

Strengthening of Micro Business Innovation

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ABSTRACT

Objective – The objective of this study is to produce a model for strengthening micro-businesses innovation through strengthening character and leadership.

Methodology/Technique – The method employed in this is explanatory quantitative, multiple regression analysis with SPSS. This is a case study of micro-businesses actors in around Mercu Buana University Campus, Jakarta. The target population is 50 business units and the sample is 49 business units.

Findings – The results show that character and leadership simultance have a positive and strong influence as an instrument to strengthen innovation. Further, the correlation between character and leadership simultance and innovation is 0,832; character and leadership simultance 'cannot be ignored' as an instrument to strengthen innovation. Further, innovation can be predicted by character and leadership simultance using a multiple regression model of $\hat{Y} = 0,529 + 0,275 X_1 + 0.473 X_2$.

Novelty – The contribution of character and leadership simultance towards innovation is 69%. The remaining 31% is influenced by factors not considered in this paper.

Type of Paper: Empirical.

Keywords: Entrepreneurship; Microenterprise; Innovation; Character; Leadership.

Reference to this paper should be made as follows: Sohari, T, D; Budiningsih, I; Sari, A. (2019). Strengthening of Micro Business Innovation, *J. Bus. Econ. Review*, 4(3) 129 – 136 [https://doi.org/10.35609/jber.2019.4.3\(2\)](https://doi.org/10.35609/jber.2019.4.3(2))

JEL Classification: M1, M10, M19.

1. Introduction

The Central Bureau of Statistics (2017) records that the population of Indonesia is approximately 261 million and that the number of poor people in Indonesia has reached 27.77 million people (10.64% of the total population). That number represents an increase of around 10,000 from 2016. Poverty alleviation can be achieved by developing micro-businesses that create new entrepreneurs and strengthen existing business actors to absorb unemployment and increase family income.

* Paper Info: Revised: June 11, 2019

Accepted: September 24, 2019

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The proportion of Indonesian entrepreneurs who contribute to the creation of jobs is still very low, around 1.65% (Ministry of Cooperatives and Micro, Small and Medium Enterprises, 2015) which is still below the minimum requirement of 2%. In the United States, that number is 12%, in Singapore it is 7%, China is 10%, Japan is 10%; Malaysia is 5% and Thailand is 4%. This indicates the need to promote micro-businesses; the birth of new entrepreneurs and advancing existing micro-businesses.

Strategic factors determining success include character, leadership, and innovation capabilities. Singapore as a dynamic international business center, in the face of increasingly sharp global competition, sees innovation as increasingly important for all businesses. Process innovation can reduce production costs - this is in line with the cost leadership business strategy for dealing with competitive markets. Companies that fail to be innovative to an adequate level will experience difficulties when prices fall while fixed costs are unlikely to fall, so they will be forced to withdraw from the market. In addition to process innovation, it is also necessary to innovate products to compete in the global market.

The role of character and leadership in strengthening the innovation of micro-businesses is very strategic. The purpose of this study is to strengthen the innovation of micro-businesses by focusing on strengthening character and leadership. This research is expected to determine the potential of micro-businesses innovation and its strengthening model.

2. Literature Review

2.1. Character

Sexton in Low Aik Meng, et. al. (1996: 33) defines an entrepreneur is someone who has ambition, is resilient, takes risks, rejects establishment and is ready to make changes. Shumpeter (1971) states that the character of a successful entrepreneurs is as an innovator who is willing to take risks (Yee, 1991) and maximize opportunities (Drucker, 1985). Hebert (1989) found that an entrepreneur would buy goods or services when prices are fixed and sold when prices are uncertain to make a profit, so he is in the center of transactions to create profits in the economic environment of the community or market. Nelson (1986) argues that a strong willingness to take risks is the key to entrepreneurial success, which is supported by luck, time, capital, and hard work. Duncan (1991) argues that the key characteristic for entrepreneurial success is skill, being able to identify market niches and develop them to realize their business potential. Silver (1988) argues that entrepreneurial success requires heart, courage, encouragement, the ability to work together, and an understanding of business leverage. Jim Gagan, CEO and founder of the United Consumer Club (1987), argues that honesty and integrity are also important factors for business success.

2.2. Leadership

Leadership is the main force that determines whether an organization functions well or badly (Meindl & Erlich, 1987), although the true contribution of leadership to organizational effectiveness has been the subject of considerable controversy (House & Baetz, 1979; Kerr & Jermier, 1990). The first step to understanding leadership roles in small businesses is to understand the effectiveness of which leadership styles are actually used, and which demographic factors influence the choice of leadership style. It is also important to consider matters relating to the culture of the community such as whether it can accept or reject certain leadership styles. Valenzy and Dodgetts (1985) identified 5 factors that influence this, namely:

- (1) Direction - As a task-oriented leader;
- (2) Negotiation - As a leader who accomplishes various things by making agreements with subordinates;
- (3) Consultative - Enables subordinates to have input in decisions that are made;
- (4) Participative - Enables subordinates to share in decision-making; and

(5) Delegation - Enables subordinates to complete their tasks in their own way (Altman, Valenzi & Hodgetts, 1985, p. 316).

