

**THE INFLUENCE OF ORGANIZATIONAL CULTURE AND
TRANSFORMATIONAL LEADERSHIP ON
ORGANIZATIONAL INNOVATION**

(A Study of Handicraft Sectors in West Sumatera)

THESIS

This thesis is submitted as part of the requirement for a bachelor degree
in Management Department- Faculty of Economics



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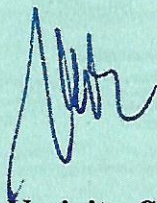


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**THE INFLUENCE OF ORGANIZATIONAL CULTURE AND TRANSFORMATIONAL LEADERSHIP ON ORGANIZATIONAL INNOVATION
(A STUDY OF HANDICRAFT SECTORS IN WEST SUMATRA)**

Bachelor Thesis By: Elzahra Rahmadini Ferdi




Supervisor: Meuthia, SE.MSc

ABSTRACT

The research has the purpose to find the influence of organizational culture and transformational leadership on organizational innovation in handicraft sectors in West Sumatra. The data obtained through questionnaire, and samples were taken from 180 handicraft sectors in West Sumatra. The data analyzed by using SPSS 16 and PLS 3.0. This research consists of three variables, transformational leadership as independent variable, organizational culture as mediating variable and organizational innovation as dependent variable. The finding indicated that transformational leadership has positive effect on organizational culture, organizational culture has a positive effect on organizational innovation, transformational leadership has a positive effect on organizational innovation, and organizational culture successfully mediates between transformational leadership and organizational innovation.

Keywords: *organizational culture, transformational leadership, organizational innovation, SME, handicrafts*

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Padang, May 9th 2018

Researcher



Elzahra Rahmadini Ferdi

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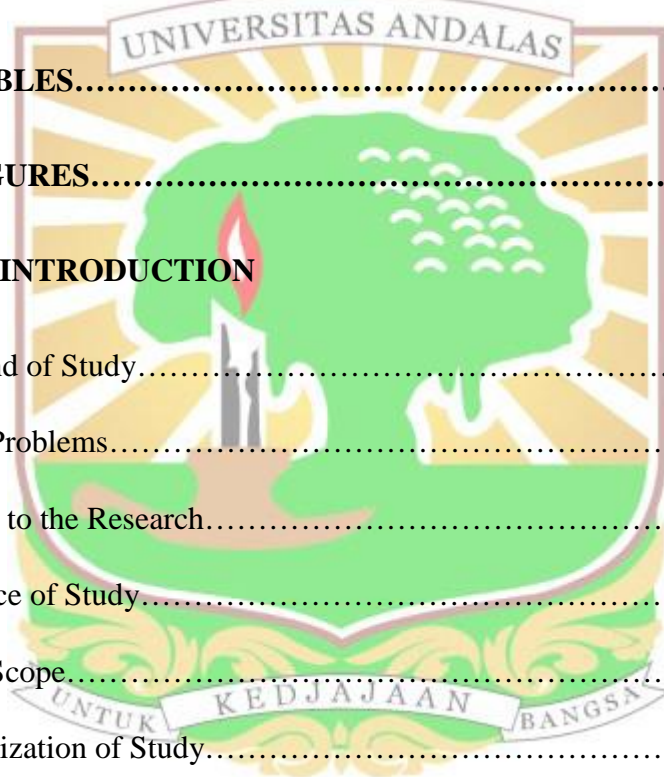
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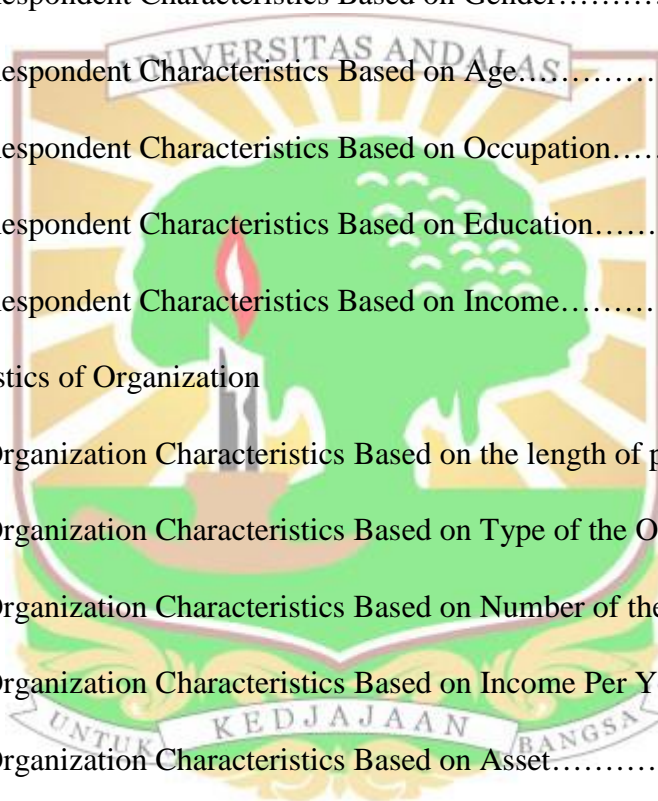
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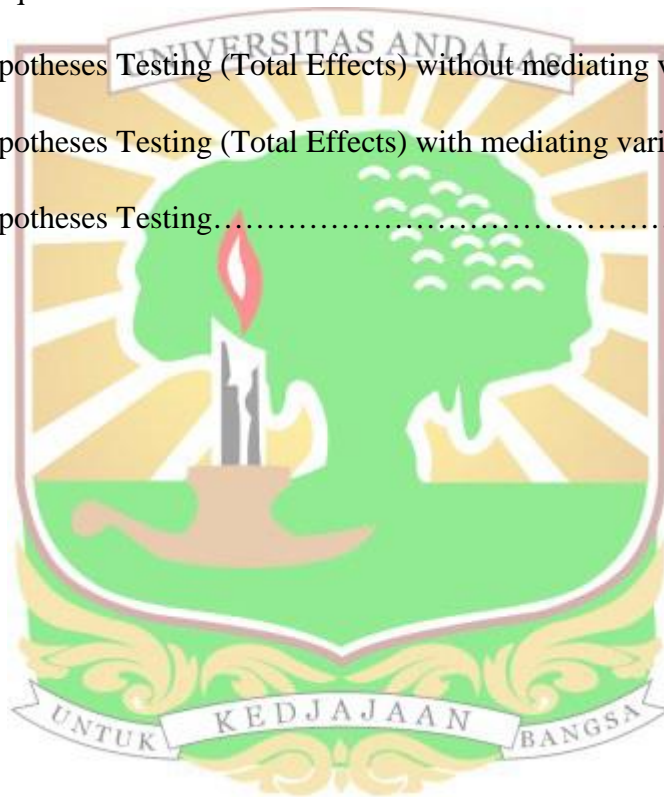
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CHAPTER I

INTRODUCTION

1.1 Background to the Research

Small and Medium Enterprises (SMEs) are important avenues for job creation and a powerful source for innovation (Daudda & Akingbade, 2010; Shehu & Mahmoud, 2014). SMEs play a significant role in the sustainable socio-economic development of a given country in terms of contribution to GDP, provision of employment, generation of wealth, poverty reduction, competence building and enriching the welfare of people through the provision of goods and services including education (Kanyabi & Devi, 2011). SMEs are important engines for innovation and technological advancement (Mulhern, 1995).

