

**ROLE OF LEADER IN CREATING ORGANIZATIONAL  
CULTURE AND PRODUCT INNOVATION TO REACH  
SUSTAINABLE COMPETITIVE ADVANTAGE  
(STUDY ON NGINGAS METAL VILLAGE SME OF SIDOARJO,  
EAST JAVA)**

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**ABSTRACT**

*Sustainable competitive advantage is effort of all SME in facing fierce competition. This research was based on effort to look how far leadership, organizational culture and innovation affecting sustainable competitive advantage in SME village located in Sidoarjo city also tried to look relationship between organizational culture and innovation on sustainable competitive advantage. Population of research was metal craftsmen in Ngingas village. The data of their responses were analyzed of their fitness with research model developed from theoretical framework using SEM confirmatory analysis. Research result indicated that leadership has no effect on organizational culture, motivation and sustainable competitive advantage. Also innovation had no effect on sustainable competitive advantage. Only organizational culture had effect on sustainable competitive advantage.*

**Keywords:** Leadership, Organizational Culture, Motivation And Sustainable Competitive Advantage

**INTRUDUCTION**

Nowadays small and medium enterprises (SME) constitutes very important segment of Indonesian economy. SME sector is main driver for employment growth,. national development related with strengthening and improvement of private sector. As Sidoarjo regency government concern, periodically since 2008 micro, small and medium enterprises (MSME) have been confirmed as tourism village. Of the 13 SME villages confirmed as tourism village, Ngingas village as metal craftsmen village has been exist since 1960s even number of craftsmen keep increased where recently there are 350 craftsmen (Jawa Pos, 2014).

Success of organization according to Robbins (2002) is goal achievement through effort driving others within organization or institution related with capacity, role, behavior and characteristic of a leader. Empirical study has been performed by Arham, A.F, et al (2013) on SME in Malaysia that leadership is crucial for success of company,

entrepreneurship, where businessmen with effective leadership behavior tend to increase their entrepreneurship success.

Yukl (2001) stated that effective leadership skill is mostly derived from learning from experience not from training program. Existing strong learning culture in an organization will support leadership development. Ramadan (2010) stated that organizational culture is base to make frame to understand and more importantly is to invest in sustainable competitive advantage.

According to Kraja (2013), owner or manager of SME has to possess initiative to face challenge, owners or managers have to spend time more with strategy management since it will help them to comprehend recent situation and in making safe steps toward future. Yasin et al (2014) stated that SME with higher sale will have higher profitability and higher operational performance where ability to innovate has developed and innovative action has been taken.

According to Hurley & Hult (1998) innovation is a company mechanism to adapt with dynamic environment, therefore company is required to be able to create new thoughts, new idea by offering innovative product and increased service as customer expected. Atalay, M Anafart N and Sarvan F (2013) stated that innovation in general is considered as one of most important source of sustainable competitive advantage in more changing environment hence it is directed toward product and correction process, making continued progress that help company to survive, enabling company to grow faster, more efficient and finally more advantageous than non-innovator.

Competitive advantage according to Porter (1990) is marketing performance core to face competition. Competitive advantage is defined as benefit strategy of company that commit cooperation to create more effective competitive advantage in their market. This strategy has to be designed to embody sustainable competitive advantage hence company can dominate old and new market.

Based on introduction above, research problem to be analyzed is how do leaders role in creating organizational culture and product innovation for sustainable competitive advantage.

## **LITERATURE REVIEW LEADERSHIP**

An important part of management is coordination between citizen activity and guiding their effort toward organizational goal and purpose. It involves leadership process and appropriate form selection from action and behavior. Leadership is main figure of organization performance. Leaders must create situation where people trust on strategy, management decision and their job. Leadership was depicted by Azis (2011) as job accomplishment through persons or group and manager performance depend on his ability as manager. It mean that manager is able to influence person or group to reach desired result and is provided according to organization goal.

Lussier & Achua (2010) identified skills that must be owned by leaders.: 1) empowerment, 2) Intuition, 3) Self understanding, 4) Visionary, and 5) Harmony Value. Arham et al (2013) who studied leadership behavior form as practiced by SME leaders in Malaysia found that leadership is important for entrepreneurship success. Businessmen with effective leadership behavior tend to improve their entrepreneurship success. While Liu's (2013) studied how organizational culture

relates with leadership behavior in China SME, indicating that four organizational cultures had correlation with different styles of leadership behavior, having positive effect on transformational leadership.

