Exploring the Relationship between Entrepreneurial Networking, Entrepreneur Leadership, Innovation Capability, and MSMEs Performance

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Abstract

This research aims to determine the role of entrepreneurial networks, entrepreneur leadership, on innovation capabilities and MSME performance. The sampling technique used purposive sampling, obtaining a total of 247 samples of MSME owners in the culinary sector in Bojonegoro City. Research data was analyzed using SEM techniques with AMOS software. The research results show that entrepreneurial networking has a positive effect on the innovation ability and performance of MSMEs. Meanwhile, entrepreneurial leadership has no effect on the innovation ability of MSMEs, but has a positive influence on MSME performance. The implications of this research are that the development of entrepreneurial networks can be a crucial factor in enhancing innovation capabilities and performance for Micro, Small, and Medium Enterprises (MSMEs) owners in the culinary sector in Bojonegoro City. Additionally, entrepreneurial leadership also plays a significant role in improving the performance of MSMEs, even though it does not have a direct influence on innovation capability. Therefore, in the effort to enhance the performance of MSMEs in the culinary sector, MSME owners should consider expanding their entrepreneurial networks and strengthening entrepreneurial leadership.

Article Info

1. Introduction

MSMEs, or micro, small and medium enterprises, are one of the backbones of the Indonesian economy. MSMEs contribute 60.3% of Indonesia's Gross Domestic Product (GDP) and absorb 97% of the workforce. For this reason, it is no longer surprising that the government should focus on improving the performance of the SME sector in Indonesia. The MSME movement is crucial to stimulate growth, economic development and employment. Apart from MSMEs, they are the foundation of a people's economic system, which is not only concerned with reducing income disparities between groups and communities but is also resilient in overcoming problems of poverty and unemployment (Schmitz & Nadvi, 1999).

In the current era of globalization and digitalization, MSMEs must continue to innovate to remain competitive. Innovation can be defined as a process that produces something new or different from what previously existed. Innovation can cover various aspects, such as product, process, marketing, and organization (Cohen, 2010). Innovation can help MSMEs improve the quality of their products and services to attract more customers and increase their competitiveness in the market. Innovation can help MSMEs to adapt to market and technological changes (Safii & Rahayu, 2020). Innovation development can help MSMEs to survive amidst increasingly fierce competition (Anom & Safii, 2022).

The question of the factors that determine innovation in companies has been the subject of research and attention of practitioners for many years, especially for Micro, Small and Medium Enterprises (MSMEs) because they have challenges and dynamics in adopting innovation. Several internal and external factors can influence MSMEs' performance (Boons, 2013). The

factors outside the company in question include external consumers, suppliers, competitors and business uncertainty. Meanwhile, factors originating from within the company environment consist of structure (related to the size and age of the company and ability to adapt), leadership, quality (related to the ability to meet stakeholder expectations), information technology, human resources consisting of leadership, strategy, social capital, innovation and development, and corporate governance (Purwati et al., 2020).

Business networking is building and maintaining relationships with other people and organizations. Networking can help someone to get the information and resources needed to innovate (Zeng, 2010). For example, someone with a wide work network can more easily get information about the latest trends, new technology, or financial resources needed to develop innovation (Andriani & Zain, 2010).

Networking can help entrepreneurs collaborate with people with different skills and knowledge (Safii & Anom, 2021). Collaboration can encourage innovation because it can produce new ideas that one person cannot produce alone. One form of application of networking by MSME business owners is the creation of associations as a forum for MSMEs to share information and knowledge in jointly developing businesses (Gibson et al., 2014).

Entrepreneurial characteristics and competencies, such as leadership abilities, managerial and networking skills, technological capabilities, and the entrepreneur's educational level, are also important for SMEs to produce optimal performance (Taleb et al., 2023). For this reason, in managing a business, leadership as an entrepreneurial behaviour is very important because it has the potential to recognize values and various aspects related to organizational sustainability, such as encouraging innovation and adaptation.