Handicrafts are mostly handled by SMEs. Yet nowadays Small Medium Enterprises such as handicrafts contribute more than the other sub-sectors in the creative industry. SMEs can be said as one of the instruments in the rotation of the Indonesian economy. A number of SMEs help various sectors of the country's economy to grow. Here are the roles of SMEs in the West Sumatra economy:

Table 1.1
SMEs contribution to West Sumatra in 2011-2013

No	Contribution to	2011	2012	2013
1	GDP (current price)	57.94	59.08	60.34
2	GDP (constant price)	57.83	57.48	57.56
3	Non-oil and gas exports	16.44	14.06	15.68
4	Level of labor	97.24	97.16	96.99
5	National investment (current price)	50.04	54.77	63.42

6	National investment (constant price)	49.11	51.45	56.15
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The table indicates SMEs contribution in West Sumatra is increasing yearly. It increases in every part possible.

In Indonesia, creative industry is growing rapidly. Experts and economists claimed that the creative industries contribute partly to the state income continue to grow and develop at any time. Also, creative industries grow into a new base in the industrial sector. There are a lot of sub-sectors in the creative industry. According to Weckerle, Gerig, and Sonderman (2007), creative industries have 13 sub-sectors. Such as music industry, book market, art market, film industry, radio industry, performing arts market, design industry, architecture market, the advertising industry, software and games industry, audiovisual equipment market, press industry and handicrafts.

One sector that plays an important role in Indonesia is able to enhance Indonesian reputation in the eye of other countries. According to creative economy agency (2015), Craft is the dominant sub-sector in such contribution economically. Craft industries categorized as the third largest contribution to Indonesian GDP. Craft industries become the locomotives in the development of the national creative industry. This sector contributes do, to in value-added, labor, the number of companies, as well as exports more than other types of SMEs. Craft industries have shown a significant increase in GDP. Many regions in Indonesia are making this sector as one of their regional incomes because of its large number of production. According to the Director General of the Ministry of Industry (2015), Added value generated by the craft sub-sector amounts to 24.8 percent of the total contribution of the creative industry sector. The employment

of these small industries reached 31.13 percent with 35.7 percent of business. Furthermore, craft industries are the most valuable sector that West Sumatra had and if this sector increased significantly it can drive West Sumatra into one of the famous craft sectors in Indonesia.

The dominance of craft sub-sector dominates is due to the spread population throughout Indonesia and the richness of ethnic culture in each region. According to Indonesian creative economy agency (2017), the most known crafts in Indonesia are embroidery and handicrafts. This sector contributes 15,70% for Indonesian GDP in 2017. In Indonesia, crafts sector dominates the province income for the recent years, including West Sumatra.

The government of West Sumatra has paid serious attention on the development of handicrafts sectors. Yet these sectors are not so concerned about the future business. There are some weaknesses faced by handicrafts sectors. Based on the initial interview with the owner of businesses, from the obtained information, Innovation is one of the many problems faced by the owners of SMEs in West Sumatra in order to increase their organizational performances. Many of the businesses claimed that innovating their products and their way of doing things is not necessary and it is not useful for the business to survive. Hence, some organization could not compete and survive in order to last in this industry.

Deciding to innovate a product is really important for the owners of SMEs because innovation will be enable the business to compete with other businesses in the same sector. According to Hafeez *et al* (2012), Innovation is regarded as an engine for driving economic growth. Innovation is considered equally important for large enterprises as well as the small and medium ones. The role of innovation

becomes even more important in the context of the business environment of developing countries than that of the developed ones. Moreover, some businesses could not survive because the business did not pay attention on the businesses surroundings, while other businesses grow by doing so.

Some business owners do not really know how to improve their business for better future. Based on the interview, the owners claim that their problem in business are not only innovation. But also, culture. The weaknesses of handicraft sectors in West Sumatra is not only innovation but also organizational culture. In handicraft sectors, the owner of this sector does not have a strong values and behavior pattern that represent the organization to the potential customers. The organizations tend to let the organization the way it is and just running the business the way their ancestor did. We can define culture in an easier term as personality. It is a hidden culture which unifies forces that provide meaning and direction. It is also a system of shared systems of beliefs and values that ultimately shapes employee behaviors (Van *et al.*, 1998).

Furthermore, in an organization or a business, culture determines where the business is heading to. It leads the business to what it is going to be in the future. Organization culture is everything that people have, think and do as members of the society (Ferraro, 1998). Organizational culture represents the characteristics of the organization, which directs its employees in day-to-day working relationships and guides them on how to behave and communicate within the organization. Finally, the researcher recognizes why this sector makes the organization difficult to expand.

In addition to the initial interview, some owners of the organizations/SME were happy to listen to their employees' ideas and suggestions but most were not. The owners were stuck on the way they thought and would not want anyone to change the way of thinking about running organizations. It is actually really important for SME owners to listen to their employee's suggestions. Many owners tend to undergo the same procedure of running organizations with their ancestors, the owners would not want to change any of the procedures. Referring to the style of leadership, according to Webb (2009), claims there are three leadership styles, which are transactional, transformational and laizze-faire. Transformational leadership behavior is very effective to improve organizational performance during uncertain environment and to achieve competitive advantage (Nemanich & Keller, 2007). According to Bass & Bass (2008), transformational leadership is a style of leadership geared towards change and towards improving individual and collective performance. More specifically, transformational leadership is one of the emerging topics in innovation that many scholars have increasingly paid attention to (Di Benedetto, 2013). Hence, it is also necessary for the owner of the organizations to acknowledge the importance of applying this leadership style.

In order to produce handicrafts, the business owners had to have certain skills. Without such skills, the owner could not randomly produce quality products. The products must have values to represent culture of where they come from. The owners should also be able to know the possibilities and difficulties in order to stay in the industry. Moreover, the owners need to create organizations which have a character of leadership style by listening to what employees suggest.

Finally, the conclusion of the interview, there are still some problems that this industry faces.

In line with this phenomenon, the researcher would like to analyze the influence of Transformational Leadership and Organizational Culture on Organizational Innovation on Handicraft Industry in West Sumatra.

1.2 Research Problems

1. How will transformational leadership influence organizational culture in handicrafts sector in West Sumatra?
2. How will organizational culture influence organizational innovation in handicrafts sector in West Sumatra?
3. How will transformational leadership influence organizational innovation in handicrafts sector in West Sumatra?
4. How will organizational culture mediate the influence between transformational leadership and organizational innovation in handicrafts sector in West Sumatra?



1.3 Objectives of the Research

The research is intended to analyze whether all possible weaknesses faced by SMEs in West Sumatera are relevant to the reality. Clearly, it is:

1. To analyze the influence of transformational leadership towards organizational culture.
2. To analyze the influence of organizational culture towards organizational innovation.