Jaoua & Radouche (2014) in Tunisia's SME found that leader skill had effect not only on strategic management implementation but also on strategic management contribution on company performance. Also leadership style seems strong influence on innovation, leadership style on SME's innovation performance. Saad & Mazzarol (2010) stated that leadership provided unique insight in importance of process innovation for small firms to produce successful new product.

If leaders in SME emphasize on stimulation building intellectual of individual in term of transformational leadership hence they will be able to develop innovation in their company and they will also have higher SME's performance. SME can develop with good strategy in harmony with environment to build sustainable competitive advantage in global competition dynamic (Yasin, et al 2014).

**H1** : Leadership has effect on organizational culture

**H2** : Leadership has effect on sustainable competitive advantage

**H3** : leader characteristic has effect on innovation

## **CULTURE**

Every organization has characteristic or special character, has special personality that differ it from others. One of factors that can differentiate one organization with other is culture (Siagian, 2005). According to Tidor et al (2012), organizational culture is the most important component of organization. It is very important to identify organizational culture elements hence we could use power for competitive advantage. It is not simple to diagnose organizational culture and it couldn't be changed within a year; without diagnosing and changing organization, organization couldn't reach performance.

Luthans (2006), stated that organizational culture has several important characters: 1) behavior rule; 2) Norm; 3) dominant value; 4) philosophy; 5) Rule and 6) organization climate. According to Soedjono (2005), organizational culture can be an advantageous instrument that is competitive and primary if organizational culture can support strategy of an organization and if the organizational culture is able to answer and cope environmental challenge in proper and fast way.

Ramadan's study (2010) provided empirical evidence about relationship between objective aspects of organizational culture and objective measure from results of sustainable competitive advantage. Relationship between objective aspects of organizational culture and objective measure of sustainable competitive advantage was stronger on SME. Foon and Nair (2010) who studied Malaysian MNC manager indicated that positive organization and culture oriented toward customer have been considered as sustainable competitive advantage. Halim et al (2014) in realizing transformation, SME must grow supporting culture and innovative among workers to improve creativity and innovation and then reaching organization performance and is able to compete.

H4 : Organizational culture has effect on sustainable competitive advantage

### **Innovation**

Innovation according to Amabile (1996) is successful implementation of creative idea within company. Innovation is a company mechanism to adapt within dynamic environment. Therefore company is required to be able to create valuation and new ideas and offering innovative product. Suryana (2003) within Hadiyati (2011) stated that innovation is ability to implement creativity in order to solve problem and chance to improve and enrich life.

Saad & Mazzarol study (2010) on SME in Malaysia provided unique insight into importance of process innovation for small firms to produce successful product. Hartini (2012) stated that company innovation has no direct effect on company performance but has significant effect on product quality. Yasin et al (2014) in Pakistan SME identified that innovation had positive effect on SME performance. Weerawardena et al (2006) stated that innovation is very important in securing sustainable competitive advantage in market and to improve creativity and innovation in product line, management practice and production process.

H5 : Innovation has effect on sustainable competitive advantage

### **Sustainable Competitive Advantage**

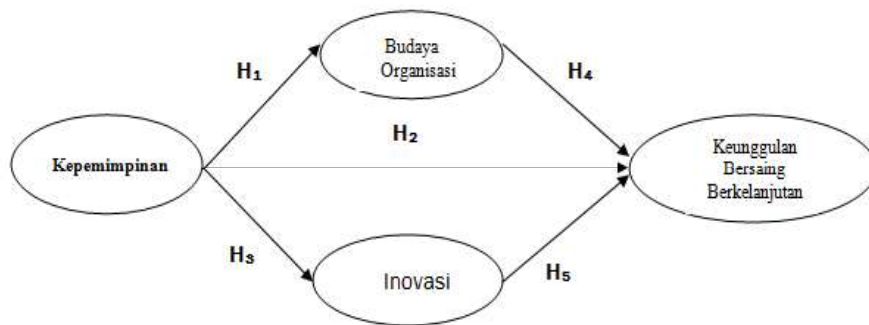
Competitive advantage by Porter (1990) is defined as benefit strategy of company that performs cooperation for more effective competition in market place. Ferdinand (2003) stated that within competitive market, company ability results in performance, particularly financial performance, is very depending on it competitive advantage degree. To preserve their existence, that company competitive advantage should also be sustainable since basically companies want to preserve their existence. Sustainable competitive advantage is company strategy to reach it final goals that is performance that results in high advantage. It means that sustainable competitive advantage is not final goals but it is tools to achieve company final goal, high performance.