Entrepreneurial leadership is a leadership style that focuses on creativity, innovation, and risk-taking. Entrepreneurial leadership is important for innovation capability because it creates a culture of innovation in the organization. Entrepreneurial leadership can motivate and support employees to think outside the box and take risks in decision-making (Wepner & Gomez, 2020).

Some recent studies recognize the important role of innovation capabilities in determining a company's performance. Innovation is considered one of the key aspects that can provide a competitive advantage and enable companies to develop in an ever-changing business environment (Jiménez-Jiménez, 2011). Innovative companies have higher revenue growth, profits, and market value (Mabenge et al., 2022).

Entrepreneurial leadership is not only a trait desired by MSME leaders but an essential ingredient for success. By cultivating a culture of innovation, risk-taking and adaptability, entrepreneurial leaders can equip their MSMEs to thrive in the face of challenges and unlock their full potential (Anggriani & Kistyanto, 2021). Entrepreneurial leadership focusing on efficiency, resource optimization, and strategic risk-taking can increase profitability, growth, and market share.

Many studies show a positive and significant relationship between strong networking and business success. Extensive networks provide access to critical resources such as financial capital, skilled personnel, technology, and market information (Mardjono & Hariyadi, 2015; Sendawula et al., 2023). Various empirical studies have also found that entrepreneurial networks, which are generally measured from 3 aspects: cognitive, relational, and structural, are proven to influence the financial and non-financial performance of MSMEs (Revindo et al., 2019).

The main objective of this assessment is to investigate the relationship between entrepreneurial networks, entrepreneurial leadership of company owners, and innovation capabilities and company performance in the context of SME entrepreneurship. In the research stream, another core objective of this study is to find out which contributes more to building performance in MSMEs.

Hypothesis Development

MSMEs do not innovate in isolation but need interaction with their environment. For this reason, entrepreneurial networks - both formal and informal networks are very important to support MSME business innovation (Abu-Rumman et al., 2021). Networks between entrepreneurs help and accelerate the exchange of information, an important resource in innovation. Entrepreneurial networks connect various ideas and creative thoughts, thereby

facilitating the ability to innovate (Safii & Rahayu, 2021). Several previous studies found that entrepreneurial networks significantly influence a company's innovation performance, with varying effects. Business networking is proven to encourage different network capabilities, such as strategic and operational integration, to achieve corporate success (Parida et al., 2017; Tsai & Ghosal, 1998). Even though there is still very little research on the influence of entrepreneurial networks on the innovation capabilities of MSMEs, from some previous explanations, we can draw the logic that entrepreneurial networks can increase MSME innovation.

Hypothesis 1: Entrepreneurial networks have a positive effect on the innovation capabilities of MSMEs.

Entrepreneurs responsive to the latest technology develop production methods that align with market demands and organizational innovation in building effective and efficient company organizations (Fontana & Musa, 2017).A leadership style that provides extensive opportunities for subordinates to implement innovation will certainly increase the company's innovation potential and progress. The leadership style of an SME actor is one of the most influential predictors of organizational innovation (Taleb et al., 2023). Some previous studies that studied leadership, although not specifically discussing entrepreneurial leadership, found a positive influence between leadership and MSME innovation.

Hypothesis 2: Entrepreneurial leadership has a positive effect on the innovation capability of MSMEs.

Entrepreneurs' networks, connections, and relationships enable companies to access crucial opportunities, resources, and knowledge. To grow and maintain their existence and performance in business competition. Business networks help entrepreneurs to access learning opportunities, knowledge, and new ideas (Adler & Kwon, 2002). Networking is a very important factor in the context of MSMEs to overcome their various limitations. Business networks provide benefits for MSMEs. Corporate networks provide valuable information that will provide strategic advantages for companies. MSMEs view external partners as assets that complement each other and obtain the necessary benefits. MSMEs create networks to access substitute existing resources in the form of machines or raw materials the company needs.