3. To analyze the influence of transformational leadership towards organizational innovation.
4. To analyze the influence of organizational culture, mediate between transformational leadership and organizational innovation

1.4 Significance of the Research

This research hopefully will give a significant contribution to:

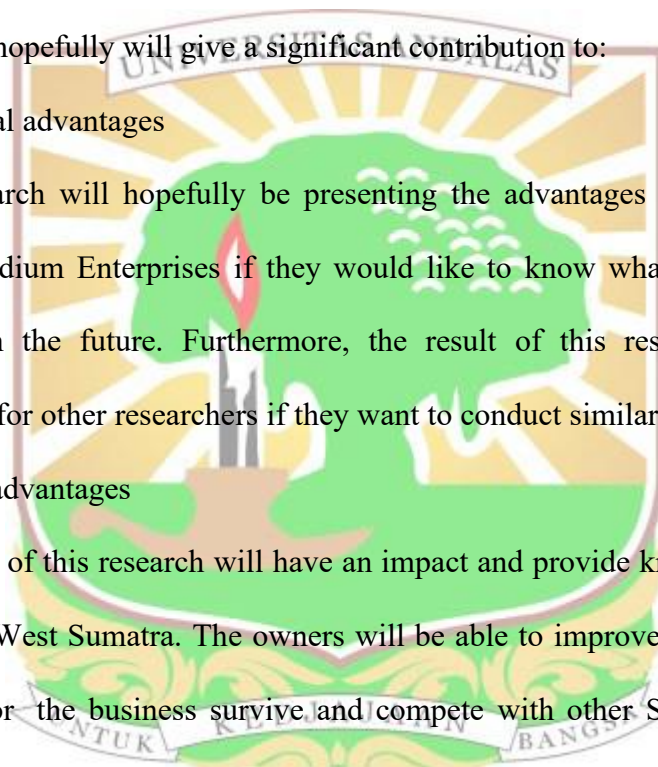
1. Theoretical advantages

This research will hopefully be presenting the advantages of the study for Small Medium Enterprises if they would like to know what could possibly happen in the future. Furthermore, the result of this research can be a reference for other researchers if they want to conduct similar research.

2. Practical advantages

The result of this research will have an impact and provide knowledge for the SMEs in West Sumatra. The owners will be able to improve their businesses in order for the business survive and compete with other SMEs. Finally, it can also be used as a discussion between the owner and the employees.

Also, can take advantages of the result as topics of discussion.



1.5 Research Scope

During the research, there are some limitations faced:

1. Theoretical scope

This research only focused on three variables to be tested, including organizational innovation, organizational culture, and organizational performance.

2. Practical scope

Biased answers from the owner of the organization cannot be avoided during the research.

1.6 The Organization of Study

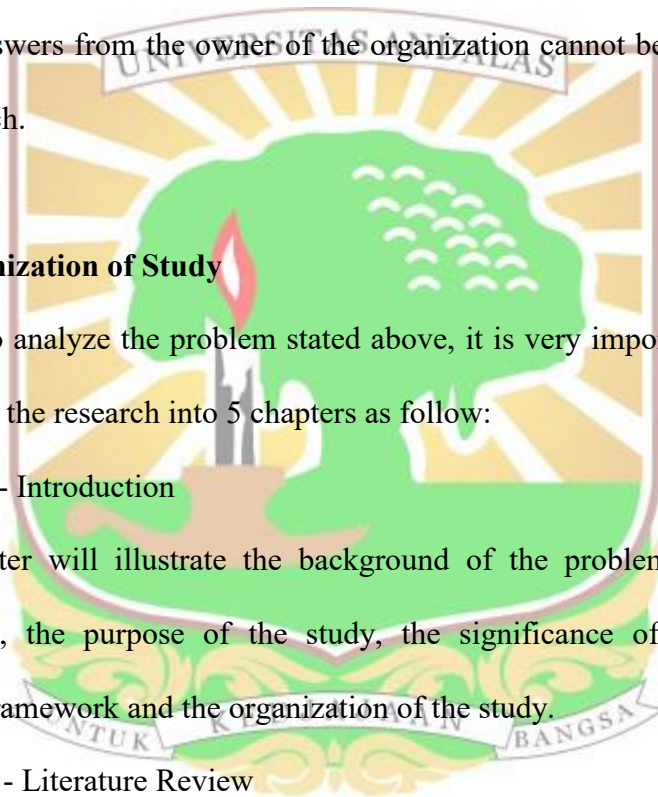
In order to analyze the problem stated above, it is very important to organize and divide the research into 5 chapters as follow:

Chapter 1 - Introduction

This chapter will illustrate the background of the problems, the problem statements, the purpose of the study, the significance of the study, the research framework and the organization of the study.

Chapter II - Literature Review

This chapter will amplify this study with previous studies that are related to the problem statements. The previous studies will be used to support the possible hypothesis on conducting this research.



Chapter III - Research Method

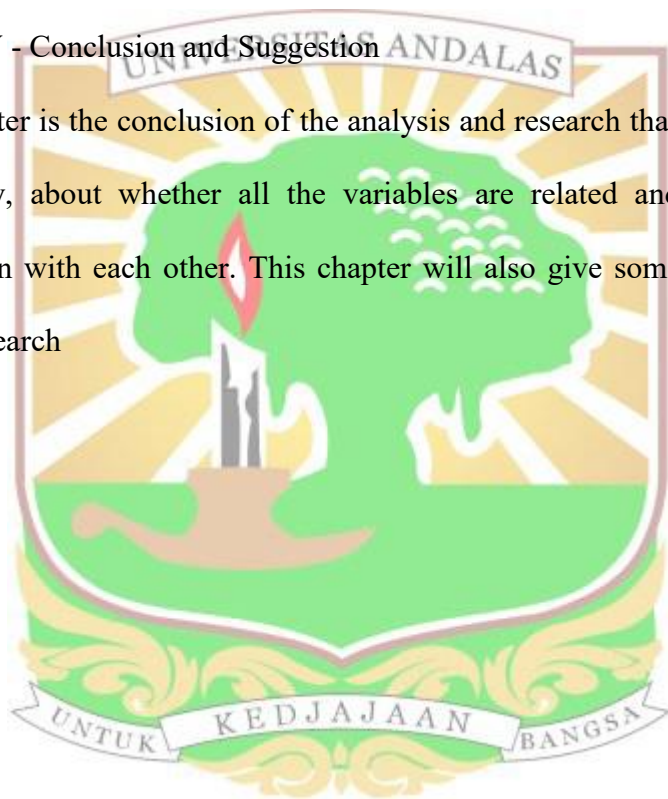
This chapter will elaborate what kind of method used in this research and how much sample and population needed for this research in order to achieve a positive relationship between dependent and independent variables.

Chapter IV - Analysis and Discussion

This chapter contains the result of the analysis, the characteristic of the respondent, and descriptive analysis.

Chapter V - Conclusion and Suggestion

This chapter is the conclusion of the analysis and research that was conducted previously, about whether all the variables are related and have positive association with each other. This chapter will also give some advice for the future research



CHAPTER II

LITERATURE REVIEW

2.1 Innovation

The implementation of innovation is a brand new and developed product, process, marketing method inside and outside of the organization. In a broader sense, innovativeness is not only the creation and capture of new value but also the implementation of new methods in business practices, workplace organization or external relations and improvement and transformation of managerial mindsets and business models to cope with changes (Akgun *et al*, 2014:889). Innovation refers to the ability of a firm to commercialize its invention (Hitt, Ireland & Hoskisson, 2011).

According to Choi (2014), Innovation has been conceptualized diversely, according to different views on various issues (e.g. to consider it broadly or narrowly, to regard it as culture or behavior, how to define the innovation unit, the innovation target and the speed of change). Innovation can be a new product or service, a new production process technology, a new structure or administrative system, or a new plan or program pertaining to organizational members. So, innovations are adapting new ideas and actions generated or developed inside or outside the organization into services, programs, and processes.