Building sustainable competitive advantage according to Lado and Zhang (1998) by integrating some knowledge bases and increasing that knowledge become main competence to reach sustainable competitive advantage. Business that mix cost strategy and differentiation has been proven to reach higher performance according to Aisyah (2007). Variation of resource accumulation has become core of strategy and gave significant contribution in building competitive advantage. Strategy choice is limited by available resource and how fast organization in obtaining new resources. Absah study (2008) emphasized about importance of internal resource to reach sustainable competitive advantage.

### **Theoretical Framework and Model Development**

This research is quantitative, and data from questionnaires given to the craftsmen small and medium enterprises (SMEs) operating in the village metal Ngingas Sidoarjo. Based on the literature review and hypotheses developed above, a conceptual model or theoretical framework can be developed as shown in the following diagram:

Figure 1. The model frameworks



**Dicussion Structural**

**Model and Structural Equation Analysis**

After SEM requirement test has been fulfilled then we will enter model fitness test as itis fitness degree of model estimation result with reserach data matrix input. Following are model structurle testing result.

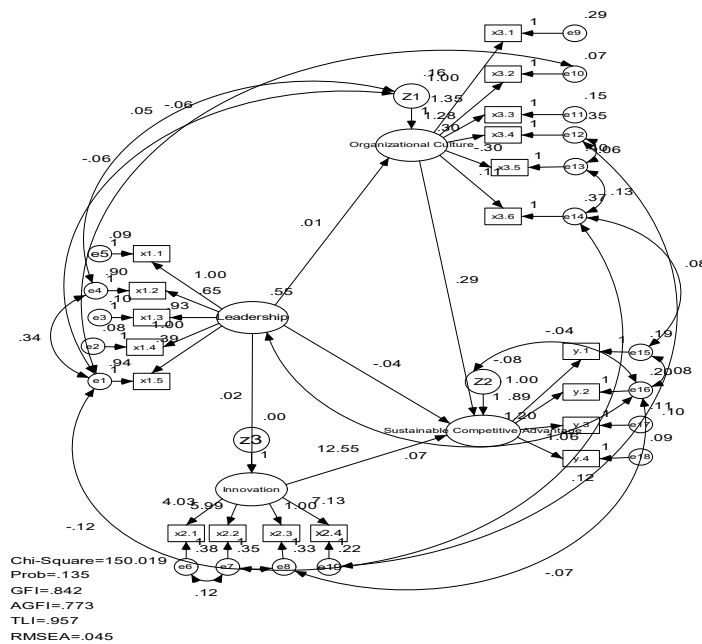


Figure 2. Model structurle testing result

Based on Figure 1Standard Loading value can be obtained from every variable that can be seen on table 1.

**Table 1.** Loading Value of Every Variable

Variable			Standard Loading
<i>Organizational culture</i>	<--	<i>Leadership</i>	.013
<i>Innovation</i>	<--	<i>Leadership</i>	.016
<i>Sustainable Competitive Advantage</i>	<--	<i>Innovation</i>	12.554
<i>Sustainable Competitive Advantage</i>	<--	<i>Organizational culture</i>	.286
<i>Sustainable Competitive Advantage</i>	<--	<i>Leadership</i>	-.043

Source :Attachment, prepared 2014

**Model Fitness Analysis**

Through searching and development stages of a model with strong justification as model used to prove theoretical causality through empirical data trial test to show effect of leadership, organizational culture and innovation on Sustainable Competitive advantage.

As comparison, inspection on indexes of other goodness of fit was performed (attachment). Result of the examination can be seen on Table 1. This research aimed to analyze relationship between leadership, organizational culture and innovation on sustainable competitive advantage. This study referred to data collected from SME's village in Ngingas Village, Sidoarjo. This village is SME village that keep growing in Sidoarjo.

