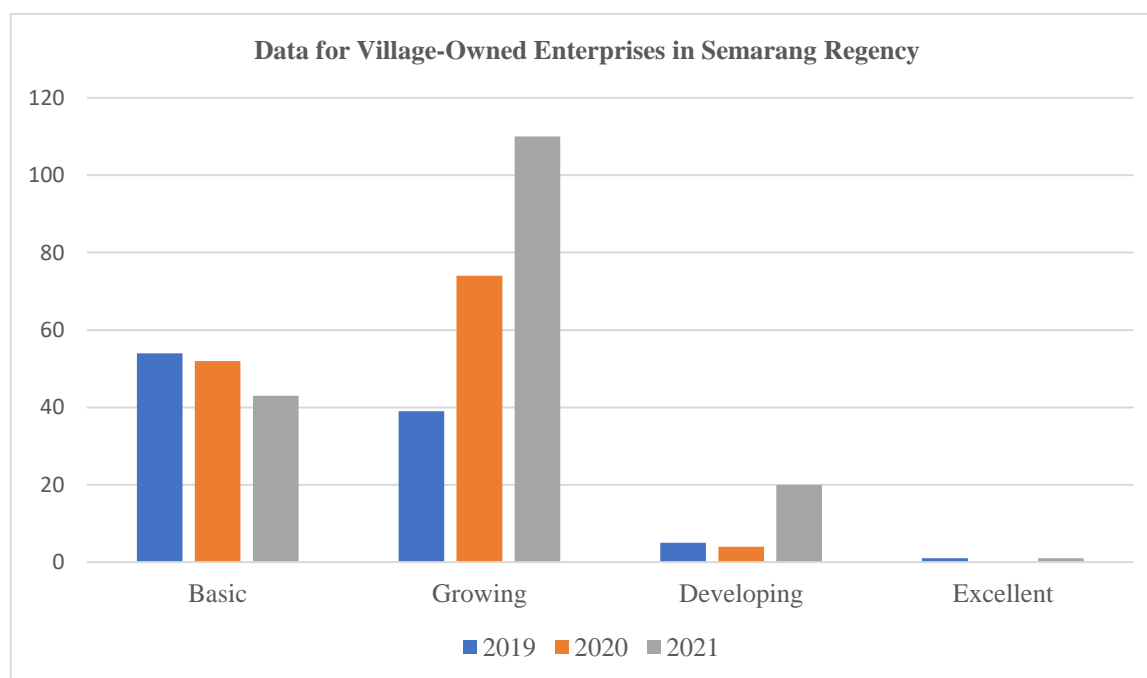
Email: nurhidayati@unissula.ac.id

### INTRODUCTION

The growth of Village-Owned Enterprises (Village-Owned Enterprises) has increased since the 2014 Village Law. Based on data available from the Village Community Empowerment Service of Central Java Province, currently in Central Java has formed Village-Owned Enterprises as many as 6638 Village-Owned Enterprises from 7809 villages. Village-Owned Enterprises (Village-Owned Enterprises) are formed by the village government based on village deliberations and stipulated in village regulations. The purpose of establishing a Village-Owned Enterprise is to drive rural communities' economy and strengthen village economic institutions. Each village can form a Village-Owned Enterprise whose organizational structure consists of a Village Deliberation, Advisors, operational implementers, and supervisors in accordance with PP 11 of 2021 concerning Village-Owned Enterprises and Village-Owned Enterprises together.

**TABLE 1. Classification Data for Village-Owned Enterprises in Semarang Regency**

	2019	2020	2021
Basic	54	52	43
Growing	39	74	110
Developing	5	4	20
Excellent	1	0	1
	99	130	174

**FIGURE 1. Graph of Classification of Village-Owned Enterprises in Semarang Regency**

Semarang Regency, Central Java Province, has an area of 19 sub-districts and 208 villages. Each has different regional characteristics, both highlands, and lowlands. Based on data from the Department of Rural Community Empowerment and Population, Semarang Regency already has 174 villages that make Village-Owned Enterprises with various business units.

The potentials and problems of the village also need to be reviewed for their usefulness and assessed in order to produce economic solutions and serve as objects for business units in overcoming rural economic problems. So that the formation of Village Owned Enterprises will vary and differ in each village. Diversity and characteristics are based on the characteristics of the local area, existing resources, and potential; this requires an ability to innovate to take opportunities in every potential that the village has.

Village-Owned Enterprises can be managed properly if led by the right leaders, who are able to read opportunities, are able to take risks, are able to encourage the improvement of the innovation capabilities of their employees, and have a good network to be able to market the products of the Village-Owned Enterprises under their leadership.

Business performance is the achievement of results that have been carried out by a company or business entity from the management of existing resources. Human resources are an important factor in carrying out the company's organizational activities because humans are planners, determinants of achieving organizational goals, and leadership is needed to move the organization. The right leadership style will lead to a person's motivation to excel in the company. The success or failure of employees is influenced by the leadership style of their superiors (Suranta, 2002). Effective leadership will encourage employees to be motivated in giving their best performance, to win the market competition which encourages increased company performance. Every business needs a business network because no business can stand alone. There are many benefits that can be obtained from a network such as adding insight, connections, and relationships, expanding knowledge, and accessing information for the benefit of Village-Owned Enterprises. Transformational leaders will continue to strive to encourage their employees to develop closeness with others to minimize uncertainty by joining forces and increasing the level of their resources including knowledge resources. Sufficient knowledge will increase the company's human resource

innovation capabilities both in terms of marketing and product creation. The ability to explore the potential of the village will increase the right business opportunities for Village-Owned Enterprises, provide benefits, increase business performance so that it can generate Village Original Income for the village, and can move the economy in the village community.

There are several leadership styles that are applied by leaders. Transformational leadership can be described as a leadership style that promotes the collective interests of employees and helps them achieve collective goals. (García-Morales et al., 2012). Previous research has emphasized the importance of transformational leadership to improve innovation capabilities (Masa'deh, RE, Obeidat, BY, & Tarhini, 2016). Other research by (García-Morales et al., 2012) shows that transformational leadership directly or indirectly affects the company's innovation capability by increasing the company's learning ability.

Other variables that affect business performance include innovation capability. Innovation capability is an organization's ability to innovate on an ongoing basis, either in the form of product, process, or managerial innovation (Rahab, 2010; Liao et al., 2006). According to (Kasim & Noh, 2012), the definition of innovation capability is the company's ability to transform knowledge and ideas into products and new processes. Research, (Kafetzopoulos & Psomas, 2015) found that innovation capability has a direct effect on product quality and operational performance. Although it does not directly affect the financial performance of manufacturing companies, innovation capability has an indirect effect on the company's operational performance. Cooperation with different external factors such as suppliers, customers, competitors, and research organizations (e.g., universities or governments) enhances knowledge and market sharing. Knowledge acquisition by the company results in the expansion of the company's existing knowledge base, which in turn advances the company's innovation capability (Clauss, T., & Kesting, 2017).