Moreover, According to Hoskisson & Busenitz (2009), innovation can be *internal* and *external*. *Internal innovation* refers to firm's self-reliance on its sources and competencies. *External innovation* indicates that the firm is not capable of organic innovation and it depends upon innovation supported by an external environment that may include the assistance from government agencies.

Firms that are more prone to innovation perform higher as compared to those who resist innovation (Thornhill, 2006; Mansury & Love, 2008; Jimenez-Jimenez & Sanz-Valle, 2011).

The strategic orientation supports risk-taking and enhances the possibility of designing and developing completely new and innovative products (Olson, Slater & Hult 2005). Differentiating products from competitors could help the organization to experience the advantages. Innovation offers significant benefits to firms like maintaining or enhancing market share and outperforming competitors (Lisbos, Skarmeas & Lages, 2011). Also, innovation has been considered one of the main business processes of an organization (Kaplan & Atkinson, 1998).

Innovation capability is a useful strategy for exporting firms to gain competitiveness and achieve excellent business performance. Small firms that innovate successfully would increase their chances of survival and growth (Cefis & Marsili, 2003; De Jong *et al*, 2004). According to Lapian *et al.*, (2016) there are two characteristics of product innovation that is very important for the business to have in order to succeed in the future. These are innovation culture and technical and administrative innovation. Some researchers have a different way of defining the characteristics of innovation. According to Choi (2014), innovation had four characteristics, which are input innovation, process innovation, input innovation and the result of innovation.

According to Elci (2006), Innovation can be made in products, services, production, distribution methods, organizational methods, marketing and design methods of a firm. It can be categorized into:

1. Product innovation - Product innovation is usually known as an activity that aims to improve cumulative and quality products and create better products (Lambertini & Mantovi, 2009; Pan & Li, 2016)
2. Process innovation - In contrast to product innovation, process innovation can be understood as an effort to reduce production costs (Lambertini & Orsini, 2015; Li & Ni, 2016).
3. Organizational innovation - The term organizational innovation often refers to the creation or adoption of a new idea or behavior for the organization (Damanpour & Aravind, 2006; Daft & Becker, 1978; Damanpour & Evan, 1984; Damanpour, 1996).
4. Marketing innovation - Innovation in marketing is studied in the insurance sector by Morrill (1959) as the marketing creativity needed by businesses to maintain their position, thus satisfying customers' needs with not only new products but also the way in which companies communicate about products to inform, educate and excite them.

2.2 Organizational Innovation

According to Damanpour (1991), organizational innovation is defined as the adoption of new ideas or behavior within an organization. Theories reveal that organizational innovation is essential for better performances. There are three concepts of innovation in relation to the organization, organizational innovation, innovativeness, and capacity to innovate. According to some theories, organizations that concentrate on speed of innovation gain greater market share, which produces high income and high profitability. Organizations that adopt an

innovation first are able to create isolation mechanisms. Innovativeness is the degree to which an organization is earlier in the adoption of relative peers (Rogers, 2003). it means that innovativeness is realizing innovation before other people find out a new thing to improve. Moreover, the ability to innovate and to adopt to the newest situation can create competitive advantages for the organization itself.

The adoption of innovations is conceived as to encompass the generation, development, and implementation of new ideas or behaviors (Damanpour, 1991). Innovative organizations adopt something new relatively early and thereby are more likely to sustain competitive advantage (Mone, Mckinley & Barker, 1998). Organizational innovation is defined as the adoption of new ideas or behavior within an organization. Innovation involves all dimensions of organization activities; like new products and services or new production process technology, structure and new administrative system, planning or new program within the organization.

According to Widiartanto & Suhadak (2013) the researcher examining whether transformational leadership has an effect on market orientation, learning orientation, organization innovation and organization performance on star-rated hotels in central Java province, Indonesia. There are some indicators of organizational innovation according to Widiartanto & Suhadak research:

1. Improving working practices
2. Training employees routinely
3. Creating new ideas
4. Creating modification of services

5. Developing new ideas

6. Encouraging initiatives

According to Morales et al., (2012) the researchers analyzes the influence of transformational leadership on organizational performance through the dynamic capabilities of organizational learning and innovation. These are the indicators regarding organizational innovation:

1. Organization emphasis on the development of new products or services.
2. A rate of introduction of new products or services into the market.
3. Organization's spending on new products or service development activities.
4. A number of new products or services added by the organization and already on the market.
5. The number of new products or services that the organization has introduced for the first time on the market.
6. Investment in developing proprietary technology.
7. Emphasis on creating proprietary technology.
8. Organization emphasis on technological innovation.
9. Organization's emphasis on pioneering technological developments in the industry.

Moreover, in this research, the researcher will use indicators from Widiartanto & Suhadak (2012) because it is suitable for the object which is handicrafts sector to be observed. Due to the target that the researchers studied about also, the indicators or the question addressed to the SME in West Sumatra it is more convenient and specific to be used.

2.2 Organizational Culture

According to Alvesson (2002) For decades, researchers have determined that an organization's culture could be the genesis of a significant competitive advantage in the business environment. Culture represents a pattern of basic assumptions learned by a group as it solves problems of external adaptation and internal integration (Schein, 2004). Organizational culture plays an important role in shaping values and behavior of organizational members. So, strong values of the organization member can reflect on how the organization is running.

Organizational culture can generally be defined as a set of norms, attitudes, values and behavior patterns that form the core identity of an organization or operating unit (Denison, 1984), or combination of beliefs, values, and assumptions shaping management styles and process in the organization (Schein, 1990; Aycan *et al.*, 2000). as such, organizational culture may be a critical element by which strategic managers influence the course and direction of their firms (Valencia *et al.*, 2010).

An organizational culture consists of the attitudes, experiences, beliefs, and values of an organization (Hill & Jones, 2011). This culture is a valuable resource that is neither perfectly imitable nor substitutable without great effort (Barney, 1991; Hoopes *et al.*, 2003).

According to Cameron & Freeman (1991) proposed there are four organizational culture types:

1. Market - The market culture emphasizes a goal-oriented enterprise, competitive actions, and achievement.

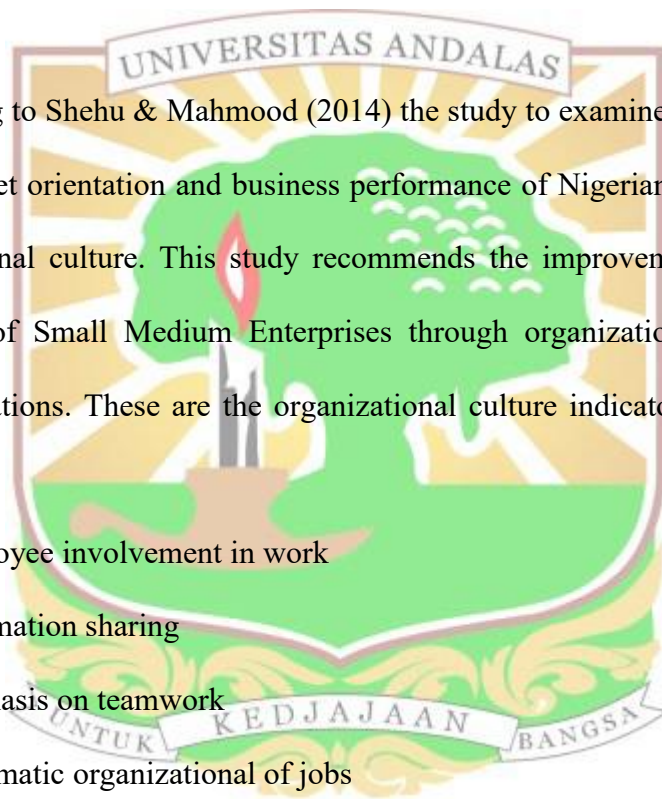
2. Clan - Culture is characterized by a personal place and emphasizes human resources

3. Adhocracy - Culture is characterized a dynamic entrepreneurial place held together by a commitment to innovation and development.