Hypothesis 3: Entrepreneurial networks have a positive effect on MSME business performance.

In an organization or firm, where a leader can have a substantial impact on accomplishing common goals, leadership is tremendously important. Entrepreneurial leadership is a distinct phenomenon at the nexus of the leadership and entrepreneurship realms. While leadership comprises convincing people of what has to be done and how it should be done, including supporting individuals and groups in accomplishing significant goals, entrepreneurship refers to recognizing, analyzing, and exploiting chances to generate commodities (Renko et al., 2015). As a result, entrepreneurial leadership was created to encompass leadership characteristics such as influencing and guiding group members toward goals such as identifying and pursuing entrepreneurial opportunities. Research by Dwi Widyani et al., (2020) shows that entrepreneurial leadership has a strong and significant positive relationship with the performance of MSMEs, in the sense that the better the entrepreneurial leadership possessed by SMEs, the more it can lead to increased MSME performance. Other research (Anggriani & Kistyanto, 2021)by also found a significant relationship between entrepreneurial leadership (innovative, proactive, and decision-making) and SME business effectiveness.

Hypothesis 4: Entrepreneurial leadership has a positive effect on MSME business performance.

Innovation capability is creating and managing diverse capabilities to become an advantage for the company. In today's competitive environment, MSME performance is heavily influenced by innovation. In numerous ways, innovation capability has a substantial impact on corporate performance. Innovative businesses create products, services, and procedures that provide higher value or meet unmet requirements (Rhee et al., 2010). An invention distinguishes itself from the competition and establishes a distinct market position. This company defends itself from price competition, attracts a loyal customer base, and maintains market share. Previous research has studied the impact of innovation capabilities on MSME performance (Jiménez-Jiménez, 2011), innovation capabilities enable MSMEs to be more rapid and responsive to changes in market needs and preferences. MSMEs that have innovation capabilities can better manage risks associated with market changes, regulatory changes, or unstable economic

situations. Research by Herman & Nohong, (2022)found that innovation capability directly contributes to product quality and company operational performance. However, it does not have a direct impact on the MSME financial performance.

Hypothesis 5: Innovation ability has a positive effect on MSME business performance.

Research Conceptual Framework

Based on empirical studies and hypothesis building, the purpose of this study is to investigate the impact of entrepreneurial networking and entrepreneur leadership from the perspective of an MSME on innovation capabilities and performance. The following goal is to ascertain the role of innovation capability in the impact of entrepreneurial networking and entrepreneur leadership on the performance of MSME enterprises. Figure 1 illustrates the conceptual relationship between variables from the research hypotheses that have been developed.
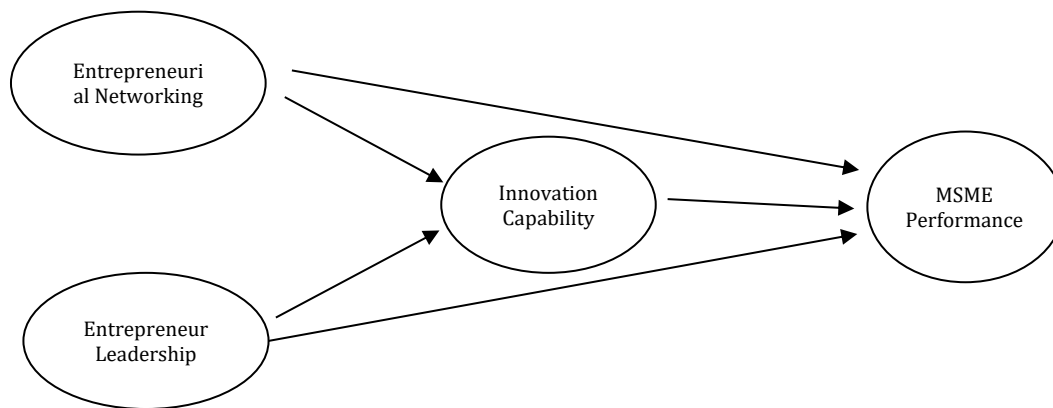