According to (Priyanto, 2019) the grand design for the Development of Village-Owned Enterprises in Central Java, issued by the Dispermasdukcapil of Central Java Province, the reality on the ground is that Village-Owned Enterprises do not run according to ideals, some of the problems faced by Village-Owned Enterprises are management capacity. still lacking, many Village-Owned Enterprises operate with minimal funds and expertise, inadequate leadership, lack of innovation, and lack of cooperation and synergy with other parties. Most (48.1%) villages have abundant natural resources and have supporting infrastructure so this becomes one of the capital in encouraging the development of Village-Owned Enterprises, support from the community will also be one of the driving forces for the progress and development of Village-Owned Enterprises.

With this research gap, it is interesting to re-examine the relationship between transformational leadership and business performance by adding innovation capability as an intervening variable. So, it is hoped that transformational leadership will be able to improve the quality of human resource insight so that there is an increase in the ability of innovation in the company's human resources which will lead to increased business performance in Village Owned Enterprises.

Based on the study controversy (research gap) and business phenomena, the formulation of the problem in this study is "What is the role of Innovation capability, Transformational leadership, to improve the performance of Village-Owned Enterprises". Then the research questions are as follows:

1. How does Transformational leadership affect innovation capability?
2. How is the influence of transformational leadership and innovation capability able to boost the performance of village-owned enterprises?

## LITERATURE REVIEWS

### Business Performance

According to (Kuncoro, 2006) in assessing the performance of a business: Financial and economic consequences must be taken into account in management decisions that can affect investment, operations, and financing. By developing expertise in understanding the market, building a strong distribution network, and managing the business effectively, small companies can do business for their business performance. The achievement of business performance can be driven by competitive strategic challenges (Abdul Halim et al., 2011). How big the company can dominate the market and be oriented towards its goals and finances can be directed to measure the company's performance.

In previous research, according to (Sugiarto, 2008) what is meant by performance is the successful achievement of goals from the process that has been passed by an owner or manager in his business activities. An assessment of a company's business performance requires both financial and non-financial considerations. In this regard, various studies adopted various performance measures, including sales growth, market share, profitability, overall performance, and stakeholder satisfaction (Yunis et al., 2013).

Accurate measurement of the performance of Village-Owned Enterprises cannot be seen from the general view as a whole because there are no standards and references in the community. So that this research allows the theoretical performance measurement of several experts. Venkatraman and Ramanujam (1986) formulate three dimensions for performance evaluation, namely financial performance, business performance, and organizational

performance.

Measurements that are subjective according to (Lee & Miller, 1996) can be used to examine the existing research sample consisting of various businesses with different criteria and objectives. In addition, it can be seen from the growth of organizations or small and medium-sized companies, because ideally, they have the achievement of results as outlined in the financial statements, although sometimes it is still difficult to understand and sometimes not transparent. Based on this definition, business performance can be concluded that the business achievements that have been carried out by the company in a certain period are indicated by the growth of turnover, profits, and consumers.

Previous research stated that business performance can be viewed in different ways and can be measured in two ways, namely financial and non-financial measures. For example (Martinez-Martinez et al., 2019) business performance is measured based on the profit growth rate, sales growth rate, asset profitability level, and productivity. Then according to (Hadjimanolis, 2000) the indicators that affect the company's performance are as follows: sales growth, labor growth, income growth, and consumer growth. Growth is a precise and easy-to-see indicator compared to measurement in accounting. Differences in financial performance and growth are aspects that can be synergized because each has unique and important information. This is reinforced by the opinion (Ferdinand, 2000) that the company's performance which consists of managerial functions such as human resources, financial and social communities must synergize well within the company. Integrating financial and growth indicators will enrich descriptive information about the company's actual performance rather than looking at just one measurement.

### **Transformational Leadership (Transformational Leadership)**

According to (Dubois & Rothwell, 2016) transformational leadership is a leadership style that transforms followers to rise above their personal interests and challenges them to achieve common goals. This type of leader intellectually influences, inspires, motivates, and personally values their subordinates or employees (Berraies & Zine El Abidine, 2019). Furthermore (Afsar & Umrani, 2020) stated that transformational leaders motivate their subordinates with prospects, give subordinates empowerment, and personal assistance, and encourage them to cultivate trust, loyalty, and respect. Previous research (Northouse, 2013) stated that transformational leadership is a process in which people engage with others, and create relationships that increase motivation and morality in leaders and followers.

Transformational leadership is the type of leader who inspires his employees to put their personal interests aside and has the ability to influence. Based on this definition, it can be concluded that transformational leadership is a leadership style that is able to encourage, motivate employees, and inspire them towards transformational change. According to Bass (2014), transformational leadership has four indicators, namely:

1. Idealized Influenced (Charisma), respect from employees.
2. Inspirational Motivation (inspiration), motivator.
3. Intellectual Stimulation (Intellectual stimulation), stimulate intelligence and increases creativity, innovation, and problem-solving.
4. Individual consideration (individual consideration).

### **Innovation Capability**

According to (Kasim & Noh, 2012), the definition of innovation capability is the company's ability to transform knowledge and ideas into products and new processes. Previous research According to (Cohen & Levinthal, 1990) innovation capability is defined as the ability to continuously transform knowledge and ideas into new products, processes, and systems for the benefit of the company and its stakeholders. According to research (Chung et al., 2016) the factors that encourage a company's innovation capability are its access to new knowledge/ideas, minimizing knowledge redundancy, and joint problem solving thereby reducing uncertainty. Based on this definition, it can be concluded that innovation capability is the organization's ability to identify market opportunities and create value that adds value to the organization.

Indicators of innovation capability according to (Teece, 2009) are as follows:

1. Ability to sense the opportunity
2. Ability to Seize Opportunities
3. Ability to manage threats

### **Hypothesis Development**

#### **Transformational Leadership Relationship with Business Performance**

Leadership is the process of influencing and directing group activities in an organized manner to achieve goals by communicating with them. The right leadership has the potential to promote innovative work behavior by motivating employees and developing an atmosphere conducive to the development of their creative and innovative skills which ultimately leads to increased innovation capabilities and superior competitive advantage for the organization (Patiar & Wang, 2016) which in turn will improve organizational performance. Based on the



above, a hypothesis can be made as follows:

**H1: Transformational leadership has a positive effect on business performance**

#### **Relationship between Transformational Leadership and Innovation Capability**

Appropriate leadership has the potential to promote innovative work behavior by motivating employees and developing an atmosphere conducive to the development of their creative and innovative skills which ultimately leads to increased innovation capability and superior competitive advantage for the organization (Patiar & Wang, 2016). Based on the above, a hypothesis can be made as follows:

**H2: Transformational leadership has a positive effect on innovation capability**

#### **Relationship between Innovation Capability and Business Performance**

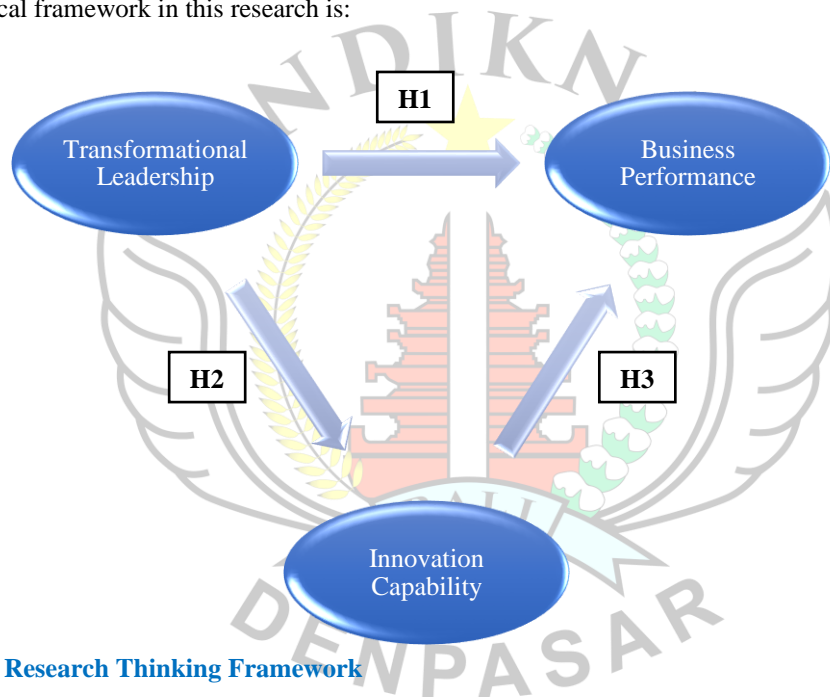
The relationship between innovation and business support is supported by resource-based theory (RBV). According to research (Saunila & Ukko, 2012) with innovation, company profits will increase because there are new products produced by the company. Another study by (Kafetzopoulos & Psomas, 2015) found that innovation capability has a direct effect on product quality and operational performance.

Based on the above, a hypothesis can be made as follows:

**H3: Innovation capability has a positive effect on business performance**

#### **Research Empirical Model**

The theoretical framework in this research is:



**FIGURE 2. Research Thinking Framework**

The hypotheses discussed in this study are:

H1: Transformational leadership has a positive effect on business performance

H2: Transformational leadership has a positive effect on innovation capability

H3: Innovation capability has a positive effect on business performance

## **METHODS**

### **Types of Research**

This research is explanatory research. According to (Sugiyono, 2017b) is a study that aims to determine the relationship between two or more variables. This study includes variables: innovation capability, transformational leadership, networking, and business performance of Village-Owned Enterprises.

### **Data Types and Sources**

Data collection uses primary and secondary sources. The primary data of this study includes related data: Transformational leadership, innovation capability, and Business Performance. Secondary data was obtained from the Village Community Empowerment Service in Semarang Regency in the form of growth data for 174 Village-Owned Enterprises in 2021. The population determined was Village-Owned Enterprises located in Semarang

Regency spread over 19 sub-districts. Respondents in this study were Village Owned Enterprise Managers in Semarang Regency. The available sample is 125 Village-Owned Enterprises with the data collection method using a questionnaire.

### Method of Collecting Data

According to (Sugiyono, 2017) a questionnaire/questionnaire is a data collection technique carried out by giving a set of questions or written statements to respondents to answer. This study used a questionnaire aimed at the respondents. The form of the questionnaire is a closed question that must be answered by the respondent, namely the manager of the Village-Owned Enterprise, relating to transformation leadership, innovation capability, networking, and business performance of the Village-Owned Enterprise.

Data collection obtained through questionnaires is carried out using interval measurements with the provisions of the score as follows:

### Stages of Partial Least Squares Analysis

Strongly Disagree	1	2	3	4	5	Strongly Agree
-------------------	---	---	---	---	---	----------------

### Evaluation of the Measurement Model (Outer Model)

Evaluation of the measurement model or outer model serves to determine how to measure the latent variable. Evaluation of the measurement model was carried out by testing internal consistency reliability (Cronbach's Alpha and Composite Reliability), convergent validity (indicator reliability and AVE), and discriminant validity (Fornell-Lacker Criterion). The loading factor value shows the magnitude of the correlation between measurement items (indicators).

### Convergent Validity

Convergent validity serves to measure the magnitude of the correlation between constructs and latent variables. In testing the convergent validity of each item reliability can be seen from the loading factor. The validity test in question is a test of the indicators in the variables to ensure that all the indicators contained in this study can really be understood well by the respondents so that respondents do not experience misunderstandings of the indicators used.

Convergent Validity is done by looking at the results of the reliability test (validity indicator) in detail, which is indicated by the value on the outer loadings. Outer loadings are values that show the correlation of the value of a question item with an indicator of a variable. The value of outer loadings if it is greater than 0.7 is declared valid (Sarwono, 2015). However, according to Hair et al., (1998) outer loadings greater than 0.5 is generally considered significant.

### Discriminant validity

Discriminant Validity serves to measure the extent to which a construct is different from another construct. Establishing discriminant validity means that a construct is unique and captures phenomena that are not represented by other constructs in the model. Discriminant Validity is done by looking at the value of the Fornell-Lacker Criterion (Henseler et al., 2015). Another method to assess discriminant validity is to compare the square root of average extracted (AVE) of each construct with the correlation between the constructs and other constructs in the model. If the AVE value of each construct is greater than the correlation value between constructs and other constructs in the model, then it is said to have good discriminant validity. It is recommended that the AVE value should be greater than 0.5. The discriminant validity of the measurement model is assessed based on cross-loading measurements with constructs.

### Internal Consistency

The next step is to see the internal consistency reliability of Cronbach's alpha and composite reliability. Composite reliability is an index to show the extent to which a measuring instrument can be trusted or relied upon. If a tool is used to measure twice by showing relatively consistent results, then the tool is said to be reliable. In other words, reliability shows the consistency of a measuring instrument in the same phenomenon. The latent variable is declared reliable if the composite reliability value is  $> 0.7$ , then the latent variable is declared reliable. The interpretation of composite reliability is the same as Cronbach's alpha. The limit value  $> 0.7$  is acceptable, and the value  $> 0.8$  is very satisfactory.

### Structural Model Evaluation (Inner Model)

Structural model testing aims to predict the relationship between latent variables. The inner model is a specification of the relationship between latent variables (structural model), also called inner relation, describing

the relationship between latent variables based on the substantive theory of research (Jaya & Sumertajaya, 2008). The structural model was tested by looking at the R-square value for the dependent construct, testing the significance of the structural path parameter coefficients.

### Coefficient of Determination (R-square)

The first step is to evaluate the coefficient of determination (R-square). The interpretation of the R-square value is the same as the interpretation of the R-square linear regression, namely the magnitude of the variability of the dependent variable that can be explained by the independent variable. Hair et al., (2012) recommend criteria R-square values of 0.75, 0.50, and 0.25 then prove that the predictive ability of a model is (strong, moderate/moderate, and weak). Changes in the R-square value can be used to see whether the effect of the independent latent variable on the dependent latent variable has a substantive effect.

### Path Coefficient Value

The path coefficient value can be used as a reference to determine the magnitude of the partial effect which is 0-1, either positive or negative. The path coefficient value is also used to determine the structural equation of the model being tested. PLS is a variant-based structural equation analysis (SEM) that can simultaneously test the measurement model as well as test the structural model. Here's the equation:

$$Y1 = \beta_1 X1 + e1 \text{ equation..... (1)}$$

$$Y2 = \beta_3 X1 + \beta_5 Y1 + e2 \text{ equation..... (2)}$$

#### Information

Y1	= Innovation capability
Y2	= Business performance
X1	= Transformational leadership
$\beta$	= Regression Coefficient
e	= Regression Error

### Hypothesis test

The hypothesis in this study needs to be measured by testing whether the proposed hypothesis shows a significant impact or not. In this study, all path diagrams were analyzed by looking at the comparison of path coefficient scores in the SmartPLS output table related to t-statistics with t-table values. If the value of the t-statistic shows that it is greater than the critical point significant  $p < 0.05$ , then the hypothesis is accepted. While the t-statistic value is smaller than the critical value at a significant level of  $p > 0.05$ , then the hypothesis is rejected.

