## Building Transformational Leadership in Efforts to Improve the Performance of Handicraft MSMEs in Medan City

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Abstract: The main objective of this research is to develop a new concept of Transformational Leadership that is used to improve organizational learning capabilities, organizational innovation, organizational competitiveness and organizational environment in improving MSME Performance. This research uses a quantitative approach with SEM-PLS analysis techniques. The research data was obtained from the dissemination of questionnaires with the number of respondents amounting to 97 Handycraft owners in Medan City. Some of the study findings include; 1) Transformational Leadership has no positive and significant effect on MSME Performance. 2) Transformational Leadership has no positive and significant effect on Organizational Learning. 3) Organizational learning has no positive and significant effect on MSME Performance. 4) Transformational Leadership has a positive and significant influence on Organizational Innovation, 5) Organizational Innovation has no positive and significant effect on MSME Performance, 6) Transformational Leadership has a positive and significant effect on organizational competitiveness. 7) Organizational Competitiveness has a positive and significant effect on the performance of MSMEs. 8) Transformational Leadership has a positive and significant effect on the organizational environment. 9) Organizational environment has a positive and significant effect on MSME Performance. 10) Transformational Leadership has no indirect effect on MSME Performance by mediating by Organizational Learning. 11) Transformational Leadership has no indirect effect on MSME Performance by mediating by Organizational Innovation. 12) Transformational Leadership has a positive and significant effect on MSME Performance by mediating by Organizational Competitiveness. 13) Transformational Leadership has a positive and significant effect on MSME Performance by mediating by the Organizational Environment.

Key-Words: - Transformasional Leaderhip, Learning, Innovation, Competitiveness, Environment, MSMEs

Received: July 1, 2021. Revised: December 24, 2021. Accepted: January 19, 2022. Published: January 20, 2022.

### **1. Introduction**

Micro, small and medium enterprises are one of the main pillars of economic development in developing countries. In addition, MSMEs are important contributors to job creation and global economic development [1]. MSMEs have played a role in inclusive growth that has occurred since the global financial crisis during 2008-2009 [2]. However, MSMEs have not provided significant added value to economic development in Indonesia [3]. This condition is influenced by the limitations of MSMEs in mastering technology especially the access to capital and the quality of human resources which result in low productivity of goods and a great deal of business failures. MSMEs, in the midst of globalization and high competition, must be able to face global challenges, such as increasing product innovation, services, human resources, technology, and expanding the marketing area. This factor is required to increase the selling value of MSMEs to compete with foreign products that are the increasingly overwhelming industrial center of Medan City.

As a fact, the number of handicraft business units dominates in the city of Medan with a total of 97 MSMEs, consisting of 73 micro, 22 small and 2 medium enterprises. The handicraft industry sectors in Medan City utilize rattan bamboo crafts, *ulos*, batik, leather shoes, decorative lights, embroidery, wood carvings, and other souvenirs. Therefore, the handicraft industry is one of the products that have great opportunities and its business activities have flexibility with the socio-economic conditions of the community [4]. By that means, the handicraft sector in Medan City becomes the sector that absorbs the most labor [5].

However, the contribution of MSMEs to economic growth in Medan City (33.3%) is still relatively low, influenced by the not yet optimal development of the creative economy, innovation, capital, marketing, quality of business actors, market access, and the use of technology for MSMEs [6]. By that means, leadership is needed in MSME owners to be able to create collective awareness of workers in improving the performance of MSMEs. This condition examines the problems faced by Handicraft MSMEs in Medan City including human resources, product innovation, raw materials, business management, marketing, and the use of technology.

Referring to Arda's research, the inhibiting factors for Batik craft MSMEs are influenced by the far distance location from raw materials, limited promotions that only rely on bazaars from the government, as well as employees who do not have adequate skills, and poor business management [7]. In line with the results of Ramadini's research on Batik craft MSMEs, even found that MSME owners are only brokers and did not have innovations in improving the performance of MSMEs [8]. Meanwhile, Gultom's research revealed that handicraft MSMEs made from waste do not master marketing strategies. have poor financial management, and do not take advantage of the use of technology [9]. In addition, Meliala found that the main problems of shoe craft MSMEs are due to human resources, capital, facilities, and infrastructure [10].

Furthermore, Pudyastuti's research found that rattan craft human resources were powerless in increasing product innovation, marketing, and competitive performance in MSMEs [11]. The results of similar research by Angin and Dalimunthe realized that the limited capital in rattan handicraft MSMEs affected the difficulty of obtaining raw materials [12][13]. In general, Muchtar revealed that MSMEs do not own the handicraft business network and business owners are not able to innovate through the transformation of local values to produce the latest products [14]. Based on previous research, the main purpose of this research is to develop a new concept of Transformational Leadership that is used to improve organizational learning capabilities, organizational innovation, organizational competitiveness and organizational environment in improving handycraft MSMEs performance in Medan City.

### 2. Literature Riview

The handicraft industry is one of the links in the tourism industry activities. According to a report by The World Tourism Organization, the increase in foreign tourists coming will be in line with the total spending of foreign tourists in Indonesia, where this will directly contribute to the GDP revenue [15]. Although the Medan City does not yet have a special craft as a souvenir, the potential for handicrafts is quite large owing to the fact of the ability of the community to create various types of handicraft items which are quite high and can be seen from events. craft exhibition in Medan City [16].