Figure 1. Research Conceptual Framework

2. Methods

Samples and Data Colection

This study's population consists of MSMEs in the culinary industry in the city of Bojonegoro. This study's data is based on a survey technique that was administered to a sample of MSMEs in Bojonegoro City. The samples for this study were collected in a multivariate manner, so that the minimal number of samples for research assessed with SEM was at least 200 (Ferdinand, 2014). Non-probability sample of MSMEs that have been in operation for at least two years is used in the research. The poll was performed between May and July 2023, with questionnaires distributed both online and offline.

Researchers have distributed 288 research questionnaires to MSME scale business owners in the culinary sector in Bojonegoro Regency. 247 questionnaires were filled out and returned by respondents, showing a response rate of 86% of all questionnaires distributed either online or filled in face to face by respondents.

Data Analysis

In this research, the Structural Equation Model (SEM) is used as a multivariate statistical analysis to analyze several research variables simultaneously and test their predictive relationships. The software used for processing SEM data in this research is AMOS. SEM-AMOS is based on the consideration that SEM-AMOS can combine measurement and structural models simultaneously compared to other multivariate techniques.(Hair et al., 2010).

This research questionnaire uses a 5-point Likert scale, with answer choices: 1 is Strongly Disagree, 2 is Disagree, 3 is Neutral, 4 is Agree, and 5 is Strongly Agree. There are 3 indicators regarding Entreprenurial Networking referring to Watson (2007) including: cognitive, relational, and structural. The indicators of entrepreneurial leadership in this research refer to Renko et al., (2015) consisting of proactiveness, tendency to take risks, innovativeness, building

commitment, and ethics. The innovation capability of MSMEs is measured through six indicators (Boons, 2013), namely learning capability, sources of innovation, technological efforts, continuous improvement, and support from other institutions. And 7 indicators are used for MSME performance variables based on research Mabenge et al., (2022). The direction of influence of the variables complete with their forming constructs tested in this study is illustrated in Figure 2.
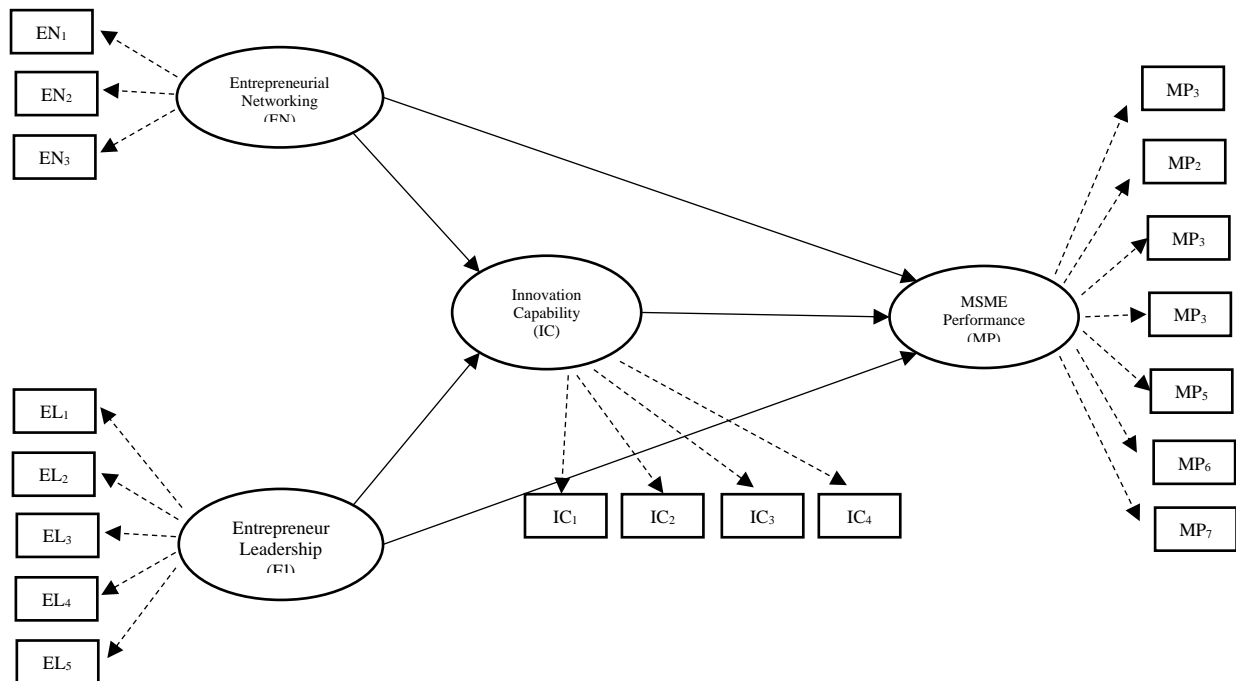