4. Bureaucratic hierarchy - Culture is characterized by a formalized, structured place held together by formal rules and policies emphasizing stability.

According to Shehu & Mahmood (2014) the study to examine the relationship between market orientation and business performance of Nigerian SMEs: the role of organizational culture. This study recommends the improvement of business performance of Small Medium Enterprises through organizational culture and market orientations. These are the organizational culture indicator regarding this study:

1. Employee involvement in work
2. Information sharing
3. Emphasis on teamwork
4. Systematic organizational of jobs
5. Changes in marketing practice
6. Capabilities are treated as a source of competitive values
7. A clear set of value
8. Acceptable code of conduct
9. Respond to competitor
10. Customer decisions are very important



11. Encourage direct contact with customers
12. Disappointment as a chance for learning and improvement
13. Invention and risk-taking are encouraged
14. Invention and risk-taking are.
15. A good mission that gives direction
16. A good mission that gives meaning
17. Employees understanding of what needs to be completed

According to Pareek (2002) in Pradhan *et al* (2017). This research the researcher wants to examine the role of transformational leadership in psychological empowerment in India retail industry. In order to examine whether organizational culture plays a mediating role in the relationship between those variables. This study may be helpful for retail managers to enhance the empowerment process. These are the indicators of Organizational culture:

1. Openness
2. Confrontation
3. Trust
4. Authenticity
5. Proaction
6. Autonomy
7. Collaboration
8. Experimentation

Hence, in this research, the researcher will use indicators for the questionnaire from Shehu & Mahmood (2014). the researcher considering indicators from Shehu & Mahmood is more convenient for the object in this research which is



handicraft sector in West Sumatra. As in Shehu & Mahmood investigate their finding in SMEs in Nigeria which has the same object as this study examining for.

2.4 Leadership

Leadership is recognized in someone's behavior, when experienced or seen (Pardey, 2007). Also, some definitions define leadership as a process to influence people to achieve certain goals or results (Howell and Costley, 2006). The leadership trait theory was later criticized and the following theories emerged: leadership styles, situational, path-goal, team leadership and other theories (Bayer, 2012). According to Webb (2009), leaders demonstrate particular leadership styles, which are transactional, transformational and laissez-faire styles.

2.4.1 Transactional Leadership

According to Long *et al.*,(2012) this leadership style described leader-follower exchanges, where subordinates are expected to perform their responsibilities and duties as per instruction from the leader, while in return the followers expect positive benefits including compliments, praise, recognition, and other material benefits. Hence, transactional leadership is the style in which followers exchange good performance against reward. Also, this style does not require their employees to think forward on how the SME in the future.

2.4.2 Laissez-faire Leadership

The absence or avoidance of leadership is known as Laissez-faire leadership (Judge & Piccolo, 2004). according to Bass & Avoli (1994), laissez-faire style is

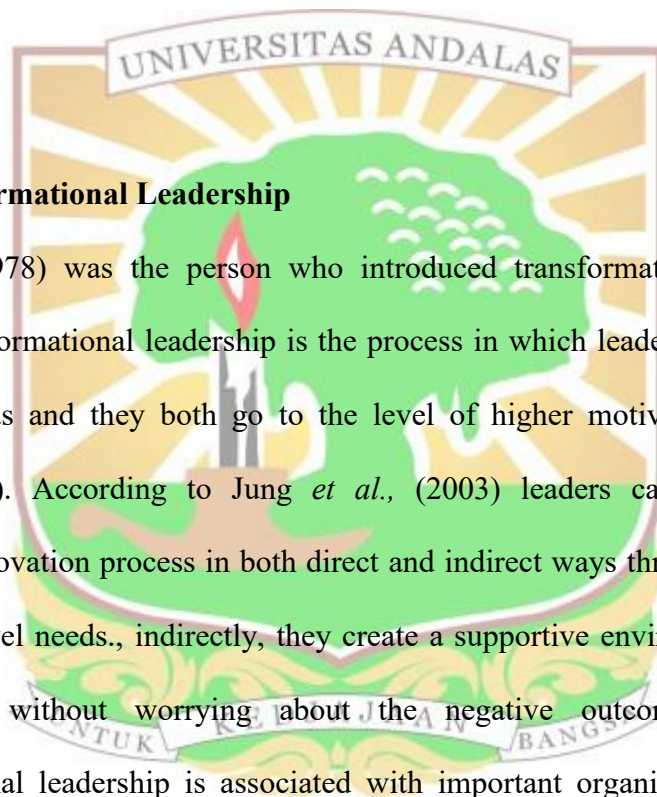
just the absence of a true leader and is an inactive and ineffective style. Furthermore, Yukl (2003) also said Laissez-faire style is the most ineffective and passive leadership. The leader will give up all responsibilities and will not utilize their authority for overseeing the company. This leadership style is not recommended for this study to use, due to creative industry especially handicraft sector need leadership style that encouraging either the leader and the employee to change for better and able to take a risk in order for the organization to move forward.

2.4.3 Transformational Leadership

Burns (1978) was the person who introduced transformational leadership theory. Transformational leadership is the process in which leaders and followers exchange ideas and they both go to the level of higher motivation (Bass and Avolio, 1994). According to Jung *et al.*, (2003) leaders can influence the follower's innovation process in both direct and indirect ways through motivation and higher-level needs., indirectly, they create a supportive environment to think of the box without worrying about the negative outcomes. Moreover, transformational leadership is associated with important organizational benefits (Wang, Oh, Courtright & Colbert, 2011).

Moreover, according to Bass & Bass (2008) This style of leadership is manifested through four leadership behaviors:

1. Individualized consideration implies that leaders pay attention to, respect and care about their employees and their development.



2. Intellectual stimulation underlies leaders' tendencies to innovate, to challenge the status quo, as well as to be open to change and new ideas.
3. Inspirational motivation refers to leaders' ability to motivate their employees to perform by raising their expectations using an attractive vision of the future.
4. Idealized influence corresponds to leaders' charisma and attitudes that make them role models who motivate and influence their employees.

There is strong empirical evidence that transformational leadership, more than any other leadership style, is highly effective (Judge & Piccolo, 2004; Lowe, Kroeck, & Sivasubramaniam, 1996; Wang, Oh, Courtright, & Colbert, 2011). Transformational leadership's potential to address issues that are relevant in the modern, changing and uncertain work environment is the main reason for its positive influence (Lim & Ployhart, 2004).

