

The Role Of Innovation Capability In Mediation Of Social Capital Relationship And Entrepreneurship Leadership To Sme Performance In Denpasar City

AA Sri Purnami¹, AA Ayu Erna Trisnadewi², I Gusti Lanang Putra,³

¹²³Faculty of Business Economics, Warmadewa University, Bali-Indonesia



Abstract – Small and Medium Enterprises (SMEs) is one of the businesses that is currently in the spotlight which is classified as a tool for a country's economic growth. So far, the role of SMEs is believed to be able to drive the economy of a region and a country. The huge potential of SMEs will be threatened if their performance is still poor, especially until now the world is still hit by the COVID-19 pandemic. This study aims to answer the main problem, namely how the role of innovation capability in mediating the influence of social capital and entrepreneurial leadership on the performance of SMEs. The population of this study is all SMEs in Denpasar City with a total of 1489 SMEs, then by using the Slovin formula approach at an error threshold of 5%, a sample of 315 is obtained. The sampling method used in this study is the convenience sampling method. The data analysis technique used to test the hypothesis is to use a structural equation model, with the help of SmartPLS V.3.2.9 Software. The results of the study show that social capital has a significant direct effect on the business performance of SMEs in Denpasar City, but the role of innovation capability has not been able to mediate in producing more comprehensive results. Furthermore, entrepreneurial leadership has not directly been able to improve its business performance, although it is directly able to encourage the innovation capabilities of SMEs. However, this increase in innovation has not been able to improve the performance of SMEs. with the help of Software SmartPLS V.3.2.9. The results of the study show that social capital has a significant direct effect on the business performance of SMEs in Denpasar City, but the role of innovation capability has not been able to mediate in producing more comprehensive results. Furthermore, entrepreneurial leadership has not directly been able to improve its business performance, although it is directly able to encourage the innovation capabilities of SMEs. However, this increase in innovation has not been able to improve the performance of SMEs. Furthermore, entrepreneurial leadership has not directly been able to improve its business performance, although it is directly able to encourage the innovation capabilities of SMEs. However, this increase in innovation has not been able to improve the performance of SMEs. Furthermore, entrepreneurial leadership has not directly been able to improve its business performance, although it is directly able to encourage the innovation capabilities of SMEs. However, this increase in innovation has not been able to improve the performance of SMEs.

Keywords – Social Capital; Entrepreneurial Leadership; Innovation Capability; SME Performance

I. INTRODUCTION

Small and Medium Enterprises (SMEs) are one of the businesses that are currently in the spotlight which are classified as a tool for a country's economic growth (Kusumawati and Pramuki, 2021). So far, the role of SMEs is believed to be able to move the economy of a region or country, as stated by the Indonesian SME Association (Akumindo) that in 2020 the contribution of SMEs to Indonesia's Gross Domestic Product (GDP) will reach 65% or around Rp. 2394.5 Trillion (Ingratubon, 2020). The huge potential of SMEs will be threatened if their performance is still poor, especially until now the world is still hit by the Covid-19

pandemic, as the results of a survey by the Indonesian Institute of Sciences show that the competitiveness of SMEs in Indonesia has become so fragile along with various disruptions that have an impact on performance.(Handoko, 2020)

In general, the performance of SMEs is defined as the result or assessment of the business work that has been achieved by a person or group with the division of activities in the form of tasks and their position at a certain time with the guidelines of a predetermined business unit.(Pramuki & Kusumawati, 2020; Satya & Pramuki, 2021; Wulantari et al., 2022; Yuliantari & Pramuki, 2021). This research is based on the Resource Advantage Theory of Competition (RAT) from (Hunt & Morgan, 1997). RAT theory argues that the resources owned by a company will affect its market position in the form of competitive advantage, average competitive or competitive loss. Market position will affect the financial performance of a company – superior, average and below the average of other companies competing in the competitive arena. In creating this competitive advantage, strategy and innovation are needed so that companies can compete in a dynamic environment. To achieve this, the organization must be able to continuously see and seize opportunities, and periodically change aspects of the organization and culture to be able to proactively reposition to address newer threats and opportunities.

This study describes innovation capacity as an organization's ability to effectively develop new concepts, processes, and goods. This shows that small and medium enterprises (SMEs) need the opportunity to produce something new to gain a competitive advantage, or what is known as the opportunity to create. In order to attract new markets and consumers in Indonesia, small and medium enterprises (SMEs) are expected to acquire new knowledge and create new products because innovation is the foundation for organizations to survive (Hurley et al., 1998). Research studies related to innovation capability on performance have been carried out by Bowen et al. (2010), Saunila et al. (2014), Allred and Swan (2005), Wang and Wang (2012) and (Yuliantari and Pramuki, 2021) on the effect of potential innovation on business performance in the SME sector. The results of this research study indicate that the potential for innovation capabilities has a positive impact on business results, especially for the company's financial performance

Social capital owned by SMEs is a characteristic of social network life, norms, and beliefs that allow members of SME organizations to act together so that they can more effectively achieve common goals. As one of the factors that affect the business performance of SMEs, social capital in business usually refers to social gatherings with various technological, political, bureaucratic, and cultural elites in question (Michael and Narayan, 2002; Ozigi, 2018; Saha and Barnejee, 2015). Social capital is important for companies to incorporate new resources, skills and tools for learning (Adler and Kwon, 2014). Research studies conducted by Sugiyanto and Marka (2017), Oliveira (2013), and Vosta and Jalilvand (2014) examine the effect of social capital as measured from 3 aspects, namely cognitive, relational and structural, and its effect on business performance as measured by financial and non-financial performance. Furthermore, research studies by Prasetyo and Harjanti (2013) and Hartono and Soegianto (2013) reveal that overall social capital as measured by cognitive, relational, and structural aspects has no significant effect on business performance, both financial and non-financial.