Figure 2. Research Full Model

3. Results and Discussion

3.1. Results
Demographic of Respondents

The demographics of the entire MSME sample are summarized in Table 1. Regarding education, most of the MSME owner respondents (42%) have junior secondary level education, and 83% have business experience before starting a business. The majority of MSME entrepreneurs (53%) come from entrepreneurial families. In terms of business networks, not having a family business network dominates MSME owner respondents (90%) the majority of respondents who own MSMEs (97%) live or were born in Bojonegoro.

Table 1. Demographics of Respondents

Descriptions	All Samples = 247	
	n	%
Education Level		
Primary school	57	23.08%
Junior High School	104	42.11%
High school	53	21.46%
Bachelor	33	13.36%
Business Experience		
Have Business Experience	42	17.00%
No Business Experience	205	83.00%
Family Background		
From a business family	122	53.74%
Not from a business family	105	46.26%

		215	87.04%
The origin of the MSME owner			
From Bojonegoro		215	87.04%
From outside Bojonegoro		32	12.96%

Source: Primary Data Processed (2023)

Model Feasibility Test

To assure the quality of the proposed model, a model feasibility analysis must be performed prior to designing and testing the model as a whole. The structural model (inner model) is evaluated as part of the testing of research hypotheses by determining how much variance is explained to determine a specific degree of significance. Before analyzing the hypothesis's link between variables, assess the research model's adequacy.

In structural equation modeling (SEM), a valid and reliable model is needed. The criteria for the validity of a construct can be seen from the Loading Factor/Loading Standard value which ideally must be more than or equal to 0.5 (Ferdinand, 2014). For construct reliability, the required variance extracted value must be equal to or greater than 0.5. Meanwhile, the required construct reliability value must be equal to or greater than 0.70.

From Table 2 which summarizes the results of construct validity and reliability tests, it appears that the Loading Factor value of all statement items in this research is greater than 0.5, so the research construct can be said to be valid. From Table 2 it is also known that all research variables have a variance extracted value greater than 0.5, and a construct reliability value greater than 0.7, thus it can be concluded that construct reliability has met the SEM analysis requirements.

Table 2. Validity and Reliability Test

Variables	Indicator	*Standardized loading factor*	*Composite reliability*	*AVE*
Entrepreneurial	EN1	0.868	0.841	0,629
Networking	EN2	0.650		
(EN)	EN3	0.932		
Entrepreneur	EL1	0.907	0.877	0,548
Leadership (EL)	EL 2	0.786		
	EL 3	0.835		
	EL 4	0,794		
	EL5	0,705		
Innovation	IC1	0743	0.962	0.675
Capability (IC)	IC2	0.731		
	IC3	0.796		
	IC4	0.746		
	IC5	0,806		
	IC6	0,862		
MSME	MP1	0.724	0.942	0.624
Performance (MP)	MP2	0.564		
	MP3	0.641		
	MP4	0.834		
	MP5	0.676		
	MP6	0.838		
	MP7	0.832		

Source: Data Processed (2023)

SEM model testing (Structure Equation Model) is overall model testing which involves an integrated structural model and measurement model which is the whole of the model. A model that can be said to be good (fit) is if the model is conceptually or theoretically supported by empirical data. Table 3 summarizes the results of the goodness of fit test as well as the cut-off value for the suitability of an SEM model.