Several experts stated that the main problem faced by MSMEs is the ineffective leadership of MSME owners. Furthermore, owner leadership will largely have an impact on the behavior of followers and also on organizational performance. Therefore, MSME organizational changes are needed, so that businesses can survive and thrive [17]. Based on the empirical literature, Kasraie's research found a significant relationship between leadership behavior and MSME growth. However, there is a positive but not yet significant relationship between leadership behavior and the profitability of MSMEs and transformational leadership that contributes more significantly to the growth of MSMEs than transactional leadership behaviour [18].

Kasraie's research on leadership style on Australian service sector MSMEs recommends transformational leadership which is judged to be in accordance with the successful performance of MSME organizations. This research is in line with Alejandro and Rejas's dissertation which showed that transformational leadership has a more positive and significant impact on the organizational performance of MSMEs [19], [20]. Meanwhile, Ikechukwu's dissertation found that owner-managers of MSMEs in the manufacturing, education, and trade sectors in Nigeria do not follow a particular leadership style. However, it showed some characteristics of leadership behavior, such as more dominantly adopting transactional leadership [21]. In addition, Syamsurizaldi's dissertation showed that there is a significant relationship between transactional leadership and the performance of the small furniture industry in West Sumatra [22].

Several empirical studies on transformational and transactional leadership in the performance of MSMEs are still incomplete and inconsistent. In the author's opinion, it can be proven again by referring to Yildiz's research [23], Hashim [24], and Rehman [25] who proved that transformational and transactional leadership both have a significant relationship to the performance of MSMEs. Therefore, further research is needed to adopt the most effective leadership in improving the performance of MSMEs. However, this research focuses on transformational leadership, which seeks to provide values for members to adhere to in organizational performance supporting [26]. Through value transformation, hopefully, the relationship between leaders and members can influence the performance of handicraft MSMEs in Medan City.

Organizational learning processes enable organizations to respond to market opportunities by helping to create innovation and an optimal business environment [27]. Thus, having an impact on high performance and sustainable competitive advantage not only applies to large companies but also MSMEs. Therefore, in meeting the challenge of innovation, some organizations introduce the concept of organizational learning [28]. In addition, Baker & Sinkul proved that an organization needs to understand organizational learning. With it, you can successfully launch a new product or service into the market to meet consumer needs and achieve improved performance, as well as a sustainable competitive advantage [29]. Many researchers argue that there is a positive relationship between organizational learning and innovation [30][31][32].

Increasingly high business competition, MSMEs must be able to create and develop innovations, including creativity [33]. Thus, MSMEs in global competition must be able to carry out innovation-oriented strategies. Innovation is very important for companies as most of the company's profits come from the results of innovation. Innovation is not only capable of producing economic efficiency, but also able to improve service or production capabilities, both in quality and quantity. MSMEs in facing an increasingly competitive environment need to find something that will become a competitive advantage. Continuous innovation in an MSME is a fundamental need to create a competitive advantage [34].

The business environment in this research focused on the strategies and policies carried out by competitors as well as the regulations issued by the government regarding MSMEs, especially the handicraft business in Medan City. The view of Organizational Theory and Business Administration stated that several factors influence a business, logically an external environment in which every company must be able to adapt to survive [35]. In line with Savrul's research, it proved that globalization affects the business environment on logistics and distribution in MSMEs [36]. In addition, Korcsmaros research identified factors that the future development of MSMEs will depend heavily on the business environment [37].

### **2.1.Theoritical Framework**

Transformational leadership theory and organizational performance theory in this study have given birth to a state of art among others; the concept of organizational collaborative synergy. The concept combines the four theories of organizational learning, organizational innovation, organizational competitiveness and organizational environment. The goal of the concept of organizational collaborative synergy as the development of good transformational leadership to be one of the driving forces for the success of MSMEs handycraft Medan City.



Fig 1: The proposed research framework

Empirical studies of transformational leadership relationships with organizational performance have been widely conducted by researchers before. Research by Kasraie, Alejandro, Rejas, Arham and Kihara proved a positive and significant relationship between the leadership styles applied to MSME performance. In fact, Transformational leadership has a positive and significant relationship with MSME performance. Meanwhile, Transactional leadership has a positive but not significant relationship with MSME performance. The hypothesis proposed in this study is[18][20][19][38][39].

H1: Transformational Leadership has a positive and significant effect on MSME Performance

The study of transformational leadership relationships with organizational learning has resulted in several theoretical models. Furthermore, the results of the noruzy, rehman, yulianeu, morales, Hsiao and Nazari studies have shown a positive and significant relationship between transformational leadership and organizational learning [40][25][41][42][43][17]. The hypotheses proposed in this study are:

H2: Transformational Leadership has a positive and significant impact on organizational learning

Studies on the relationship of Organizational Learning with MSME performance have been widely conducted by researchers before. The research of Anna Michna, Lai Wan Hooi, Giancarlo Gomes proves the empirical relationship between organizational learning and organizational performance. In addition, organizational learning capabilities have a positive and significant effect on the performance of MSMEs [44][45][46]. Thus, there is the influence of Organizational Learning on MSME Performance. The hypotheses proposed in this study are:

H3: Organizational learning has a positive and significant effect on MSME performance