The t-test is used to prove the hypothesis of whether there is an influence of each independent or exogenous variable individually on the dependent or endogenous variables. The test steps are as follows:

1. Determine the research hypothesis  
 $H_0: p = 0$ , meaning that there is no significant effect of each independent variable on the dependent variable.  $H_1: p \neq 0$ , meaning that there is a significant effect of each independent variable on the dependent variable.
2. Determine the test criteria with the provision that the significance level ( $\alpha$ ) is 0.05 and the t table is searched with degrees of freedom ( $df = n - k - 1$ ), where  $n$  = number of samples and  $k$  = number of independent variables.
3. The conclusion of the test if t count t table, then  $H_0$  which states that there is no significant effect between the independent variables on the dependent variable is rejected and  $H_1$  which states that there is a significant influence between the independent variables on the dependent variable is accepted, or it can also be seen from the significant value, if significant t count  $< 0.05$ , then  $H_0$  is rejected and  $H_1$  is accepted. In analyzing the data obtained from this study, a significance level ( $\alpha$ ) of 0.05 was used. The next step is to determine  $df$  (degree of freedom, for independence t-test,  $df = N - 2$ ). Furthermore, by comparing t arithmetic with the t-table, if the data being tested has a significant value greater than the 0.05 level of significance, it means that the data is in accordance with the statement in the null hypothesis or  $H_0$  is accepted. And conversely, if the data that has been tested has a significant value less than the 0.05 level of significance, it means that  $H_0$  is rejected or the data is in accordance with the statement in the alternative hypothesis ( $H_1$ ) is accepted.

## RESULTS AND DISCUSSION

The results of the questionnaire distribution obtained data from as many as 125 questionnaires which were then processed for this study. Table 2 presents the general description of the research respondents.

**TABLE 2. Demographics of Respondents**

No	Demographic	Frequency	Percentage (%)
1	<b>Gender</b>	125	100.00%
	Male	97	77.60%
	Female	28	22.40%
2	<b>Age (years)</b>	125	100.00%
	20 – 30	50	40.00%
	31 – 40	38	30.40%
	More than 40	37	29.60%
3	<b>Duration of service (years)</b>	125	100.00%
	Less than 3	109	87.20%
	4 – 8	16	12.80%
	9 – 14	-	-
	15 – 20	-	-
	More than 20	-	-
4	<b>Education</b>		
	Senior High School	67	53.60%
	D3/S1	58	46.40%
		-	-

**Outer Model Results (Measurement Model)**

Outer Model Analysis aims to assess how the construct of measurement of latent variables. This analysis is to test the validity and reliability of the indicators making up the latent variables. The validity test was conducted to measure the extent to which the research indicators were able to reveal something they measured (latent variables) (Ghozali, 2015). The validity test can be seen at three (3) points, namely the outer loading (convergent validity test), discriminant validity (cross-loading), and t-statistics of the indicators on latent variables. The first validity test uses the outer loadings table (convergent validity test) which is presented in appendix 1. The acceptable convergent validity is the loading factor value  $> 0.5$  (Hair et al, 1998) so based on the test it is known that all indicators are valid with values above the point limit of 0.5. Next is the discriminant validity cross-loading test which can be presented in Appendix 1. The outer model values are all more than 0.5. The third stage of the validity test is by looking at the t-statistic value between the constructs and the latent variables. If the t-statistic is more than 1.96 then the data is valid. In this third validity test, all indicator constructs have t-statistics of more than 1.96. The following table 4.6 presents Cronbach's alpha and composite reliability values that can be used to see the level of data reliability, along with the average variance extracted (AVE) value. can also be used to see the convergent validity of the data. The third stage of the validity test is by looking at the t-statistic value between the constructs and the latent variables. If the t-statistic is more than 1.96 then the data is valid. In this third validity test, all indicator constructs have t-statistics of more than 1.96. The following table 4.6 presents Cronbach's alpha and composite reliability values that can be used to see the level of data reliability, along with the average variance extracted (AVE) value. can also be used to see the convergent validity of the data. The third stage of the validity test is by looking at the t-statistic value between the constructs and the latent variables. If the t-statistic is more than 1.96 then the data is valid. In this third validity test, all indicator constructs have t-statistics of more than 1.96. The following table 4.6 presents Cronbach's alpha and composite reliability values that can be used to see the level of data reliability, along with the average variance extracted (AVE) value. can also be used to see the convergent validity of the data.

**TABLE 3. Outer Loading**

	Transformational Leadership	Innovation Capability	Business Performance
X1.1	0.728	-	-
X1.2	0.860	-	-
X1.3	0.792	-	-
X1.4	0.731	-	-
Y1.1	-	0.794	-
Y1.2	-	0.845	-
Y1.3	-	0.758	-
Y2.1	-	-	0.884
Y2.2	-	-	0.930



Y2.3	-	-	0.921
------	---	---	-------

**TABLE 4. Discriminant Validity (Cross Loadings)**

	Business Performance	Innovation Capability	Transformational Leadership
X1.1	0.454	0.495	0.730
X1.2	0.534	0.568	0.859
X1.3	0.421	0.467	0.791
X1.4	0.417	0.494	0.731
Y1.1	0.564	0.768	0.669
Y1.2	0.512	0.860	0.428
Y1.3	0.503	0.774	0.447
Y2.1	0.882	0.593	0.554
Y2.2	0.932	0.582	0.538
Y2.3	0.922	0.630	0.521

**TABLE 5. Discriminant Validity (Fornell Larcker Criterion)**

	Business Performance	Innovation Capability	Transformational Leadership
Business Performance	0.912	-	-
Innovation Capability	0.664	0.800	-
Transformational Leadership	0.590	0.663	0.780

**TABLE 6. Outer Loadings (Mean, STDEV, T-Values, P-Values)**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
BP1 < -Business Performance	0.884	0.884	0.045	19.557	0.000
BP2 < -Business Performance	0.930	0.931	0.019	48.556	0.000
BP3 < -Business Performance	0.921	0.920	0.027	34.034	0.000
IC1 < -Innovation Capability	0.794	0.807	0.039	20.128	0.000
IC2 < -Innovation Capability	0.845	0.828	0.076	11.047	0.000
IC3 < -Innovation Capability	0.758	0.742	0.097	7.792	0.000
TL1 < -Transformational Leadership	0.728	0.722	0.080	9.118	0.000
TL2 < -Transformational Leadership	0.860	0.859	0.030	28.657	0.000
TL3 < -Transformational Leadership	0.792	0.790	0.057	13.779	0.000
TL4 < -Transformational Leadership	0.731	0.724	0.077	9.453	0.000

**TABLE 7. Construct Reliability and Validity**

	Cronbach's Alpha	rho_A	Composite Reliability	(AVE)
Business Performance	0.899	0.899	0.937	0.832
Innovation Capability	0.721	0.728	0.841	0.639
Transformational Leadership	0.783	0.792	0.861	0.608

If the AVE value is more than 0.5. Based on table 8, the constructs that make up the latent variable are valid so that the next stage of analysis can be carried out, namely reliability testing. As for the reliability test, it can be seen in the column Cronbach's alpha and composite reliability. If in both categories the latent variable gets a value of more than 0.7, it can be said that the data is reliable. The reliability test itself is carried out to measure whether the questionnaire or indicators used in the study can provide consistent or stable results from time to time (Ghozali, 2015). Based on table 8, data from the six (6) latent variables have Cronbach's alpha and composite reliability values of more than 0.7 so it can be said that the data is reliable. Thus, based on the outer model or measurement model that gives good results, data processing can be continued to the next stage, namely the analysis of the inner model.