**Table 2.** Hypothetical Testing

Variable			C.R	P	Note
Organizational culture	<---	Leadership	.013	0.855	Insignificant
Innovation	<---	Leadership	.016	0.543	Insignificant
Sustainable Competitive Advantage	<---	Innovation	12.554	0.531	Insignificant
Sustainable Competitive Advantage	<---	Organizational culture	.286	.011	Significant
Sustainable Competitive Advantage	<---	Leadership	-.043	.758	Insignificant

Source: Attachment, prepared 2014

Based on hypothetical testing result it could be explained as following:

- ❖ Hypothesis 1 that *Leadership* has no effect on organizational culture in SME village of Ngingas, Sidoarjo East Java is accepted. It is shown from CR value of 0.183 with significance level of 0.855 (greater than 0,05).
- ❖ Hypothesis 2 that Leadership has no effect on innovation on SME village of Ngingas Sidoarjo East Java is accepted. It is shown by CR value of 0.68 with significance level of 0,543 (greter than 0,05).
- ❖ Hypothesis 3 that Leadership has no effect on Sustainable Competitive advantage on SME village of Ngingas Sidoarjo east Java is rejected. It is shown by CR value of 0,626 with significance level of 0,531 (greater than 0,05).
- ❖ Hypothesis 4 that organizational culture has effect on Sustainable Competitive advantage of SME villages of Ngingas Sidoarjo, East Java is accepted. It is shown by CR value of 2,540 with significance level of 0,011 (lower than 0,05).
- ❖ Hypothesis 5 that Innovation has no effect on Sustainable Competitive Advantage on SME village of Ngingas Sidoarjo, East Java is accepted. It is shown by CR value of -0.308 with signifance level of 0.758 (greater than 0,05).

The findings also found that there is no effect of leadership on relationship between innovation and sustainable competitive advantage. It is clear that contribution of business sustainability is not depending on leader skill since the leader is only having direct effect on performance. Jaoua and Radouche's findings (2014) identified that there is no moderating effect of leader skill on relationship between strategic management and global performance. Saad & Mazzarol findings in 2010 found that Malaysian SME also showed that transactional leadership style has minimum role in improving company innovation performance. According to Abdullah, et al. (2012) there are many insignificant relationship between transformational leadership dimensions and various types of product innovation. This may be caused by the presence of mediating variables such as the innovative capabilities of employees, employee empowerment and innovative climate. This research supports Hartini Studies (2012) that product innovation and process innovation has no effect on firm performance. This may imply that changes in product innovation and process innovation has no impact on the performance of the company changes. This is due to the competitors can quickly imitate the product innovations produced by the company as well as the innovation process.

Tidor (2012) stated that change should be started with culture. It is very important for every manager to identify and use power of company itself and competitor weakness. Kraja (2013) stated that culture is important since SME culture is unique and hard to imitate. Leadership has no effect on organizational culture. Management has to focus and invest more on innovation differentiation and market differentiation and trying not to adapt both simultaneously to obtain best result. Study Halim, et al. 2014 shows that the elements are internal organization resources and capabilities that facilitate the organization to keep track of the external environment and adjust to change and affect the performance of innovation. It also shows that the development of new products and processes involving extensive organizational culture and intensive. Organizations with successful innovations tend to rely on organizational culture and employee behavior is an act of.

## **CONCLUSION**

Based on research analysis, it could be concluded that leadership has no effect on organizational culture, innovation, and business competitive advantage on SME in Ngingas village. Innovation also has no effect on business competitive advantage in SME in Ngingas village. This study showed that organization culture has effect related with objective result from sustainable competitive advantage. Organizational culture on competitive advantage of Ngingas SME village Sidoarjo, East java is accepted. It is due to in Ngingas village metal craftsmanship has been existed for generations and become local culture for livelihood and they learn independently in developing skill.

These results should be shown in limitation context and can be developed in future research. This research provided empirical proof for leader role in creating organizational culture and innovation in SME to obtain sustainable competitive advantage and some limitations deserve to present. First is small sample size, the second limitation is population used is only in Ngingas metal Village of Sidoarjo. In future, development can be done with various industries in other SME villages with various SME types hence can confirm proof on implications that have been studied.

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