An understanding of the relationship between transformational leadership and organizational innovation at the **MSME** organizational level needs to be studied empirically. Looking at the results of Mozhdeh Mokhber's research, Lale Gumusluoglu, Hsiao, Noruzy revealed that transformational leadership has a positive and significant effect on organizational innovation. As such, transformational leadership is an important determinant of organizational innovation and encourages managers to engage in transformational leadership behavior to promote organizational innovation [47][48][43][40]. So there is the influence of Transformational Leadership on Organizational Innovation. The hypotheses proposed in this study are:

H4: Transformational Leadership has a positive and significant effect on organizational innovation

Organizational innovation is primarily formed to improve organizational performance capabilities. The results of jose-luis research, Mohammed Sulaiman, Audrey prove that organizational innovation is very important to have organizations in the sustainability of their business. In addition, the study of organizational innovation positively and significantly affects the performance of MSME organizations [49][50][51]. Thus, there is the influence of Organizational Innovation on MSME Performance. So the hypothesis proposed in this study is:

H5: Organizational innovation has a positive and significant effect on the performance of MSMEs

Organizational competitiveness is primarily formed to improve competitive organizational performance. The results of the asilcovschi, Vargas and Alejandro research prove that transformational leadership has a positive and significant influence on the competitiveness of the Organization [52][53][20]. Thus, there is the influence of Transformational Leadership on organizational competitiveness. So the hypothesis proposed in this study is:

H6: Transformational leadership has a positive and significant effect on organizational competitiveness

Utilizing organizational competitiveness to be developed in connecting the characteristics of **SME** business owners to organizational performance has been done by Thomas Man. In the first study proved that there is a positive and significant influence on the performance of SME organizations [54]. After that, the second study is still consistent on the competitiveness of organizations that have a positive and significant the performance of MSME influence on organizations [55]. In addition, Anton Agus's research shows that the competitiveness of organizations has a positive influence on the performance of MSMEs in Indonesia [56]. Thus, the influence of Organizational there is Competitiveness on MSME Performance. Then the hypothesis proposed in this study is:

H7: Organizational competitiveness has a positive and significant effect on the performance of MSMEs

Furthermore, the results of constant D. Beugré, Goran and Clarita research show that transformational leadership styles have a positive and significant effect on the organizational environment of MSMEs [57][58][59]. Thus, there is the influence of Transformational Leadership on the organizational environment. So the hypothesis proposed in this study is:

H8: Transformational leadership has a positive and significant effect on the organizational environment

Zeng's research on MSMEs in China proves that the organizational environment has a positive significant and impact on organizational performance [60]. In addition, gaur's research identified between the organizational environment of 565 MSMEs in Germany, there is a positive and significant relationship between the two variables [61]. Furthermore, the results of Uzkurt research prove that the level of MSME performance tends to increase when supported by the organizational environment [62]. Thus, there is an influence of the Organizational Environment on msme performance. So the hypothesis proposed in this study is:

H9: Organizational environment positively and significantly affects the performance of MSMEs

Furthermore, this research hypothesis refers which shows Rehman's research to that transformational leadership variables have an indirect effect if not mediated by organizational learning [25]. Furthermore, previous research is in line with the results of Eun-jee Kim, Ikhram and Yulianeu's research that there are organizational learning variables mediate between to transformational leadership and MSME performance [63][64][41]. Thus, there is the influence of Transformational Leadership on MSME Performance in mediation by Organizational Learning. So the hypothesis proposed in this study is:

H10: Transformational Leadership has an indirect effect on MSME Performance by mediating by Organizational Learning

Investigating the impact of transformational leadership and organizational performance on the role of organizational innovation mediation is important to look at. The study of Sadia Arif, Winasari, Widodo and Kittikunchotiwut revealed that organizational innovation has mediated a positive and significant impact between transformational leadership and organizational performance [65][66][67][68]. Thus, there is the influence of Transformational Leadership on MSME Performance in mediation by Organizational Innovation. So the hypothesis proposed in this study is:

H11: Transformational Leadership has an indirect effect on MSME Performance by mediating by Organizational Innovation

Furthermore, hypotheses 12 and 13 have not been found from the results of previous research through literature studies conducted by the authors. However, the authors believe that hypotheses 12 and 13 will be missed in the results of the study. Therefore, there is the influence of Transformational Leadership on MSME Performance in mediation by Organizational Competitiveness and there is the influence of Transformational Leadership on Performance mediated **MSME** bv the Organizational Environment. So that hypotheses 12 and 13 proposed in this study are:

H12: Transformational Leadership has no effect on MSME Performance by mediating by Organizational Competitiveness

H13: Transformational Leadership has no effect on MSME Performance by mediated by organizational environment.

### 3. Methodology

This research used a quantitative approach. Hypothesis testing in this research was carried out using the Partial Least Square (PLS) analysis technique with the help of the Smart PLS program. The stages in this PLS analysis included (1) the outer model testing phase and (2) the inner model testing phase. At the outer model testing phase, the testing of the validity and the construct reliability of all indicators in the model was carried out, while at the inner model phase, the hypothesis testing will be carried out based on the significant value and path coefficient between exogenous and endogenous variables. The stages in this PLS analysis included the outer model testing phase and the inner model testing phase. The outer model testing phase was used to test the validity and the reliability of all indicators in measuring their constructs, while the inner model testing is used to test research hypotheses.