The performance of SMEs is not only influenced by social capital factors but is also highly dependent on entrepreneurial characteristics and competencies, such as leadership skills, managerial and network skills, technological capabilities, and the level of entrepreneurial education (Momanyi and Moronge, 2017; Lateh et al., 2018). Therefore, in managing a business, apart from having an entrepreneurial orientation, individuals are also required to have good managerial skills. Leadership as entrepreneurial behavior is very important because it has the potential to recognize values and various aspects related to organizational sustainability, such as encouraging innovation and adapting to environmental changes (Renko et al., 2015). Research studies related to entrepreneurial leadership show results where entrepreneurial leadership as measured through several measurement indicators consisting of vision, innovation ability, risk taking and proactive attitude has a positive effect on business performance (Tarabishy et al., 2005; Rahim et al, 2015). ; Mgeni et al., 2015). However, in another study conducted by Shamsu et al., (2018) and Zainol et al. (2018) shows the results that a proactive attitude does not affect business performance. The same thing can be seen from the results of research by Jagdale and Bhola (2014), the findings show that entrepreneurial leadership does not have a substantial impact on organizational performance. risk taking and proactive attitude have a positive effect on business performance (Tarabishy et al., 2005; Rahim et al, 2015). ; Mgeni et al., 2015). However, in another study conducted by Shamsu et al., (2018) and Zainol et al. (2018) shows the results that a proactive attitude does not affect business performance. The same thing can be seen from the results of research by Jagdale and Bhola (2014), the findings show that entrepreneurial leadership does not have a substantial impact on organizational performance. risk taking and proactive attitude have a positive effect on business

performance (Tarabishy et al., 2005; Rahim et al, 2015). ; Mgeni et al., 2015). However, in another study conducted by Shamsu et al., (2018) and Zainol et al. (2018) shows the results that a proactive attitude does not affect business performance. The same thing can be seen from the results of research by Jagdale and Bhola (2014), the findings show that entrepreneurial leadership does not have a substantial impact on organizational performance.

To fill the research gap between social capital and entrepreneurial leadership on business performance, and also based on several previous studies that have found the effect of social capital and entrepreneurial leadership on innovation capability, and to see the importance of innovation capability on business performance, the novelty of this research is the application of variables innovation ability as a mediating variable. Innovation is important for companies in facing the challenges of competition in the current era of uncertainty (Ali & Iskandar 2016). Until now there has been no research that examines the indirect effect of social capital and entrepreneurial leadership on business performance through innovation capability as an intervening. but this is supported by several previous studies through direct analysis where the innovation capability of a company can also be formed through the quality of human resource elements in the company such as social capital and entrepreneurial leadership. The positive effect of social capital on the innovation ability of a business also shows that social bonds and networks encourage innovation and increase the innovative ability of companies. The results of Jafri et al. (2014), Harjanti (2017), Huang and Chen (2017) and Prihadyanti (2010) Studies have shown that social capital has an important positive influence on innovation ability. Another research study promoting the relationship between entrepreneurial leadership and innovation capability, including research conducted by Fontana and Musa (2017) where they measure how the impact of entrepreneurial leadership is formed from several aspects of measurement, namely strategy, communication, motivation and personal/organizational on company business innovation. This research study shows that entrepreneurial leadership can create ideas that can directly or indirectly influence innovation. Furthermore, Bagheri's research study (2017) also finds a positive influence created by entrepreneurial leadership in increasing innovation in terms of innovative work behavior of employees in Hi-Tech SMEs. This research study shows that entrepreneurial leadership can create ideas that can directly or indirectly influence innovation. Furthermore, Bagheri's research study (2017) also finds a positive influence created by entrepreneurial leadership in increasing innovation in terms of innovative work behavior of employees in Hi-Tech SMEs. This research study shows that entrepreneurial leadership can create ideas that can directly or indirectly influence innovation. Furthermore, Bagheri's research study (2017) also finds a positive influence created by entrepreneurial leadership in increasing innovation in terms of innovative work behavior of employees in Hi-Tech SMEs.

The existence of SMEs that contribute to the country's economy will falter when the performance of SMEs is not optimal, especially since the world is still hit by the Covid-19 pandemic. Therefore, it is important to conduct this study to further explore the variables that affect the performance of SMEs, especially in Denpasar City. Although in theory it has been clearly stated that the determinants of the performance of SMEs can be done with various approaches, empirically there are still various inconsistent findings.

High application of social capital, increased entrepreneurial leadership and high innovation capability of SMEs become very important factors to improve the performance of SMEs. Every SME actor in Denpasar is expected to be able to improve these factors. The purpose of this research is targeted to be able to answer the main problem, namely the role of innovation capability in mediating the relationship of social capital and entrepreneurial leadership to the performance of SMEs.

II. LITERATURE REVIEW

2.1. Resort Advantage of Competition Theory

The theory of comparative advantage explains why market-based economies are more innovative (Hunt & Morgan, 1995). The Resort Advantage of Competition theory defines competition as a knowledge discovery process. The interaction of the company's competition will determine the market position that reflects the efficiency and effectiveness of each company. Firms are encouraged to outperform competitors by better managing existing resources and/or by acquisition, imitation, substitution or major innovation (Hunt & Morgan, 1996). When related to the context of SMEs, the resources referred to in this study are ownership of social capital and entrepreneurial leadership as driving factors to increase the innovation capability of SMEs in order to improve the performance of SMEs.

2.2. Social Capital

The theory of social capital was first introduced systematically by Nahapiet and Ghoshal (1998). The basic definition introduced is that social capital is a resource inherent in social relations. The application of social capital theory aims to understand social bonds, social interactions, trust, and reciprocity (Nahapiet & Ghoshal, 1998; Sanchez-Famosoa et al., 2019). Dastourian et al. (2017) stated that social capital is an order of values embedded in social networks in a relationship between individuals or groups within an organization. Structural social capital refers to the overall pattern of connections in a social system formed by property, personal and commercial relationships in terms of density, centrality, connectivity, hierarchy, and network configuration according to Lefebvre et al. (2016). Relationship social capital refers to assets created and used through relationships based on respect, friendship, trust, and hope (Coleman, 1988; Kim & Shim, 2018). According to Martínez Perez et al. (2016), the essence of trust between humans is three things: (1) social relations between two or more people; (2) the expectations contained in the relationship; (3) social interactions that allow the realization of these relationships and expectations. Cognitive social capital refers to shared representation by adhering to norms in interpreting the vision and mission between the parties to a common goal according to (García-Villaverde et al., 2018; Nahapiet & Ghoshal, 1998). Norms are a form of social obligation, which makes both parties feel benefited, in this way an exchange relationship is obtained.