#### Inner Model Results (Structural Model)

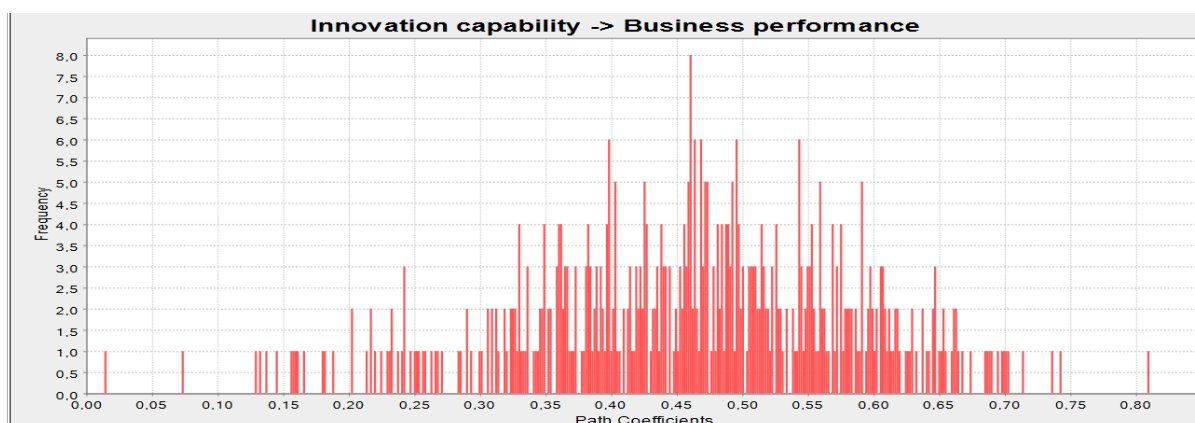
Inner model testing is carried out using the Smart PLS 3.2.9 application, where the output can be generated from bootstrapping analysis. The output can be presented in Table 8 below:

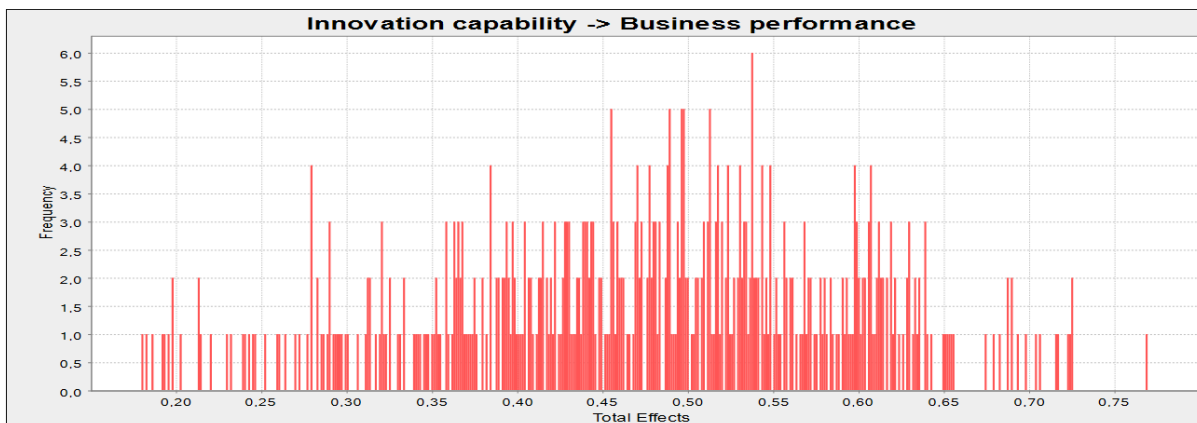
**TABLE 8. Path Coefficients (Mean, STDEV, T-Values, P-Values)**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Transformational Leadership -> Innovation Capability	0.663	0.665	0.119	10.136	0.000
Transformational Capability -> Business Performance	0.488	0.461	0.123	3.974	0.000
Transformational Leadership -> Business Performance	0.266	0.274	0.065	2.335	0.026

Note: \*\*\*) significant at  $p < 0.01$ ; \*\*) significant at  $p < 0.05$ ; \*) significant at  $p < 0.10$ .

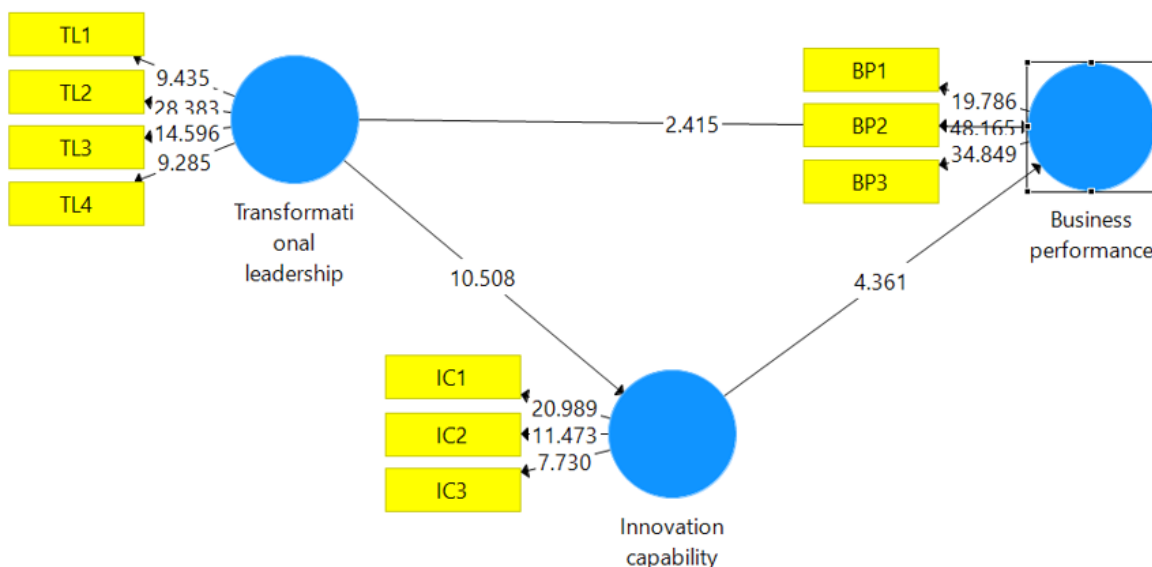
Source: SmartPLS output 3.2.9, processed (2021)





**FIGURE 3. Graph of Classification of Village-Owned Enterprises in Semarang Regency**

The results of the inner model analysis are the relationship between latent variables, the effect of significance, the regression coefficient or the magnitude of the influence of each exogenous variable on the endogenous variables, and the magnitude of the effect of these exogenous variables together on the endogenous variables which can be seen in the figure. R-Square. The results of the significance test can be seen in Figure 2 which presents a model of the results of processing with bootstrapping.