2.3. Innovation

Micro businesses without innovation have small business opportunities. Most new goods and services enter the market and business ventures prepare themselves to produce their goods and services at least as a result of imitation. Thus, the presence of innovation is seen as a sufficient condition for entrepreneurship so that it does not require it. In addition, the level of novelty or uniqueness of innovation is an important problem related to the real characteristics and relevant markets. It is important to understand that innovation is a multidimensional concept, and that there is no need to change what underlies itself as an entrepreneur.

Rogers (1995), argues that the characteristics of innovation are as follows:

- (1) Relative advance - An innovation produces something better than before;
- (2) Compatibility - Innovation is considered consistent with existing values, past experience, and the needs of potential users;
- (3) Complexity - Produce something more difficult to understand and use. Some innovations are understood by the biggest part of the social system; more difficult than others and will be adopted more slowly; and
- (4) Observability - Innovations whose results make it possible for others to innovate.

Innovations are generated by someone who has more advantages, compatibility, trial ability observability, and less complexity will be adopted faster than other innovations. Sumarwan (2011: 90) refers to innovation as an idea, practice or object that is understood as something new by each individual or other user. The innovation decision process in principle is a search and information processing activity where individuals are motivated to reduce uncertainty about benefits and lack of motivation. The innovative decision process involves:

- (1) knowledge;
- (2) persuasion;
- (3) decision;
- (4) implementation; and
- (5) confirmation).

Rogers (1995: 380) suggests that the independent variables associated with innovation in an organization are individual leaders, internal character of organizational structure, and the external character of the organization. This opinion supports this research which uses the independent variables of character and leadership, while innovation as a dependent variable.

2.4. Previous Research

Tjiptogoro (2018) conducted a study that was outlined as a paper entitled "Promoting Entrepreneurship on Micro Small and Medium Business" and published as a 7th Proceeding Full Paper in Proceedings of the Global Conference on Business and Social Sciences August 20-21, 2018. Colombo Sri Lanka. The results of that study concluded that large suburban areas such as Jakarta need to advance Micro Small and Medium Business (MSMB) entrepreneurs, particularly in the food/beverage industry, agribusiness, and home industry. Promoting MSMB entrepreneurship can be achieved with partnership programs to build the character of MSMB entrepreneurs supported by competencies that are in line with their industries. Building the right character and competency is carried out with materials and coaching techniques that are easily

cultivated by participants according to the education level of the prospective and MSMB entrepreneurs who are commonly junior high and high school educated.

In previous studies, research on entrepreneurship in general has not examined the problems of leadership and innovation which are the main elements of strengthening MSMB entrepreneurs. This research can fill that gap to improve micro entrepreneurial development to in turn improve the sustainability of those businesses to support poverty alleviation programs.

3. Research Methodology

The purpose of this study is to analyze the effect of the independent variables (Character (X1) and Leadership (X2)) on the dependent variable of Innovation (Y) and the resulting regression equation model can be used for the development of future policies that have an impact on poverty alleviation. This is a quantitative explanatory research methodology using SPSS. This study focuses on a population of 50 micro-business units and 49 samples (one rejected sample), being a total workforce of 83 people. The characteristics of the respondents are as follows: (1) Men 75.5%, women 24.25%; (2) Age under 30 years (44.69%), between 31 years - 40 years (24.45%) and over 40 years; (3) Junior High School Education (38.78%), Senior High School (53.06%), Diploma (4.08%), Bachelor (4.08%); (4) The experience of micro entrepreneurs under 3 years (46.94%), 3 years - 6 years (16.33%), 6 years - 10 years (22.45%), above 10 years (14, 58%); (4) Annual income below IDR 10,000,000 (28.57%), annual income of IDR 11,000,000 to IDR 30,000,000 (32.65%), annual income IDR 31,000,000 - IDR 50,000,000 (12.24%), income above IDR 50 million only 14.28%; (5) Ever received guidance from the Government (12.24%); (6) Without employees (10.2%), 1 employee (32.65%), 2 employees (42.86%); 3 employees (6.12%); 4 employees (8.16%).

4. Results

4.1. Research Instrument and Data Test Results

Validity was tested using Cronbach Alpha with 30 respondents. The validity standard value of each instrument/statement is above or equal to 0.3. Validity test results: Character (X1), 16 of 16 valid instruments; Leadership (X2), 11 of 11 valid instruments. Innovation (Y), 15 of 15 valid instruments. All instruments can be used for further statistical analysis. Reliability was tested using Cronbach Alpha with 30 respondents. Standard reliability value is 0.6. Reliability test results: Character (X1) 0.922; Leadership (X2) 0.941; Innovation (Y) 0.904. All instruments have reliability values above 0.6, thus all variables and instruments can be relied upon for further statistical analysis.