2.3. Entrepreneurial Leadership

The earliest definition of an entrepreneurial leader was by Lippitt (1987), who defined him as a person who is able to innovate, focus on tasks, take risks, assume personal responsibility and has an economic orientation. Femald and Solomon (1996) propose another definition of entrepreneurial leadership. Entrepreneurial leadership is defined as an association of entrepreneurs and leadership functions that provide new products, services or organizational development.

Fontana et al., (2017) stated that entrepreneurial leadership is the process of sharing a goal about the possibilities of an organization in the future that can be exploited in order to be able to maintain its competitiveness. In addition, in the context of influencing others towards a goal through effective communication to recognize every opportunity that exists. Mokhber et al., (2016) stated that entrepreneurial leadership is a meeting between leadership and entrepreneurship.

2.4. Innovation Capability

Baregegh et al., (2009: 1334), innovation is a process of transforming organizational ideas to be able to improve products, services or processes, so that they can continue to grow, compete, and become differentiators. Samuel et al., (2017) explained that innovation is a process in the creation of ideas, ideas, technology development, manufacture, and marketing of a new product, process, manufacture or tool. Innovation is very important for organizations to maintain an edge in a highly competitive environment (Kistyanto et al., 2021). Changes in the environment, growth and economic life in every organization are related to the innovation process (Fontana et al., 2017). Suendro (2011) suggests that product innovation is shown in the development and introduction of new products in the form of changes in design, components, and product architecture.

2.5. Performance of Small and Medium Enterprises (SMEs)

MSME performance is the result of work achieved by an individual and can be completed with the individual's tasks within the company and in a certain period, and will be linked to the size of the value or standard of the company that the individual works for. Performance here itself is the achievement that will be obtained by a person or company that will achieve a certain goal. determined (Pramuki & Kusumawati, 2020; Satya & Pramuki, 2021; Wulantari et al., 2022; Yuliantari & Pramuki, 2021). According to Aribawa (2016) performance is the success of an organization that realizes strategic and predetermined goals with the behavior that will be expected by an organization. In a good performance produced by an MSME, it will be stronger to become the backbone of the economy and will play an increasingly important role in the national economy.

2.6. Conceptual Framework

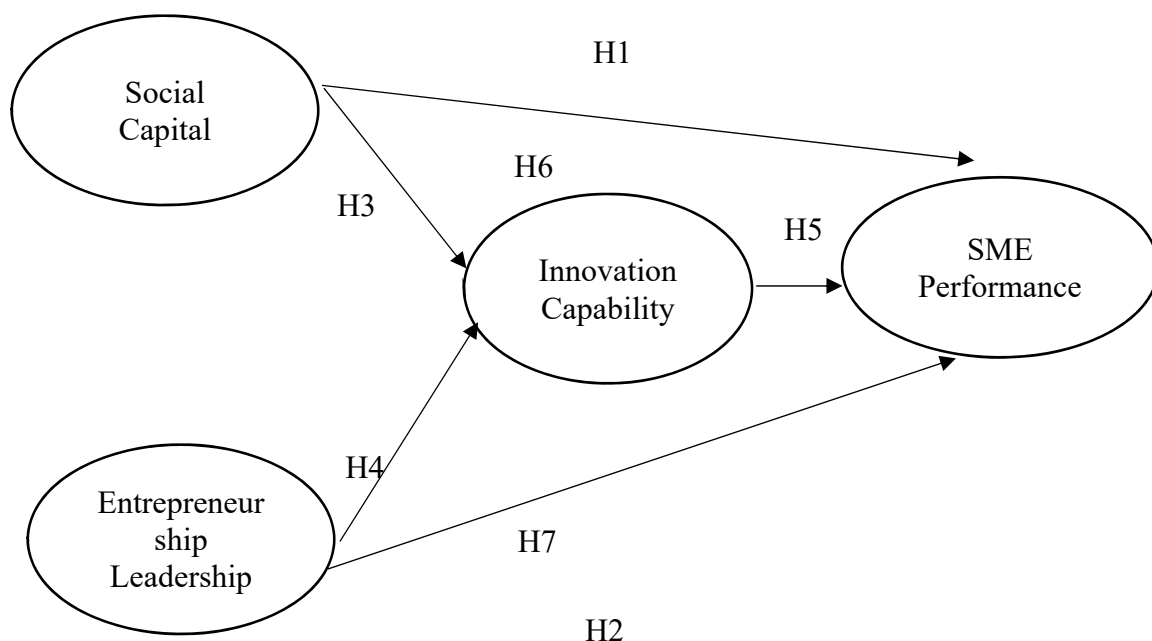


Figure 1. Research Conceptual Framework

Figure 1 shows that there are five direct effects tested in this study, namely in (H1-H5) and two indirect effects through innovation capability as a mediating variable on the performance of SMEs.

III. RESEARCH METHODS

The research location is in UKM in Denpasar City. Denpasar City was chosen because Denpasar is the capital of the province of Bali which is also the center of tourism destinations in Indonesia, so it can be justified that SMEs are growing and the problems they face are so complex. This can threaten the sustainability of SMEs in the future. So the strategy taken is how to improve the performance of these SMEs as an effort to maintain the continuity of their business. The number of SMEs recorded at the Industry and Trade Office of Denpasar City, obtained data of 1,489 spread across all sub-districts, then by using the slovin formula approach at the 5% error threshold, a sample of 315 was obtained. The sampling technique in this study used the non-probability method. i.e. method *Convenience Sampling*. Convenience Sampling is a sampling technique that takes only the easiest elements. The selection of this element is entirely dependent on the assessment of the researcher or interviewer so that the researcher is free to determine the easiest element.