**FIGURE 4. Inner Model**

**Inner model**

Based on the regression coefficient of each variable, the regression equation can be arranged as follows:

$$\eta_1 = 0.663 \xi_1 + \zeta \dots\dots\dots (4.1)$$

$$\eta_2 = 0.488 \eta_1 + 0.266 \xi_1 \dots\dots\dots (4.2)$$

Note:

$\beta, \gamma$  = Regression coefficient

$\zeta$  = Linear residual variabel

$\eta_1$  = Variabel innovation capability

$\eta_2$  = Variabel Business Performance

$\xi_1$  = Variabel transformational leadership

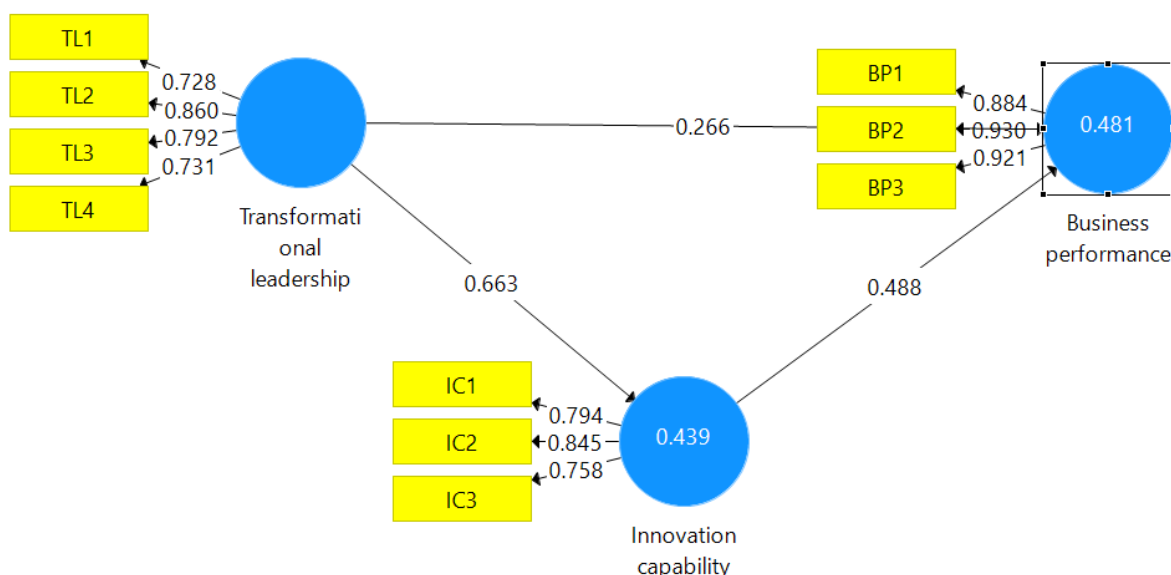
In Figure 2 it can also be seen the magnitude of the influence of the independent variables together on the dependent variable (coefficient of determination), which can also be presented in table 9 below:

**TABLE 9. R Square Results**

	R Square	R Square Adjusted
Innovation Capability	0.439	0.435
Business Performance	0.481	0.472

Based on the table of R Square results above, it can be seen that the contribution of the independent variable to innovation capability is 44%, which means that another 56% is influenced by other variables not examined in this study. Meanwhile, the contribution of the influence of the two independent variables on business performance is 48%, which means that another 52% is influenced by other variables not examined in this study.

The equation of the model can be presented in Figure 3 which is the result of processing with the outer model, which produces regression coefficient values and includes the validity value between variable indicators and latent variables.

**FIGURE 5. Outer Model**

### Hypothesis Testing and Discussion

**TABLE 10. R Square Results**

	Hypothesis	Results	Notes
H1	Transformational leadership has a significant effect on business performance	Koef. Beta = 0.266 t-Statistik = 2.335 p-Value = 0.026	Accepted
H2	Transformational leadership has a significant effect on innovation capability	Koef. Beta = 0.663 t-Statistik = 10.136 p-Value = 0,000	Accepted
H3	Innovation capability has a significant effect on business performance	Koef. Beta = 0.488 t-Statistik = 3.974 p-Value = 0.000	Accepted

### Hypothesis Testing Results

#### Transformational Leadership towards Business Performance

Hypothesis 3 (H3) was tested by t-test. based on the results of the calculation of the path coefficients presented in table 6, it is known that the t statistic is 2,335 > t table (1,968), and the probability or p-value is 0.026 < 0.05

(significance 1%) so that the results are significant. So, it can be concluded that H3 which states that innovation capability has a positive and significant effect on business performance is accepted.

This can be perceived as a leader using a transformative leadership style such as always providing inspiration, and motivation, being willing to listen to subordinates' ideas, and providing role models, it will be able to increase employee morale which will ultimately improve performance in the Village Owned Enterprise.

### Transformational Leadership towards Innovation Capability

Hypothesis 1 (H1) was tested by t-test. based on the results of the calculation of path coefficients presented in table 6, it is known that the t statistic is  $10.136 > t$  table (1.968), and the probability or p-value  $0.000 < 0.01$  (significance 1%) so the results are significant. So, it can be concluded that H1 which states that transformational leadership has a positive and significant effect on innovation capability is accepted. This can be interpreted as the more the leader perceives himself to be practicing transformational leadership, the innovation capability will increase, this can be seen from when the leader motivates and provides opportunities for employees to express their ideas, the ability to innovate will increase.

### Innovation Capability towards Business Performance

Hypothesis 2 (H2) was tested by t-test. based on the results of the calculation of path coefficients presented in table 6, it is known that the t statistic is  $0.266 > t$  table (1.968), and the probability or p-value  $0.000 < 0.01$  (significance 5%) so the results are significant. So, it can be concluded that H2 which states that Innovation capability has a positive and significant effect on business performance is accepted. It can be perceived that the more leaders have the ability to innovate, such as being able to manage existing village assets and potential business opportunities, the performance of Village-Owned Enterprises will increase.

### Intervening Test Results

According to the research model, a variable can have an influence on certain variables indirectly, but through other variables first. The results of this indirect effect analysis are presented in the following table:

**TABLE 11. Specific Indirect Effects (Mean, STDEV, T-Values, P-Values)**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Transformational Leadership -> Innovation Capability -> Business Performance	0.323	0.307	0.088	3.655	0.000

Transformational leadership through innovation capability is able to have an impact on business performance, as evidenced by the T-Statistics value of 3,655 greater than 1.96 and P-Values 0.000 less than 0.05. So, it can be concluded that innovation capability is able to become a mediating variable between transformational leadership and business performance.

## Discussion

### The Effect of Transformational Leadership on Business Performance

Based on the results of the hypothesis 1 test, it is stated that transformational leadership has a positive and significant influence on business performance. This finding is in line with the results of research (Italiani, 2013) which shows that transformational leadership has a positive and significant relationship to employee performance which in turn will improve organizational performance.