Table 3. Goodnes of Fit Test

GOF Criteria	Fit Indeks	Value	Result
X² Chi Square	Expected low	387,817	-
Significant probality	≥ 0,05	0,000	-
Degree of freedom (CMIN/DF)	≤ 2,00	1,795	Good Fit
Root mean square error approximation	≤ 0,08	0,063	Good Fit
Goodness of fit index (GFI)	≥ 0,90	0,870	Marjinal
Adjusted goodness of fit index (AGFI)	≥ 0,90	0,834	Marjinal
Tucker lewis index (TLI)	≥ 0,95	0,968	Good Fit
Comparative fit index (CFI)	≥ 0,95	0,972	Good Fit

Source: Data Processed (2023)

The Goodness of Fit test results presented in table 3 show that the Goodness of Fit Indices values of TLI, CFI, IFI and RSMEA have shown a fit model, while the values of GFI, AGFI and NFI obtained marginal results. Even though several goodness of fit measurements still have marginal results, according to Hair et al (1998:623), the GFI, AGFI and NFI values are still close to the recommended values, so the model is suitable for use in further analysis.

Hypothesis Testing

SEM-AMOS-based hypothesis testing was carried out to test the influence of entrepreneurial networking and entrepreneurial leadership variables on MSMEs' innovation capability and performance. Testing the influence between variables using SEM-AMOS analysis is based on the cutoff. The influence is declared significant if the critical ratio (C.R) is 1.967 and the p-value is below 0.05.

The results of SEM-AMOS testing showed that only Entrepreneurial Leadership's influence on the Innovation Capability of MSMEs was obtained with a C.R of less than 1.967 and a p-value of less than 0.05. So it is stated that research hypothesis 2 is rejected, while hypothesis 1, hypothesis 3, hypothesis 4, and hypothesis 5 are accepted.

Table 4. Variable Influence Test Results

Path Description	SE	C.R	P-Value
Entrepreneurial Networking → Innovation Capability	0.0278	2.072	0,003***
Entrepreneur Leadership → Innovation Capability	0.176	-1.523	0.332
Entrepreneurial Networking → MSME Performance	0.076	2.820	0.003*
Entrepreneur Leadership → MSME Performance	0.425	2.288	0.001***
Innovation Capability → MSME Performance	0,386	2,235	0.001***

Source: Data Processed (2023)

3.2. Discussion

According to H1, entrepreneurial networking is a crucial predictor of small business Innovation capability. It is said that an improvement in entrepreneurial networking leads to an improvement in product or service innovation. Business networks are result from entrepreneurs' decisions and efforts to increase competitiveness through collaboration with other business units. Business networks can achieve higher business competitiveness because business actors can specialize. From the higher network, businesses are more efficient, transaction costs are reduced, and flexibility is increased due to trusted partners. Safii & Rahayu, (2020)argue that producing products or services and making those products or services available to buyers requires building relationships with customers and key suppliers and intermediary sellers in the company's supply chain.

The results of the hypothesis 2 test found that entrepreneurial leadership does not affect the innovation ability of MSMEs. Entrepreneurial leaders are experts who understand how to resolve and use knowledge to create a social context that facilitates value creation and problem-

solving in an MSME business (Renko et al., 2015). In this research, entrepreneurial leadership does not influence innovation because the research respondents are MSMEs in the culinary sector. Innovations in the culinary field are a study of competition with a strategy of observing, imitating, and modifying (Fatimah & Purdianto, 2023). MSMEs with culinary products also maintain product quality and quality to maintain sales performance based on customer satisfaction rather than carrying out product innovation .