The questionnaire was measured using a 5-point Likert scale measurement. SMEs performance factors are measured using indicators of 1) quality and quantity, 2) time, 3) finance, 4) customer satisfaction, and 5) human resources (Hudson et al., 2010). Variables The ability of SMEs to innovate is assessed using several indicators, including 1) learning ability 2) sources of innovation 3) technological efforts 4) innovation culture oriented to continuous improvement, 5) involvement of external parties and 6) support from other institutions (Rajapathirana and Hui, 2017), the social capital variable in this study was assessed using three indicators compiled by Claridge (2004) which include 1) relational capital, 2) cognitive capital, and 3) structural capital. Entrepreneurial leadership variables in this study were measured by 1) proactive,

To test the hypothesis proposed in the study, a variant-based structural equation model approach was used with the Partial Least Square (SEM-PLS) technique with the help of SmartPLS V.3.2.9 software. The reasons for using the SEM-PLS method are 1) It is used for all data scales, 2) It does not require many assumptions. 3) The data sample size should not be large. 4) Not normally distributed. 5) Used to confirm theory (hypothesis), 6) Build relationships that do not have a theoretical basis or to test prepositions (Ghozali, 2021). The process of testing data using the PLS-SEM approach with the help of SmartPLS V.3.2.9

software, there are three categories of estimates, namely 1) through testing the outer model, 2) testing the inner model and 3) interpreting the data.

IV. RESULTS AND DISCUSSION

To find out the perceptions of SMEs about the performance of SMEs, a research was conducted by distributing questionnaires to 315 SMEs which generally contained the concepts of social capital variables, entrepreneurial leadership and innovation capabilities. descriptive analysis of the characteristics of the respondents can be explained that Characteristics of respondents in the gender classification, dominated by male gender by 79%, the classification of education level is dominated by Bachelor level education (S1) by 67%, then the age classification is mostly around 41-50 years old and the classification of average income Annual business turnover (turnover) is mostly a maximum of IDR 300,000,000 per year. Based on the results of screening data to capture business classifications, obtained data of 70 SMEs that meet the requirements. However, the number of samples of 70 SMEs can be further analyzed because based on the advice of Sekaran and Bourgie (2019) explained that the minimum number of samples that can be done for multivariate analysis is in the range of 30 to 500 and 5 to 10 times the number of variables used.

Based on test results *Convergent Validity* menIt shows that there are 3 indicators, namely X2.1, X2.2 and X2.3 in the entrepreneurial leadership construct that was excluded because it did not meet the valid requirements based on the discriminant validity criterion, namely the value of outer loading > 0.60.

Table 1 Discriminant Validity

Indicator	Innovation Capability	Entrepreneurial Leadership	SME Performance	Social Capital	Average Variance Extracted
X1.1	-0.014	-0.024	0.674	0.932	0.800
X1.2	0.063	0.050	0.662	0.925	
X1.3	0.253	0.261	0.574	0.823	
Y1.1	0.901	0.813	-0.050	0.084	0.799
Y1.2	0.949	0.879	-0.021	0.097	
Y1.3	0.810	0.674	0.021	0.142	
Y1.4	0.932	0.812	0.014	0.118	
Y1.5	0.814	0.712	0.019	0.037	
Y1.6	0.945	0.880	0.012	0.100	
Y2.1	-0.203	-0.269	0.705	0.391	0.681
Y2.2	0.172	0.138	0.735	0.474	
Y2.3	0.012	-0.041	0.905	0.681	
Y2.4	0.007	-0.038	0.876	0.691	
Y2.5	-0.011	-0.055	0.885	0.634	
X2.4	0.894	1,000	-0.060	0.101	1,000

Table 1 shows that the loading value of all constructs is higher than the cross loading value and the AVE value is greater than 0.5 so that it meets the valid requirements based on the discriminant validity criteria.

Table 2 Construct Validity and Reliability

Construct	Cronbach's Alpha	Communality	Composite Reliability
Innovation Capability	0.949	0.956	0.960
Entrepreneurial Leadership	1,000	1,000	1,000
SME Performance	0.881	0.909	0.914
Social Capital	0.874	0.878	0.923

Table 2 shows that the value of composite reliability and Cronbach Alpha of each construct has shown a value greater than 0.70 so that it meets the reliable requirements based on the composite reliability criteria.

4.1. Hypothesis test

Table 3 Path Analysis and Statistical Testing

Relationship Between Variables	Model	Coefficient	T count	P Values	Test results
X1 -> Y1	a.	0.017	0.321	0.748	Not significant
Y1 -> Y2	b.	0.212	0.783	0.434	Not significant
X1 -> Y2	c.	0.723	10,312	0.000	Significant
X2 -> Y1	a.	0.893	30,297	0.000	Significant
Y1 -> Y2	b.	0.212	0.783	0.434	Not significant
X2 -> Y2	c.	-0.307	1,195	0.233	Not Significant

Testing the mediating role of innovation capability, the results of the mediation variable test can be carried out through the results of Specific Indirect Effects, as shown in table 4 below.