Based on this research, the results of the regression coefficient for transformational leadership on business performance are presented in table 8, indicating that transformational leadership has a significant effect on business performance with a positive effect of 0.266. This proves that when the leader of a Village-Owned Enterprise has a transformational leadership style, providing motivation, inspiration, and stimulation so that subordinates are more innovative will be able to encourage the performance of the Village-Owned Enterprise.

### The Effect of Transformational Leadership on Innovation Capability

The results of testing hypothesis 2, state that transformational leadership has a significant effect on innovation capability. This finding is in accordance with research from (García-Morales et al., 2012) which shows that transformational leadership directly or indirectly affects the company's innovation capability by increasing the company's learning ability.

Based on this study, the results of the regression coefficient of transformational leadership on innovation



capability are presented in table 8, indicating that transformational leadership has an influence on innovation capability and shows a positive direction of influence of 0.663. This proves that the transformational leadership style that provides a lot of motivation greatly influences the improvement of innovation capability for the managers of Village Owned Enterprises. This will encourage the enthusiasm of the HR of Village-Owned Enterprises to continue to be eager to improve their best performance for the progress of Village-Owned Enterprises in accordance with the vision and mission, in addition to intellectual stimulation support, providing opportunities and space for Village-Owned Enterprises' HR to dare to innovate will improve Innovation capability of Village-Owned Enterprises Human Resources However, in this study, the leaders of Village-Owned Enterprises did not feel that they had enough charismatic characteristics.

### **The Effect of Innovation Capability on Business Performance**

Based on the results of the hypothesis 3 test, it can be concluded that innovation capability has a significant effect on business performance. This is in line with the results of research (Kafetzopoulos & Psomas, 2015) which found that innovation capability has a direct effect on product quality and operational performance, although it does not directly affect the financial performance of manufacturing companies.

Based on the results of the regression coefficient of innovation capability on business performance, which is presented in table 8, it shows that innovation capability has a positive and significant effect on business performance, which is 0.488. So, it can be said that the ability of human resources to innovate can affect business performance.

The results of this study indicate that innovation capability has the greatest influence on increasing business performance, and is able to mediate transformational leadership in improving the business performance of Village-Owned Enterprises. The ability to feel opportunities, and also to take existing business opportunities by innovating products and services from utilizing the potential in the form of natural resources, human resources and village assets has proven to be able to improve the performance of Village-Owned Enterprises, this can be seen by the addition of consumers in Village-Owned Enterprises who show that Village-Owned Enterprises are increasingly recognized in their villages and have begun to develop into market segments outside the village community, however, the growth of Village-Owned Enterprises' turnover and profits did not increase significantly due to the pandemic that reduced purchasing power in rural communities at the time this research was carried out. The innovation ability of Village-Owned Enterprises can be seen with the emergence of innovations to optimize existing potential such as branding MSME products to be marketed by Village-Owned Enterprises, collaborating with farmers and ranchers, creating tourism business units, and managing other village assets.

The next biggest influence on business performance is transformational leadership which also has a significant influence on innovation capability. This proves that the transformational leadership style that provides a lot of motivation greatly influences the improvement of innovation capability for village-owned enterprises, this will encourage the spirit of village-owned enterprises' human resources to continue to be enthusiastic about improving their best performance for the progress of village-owned enterprises in accordance with the mission and objectives. the mission of the Village-Owned Enterprises, in addition to the support of intellectual stimulation (support in the form of creative ideas, problem-solving, providing opportunities for the HR of the Village-Owned Enterprises to be creative) is often given by a leader with a transformational style will bring up the capabilities of the HR of the Agency of Village Owned Enterprises in innovating. Giving advice by the leader will make the HR of Village-Owned Enterprises feel more confident in carrying out their work and avoid fear in making decisions, however in this study the leaders of Village-Owned Enterprises felt that they were not very capable of providing inspiration, this is because many Agency Leaders Other Village-Owned Enterprises which in popularity are more able to inspire the managers of the Village-Owned Enterprises, from the performance achievements of Village-Owned Enterprises which are already widely known by the public.

In this study, it was proven that transformational leadership was proven to be able to increase the innovation capability of Village-Owned Enterprises HR, with this support, access to information for Village-Owned Enterprises would be able to increase the ability of Village-Owned Enterprises in exploring the potential and managing village assets, feeling opportunities, reading opportunities. business, and take advantage of opportunities for human resource collaboration with Village-Owned Enterprises with third parties, opportunities to take advantage of financial assistance in the form of Village-Owned Enterprises capital for the development of Village-Owned Enterprises' businesses. However, in this study, the managers of Village-Owned Enterprises felt that they could not be optimal in dealing with business threats, caused by the lack of access to supplier materials (because the business scale of the Village-Owned Enterprises was not so large), the existence of similar businesses in the community, technology was still minimal. by Village-Owned Enterprises, not yet maximal participation of village capital into Village-Owned Enterprises, and lack of knowledge about broader marketing.

Innovation capability as a mediating variable is proven to be able to improve the business performance of Village Owned Enterprises. Leaders who apply a transformative leadership style will have a big positive impact on building trust and increasing the innovation capabilities of their employees. In the current era of globalization, business competition is very tight, villages with all their resources, both human resources, natural resources, and

resources in the form of village assets, must be managed properly so that they are not controlled by outsiders that these resources can prosper. the village community. Village-Owned Enterprises are expected to become business entities that will be able to move the economy in the village with all the potential in it. The innovation capability of Village-Owned Enterprises HR is important to improve because business competition is so tight, with continuous innovation, businesses will survive and be able to compete. good. The ability to innovate will also increase the ability of businesses to face existing threats, although in this study, this indicator is still lacking compared to other indicators, so it still needs to be improved.

## CONCLUSIONS

The conclusions that can be presented in this study are:

1. Innovation capability in this study has the biggest contribution to improving the business performance of Village-Owned Enterprises and is proven to be able to mediate transformational leadership in improving the business performance of Village-Owned Enterprises. This is done by increasing the ability to create products and services, in optimizing the potential and assets of the village. However, the ability to manage threats in the face of a changing environment still needs to be improved.
2. Transformational leadership in this study has a positive and significant effect on the business performance of Village Owned Enterprises. Providing motivation and support is proven to be able to encourage Village-Owned Enterprises employees to be more enthusiastic in working to build Village-Owned Enterprises, encourage innovation capability of Village-Owned Enterprises, to be more innovative in taking advantage of all existing opportunities to be able to make Village-Owned Enterprises as a driver of economic independence village.