The normality test for the data of 49 respondents for each variable shows that character variables are not normally distributed. A Z score test was then conducted. There are 2 respondents who have a Z score below 2.5 and above - 2.5, meaning the statistical analysis uses only 47 respondents. Error variance from one observation to another observation concluded that heteroscedasticity did not occur. The autocorrelation test obtains a Durbin-Weston value of 2.140, or above the value of 1, and below the value of 3, meaning that there is no autocorrelation. The calculation is: Character variable (X1) VIF = 2.185; Leadership (X3) VIF = 2.185, All independent variables have VIF values above 0 and below 10, meaning there is no multicollinearity. See Table 1 below for the results.

Table 1. VIF and Durbin Weston

Collinearity Statistics		Durbin-Weston
Tolerance	VIF	
.458	2.185	2.140
.458	2.185	

Source: Processed SPSS 2019

4.2. Regression Analysis

The RSquare determination coefficient of 0.692 means that the independent variable can explain 69.2% of innovation, whilst the remaining 31.8% is explained by other factors. See Table 2.

Table 2. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics
					R Square Change
1	.832a	.692	.678	.312	.692

Predictors: (Constant), Leadership, Character

Dependent Variable: Innovation

Source: Processed SPSS 2019

A simultaneous f-test = 49.320 with sig = 0.000 which is <0.05 which indicates that all independent variables simultaneously have a significant influence on the dependent variable. See Table 3.

Table 3. Simultaneous Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.576	2	4.788	49.320	.000b
	Residual	4.272	44	.097		
	Total	13.848	46			
a. Dependent Variable: Innovation						
b. Predictors: (Constant), Leadership, Character						

Source: Processed SPSS 2019

The regression coefficient and individual test results are displayed in Table 4. The resulting regression equation:

$$Y = 0.529 + 0.275 X_1 + 0.472 X_2$$

The constant in the regression equation is 0.529, with a significance level of $S_g = 0.174$ which is >0.05, which means that the constant has no significant effect. The regression coefficient for Character (X_1) = 0.275, $Sig = 0.05 = 0.05$, meaning it has a significant positive effect on innovation. Leadership regression coefficient (X_2) = 0.472, $Sig = 0.000 < 0.05$, meaning it has a significant positive effect on innovation.

Table 4. Regression Coefficients and Significance Values

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.529	.383		1.381	.174
	Character	.275	.138	.247	1.996	.052
	Leadership	.472	.092	.633	5.113	.000

Dependent Variable: Innovation
Source: Processed SPSS 2019

4.3. Implications

The implications of the results of the statistical analysis are as follows:

- (1) A constant value of 0.529 with sig 0.174 means that character and leadership have a significant effect on innovation in micro-businesses (0.529 on a scale of 1-5).
- (2) Characters with the second largest regression coefficient of 0.275 and sig = 0.05 shows that character can be a policy in fostering micro-businesses innovation.
- (3) Leadership has the largest regression coefficient of 0.472 and sig 0.000 meaning leadership can be the main policy for strengthening micro-businesses innovation.
- (4) The F-value = 49.32 with sig = 0.000 which shows that Character and Leadership can simultaneously be a policy to strengthen micro-businesses innovation to alleviate poverty.
- (5) The number of micro enterprises of 50 units has 83 workers or the total number of workers absorbed by 50 people + 83 people = 133 workers, thus each micro-business unit has the potential to absorb 2.66 workers per micro-business unit.

5. Conclusions and Suggestions

The following conclusions can be made based on the results of this study:

- (1) Innovation requires serious effort by micro-businesses.
- (2) Leadership has the biggest significant effect on strengthening micro-businesses innovation.
- (3) Character has a significant effect on strengthening micro-businesses innovation.
- (4) Leadership and characterization can be used simultaneously as a program to strengthen micro-businesses innovation.
- (5) The potential for employment per unit of a micro-businesses is 2.66 workers per micro-business unit.

Based on the conclusions of this paper, the following suggestions are made:

- (1) The following factors require more attention:
 - Having the main power that can have an impact on the innovation of micro-businesses to function well or badly.
 - Contribute to innovation for effective micro-businesses operations.
 - Sensitivity to the culture of the environment and society in various matters related to the innovation of micro-businesses.
 - As a task oriented leader to innovate in running micro-businesses.
 - The ability to negotiate in making agreements with various parties that support innovation related to the micro-businesses that it runs.
 - Accepting and giving various inputs with subordinate matters that are constructive to the ability of innovation in the completion of work.
 - Delegating tasks and authorities appropriately and responsibly to support innovation.
 - Dare to take risks for innovation.
- (2) The majority have employees 1 or 2 employees and there are even those who do not have employees, thus impacting on the form of innovation strengthening programs. If the reinforcement program is done classically, it can disrupt its business activities, so the effective

one is the "man to man" mentoring program with more expensive consequences. If you use a classical model, you must first believe that business operations are not disrupted and the need for compensation for potential losses due to classical training.

- (3) The most appropriate innovation capability strengthening program is given to prospective micro entrepreneurs so that when they become micro-businesses they have the basic capabilities of innovation.
- (4) There needs to be a micro entrepreneurship innovation capability provisioning program given to students in junior high, vocational, high school, and in the Diploma Program, as intra or extra-curricular activities.
- (5) It is expected that the Government and other sponsors will hold a program to create micro entrepreneurs who have the basis of mass innovation capabilities.

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