Table 4 Test Results for Specific Indirect Effects

Indirect Relationship	Coefficient	T count	P Values
Entrepreneurial Leadership -> Innovation Capability -> SME Performance	0.173	0.773	0.440
Social Capital -> Innovation Capability -> SME Performance	0.003	0.202	0.840

4.2. Discussion

4.2.1. Social Capital and Innovation Capability

Based on the test results, it can be concluded that social capital has a positive effect and the relationship is not significant on the innovation ability of SMEs. In this case, this relationship means that social SMEs are getting stronger but have not been able to optimally improve their innovation capabilities. The development of an innovative environment can be defined as the effect of social capital (Dakhli & Clercq, 2004). This implies that businesses do not innovate in isolation, but need contact with their

environment. Social capital in the form of formal and informal networks is very important in supporting the innovation of a company including, First, innovation is very dependent on the distribution of knowledge, especially on high technology, where knowledge is very precise. Networks consist of ties between people within and between businesses. These bonds enable, assist, and expedite the exchange of information and minimize the costs of information retrieval. Second, there is the synergistic impact of the network, which brings together complementary concepts, expertise and finance. The network connects creative ideas and thoughts. In addition, networks not only facilitate the innovation itself but also assist and accelerate the diffusion of innovation (Abrahamson & Rosenkopf, 1997). This finding is not in line with the research conducted by Jafri et al. (2014), Harjanti (2017), Huang and Chen (2017) and Prihadyanti (2010) which show that social capital measured in relational, cognitive, and structural terms has a significant positive effect on innovation capability. and speed up the exchange of information and minimize the cost of information retrieval. Second, there is the synergistic impact of the network, which brings together complementary concepts, expertise and finance. The network connects creative ideas and thoughts. In addition, networks not only facilitate the innovation itself but also assist and accelerate the diffusion of innovation (Abrahamson & Rosenkopf, 1997). This finding is not in line with the research conducted by Jafri et al. (2014), Harjanti (2017), Huang and Chen (2017) and Prihadyanti (2010) which show that social capital measured in relational, cognitive, and structural terms has a significant positive effect on innovation capability. and speed up the exchange of information and minimize the cost of information retrieval. Second, there is the synergistic impact of the network, which brings together complementary concepts, expertise and finance. The network connects creative ideas and thoughts. In addition, networks not only facilitate the innovation itself but also assist and accelerate the diffusion of innovation (Abrahamson & Rosenkopf, 1997). This finding is not in line with the research conducted by Jafri et al. (2014), Harjanti (2017), Huang and Chen (2017) and Prihadyanti (2010) which show that social capital measured in relational, cognitive, and structural terms has a significant positive effect on innovation capability. The network connects creative ideas and thoughts. In addition, networks not only facilitate the innovation itself but also assist and accelerate the diffusion of innovation (Abrahamson & Rosenkopf, 1997). This finding is not in line with the research conducted by Jafri et al. (2014), Harjanti (2017), Huang and Chen (2017) and Prihadyanti (2010) which show that social capital measured in relational, cognitive, and structural terms has a significant positive effect on innovation capability. The network connects creative ideas and thoughts. In addition, networks not only facilitate the innovation itself but also assist and accelerate the diffusion of innovation (Abrahamson & Rosenkopf, 1997). This finding is not in line with the research conducted by Jafri et al. (2014), Harjanti (2017), Huang and Chen (2017) and Prihadyanti (2010) which show that social capital measured in relational, cognitive, and structural terms has a significant positive effect on innovation capability.

4.2.2. Entrepreneurial Leadership and Innovation Capability

The conclusion from the results of hypothesis testing shows that the entrepreneurial leadership capital variable has a positive and significant effect on innovation capability. The relationship shown in the results of this study is positive where if entrepreneurial leadership in SME companies in Denpasar City increases, it will have a real impact on increasing innovation ability. The development of technology, which currently plays an important role in business competition, demands that SME business actors must also be able to take advantage of technology to take opportunities and market competition. For this reason, entrepreneurial leadership by SMEs in Denpasar City, which are mostly led by the younger generation who also have a bachelor's degree, is a positive thing that can support these SMEs to innovate. Today's young and educated leaders have more capabilities in terms of technology because they are a generation born in the millennial era. This has a positive impact on SMEs in Denpasar City, which in this study on average already use technology in their activities. Some of the technology applications that can be used by SMEs include the use of electronic devices, such as e-business, email, websites, e-commerce, and the use of other technologies. SMEs in Denpasar City on average have used technology to support their business activities, one of which is technology for product marketing, such as the use of e-commerce and social media in sales promotion. In today's era of uncertainty, SMEs with entrepreneur-oriented leaders can quickly execute corporate strategies through continuous business innovation. The organizational innovation in question is entrepreneurship that is responsive to the latest technology, the creation of production methods that are more in line with market demands and organizational creativity in the growth of productive and effective business organizations (Fontana and Musa, 2017). This follows the research studies by Shin and Zhou (2007) and Bagheri (2017) which found a positive influence between leadership and organizational innovation in the SME sector. The creation of production methods that are more in line with market demands and organizational creativity in the growth of productive and effective business organizations (Fontana and Musa, 2017). This follows the research studies by Shin and Zhou

(2007) and Bagheri (2017) which found a positive influence between leadership and organizational innovation in the SME sector. The creation of production methods that are more in line with market demands and organizational creativity in the growth of productive and effective business organizations (Fontana and Musa, 2017). This follows the research studies by Shin and Zhou (2007) and Bagheri (2017) which found a positive influence between leadership and organizational innovation in the SME sector.

4.2.3. Social Capital and Business Performance

The results of testing the social capital variable on business performance show that social capital does not have a substantial effect on business performance. This means that the social capital owned by SMEs does not guarantee a direct business increase. Relationships with consumers are important in determining the company's performance because the success of a business depends on consumers. In addition, in Denpasar City, these SMEs have established forums or associations to exchange information and knowledge both formally and informally. Formally, SMEs in Denpasar City are incorporated in cooperatives managed by the Government under the Cooperatives and SMEs Service, but not all SMEs are members of this cooperative and government data collection on SMEs in Denpasar City is still low. For informal associations, These SMEs have also formed many associations such as ups and downs between SME managers, SME associations and others. This non-formal association is the result of the formation of social networks through intimacy, solidarity, integration, and trust between SMEs who have the same goal in developing their business. The results of this study are in line with the results of research conducted by Prasetyo and Harjanti (2013) and Hartono and Soegianto (2013) which revealed that overall social capital measured through cognitive, relational, and structural aspects had no significant effect on business performance, both financial and non-financial performance. . However, the results of this study contradict the results of research by Sugiyanto and Marka (2017), Oliveira (2013),

4.2.4. Entrepreneurial Leadership and Business Performance

The results of testing the entrepreneurial leadership and business performance variables show that entrepreneurial leadership does not have a substantial effect on business performance. This means that the entrepreneurial leadership of SMEs has not been optimal in improving business performance directly.