### 4. Results

The study used primary data obtained from questionnaires shared with respondents. Questionnaires are submitted to respondents by leaving to be filled out by respondents and in accordance with the predetermined time, the questionnaire is picked up again. Looking at the number of Handvcraft in Medan City as many as 97 MSMEs, the study took a total sample and a return rate of 100%. In addition, the characteristics of respondents based on gender include; 75 women and 22 men. Educational characteristics of respondents 67 High Schools, 18 Diplomas, 12 Bachelors. Most MSME owners on average have a workforce between 2-5 people, which is as many as 88 respondents. Furthermore, the average for the length of effort between 2 -6 years is as many as 57 respondents.

### 4.1.Data Quality Test

The data in this research were obtained from distributing questionnaires that had previously gone through the trial phase and proved valid and reliable in measuring each research variable. The results of the distribution of the questionnaire provided an overview of the data such as the highest value, lowest value, average value, and standard deviation of the variance of the data studied.

Based on the data collected, the description of the research data obtained an average value of 3.619, 3,598, 3,711 SME Performance, while the standard deviation values of SME Performance were 0.999, 0.970, and 0.963. This condition showed that the performance of SMEs is quite good. Other than that, the mean values of Transformational Leadership are 4,546, 4,247, 4.155, and 3,495, while the standard deviation values of Transformational Leadership are 0.774, 0.704, 0.764, and 0.996. This showed that Transformational Leadership is good. Furthermore, the mean scores of Organizational Learning were 3,876, 4,021, and 4,268, while the standard deviation values of Organizational Learning were 0.865, 0.799, and 0.739. This showed that Organizational Learning is of good value.

Furthermore, the mean values of Organizational Innovation are 4,134, 3.948, and 3,907, while the standard deviation values of Organizational Innovation are 0.795, 0.866, and 0.942. This showed that Organizational Innovation is good. In addition, the average value of Organizational Competitiveness is 4,134, 3.948, and

3.907, while the standard deviation values of Organizational Competitiveness are 0.795, 0.866, and 0.942. This showed that Organizational Competitiveness is good. Furthermore, the mean values of the Organizational Environment were 3.753, 3.928, 3.732, and 3.928, while the standard deviation values of the Organizational Environment were 0.774, 0.876, 1.021, and 0.815. This showed that the Organizational Environment is good.

### 4.2. Instrument Validity and Realiability Test Results

In this research, before distributing questionnaires to 97 respondents, the instrument testing phase was carried out by involving 30 respondents. The data from filling out the questionnaire at this stage was then analyzed to test the validity and reliability of the instruments used in this research.

Table 4.1 Research	Instrument	Validity	Test
]	Results		

Variabele	Item of Questions	R Count	R Table	Validity
Transformational	X11	0,516	0.361	valid
	X12	0,762	0.361	valid
	X13	0,500	0.361	valid
	X14	0,723	0.361	valid
Organizational	X21	0,858	0.361	valid
Learning $(\mathbf{Z}_1)$	X22	0,794	0.361	valid
	X23	0,503	0.361	valid
Organizational	X31	0,778	0.361	valid
Innovation (Z <sub>2</sub> )	X32	0,906	0.361	valid
Organizational	X41	0,748	0.361	valid
Competitiveness (Z <sub>3</sub> )	X42	0,778	0.361	valid
	X43	0,875	0.361	valid
Organizational	X51	0,777	0.361	valid
Environment (Z <sub>4</sub> )	X52	0,790	0.361	valid
	X53	0,682	0.361	valid
	X54	0,850	0.361	valid
MSME	Y1	0,935	0.361	valid

Performance (Y)				
	Y2	0,946	0.361	valid
	Y3	0,954	0.361	valid

Based on the results of the validity test in Table 4.1 above, the results of the analysis showed that all the question items in this research instrument are valid in measuring the research variables, indicated by the calculated R value of all questionnaire items that have exceeded the R table value (0.361). Meanwhile, the reliability test in this research was measured using the Cronbachs Alpha reliability test. In this test, the instrument is declared reliable if the Cronbachs alpha value is> 0.7.

 Table 4.2 Reliability Test Results

Variabele	Cronbachs Alpha	Cut Value	Reliability
Y	0,940	0.7	reliabel
Z3	0,727	0.7	reliabel
Z4	0,781	0.7	reliabel
Z2	0,710	0.7	reliabel
Z1	0,781	0.7	reliabel
X <sub>1</sub>	0,707	0.7	reliabel

Based on the results of the reliability test in Table 4.2, the results of the analysis showed that all instruments in this research are reliable, indicated by the Cronbachs alpha value of all instruments that have exceeded the cut value (cronbachs alpha > 0.7).

# 4.3. Testing Outer Model4.3.1. Convergent Validity Test

Convergent validity test is done by examining the loading factor value of each indicator to the construct. For confirmatory research, the loading factor limit used is 0.7, while for exploratory research the loading factor limit used is 0.6 and for development research, the loading factor limit used is 0.5. Owing to the fact that this research



confirmatory research, the limit of the loading factor used is 0.7. The following is the estimation result of the PLS model:

## Fig. 2 The estimation results of the PLS model with the algorithm technique

Based on the estimation results of the PLS model in the picture above, it can be seen that all indicators in each construct have a loading factor value above 0.7 so that the PLS model is declared to have met the requirements of convergent validity.