According to Yildiz *et al.*, 2014 a study aims to analyze the effect of leadership and innovativeness on business performance. The result in this research shows that the two type of leadership styles which are transactional and transformational have positive and higher effect on business performance. Hence, these are the indicators used by Yildiz *et al.*, 2014:

1. My chief encourages the employees
2. My chief appreciates the employees
3. My chief generates a sense of pride and respect on the employees
4. My chief affecting the employee with an outstanding talent
5. My chief creates a climate of trust among the employees
6. My chief creates a climate of corporation among the employees

7. My chief creates a climate of participation among the employees
8. My chief treats the employees as individuals, encourages and supports their development
9. My chief encourages us to take the problems into consideration from a new point of view
10. My chief encourages us to take the problems into consideration from a different point of view
11. My chief has a clear vision and imagination about the future
12. My chief is conclusive about the values on what she/he said
13. My chief is conclusive about the applying on what she/he said

According to Bass & Aviola in Xirasagar (2015) Transformational, transactional and laissez-faire leadership among physician executives. there are some indicators regarding transformational leadership:

1. Idealized Influence (attributed) - these indicators is shown whether the employees proud of him/her, goes beyond self-interest and has the leader respect.
2. Idealized Influence (behavior) - it is about considering the moral/ethical value, sense of purpose in the organization, and the value in the organization.
3. Inspirational Motivation - the leader has to be optimistic, enthusiastic, has a clear vision and mission and also able to express confidently.
4. Intellectual Stimulation - able to reexamines assumptions, seeking different views and suggesting new ways

5. Individualized Consideration - the leader capable of helping subordinates to develop their strengths.

In the end, the research will prefer to use transformational leadership style and indicator from Yildiz *et al.*,(2014). in consequence of the compatibility on what the research wants in this research. Which are the owner/manager in Handicrafts sector able to move forward and have the courage to take the risk.

2.5 Review of Previous studies and Hypothesis Development

2.5.1 The effect of Transformational Leadership on Organizational Culture

According to Bass & Avoli (1993) in Pradhan *et al.*,(2017) the findings have supported the fact that transformational leadership has a direct positive impact on organizational culture. it is shown that in Indian retail industry transformational leadership has a direct impact on organizational culture. For this research which is SME in West Sumatra especially handicraft sector, the researcher would like to acknowledge whether those variables will influence each other or might not. Some of the owner/ managers of handicraft organization, those variables are indirectly affecting each other.

According to Szczepanska-Woszczyna (2015), Positive cultural characteristics are pivotal for agility, innovation, and creativity. Keeping in consideration the vision, mission, and values of the firms, culture is drafted and implemented by the top leaders. If top management doors are closed for creativity and organizational innovation then, culture exists only as a name and cynicism prevail, which are indicators of discouraging change and exceptional performance (Jatiet al., 2015), whereas it is leadership that can reshape and impact culture.

If the owner/manager would like to expand their business especially in handicraft sector in West Sumatra. The owner/manager have to be able to align the characteristics of transformational leadership with the culture that the organization believing it. If those two straighten together, probably the organization capable of staying in the market and competing with others competitors.

From the result of these studies can be made the first hypothesis

H1: Transformational leadership will have a positive relationship with organizational culture

2.5.2 The effect of Organizational Culture towards Organizational Innovation

Studies on the link between innovation and culture have often focused on innovation culture, establishing a positive and direct relationship between the two variables (freeman & Engel, 2007; Wang *et al.*,2010; Cakar & Erturk, 2010; Barbosa, 2014). Furthermore, According to Skerlavaj *et al* (2010) organizational culture has a positive effect on innovation. In the end, many researchers approve that there is a positive relationship between the two variables, where culture can affect the organizational culture in every way possible. As mention above, many researchers have proven there is a positive relationship between organizational culture and organizational innovation, in SME of creative industry context, the owner/manager should be able to innovate and balancing the culture within the organization.

Furthermore, empirical research has also provided evidence of a significant relation between culture and innovation (Buschgens *et al.*,2013; Chang & Lee, 2007; Lau & Ngo, 2004; Lin *et al.*,2013; Miron *et al.*,2004; Naranjo-Valencia *et al.*,2012). the researcher said there is a relation between those variables. Without culture, an organization cannot develop and innovate. It is indicated by how an organizational culture will have a positive impact on the organization.

Both of organizational culture and organizational innovation in the organization especially in handicraft industries. In order to stay in the market, the owner of the organization need to enhance their capabilities of innovating and also indicate strong culture to future and current customers. Owing solid and string culture might be able to represent the organization and able to upgrade the organization innovation.

From the result of these studies can be made the second hypothesis
H2: organizational culture will have a positive relationship with organizational innovation

2.5.3 The effect of Transformational Leadership on Organizational Innovation

Transformational leadership has a positive and significant relationship with organizational innovation According to Makri and Scandura (2010), an influencing and effective leader is the person who can invent, develop, and commercialize, whereas he/she is able to develop human and social capital. Indeed, he/she can catalyze and exploit the talents working in organizations and universities in order to foster creativity and innovation (Samad, 2012; Vargas,

2015) but unfortunately, leaders who can achieve high performance with better strategic leadership styles are very scarce. According to Prasad and Junni (2016) Leadership has been put forth as a key driver of organizational innovation. Furthermore, various studies have supported the positive effects of transformational leadership on organizational innovation (Aragon-Corre *et al.*,2007; Garcia-Morales *et al.*,2008; Gumusluoglu and Ilsev,2009; Jug *et al.*,2008; Marzler, 2008; Noruzy *et al.*,2013).

The chosen style of leadership that the organization used will determine the future of the organization ahead. Transformational leadership helped the owner of handicraft industries to innovate how they do things and innovate their products in proper way. Transformational leadership also used by owners that were happy to share their thoughts and very open for suggestions and opinions from their employees.

From the result of these studies can be made the third hypothesis
H3: transformational leadership will have a positive relationship with organizational innovation

2.5.4 The effect of Organizational Innovation on Transformational Leadership and Organizational Culture

According to Shanker et al. (2017), organizational climate influences innovation when the behavior of employees is stimulated, whereas according to Hurley and Hult (1998), organizational culture, which is learning oriented, accompanies norms and values that would harvest a better performance and are inseparable (Sutanto, 2017). Furthermore, According to Gumusluoglu and Ilsev (2009), the

followers' creativity and innovation is a function of the organizational culture, especially in developing countries. Organizations need to impart the culture that could strengthen the employees' empowerment and participative decision making, while the most successful firms generally have an open, collaborative, and supportive culture (Szczepańska-Woszczyńska, 2015). According to Naranjo-Valencia *et al.*, (2016) innovation is among the key factors counted integral for vision-oriented firms in an environment of competition, where organizational culture can either stimulate or stifle the innovation which in consequence can effect the overall organizations. Hence, there are a positive significant that shown by some researchers where culture mediates transformational leadership and organizational innovation.

Combining all variables of transformational leadership, organizational culture and organizational innovation will eventually affect the organization performance and outputs. Also, it can enhance the opportunities to get customers and profits and can also be one of the famous craft that everyone is looking for. Furthermore, combining these variables can boost up the capability of the organization to expand the organization in Indonesia and overseas.