Entrepreneurial leadership is leadership that recognizes how information can be broken down and used to create a social context that fosters value development and problem solving in SMEs. Entrepreneurial leaders use exploratory-focused methods to define challenging boundaries and mandates. Strategic dedication to new business growth that results in value creation. This value creation is very important for SME organizations to be able to sustain their business (Jones and Crompton 2009). Currently, in various countries and Indonesia, many young entrepreneurs are actively building start-ups and developing SME businesses. Likewise in this study, most SME businesses are led and run by young entrepreneurs with an age range of 20-40 years. Research by Dush et al., (2012) found that entrepreneurial leadership by youth in recent years has succeeded in increasing economic competition and increasing development in the region. Entrepreneurial leadership among young people is rarely explored specifically, and policies and programs are often one-size-fits-all. Business (currently) is no longer synonymous with a business run by those who are mature with all the abilities and skills to support a business. The results of this study are different from the results of research by Mgeni (2015), Matzler et al. (2008), and Jagdale and Bhola (2014) which show a strong positive relationship between entrepreneurial leadership and SME business performance, in the sense that the better the entrepreneurial leadership possessed by SMEs, the more it can encourage the improvement of SME performance.

4.2.5. Innovation Capability and Business Performance

Based on the test results, innovation capability has not played an important role in influencing business performance. SMEs can improve their performance both financially and non-financially by developing innovation capabilities to create new products and processes that are more innovative than competitors. Innovation is an important determinant of SME business performance in facing today's competition (Calantone et al., 2002). The innovation ability of SMEs in Denpasar City which in this study was measured through learning (learning ability), sources of innovation, technological efforts, and organizational culture that refers to continuous improvement, involvement of external parties, and support from other institutions has not been fully implemented by SMEs in Denpasar. Denpasar City. SMEs in Denpasar City in terms of increasing innovation capabilities have not implemented innovative ways in their business processes, including strategies in determining the quality of production raw materials, production processes that already use machine technology, connecting with external parties in terms of increasing new knowledge, and also forming a culture. organization by always making continuous improvement. Business organizations with

high innovation capabilities can help companies respond quickly to existing business opportunities and can take advantage of new products and market opportunities compared to other non-innovative business organizations. Through innovation activities carried out by the company, even in intense competition, The company will always be able to provide new ideas and flexibility in running/operating small and medium-sized businesses. This is intended to minimize the impact of problems and risks faced by SMEs as a result of intense business competition. The results of this study are not in line with the results of research by Calantone et al., (2002), Jiménez and Valle, (2011), Bowen et al., (2010) which reveal that innovation capability is an important requirement. to improve performance and increase company value. (2010) who revealed that innovation capability is an important requirement. to improve performance and increase company value. (2010) who revealed that innovation capability is an important requirement. to improve performance and increase company value.

4.2.6. Innovation Capability Mediates the Relationship of Social Capital and Entrepreneurial Leadership

This study shows that innovation capability has not been able to mediate the relationship between social capital and entrepreneurial leadership on improving business performance. Although social capital directly impacts business performance, entrepreneurial leadership is able to encourage SMEs to innovate. However, this innovation factor has not been able to encourage SMEs in Denpasar City with regard to strategies in determining the quality of production raw materials, production processes that already use machine technology, connecting with external parties in terms of increasing new knowledge, and also forming organizational culture by always making continuous improvements. continuously. Research studies investigating the mediating role of innovation capability in the effect of social capital and entrepreneurial leadership on business performance have never been done before. However, several studies have found the mediating role of innovation capability on several variables that affect business performance, such as in the research conducted by Tjahjadi & Soewarno (2018) where innovation capability acts as a mediation between the influence of seniority-based management on performance. business performance of start-up companies in Indonesia. Furthermore, research by Huhtala et al., (2013) also found results where innovation capability plays a role in mediating the influence between market orientation and business performance. Soewarno (2018) where innovation capability acts as a mediation between the influence of seniority-based management on performance. business performance of start-up companies in Indonesia. Furthermore, research by Huhtala et al., (2013) also found results where innovation capability plays a role in mediating the influence between market orientation and business performance. Soewarno (2018) where innovation capability acts as a mediation between the influence of seniority-based management on performance. business performance of start-up companies in Indonesia. Furthermore, research by Huhtala et al., (2013) also found results where innovation capability plays a role in mediating the influence between market orientation and business performance.

V. CONCLUSION, LIMITATIONS AND SUGGESTIONS

Conclusions can be drawn based on the results of the review and discussion described in the previous chapter to complete the formulation of research problems, including: social capital has a significant direct effect on the business performance of SMEs in Denpasar City, but the role of innovation capability has not been able to mediate in producing more comprehensive results. . Furthermore, entrepreneurial leadership has not directly been able to improve its business performance, although it is directly able to encourage the innovation capabilities of SMEs. However, this increase in innovation has not been able to improve the performance of SMEs.

This study tries / aims to reveal how the application of resource theory in competitive advantage, namely Resource Based Theory and Resource Excellence Theory. However, the results of the study have not found a relationship between business performance and business sustainability because basically competitive advantage aims for the company to continue to grow and maintain viability in the competition. Therefore, further research can investigate and explain the relationship between strategies to improve business performance of SME sector companies for business sustainability.

There are several limitations that must be considered when evaluating the results of this study. First, the lack of research samples due to the lack of a database related to the profile of SMEs in Denpasar City. Second, this study uses data in the form of respondents' answers to questions posed on research questionnaires and data collection is carried out during the busy period of SMEs. This has implications for respondents who may not answer questions seriously and carefully and respondents may not be familiar with the questions asked.