In addition to examining the loading factor value of each indicator, convergent validity must also be assessed from the AVE value of each construct; all constructs in the PLS model are declared to have met convergent validity if the AVE value of each construct is > 0.5. The complete AVE value of each construct can be seen in the following table:

#### Table 4.3 Loading Factor Value dan AVE Value

Variabele	Indicator	Loading Factor	AVE	Convergent Validity
Transformational	X11	0,516	-	valid
Leader ship (X <sub>1</sub> )	X12	0,762	_	valid
	X13	0,500	0.504	valid
	X14	0,723		valid
Organizational	X21	0,858	-	valid
Learning (Z <sub>1</sub> )	X22	0,794	0.540	valid
	X23	0,503		valid
Organizational	X31	0,778	0.713	valid
Innovation $(\mathbb{Z}_2)$	X32	0,906		valid
Organizational	X41	0,748	_	valid
Competitiveness (Z <sub>3</sub> )	X42	0,778	0.644	valid
	X43	0,875		valid
Organizational	X51	0,777	_	valid
Environment (Z <sub>4</sub> )	X52	0,790	_	valid
	X53	0,682	0.603	valid
	X54	0,850		valid
MSME	Y1	0,935		valid

Performance (Y)					
	Y2	0,946		valid	
	Y3	0,954	0.893	valid	

Based on the results of the PLS analysis in the table above, the AVE value of all constructs in the form of dimensions and variables has exceeded 0.5 which indicated that all indicators in each construct have met the required convergent validity criteria.

### 4.3.2. Discriminant Validity Test

Discriminant validity is done to ensure that each concept of each latent variable is different from other variables. The model has good discriminant validity if the AVE square value of each exogenous construct (the value on the diagonal) exceeds the correlation between the construct and other constructs (the value below the diagonal). The results of the discriminant validity test are obtained as follows:

Table 4.4 Fornell Larcker Method ofDescriminant Validity Test Results

	<b>(Y</b> )	(Z3)	(Z4)	(Z2)	(Z1)	(X1)
( <b>Y</b> )	0,945					
(Z3)	0,643	0,802				
( <b>Z4</b> )	0,698	0,672	0,777			
(Z2)	0,482	0,553	0,534	0,844		
(Z1)	0,413	0,332	0,413	0,486	0,735	
(X1)	0,401	0,531	0,473	0,514	0,309	0,636

The results of the discriminant validity test in the table above showed that all indicators and constructs in the PLS model have met the required discriminant validity criteria, for instance, the SME Performance variable (Y) has an AVE square root value of 0.945, this value is greater than the Competitiveness correlation. Organization (X2) with other constructs 0.802 to Organizational Environment (Z4), 0.777 to Organizational Innovation (Z2), 0.844 to Organizational Learning (Z1), 0.735 to Transformational Leadership (X1) 0.636 so that it can be declared to have met the criteria for discriminant validity using the Fornell method larcker

In addition to using the Fornell Larcker method, the discriminant validity can also be seen from the HTM value between constructs. In this method, all constructs are declared to meet the criteria of discriminant validity if the HTMT value between constructs did not exceed 0.9. The results of the analysis in the table show that there is no HTM value between constructs that exceeds 0.9, this means that the discriminant validity criteria have been met.

	<b>(Y)</b>	(Z <sub>3</sub> )	(Z <sub>4</sub> )	(Z <sub>2</sub> )	(Z <sub>1</sub> )	(X <sub>1</sub> )
<b>(Y)</b>						
(Z <sub>3</sub> )	0,752					
(Z <sub>4</sub> )	0,797	0,859				
( <b>Z</b> <sub>2</sub> )	0,621	0,819	0,717			
(Z <sub>1</sub> )	0,525	0,478	0,600	0,761		
(X <sub>1</sub> )	0,531	0,795	0,693	0,799	0,500	

 Table 4.5 HTMT value between constructs

Further, to using the Fornell Larcker method and the HTMT method, discriminant validity can also be seen from the cross-loading value of each indicator to the construct, the indicator is declared to meet the discriminant validity criteria if the crossloading indicator to the construct is higher than the cross-loading indicator value to other constructs.

			0			
	( <b>Y</b> )	(Z3)	(Z4)	(Z2)	(Z1)	(X1)
X11	0,279	0,343	0,376	0,360	0,248	0,816
X12	0,337	0,350	0,288	0,317	0,231	0,862
X13	0,097	0,211	0,224	0,087	0,132	0,880
X14	0,233	0,393	0,281	0,429	0,148	0,823
X21	0.341	0.257	0.330	0.407	0.858	0.336
X22	0.373	0.333	0.357	0.437	0.794	0.180
X23	0.145	0.087	0 205	0.156	0.803	0.118
X31	0 338	0 346	0.346	0 798	0 370	0.323
X32	0.462	0 558	0.531	0.906	0.445	0 518
X41	0,380	0,748	0,816	0,507	0,222	0,270

 
 Table 4.6 Discriminant Validity Test Results with the Cross Loading Indicator method

X42	0,510	0,778	0,842	0,448	0,374	0,465
X43	0,614	0,875	0,851	0,414	0,204	0,495
X51	0,439	0,864	0,777	0,292	0,355	0,292
X52	0,517	0,850	0,790	0,414	0,223	0,365
X53	0.499	0.825	0.682	0.327	0.300	0.251
X54	0.668	0.890	0.850	0.562	0.394	0.503
X61	0.935	0.624	0.657	0.469	0.439	0.450
X62	0.946	0.642	0.661	0.479	0.380	0.373
X63	0,954	0,554	0,660	0,415	0,351	0,310

Based on the results of the discriminant validity test in Table 4.6 above, it can be seen that all indicators have the highest indicators in their constructs not in other constructs so that it can be stated that all indicators have met the requirements of discriminant validity.