Referring to the results of testing the third hypothesis, entrepreneurial networking has a significant effect on the performance of MSMEs. Micro, small, and medium-sized business performance improves in terms of customer retention, improved internal procedures, and effective staff learning when small business managers develop trust through entrepreneurial links, exchange expertise, and ensure good coordination of all stakeholders. This research suggests that small business owners should think about and conduct entrepreneurial networking activities more fully in order to improve their companies' success. Small business owners and managers can also take proactive initiatives to build their current and future networks (Yeşil & Doğan, 2019). In order to increase their performance, business owners and managers should attend both local and worldwide conferences, workshops, seminars, and trainings, as well as exchange business cards with other stakeholders.

Based on the fourth research hypothesis test, it was found that entrepreneurial leadership significantly affects the performance of MSMEs. Entrepreneurial leadership also relates to how leaders can take responsibility for the organization. Leaders with typical entrepreneurial leadership dare to take risks in future businesses by making decisions and trying new things, which is expected to result in increased performance (Widyani et al., 2020). Entrepreneurial leadership also influences the performance of business organizations in terms of their ability to negotiate ideas and create ideas to determine plans. This ability can be in the form of being skilled at communicating with other parties (consumers) and influencing other people from the business owner's perspective. It can encourage employees to be self-confident and contribute to improving company performance.

Testing hypothesis 5 found that innovation capability positively and significantly influences MSME performance. The results of this research follow the opinion expressed by Purwati et al., (2020)that innovation cannot be separated from business life because innovation is the spirit or soul of a company to develop; innovation can develop anywhere and be carried out by anyone, innovation is not This is only done by large companies, but small companies also need to innovate for the sustainability of their business. Based on the research results, product innovation influences the development of MSMEs. In this way, MSME players are expected to be able to increase product innovation so that their businesses can further develop. Product innovation is very important because the market has increasing competition globally. Competitors are increasingly emerging and cannot be avoided. Even small differences in the benefits of a product and service will greatly impact customers (Storey et al., 2015). Through product innovation, MSMEs are expected to continue to be able to take advantage and develop their businesses amidst competition.

Research Implication

This study contributes to a better function of networking and entrepreneurial leaders in achieving business performance. Firm trust rises as business managers or owners network relationships with both internal and external stakeholders, promoting information sharing and the possibility of enhanced firm performance. MSMEs' collaborations, social links, and partnerships with other organizations and individuals boost information exchange, reform established procedures, and improve services, ultimately improving performance. Based on the research findings and explanations from numerous experts, it is possible to conclude that business networks significantly impact the development of micro, small, and medium-sized firms. As a result, MSME owner are expected to be able to create collaboration with suppliers, financial institutions, workers, and intermediaries in order for their enterprises to grow.

Based on the research results, there is input to improve entrepreneurial leadership for MSME owners in the culinary sector in Bojonegoro City, namely the need for MSME owners to improve entrepreneurial leadership competency by participating in various training programs

organized by the government and other institutions. Improving entrepreneurial leadership involves a series of actions that can help leaders develop the entrepreneurial skills and traits necessary to succeed in the dynamic business world. Join an entrepreneur group or community. Networking with people with the same vision can provide opportunities to learn and share experiences about leading and developing a business.

4. Conclusion

This research certainly has several limitations, as do other series of studies. The first limitation is related to the cross-sectional study; the sample size in this study was intentionally small, thereby limiting the generalization of the findings to a broader population. The second limitation is that considering the extent of the problem and time constraints, this research was only conducted on MSMEs in the culinary sector in Bojonegoro City. Hence, the results must be more comprehensive to get answers because of the possibility of different regional characteristics.

Future researchers are advised not to limit the research location to a particular region or city, and it is recommended for future researchers to examine respondents in various other business fields, not just the culinary sector, in order to obtain more accurate results regarding the performance of MSMEs and the various factors behind them.

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