The limitations of the research mentioned above can be used as a direction for future research. Taking into account the sensitive nature of research related to business performance, future research can be carried out using different methods such as qualitative and experimental methods. Future research can also be done by adding samples and expanding the research location. Future research can also be conducted by examining the demographic characteristics of other respondents that may affect the performance of SMEs.

REFERENCE

- [1] Adler, P. S., & Kwon, S. (2014). Social capital: Prospects for a new concept. *The Academy of Management Review*, 27(1), 17–40.
- [2] Aidis, R., & Estrin, S. (2007). Entrepreneurship in Emerging Markets: Which Institutions Matter ? *University Business*, 44(December).
- [3] Albaladejo, M., & Romijn, H. (2000). Determinants of Innovation Capability in Small UK Firms: An Empirical Analysis. In ECIS working paper series ECIS working paper series (Vol. 200013, Issue 40).
- [4] Ali, K. A., & Iskandar, N. I. N. (2016). The effect of business innovation capability, entrepreneurial competencies and quality management towards the performance of Malaysian SME's. *International Journal of Business Economics and Law*, 10(2), 7–13.
- [5] Allred, B. B., & Swan, K. S. (2005). The mediating role of innovation on the influence of industry structure and national context on firm performance. *Journal of International Management*, 11(2), 229–252.
- [6] Avanti, F. S. M. (2017). The impact of entrepreneurial leadership measurement validation on innovation management and its measurement validation. *International Journal of Innovation Science*, 9(1).
- [7] Bagheri, A. (2017). The impact of entrepreneurial leadership on innovation work behavior and opportunity recognition in hightechnology SMEs. *The Journal of High Technology Management Research*, 28(2), 159-166.
- [8] Bowen, F. E., Rostami, M., & Steel, P. (2010). Timing is everything: A meta-analysis of the relationships between organizational performance and innovation. *Journal of Business Research*, 63(11), 1179–1185.
- [9] Cainelli, Evangelista, Savona - 2004 - The impact of innovation on economic performance in services. *The Service Industry Journal*, 24(1), 1–11.
- [10] Calantone, R. J., Cavusgil, S. T., & Zhao, Y. (2002). Learning orientation, firm innovation capability, and firm performance. *Industrial Marketing Management*, 31(6), 515-524.
- [11] Claridge, T. (2004). Social Capital and Natural Resource Management: An important role for social capital? In *University of Queensland* (Issue July).
- [12] Dakhli, M., & De Clercq, D. (2004). Human capital, social capital, and innovation: A multi-country study. *Entrepreneurship and Regional Development*, 16(2), 107–128.
- [13] Greef, A. M. (2014). Entrepreneurial leadership and its effect on the social performance of the organisation (Bachelor's thesis, University of Twente).
- [14] Harjanti, D., & Noerchoidah, N. (2017). The effect of social capital and knowledge sharing on innovation capability. *Jurnal Manajemen dan Kewirausahaan*, 19(2), 72-78.
- [15] Hurley, R. F., & Hult, G. T. M. (1998). Innovation, market orientation, and organizational learning: an integration and empirical examination. *Journal of Marketing*, 62(3), 42-54.
- [16] Hunt, S. D. (1997). Resource-advantage theory: An evolutionary theory of competitive firm behavior? *Journal of Economic Issues*, 31(1), 59–77. <https://doi.org/10.1080/00213624.1997.11505891>

- [17]Jafri, S. K. A., Ismail, K., Khurram, W., & Soehod, K. (2014). Impact of social capital and firms' innovative capability on sustainable growth of women owned technoprises (SMEs): A study in Malaysia. *World Applied Sciences Journal*, 29(10), 1282-1290. 330
- [18]Jagdale, D., & Bhola, S. S. (2014). Entrepreneurial leadership and organizational performance with reference to rural small scale engineering industry in Pune district. *Golden Research Thoughts*, 4(2), 1–9.
- [19]Jiménez-Jiménez, D., & Sanz-Valle, R. (2011). Innovation, organizational learning, and performance. *Journal of Business Research*, 64(4), 408–417.
- [20]Jones, O., & Crompton, H. (2009). Enterprise logic and small firms: a model of authentic entrepreneurial leadership. *Journal of Strategy and Management*, 2(4), 329–351.
- [21]Okungu, K. O. (2012). Factors influencing performance of youth group micro and small enterprises in Kisumu West District, Kisumu County. Unpublished Master thesis).
- [22]Kenya University. Lateh, M., Hussain, M. D., & Abdullah, Mu. S. (2018). Social entrepreneurship development and poverty alleviation - A Literature review. *MAYFEB Journal of Business and Management*, 2, 1–11.
- [23]Matzler, K., Schwarz, E., Deutinger, N., & Harms, R. (2008). The relationship between transformational leadership, product innovation and performance in SMEs. *Journal of Small Business and Entrepreneurship*, 21(2), 139–151.
- [24]Mgeni, T. O. (2015). Impact of entrepreneurial leadership style on business performance of SMEs in. *Journal of Entrepreneurship & Organization Management*, 4(2), 1–9.
- [25]Michael, W., & Narayan, D. (2002). Social capital: Implications for development theory and policy. *The World Bank Research Observer*, 15(2), 225–249.
- [26]Mokhber, M., Tan, G. G., Vakilbashi, A., Aiza, N., Zamil, M., & Basiruddin, R. (2016). Impact of entrepreneurial leadership on organization demand for innovation: Moderating role of employees innovative self- efficacy. *International Review of Management and Marketing*, 6(3), 415–421.
- [27]Momanyi, D., & Moronge, M. (2017). Role of financial institutions on performance of youth owned micro and small Enterprises. *The Strategic Journal of Business and Management Change*, 4(3), 544–577.
- [28]Munandar, A. (2016). The strategy development and competitive advantage of micro small medium enterprise business institution toward regional development. *AdBispreneur*, 1(2), 103–112.
- [29]Musa, A. (2017). The impact of entrepreneurial leadership measurement validation on innovation management and its measurement validation. *Reference Services Review Service Review*, 45(2), 227–241.
- [30]Nahapiet, J., & Ghoshal, S. (1998). Social capital, human capital and organizational advantage. *Nonaka & Takeuchi*, 23(2), 242–266.
- [31]Oliveira, J. (2013). The influence of the social capital on business performance: an analysis in the context of horizontal business networks. *Revista de Administração Mackenzie*, 14(3), 209–235.
- [32]Ozigi, O. (2018). Social capital and financial performance of small and medium scale enterprises Akademia Baru. *Journal of Advanced Research in Business and Management Studies*, 1(1), 18–27.
- [33]Pramuki, N. M. W. A., & Kusumawati, N. P. A. (2020). The Influence of Product Innovation , Digital Marketing and Competitive Advantage in Improving the Marketing Performance of Small and Medium Industries in Bali. *Advances in Economics, Business and Management Research, Volume 175 "Proceedings of the 2nd International Conference on Business and Management of Technology (ICONBMT 2020)," 175*, 248–254.
- [34]Rahim, H. L., Abidin, Z. Z., Mohtar, S., & Ramli, A. (2015). The effect of entrepreneurial leadership towards organizational performance. *International Academic Research Journal of Business and Technology*, 1(2), 193–200.