From the result of these studies can be made the fourth hypothesis

H4: organizational culture will mediate transformational leadership and organizational innovation

Table 2.1

Previous Research Table

No	Researcher	Title	Method Used	Findings	Similarities	Differences
1	Al-Ansari, Pervan & Xu (2013)	<i>Innovation and business performance of SMEs: the case of Dubai</i>	Survey Questionnaire	There is a significant positive link between the two constructs and the strengths of an SMEs innovation has moderate impact on business performance	The researcher used the same object which is SMEs in the manufacturing and services industries,	The independent variable used in this research is innovation. Moreover, the researcher used stratified sampling technique depending on how many employees in the firm.
2	Altuntas, Semercioz & Eregez (2013)	<i>Linking strategic and market orientations to organizational performance: the role of</i>	Online survey (questionnaire)	All of the variables are significantly correlated with each other and all the hypotheses are accepted.	The researcher used Organizational performance as the dependent variable. Hypotheses testing is also used in this	The object in this study is private healthcare organizations in turkey. Moreover, the independent variable used in this research are strategic

		<i>innovation in private healthcare organizations</i>			research.	orientation and market orientation. Also, the researcher used mediating variable which is innovativeness.
3	Widiartanto & Suhandak (2013)	<i>The effect of Transformational Leadership on Market Orientation, Learning Orientation, Organization Innovation and Organization Performance (Study on star-rated hotels in Central Java Province,</i>	Questionnaire and interviews	Only three variables does not has significant effect which are Transformational leadership towards organization performance, market orientation towards learning orientation and learning orientation towards organization performance.	This study used the same variables which are organization innovation and organization performance	This research is conducted on 110 star-rated hotels.

		<i>Indonesia)</i>				
4	Joseph & Francis (2015)	<i>The influence of Organizational Culture and Market Orientation on Performance of Microfinance Institutions in Kenya</i>	Cross-sectional survey	The results indicate that organizational culture has a significant positive influence on performance.	This study also uses the same variables which are organizational culture on performance. Moreover, it used five-point rating scale to indicate each item.	This study used microfinance institutions in Kenya as the object. Also, organizational culture was measured through 12 items based on (OCAI) scale and performance was measured used 12 items.
5	Shehu & Mahmood	<i>Market Orientation and Organizational Culture's impact on SME performance: A SEM approach</i>	Cross-sectional research design in quantitative research method	The finding in this study indicates market orientation has a positive effect on business performance of SMEs, whereas, organizational culture to business performance relationship was not supported.	Using the same object research which is SMEs. Also, two variables are the same. The unit analysis for this study is at organizational level, which cover the entire SME owner/managers.	The research is done in Kenya using 1829 SMEs fully operated in Kenya.

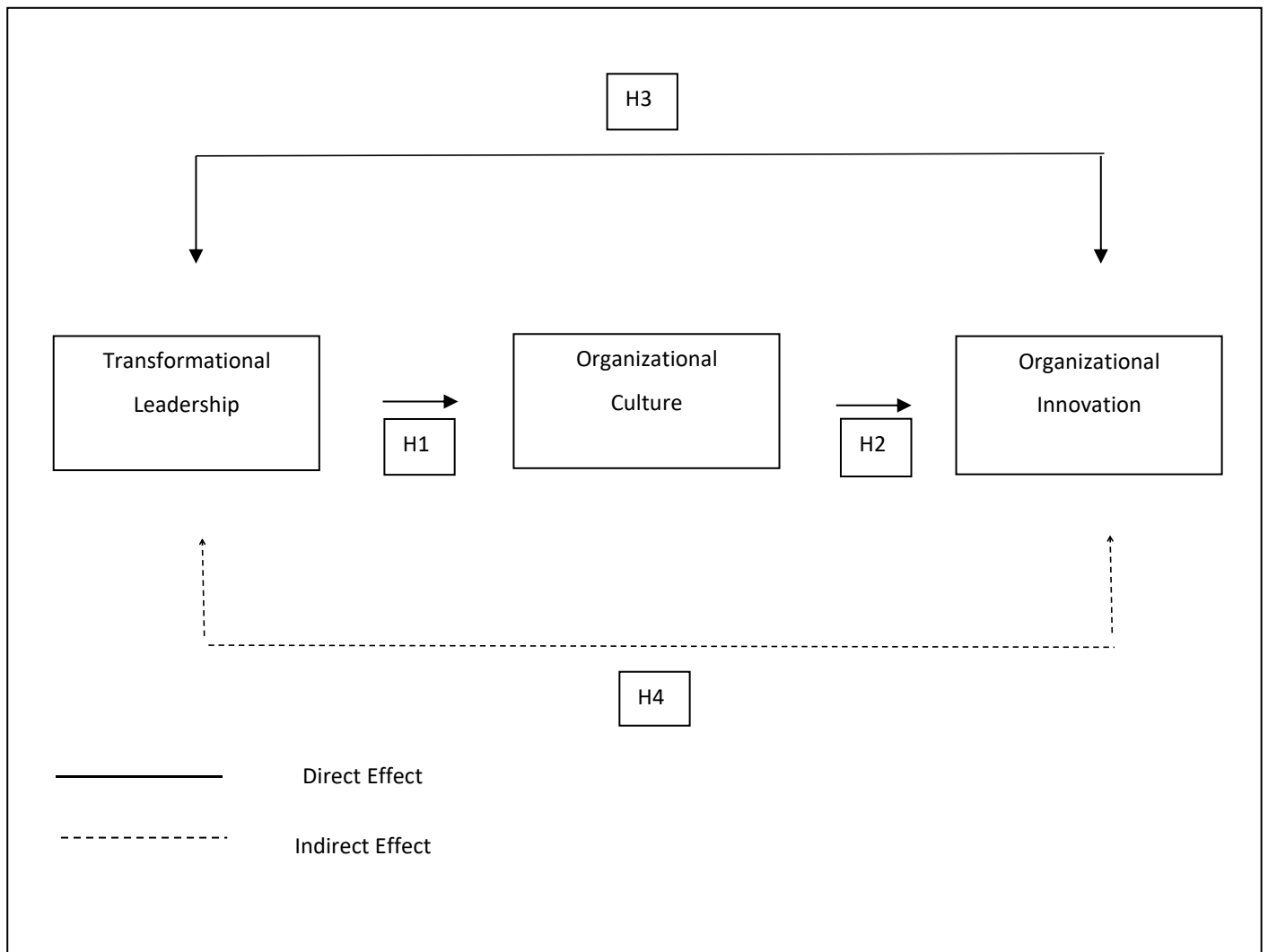
6	Kriemadis, Pelagidis & Kartakoullis (2012)	<i>The role of Organizational Culture in Greek businesses</i>	Questionnaires	There seems to have been ascertained serious organizational culture in the organization.	Using the same variable, which is organizational culture	The object was in Greek and
7	Li, Bhutto, Nasiri, Shaikh, Samo (2017)	<i>Organizational innovation: the role of leadership and organizational culture</i>	A survey, based on a deductive approach, is adopted since the questionnaire	there is a positive relationship between organizational culture and organizational innovation and transformational leadership style has a direct relationship with organizational culture and innovation	This research is using the same variables which are organizational innovation, transformational leadership and organizational culture.	The research object is in universities and also the study used transactional leadership as one of the variables.
8	Xenikou & Simosi (2006)	<i>Organizational Culture and Transformational Leadership as predictors of</i>	This research is using questionnaire	A path analysis showed that the achievement and adaptive cultural orientations had a direct effect on performance	Used the same variables, which are transformational leadership and organizational culture	This research is using business performance as the dependent variable

		<i>business unit performance</i>				
9	Yildiz, Basturk & Boz (2014)	<i>The effect of Leadership and Innovativeness on Business Performance</i>	Explanatory, gathered with questionnaire	The result found that with innovativeness, transformational leadership and transactional leadership have higher effects on business performance	Used the same variable of innovativeness and transformational leadership	Transactional leadership used as a variable in this research



2.5 Theoretical Framework

A theoretical framework is defined as a conceptual model of inducing a logical sense of the effect among the several factors that have been identified as critical to solving the problem. The following theoretical framework is drawn from the literature review proposed for this research:



As shown in figure 2.1 the variables in this research are transformational leadership as the independent variable, organizational culture as the mediating variable and organizational innovation as the independent variable. In addition, transformational leadership variable is based on Yildiz *et al* (2014), organizational variable is based on Shehu & Mahmood (2014) and organizational innovation is

based on Widiartanto & Suhadak (2013). therefore, in this research would like to analyze mediating variable and to find out whether organizational culture will affect the relationship between transformational leadership and organizational innovation.