Based on the overall results of discriminant validity testing with the 3 test methods, it can be concluded that the outer PLS model has met the required discriminant validity criteria.

#### 4.4. Inner Model Test

## 4.4.1. The goodness of fit structural model testing

At the structural model testing stage, before testing the structural model, the feasibility of the model is first tested by looking at the R square value and the Q square model value. In this test, the value of R square model showed the predictive power of the model seen from the power of exogenous variables in predicting endogenous variables. The value of R square was categorized into 3 categories, namely good, moderate and weak. According to Chin, the R square value of 0.67 indicated that the PLS model is strong, 0.33 indicated the PLS model is in the moderate category and 0.19 indicated that the PLS model is in the weak category [69].

Variable	R Square	R Square Adjusted
<b>(Y</b> )	0,704	0,688
(Z3)	0,747	0,744
(Z4)	0,553	0,549
(Z2)	0,789	0,787

(Z1)	0,290	0,282	

Based on the results of the analysis in the table above, the R square value of all variables has exceeded 0.33 so it can be stated that the model is in the moderate category. At the structural model testing stage, before testing the structural model, the feasibility of the model was first tested by looking at the R square value and the Q square model value. In this test, the value of R square model showed the predictive power of the model seen from the power of exogenous variables in predicting endogenous variables. The value of R square was categorized into 3 categories, namely good, moderate and weak.

The Q square value was categorized into 3 categories, namely small, medium and large, a Q square value of 0.02 was declared small, a Q square value of 0.15 was moderate and a Q square value of 0.35 was declared large [70].

Table 4.8 O square Value

Table 4.0 & Square Value					
	RMSE	MAE	Q <sup>2</sup> _predict		
( <b>Y</b> )	0,949	0,773	0,134		
(Z3)	0,884	0,727	0,254		
(Z4)	0,917	0,737	0,192		
(Z2)	0,904	0,680	0,224		
(Z1)	1,004	0,801	0,037		

The calculation of Q square in the table above showed that the Q square value of SME Performance (Y) is 0.134 which is predicted from the Transformational Leadership variable (X1) through Organizational Learning (Z1), Organizational Innovation (Z2), Organizational Competitiveness (Z3) variables, and Organizational Environment (Z4). It can be concluded that the PLS model has high predictive relevance. Based on the results of the evaluation of the feasibility of the model by looking at the values of R square and Q square of the model, it can be concluded that the structural model is feasible to be used to test the research hypothesis.

### 4.4.2. Path Coefficient Evaluation and Direct Effect Test

The direct effect significance test was used to test the partial effect of exogenous variables on endogenous variables. Owing to the fact that this research used a one-tailed hypothesis, the hypotheses used in this test are as follows: Ho: exogenous variables have no positive effect on endogenous variables

Ha: exogenous variables have a positive effect on endogenous variables

Owing to the fact that the research hypothesis is a two-way hypothesis, Ho is rejected and it is concluded that exogenous variables have a significant effect on endogenous variables if the P value < 0.05 and t count > 1.96, whereas if the p value > 0.05 and t arithmetic <1.96 then Ho is not rejected and it can be concluded that exogenous variables.

From the results of the significance test, it is also possible to know the direction of the relationship between the influence of exogenous variables and endogenous variables. The direction of the relationship can be known from the path coefficients on each path. If the path coefficient value is positive, then the effect of exogenous to endogenous is unidirectional, whereas if the path coefficient is negative, then the effect of exogenous to endogenous is the opposite. The results of the model estimation as a reference for testing the hypothesis in this research can be seen in Figure 2. Based on the estimation results of the PLS model with the algorithm technique above, it can be seen that all paths are significant with p value < 0.05. The results of the significance test of this direct effect can be seen in full in the following table:

Cable 4.9 Partial Effect Test Result	ts	
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Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
(X1)-> (Y)	-0,021	-0,032	0,090	0,232	0,816
(X1)-> (Z1)	0,309	0,334	0,125	2,473	0,014
(Z1)->(Y)	0,124	0,131	0,071	1,736	0,083
(X1)-> (Z2)	0,514	0,536	0,065	7,945	0,000
(Z2)->(Y)	0,032	-0,027	0,124	0,261	0,794
(X1)->(Z3)	0,531	0,541	0,079	6,717	0,000
(Z3)->(Y)	0,302	0,310	0,92	3,278	0,001
(X1)->(Z4)	0,473	0,491	0,078	6,099	0,000
(Z4)->(Y)	0,436	0,437	0,121	3,597	0,000

Based on the results of the above hypothesis testing, the following test results are obtained:

- Transformational Leadership (X1)-> MSME Performance (Y) On a path that shows the relationship of Transformational Leadership (X1) influence on MSME Performance (Y) (X1->Y), the P value obtained is 0.816 with a statistical T of 0.232 and a negative path coefficient of -0.032. Therefore, because the value of the path p value > 0.05, the statistical T < 1.96 and the path coefficient marked negative it can be concluded that Transformational Leadership does not have a significant positive effect on MSME Performance.
- 2. Transformational Leadership (X1)-> Organizational Learning (Z1) On a path that shows the relationship of Transformational Leadership (X1) influence on Organizational Learning (Z1) (X1 -> Z1), the P value obtained is 0.014 with a statistical T of 2,473 and a positive marked path coefficient of 0.309. Therefore, because the value of P path value > 0.05, T statistics > 1.96 and the path coefficient marked negative it can be concluded that Transformational Leadership has a positive and significant effect on Organizational Learning.
- 3. Organizational Learning (Z1)-> **MSME** Performance (Y) On the path that shows the relationship of organizational learning (Z1) influence on MSME Performance (Y) (Z1-> Y), the P value obtained is 0.083 with a statistical T of 1,736 and a positive marked path coefficient of 0.124. Therefore, because the value of P value of the path > 0.05, the statistical T > 1.96and the coefficient of the path marked positive it can be concluded that Organizational Learning has no positive and insignificant effect on MSME Performance, this shows that the higher organizational learning, the no effect on MSME Performance.
- 4. Transformational Leadership (X1) ->Organizational Innovation (Z2) On a path that shows the relationship of Transformational Leadership (X1) influence on Organizational Innovation (Z2) (X1  $\rightarrow$  Z2), the P value obtained is 0.000 with a statistical T of 7,945 and a positive marked path coefficient of 0.514. Therefore, because the value of P value of the path < 0.05, the statistical T > 1.96 and the coefficient of the path marked positively it can be concluded that Transformational Leadership has а significant positive effect on Organizational Innovation.
- 5. Organizational Innovation (Z2)-> MSME Performance (Y) On the path that shows the relationship of Organizational Innovation (Z2) influence on MSME Performance (Y) (Z2 ->

Y), the P value obtained is 0.794 with a statistical T of 0.261 and a positive marked path coefficient of 0.032. Therefore, because the value of P value of the path > 0.05, T statistics < 1.96 and the coefficient of the path marked positive it can be concluded that Organizational Innovation has no positive and insignificant effect on MSME Performance, this shows that the higher organizational innovation, the no effect on MSME performance.

- 6. Transformational Leadership (X1)-> Organizational Competitiveness (Z3) On a path that shows the relationship of Transformational Leadership (X1) influence on Organizational Competitiveness (Z3) (X1  $\rightarrow$  Z3), the value of P value obtained is 0.000 with a statistical T of 6,717 and a negative path coefficient of 0.531. Therefore, because the value of P path value <0.05, T statistics > 1.96 and the path coefficient marked positive, it can be concluded that Transformational Leadership has a significant positive effect on Organizational Competitiveness.
- 7. Organizational Competitiveness (Z3)-> MSME Performance (Y) On a track that shows the relationship of organizational competitiveness influence on MSME performance (Z3 (Y), the P value obtained is 0.001 with a statistical T of 3.278 and a positive track coefficient of 0.302. Therefore, because the value of P value of the path < 0.05, T statistics > 1.66 and the coefficient of the path marked positively it can concluded that organizational be competitiveness has a positive and significant effect on msme performance, this shows that the higher the competitiveness of the organization, the higher the performance of MSMEs.
- Transformational 8. Leadership (X1)-> Organizational Environment (Z4) On a path that shows the relationship of Transformational Leadership (X1) influence on Organizational Environment (Z4) (X1 -> Z4), the P value obtained is 0.000 with a statistical T of 6.099 and a positive path coefficient of 0.473. Therefore, because the value of the path p value < 0.05, the statistical T > 1.96 and the positive marked path coefficient it can be concluded that Transformational Leadership has a significant the Organizational positive effect on Environment.
- 9. Organizational Environment (Z4)-> MSME Performance (Y) On the path that shows the organizational environment (Z4) influence relationship to MSME Performance (Y) (Z4(Y), the P value obtained is 0.000 with a statistical T

of 3.597 and a positive marked path coefficient of 0.436. Therefore, because the value of P value of the path < 0.05, the statistical T > 1.96 and the coefficient of the positive marked path it can be concluded that there is a significant influence between organizational environment (Z4) on MSME performance, this shows that the higher the organizational environment, the higher the MSME performance value.

### **4.4.3.** Indierect Influence

In this research, to examine the role of mediation in mediating the indirect effect of exogenous to endogenous, an indirect effect test was carried out with the results of PLS analysis in the section on the specific indirect effect test. Because this research used a one-tailed hypothesis, the hypothesis used in the test is

Ho: mediating variables cannot mediate the indirect effect of exogenous variables on endogenous variables

Ha: mediating variables can mediate the indirect effect of exogenous variables on endogenous variables

With a significant level of 5%, then the oneway hypothesis testing has the criteria for rejecting Ho if the p value obtained is < 0.05 and T statistics > 1.96, whereas if the p value > 0.05 and T statistics < 1.96 then Ho is not rejected which indicated that there is no role of intervening in mediating the effect of exogenous to endogenous.