- [35] Rajapathirana, R. P. J., & Hui, Y. (2017). Relationship between innovation capability, innovation type, and firm performance. *Journal of Innovation & Knowledge*, 3(1), 44–55.
- [36] Renko, M., El Tarabishy, A., Carsrud, A. L., & Brännback, M. (2015). Understanding and measuring entrepreneurial leadership style. *Journal of Small Business Management*, 53(1), 54–74. <https://doi.org/10.1111/jsbm.12086>
- [37] Saha, M., & Banerjee, S. (2015). Impact of Social Capital on Small Firm Performance in West Bengal. *Journal of Entrepreneurship*, 24(2), 91–114.
- [38] Saunila, M., Pekkola, S., & Ukko, J. (2014). The relationship between innovation capability and performance. *International Journal of Productivity and Performance Management*, 63(2), 234–249.
- [39] Satya, N. P. P. S., & Pramuki, N. M. W. A. (2021). Pengaruh Intellectual Capital Terhadap Kinerja Usaha Mikro Kecil Dan Menengah (Studi Empiris Pada Umkm Se-Kecamatan Tampaksiring). *Hita Akuntansi Dan Keuangan*, 2(4), 109–132. <https://ejournal.unhi.ac.id/index.php/HAK/article/download/2000/1187>
- [40] Shin, S. J., & Zhou, J. (2007). When is educational specialization heterogeneity related to creativity in research and development teams? Transformational leadership as a moderator. *Journal of Applied Psychology*, 92(6), 1709–1721.
- [41] Smith, T. M., & Reece, J. S. (1999). The relationship of strategy, fit, productivity, and business performance in a services setting. *Journal of Operations Management*, 17(2), 145–161.
- [42] Tarabishy, A., Solomon, G., Fernald, L. W., & Sashkin, M. (2005). The entrepreneurial leader's impact on the organization's performance in dynamic markets. *The Journal of Private Equity*, 8(4), 20–29.
- [43] Tengeh, R. (2011). A Business Framework for the Effective Start-Up and Operation of African Immigrant-Owned Business in the Cape Town Metropolitan Area, South Africa. The Cape Peninsula University of Technology.
- [44] Vosta, L. N., & Jalilvand, M. R. (2014). Examining the influence of social capital on rural women entrepreneurship. *World Journal of Entrepreneurship, Management and Sustainable Development I*, 10(3), 209–227.
- [45] Wang, Z., & Wang, N. (2012). Knowledge sharing, innovation and firm performance. *Expert Systems with Applications*, 39(10), 8899–8908.
- [46] Zyl, H. J. C. van, & Mathur-Helm, B. (2007). Exploring a conceptual model, based on the combined effect of entrepreneurial leadership, market orientation and relationship marketing orientation on South Africa's small tourism business performance. *South African Journal for Business Management*, 38(2), 17–24
- [47] Handoko, T. (2020, August 26). LIPI: 47,13 Persen UMKM Mampu Bertahan dari Covid-19. *Liputan 6.Com*, 1. <https://www.liputan6.com/bisnis/read/4339806/lipi-4713-persen-umkm-mampu-bertahan-dari-covid-19>
- [48] Ingratubon. (2020, January 17). Akumindo Yakin Kontribusi UMKM Tahun ini Capai Rp 2.394,5 Triliun. *Radar Bogor*. <https://www.radarbogor.id/2020/01/17/akumindo-yakin-kontribusi-umkm-tahun-ini-capai-rp-2-3945-triliun/>
- [49] Ongesa, N. ., Nyamweya, B.O, Abdi, M. ., Njeru, F., & Gongera, E. . (2014). An Assessment of Financial Literacy on Loan Repayment by Small and Medium Entreprnuers in Ngara, Nairobi County. *Research Journal of Finance and Accounting*.
- [50] Wulantari, N. L. P., Sudiana, I. W., & Pramuki, N. M. W. A. (2022). Peran Kompetensi Manajerial Dalam Memoderasi Hubungan Good Corporate Governance Dan Budaya Organisasi Terhadap Kinerja Lembaga Perkreditan Desa (Lpd) Se-Kecamatan Sukawati. *Hita Akuntansi Dan Keuangan Universitas Hindu Indonesia, Edisi*(Januari 2022), 325–345.
- [51] Yuliantari, N. P. Y., & Pramuki, N. M. W. A. (2021). The Role of Digital Transformation and Digital Innovation to SMEs Performance in. *International Journal of Science and Management Studies (IJSMS)*, 4(6), 8–16. <https://doi.org/https://doi.org/10.51386/25815946/ijsms-v4i6p102>