## REFERENCES

### Articles

- [1] Abdul Halim, M. A. S., Muda, S., & Mohd Amin, W. A. A. W. (2011). The Measurement of Entrepreneurial Personality and Business Performance in Terengganu Creative Industry. *International Journal of Business and Management*, 6(6), 183–192. <https://doi.org/10.5539/ijbm.v6n6p183>
- [2] Afsar, B., & Umrani, W. A. (2020). Transformational leadership and innovative work behavior: The role of motivation to learn, task complexity and innovation climate. *European Journal of Innovation Management*, 23(3), 402–428. <https://doi.org/10.1108/EJIM-12-2018-0257>
- [3] Berraies, S., & Zine El Abidine, S. (2019). Do leadership styles promote ambidextrous innovation? Case of knowledge-intensive firms. *Journal of Knowledge Management*, 23(5), 836–859. <https://doi.org/10.1108/JKM-09-2018-0566>
- [4] Chung, H. F. L., Wang, C. L., Huang, P. H., & Yang, Z. (2016). Organizational capabilities and business performance: When and how does the dark side of managerial ties matter? *Industrial Marketing Management*, 55, 70–82. <https://doi.org/10.1016/j.indmarman.2016.02.014>
- [5] Clauss, T., & Kesting, T. (2017). How businesses should organize knowledge-intensive collaboration with universities: An empirical investigation of university professors. *Industrial Marketing Management*, 62, 185–19.
- [6] Cohen, W. M., & Levinthal, D. A. (1990). Absorptive Capacity: A New Perspective on Learning and Innovation. *Administrative Science Quarterly*, 35(1), 128. <https://doi.org/10.2307/2393553>
- [7] Ferdinand, A. (2000). Marketing management: A strategic approach. *Research Paper Series*, 1, 1–55.
- [8] García-Morales, V. J., Jiménez-Barrionuevo, M. M., & Gutiérrez-Gutiérrez, L. (2012). Transformational leadership influence on organizational performance through organizational learning and innovation. *Journal of Business Research*, 65(7), 1040–1050. <https://doi.org/10.1016/j.jbusres.2011.03.005>
- [9] Hadjimanolis, A. (2000). An investigation of innovation antecedents in small firms in the context of small developing country. *R&D Management*, 30, 235-245.
- [10] Hair, J. F., Ringle, C. M., & Sarstedt, M. (2012). Partial Least Squares: The better approach to structural equation modeling? In long range planning. <https://doi.org/10.1016/j.lrp.2012.09.011>
- [11] Henseler, J., Ringle, C. M., & Sarstedt, M. (2015). A new criterion for assessing discriminant validity in variance-based structural equation modeling. *Journal of the Academy of Marketing Science*, 43(1), 115–135. <https://doi.org/10.1007/s11747-014-0403-8>
- [12] Italiani, F. A. (2013). The influence of transformational and transactional leadership styles on employee performance in the HR department of PT. Semen Gresik (Persero) Tbk. *Journal of Management Science*, 6(1). <https://doi.org/10.26740/bisma.v6n1.p11-18>
- [13] Jaya, I. G. N. M., & Sumertajaya, I. M. (2008). Structural equation modeling with partial least square. *National Seminar on Mathematics and Mathematics Education 2008*, 118–132.
- [14] Kafetzopoulos, D., & Psomas, E. (2015). The impact of innovation capability on the performance of

- manufacturing companies the Greek case. *Journal of Manufacturing Technology Management*, 26(1). <https://doi.org/10.1108/JMTM-12-2012-0117>
- [15] Kasim, R. S. R., & Noh, I. (2012). The impact of organizational innovativeness on the performance of the university: An analysis among selected Malaysian private universities. *ICIMTR 2012 - 2012 International Conference on Innovation, Management and Technology Research*, 1–5. <https://doi.org/10.1109/ICIMTR.2012.6236350>
- [16] Lee, J., & Miller, D. (1996). Strategy, environment and performance in two technological contexts: contingency theory in Korea. *Organization Studies*, 17(5), 729–750.
- [17] Liao, Shu-Hsien, Fei, W. C., & Chen, C. C. (2006). Knowledge sharing, absorptive capacity, and innovation capability: An empirical study of Taiwan's knowledge-intensive industry. *Journal of Information Science*, 20(10), 1-20.
- [18] Martinez-Martinez, A., Cegarra-Navarro, J. G., Garcia-Perez, A., & Wensley, A. (2019). Knowledge agents as drivers of environmental sustainability and business performance in the hospitality sector. *Tourism Management*, 70, 381–389. <https://doi.org/10.1016/j.tourman.2018.08.030>
- [19] Masa'deh, R.E., Obeidat, B.Y., & Tarhini, A. (2016). A Jordanian empirical study of the associations among transformational leadership, transactional leadership, knowledge sharing, job performance, and firm performance: a structural equation modelling approach. *Journal of Management Development*, 35(5), 681.
- [20] Patiar, A., & Wang, Y. (2016). The effects of transformational leadership and organizational commitment on hotel departmental performance. *International Journal of Contemporary Hospitality Management*, 28(3), 586–608. <https://doi.org/10.1108/IJCHM-01-2014-0050>
- [21] Rahab. (2010). Building knowledge sharing-based innovation capability with a strategic decision process approach (Literature review for creative industry sub-sector). *Journal of PERFORMANCE*, 11(2), 155-172.
- [22] Saunila, M., & Ukko, J. (2012). A conceptual framework for the measurement of innovation capability and its effects. *Baltic Journal of Management*, 7(4), 355–375. <https://doi.org/10.1108/17465261211272139>
- [23] Suranta, S. (2002). The impact of employee motivation on the relationship between leadership style and employee performance in business companies. *Empirical Journal*, 15(2), 116-138.
- [24] Venkatraman, N., & Ramanujam, V. (1986). Measurement of business performance in strategy research: A comparison of approaches. *Academy of Management Review*, 11(4), 801–814. <https://doi.org/10.5465/amr.1986.4283976>
- [25] Yunis, M., Jung, J., & Chen, S. (2013). TQM, strategy, and performance: A firm-level analysis. *International Journal of Quality and Reliability Management*, 30(6), 690–714. <https://doi.org/10.1108/02656711311325638>

### Books

- [26] Bass B.M. (2014). *Transformational Leadership Learning for Various Visions*. Rineka Cipta Jakarta.
- [27] Dubois, D., & Rothwell, J. W. (2016). *Competency Based Human Resource Management*. Davies-Black Publishing.
- [28] Ghozali, I. (2015). *Application of multivariate analysis with IBM SPSS program 23*. Diponegoro University.
- [29] Hair et al. (1998). *Multivariate data analysis* (5<sup>th</sup> ed.). Upper Saddle River.
- [30] Kuncoro, M. (2006). *Economic development*. Salemba Empat Publisher.
- [31] Northouse, G. P. (2013). *Leadership: theory and practice. intellectual property* (6<sup>th</sup> ed.). Sage Publications.
- [32] Priyanto, S. H. Nadapdap, H. Y., & Janses S. A. (2019). *The grand design book for the Development of Village Owned Enterprises in Jawa Tengah*. Population and Civil Registry Office.
- [33] Sarwono, J. (2015). *Making thesis, thesis, and dissertation with Partial Least Square SEM (PLS-SEM) No Title*. ANDI.
- [34] Sugiyono, F. X. (2017b). *Instruments of monetary control: Open market operations (Vol. 10)*. Pusat Pendidikan dan Studi Kebanksentralan (PPSK) Bank Indonesia.
- [35] Sugiyono. (2017a). *Quantitative, Qualitative, and R&D Research Methods*. Alfabeta, CV.
- [36] Teece, D. (2009). *Dynamic capability and strategic management: Organizing for innovation and growth*. Oxford University Press.

### Dissertation

- [37] Sugiarto, P. H. (2008). *The role of owner/manager entrepreneurial orientation in building strategic assets and competitive advantage of SMEs to improve business performance* [Unpublished doctoral dissertation]. Diponegoro University, Semarang.