 Table 4.10 Indirect Effect Test Results

Variable	(0)	( <b>M</b> )	(STDEV)	T Statis tics	P Values
(X1)->(Z1) ->(Y)	0,038	0,045	0,033	1,175	0,241
(X1)->(Z2) ->(Y)	0,017	0,015	0,070	2,240	0,811
(X1)->(Z3) ->(Y)	0,161	0,168	0,057	0,812	0,005
(X1)->(Z4) ->(Y)	0,206	0,215	0,070	2,927	0,005

Based on the results of the analysis in the Table above, the following results are obtained:

 The value of P value of indirect influence of Transformational Leadership on MSME Performance mediated by Organizational Learning (X1 -> Z1 -> Y) is 0.241 with a statistical T of 1.175 and a positive path coefficient of 0.045. Therefore, the value of P

value > 0.05 and T statistics < 1.96, Ho was accepted and concluded that there was no indirect influence of Transformational Leadership on MSME Performance by mediating by Organizational Learning. Thus, transformational leadership has an indirect impact on the performance of handycraft MSME organizations without being mediated by organizational learning. Even if there is no commitment, knowledge, renewal and adaptation, and openness to the outside world, transformational leadership still has no direct effect on the performance of handicraft MSME organizations.

- 2. The value of P value of indirect influence of Transformational Leadership on **MSME** Performance mediated by Organizational Innovation (X1  $\rightarrow$  Z2  $\rightarrow$  Y) is 0.811 with a statistical T of 0.240 and a positive path coefficient of 0.015. Because the value of P value > 0.05 and T statistics < 1.96 then Ho is accepted. Thus, transformational leadership affects indirectly on the performance of handycraft MSME organizations without being mediated by organizational innovation. Even if there are no new ideas and creative behaviors, and the courage to take risks, transformational leadership still has no direct effect on the performance of handicraft **MSME** organizations.
- The value of P value of indirect influence of 3. Transformational Leadership on MSME Performance mediated by Organizational Competitiveness (X1 (Z3 (Y) is 0.005 with a statistical T of 2,812 and a positive path coefficient of 0.168. Therefore, because the value of p value < 0.05 and T statistics > 1.96, Ho was rejected and concluded that there was an indirect influence of Transformational Leadership on MSME Performance mediated by Organizational Competitiveness. This means that the higher the influence of Transformational Leadership, the higher the performance of MSMEs by being mediated by organizational competitiveness. Without adequate Organizational Competitiveness, there will be less influence of Transformational Leadership on MSME Performance.
- 4. The value of P value of indirect influence of Transformational Leadership on MSME Performance mediated by the Organizational Environment (X1 (Z4 (Y) is 0.004 with a statistical T of 2,927 and a positive path coefficient of 0.215. Therefore, because the value of p value < 0.05 and T statistics > 1.96,

Ho was rejected and concluded that there was an indirect influence of Transformational Leadership on MSME Performance by mediating by the Organizational Environment. This means that the higher the influence of Transformational Leadership, the higher the performance of MSMEs by being mediated by the Organizational Environment. Without an adequate organizational environment, there will be less influence of transformational leadership on msme performance.

## 5. Conclusion

Based on the results of research that has been done, the conclusion to answer the formulation of problems and research hypotheses as follows: First, Transformational Leadership has no positive and significant effect on MSME Performance. Second, Transformational Leadership has a positive and significant effect on organizational learning. Third. Organizational learning has no positive and significant effect on MSME Performance. Fourth, Transformational Leadership has a positive and significant effect on Organizational Innovation. Fifth, Organizational Innovation has no positive and significant effect on MSME Performance. Sixth, Transformational Leadership has a positive and significant effect on organizational competitiveness. Seventh, Organizational Competitiveness has a positive and significant effect on the performance of MSMEs. Eighth, Transformational Leadership has a positive and significant effect on the organizational Organizational environment. Ninth, the Environment has a positive and significant effect on MSME Performance. Tenth, Transformational Leadership has no indirect effect on MSME Performance by mediating by Organizational Learning. Eleventh, Transformational Leadership has no indirect effect on MSME Performance by mediating by Organizational Innovation. Twelfth, Transformational Leadership has a positive and significant effect on MSME Performance by mediating by Organizational Competitiveness. Thirteenth, Transformational Leadership has a positive and significant effect on MSME Performance by mediating by the Organizational Environment.

The advice in this study is as follows; First, so that the Transformational Leadership run by Handycraft MSME Owners can still maintain collaborative synergy to organizational factors that are mediation variables in this study so that the performance of Handicraft MSMEs can continue to be improved. Second, in order for Organizational Learning to have a positive impact on the Performance of MSME Handicraft, MSME owners need to build relationships and cooperation with parties such as educational and training institutions and research and development institutions so as to build knowledge and expertise competencies that are in accordance with the demands and needs of employees in improving their performance.

The limitations of this study only focus on Handicraft MSMEs in Medan City and have not reached MSMEs as a whole. The research methods conducted are still surveyed with closed questionnaires so that they cannot reflect comprehensive results, such as the use of in-depth interview methods and focus group discussions on informants who are stakeholders for Handicraft MSMEs.

Further research agenda needs to be done using a mix methode with a larger sample number and is varied to MSMEs in the city of Medan. In addition, organizational cultural issues are also important to be examined by the next researchers in order to answer the shortcomings in this study so as to strengthen the role and influence of Transformational Leadership on Handicraft MSME Owners in Medan City.

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