CHAPTER III

RESEARCH METHOD

3.1 Research Design

This research applies a quantitative approach and analyzes how the dependent and independent variables are related to each other and also shows a positive association between one variable and another one. All of the data and are collected from respondents using questionnaire and then the result will be explained in the answer research questions. Hypothesis testing will be used in this research. According to Sekaran (2006), hypothesis testing study is a study that explains the nature of the certain relationship or establishes the differences among groups or the independence of two or more factors in a situation. The choice of population and sample in this research is based on the availability of the SMEs.

3.2 Population and Sample

The population in this research are all kinds of SMEs in embroidery and handicraft sectors. Population refers to the group of people, events or thing of interest that the researcher wishes to investigate Sekaran (2006). because the interest of this study is to know the current trend that happens among embroidery and handicraft sector in West Sumatra. The population targeted are based on the product that they sell, also the products produce has to be from the shop itself.

The sampling technique that used in this research is Purposive sampling. A purposive sampling is one of the main types of non-probability sampling methods. In this research, the researcher is using non-probability sampling, because this

study has several characteristics of the respondent. The characteristics are (1) has to be the owner of the organization (2) production and marketing at the same time. According to Hair *et al* (2010) suggest that five respondents per variable be analyzed as the lower limit.

The sample size in this research is:

$$\begin{aligned}\text{Sample size} &= \text{number of indicators} \times 5 \\ &= 36 \times 5 \\ &= 180\end{aligned}$$

Hence, this research will use 180 samples of SMEs in handicrafts sectors in West Sumatra. This research will choose the owner of the business to be the respondents, due to the owner knows exactly on what they're doing to their business and also the researcher can get the exact data and information on how the business is doing. Also, for the leadership style used in this research, the researcher have a little conversation with the employees of the organizations to make sure the style of the owner used

3.3 Types of Data and Variable Measurement

This study uses primary data. Primary data obtained directly by researchers from the first source, associated with the variables studied for the specific purpose of study (Sekaran, 2006). Distribution of questionnaire to most of SMEs around West Sumatra is the main purpose in order to get the primary data.

Questionnaire formulated contains set of questions to which respondents record their answer, usually within rather closed defined alternatives (Sekaran, 2006). Rating scales of this research are questionnaire's question based on Likert

scales where they are designed to examine how strong the subjects agree or disagree with the statement on a 5-point scale (Sekaran, 2006). The anchors are score 5 scaled for strongly agree, score 4 for agree, score 3 for neutral, score 2 for disagree and score 1 for strongly disagree.

3.4 Research Variables

According to Sekaran (2006) this research uses three variables:

a. Independent Variable

The independent variable is one of the variable that will influence the dependent variable in either negative or positive way. Independent variable in this research is transformational leadership.

b. Mediating variables

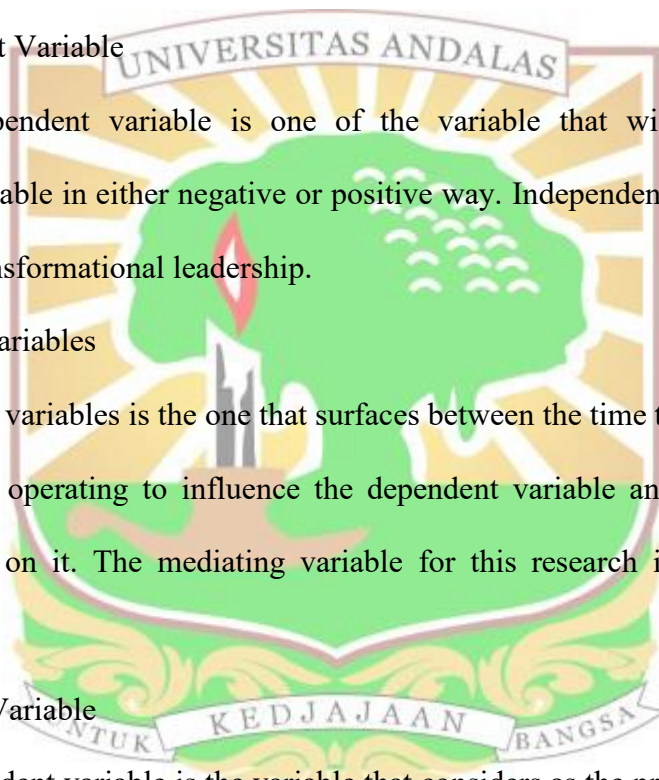
Mediating variables is the one that surfaces between the time the independent variables start operating to influence the dependent variable and the time their impact is felt on it. The mediating variable for this research is organizational culture.

c. Dependent Variable

The dependent variable is the variable that considers as the primary interest of the research. The dependent variable in this research is organizational innovation.

3.5 Operational Definition

An operational definition is the application of operationalization used in defining the terms of a process (validation tests) needed to determine the nature of an item or phenomenon, such as variable, term or object. According to Sekaran



(2006). An operational definition is a concept to render it measurable by looking at the behavioral dimensions, facets or properties denoted by the concept.

Table 3.1
Operational Definition

No	Variable	Definition	Indicators
1	Independent Variable: Transformational Leadership (X)	The transformational leader tries to influence the morale of followers (Burns. 1978)	<ol style="list-style-type: none"> 1. My chief encourages the employees 2. My chief appreciates the employees 3. My chief generates a sense of pride and respect on the employees 4. My chief affecting the employee with an outstanding talent 5. My chief creates a climate of trust among the employees 6. My chief creates a climate of corporation among the employees 7. My chief creates a climate of participation among the employees 8. My chief treats the employees as individuals, encourages and supports their development 9. My chief encourages us to take the problems into consideration from a new point of view 10. My chief encourages us to take the problems into consideration from a different point of view 11. My chief has a clear vision and imagination about the future 12. My chief is conclusive about the values on what she/he said 13. My chief is conclusive about applying on what she/he said <p>(Yildiz et al. 2014)</p>
2	Mediating Variable: Organizational Culture	Organizational Culture can be defined as the values, beliefs and hidden assumptions that the members of an organization have in common (Miro, Erez, & Naveh, 2004)	<ol style="list-style-type: none"> 1. Employee involvement in work 2. Information sharing 3. Emphasis on teamwork 4. Systematic organizational of jobs 5. Changes in marketing practice 6. Capabilities are treated as a source of competitive values 7. A clear set of value 8. Acceptable code of conduct 9. Respond to competitor 10. Customer decisions are very important

			11. Encourage direct contact with customers 12. Disappointment as a chance for learning and improvement 13. Invention are encouraged 14. Risk-taking are encouraged 15. A good mission that gives direction 16. A good mission that gives and meaning 17. Employees understanding of what needs to be completed (Shehu & Mahmood,2014)
3	Dependent Variable: Organizational Innovation (Y)	Organizational innovation is defined as the adoption of new ideas or behavior within an organization (Damanpour, 1991).	1. Improving working practices 2. Training employees routinely 3. Creating new services 4. Creating modifications of services 5. Developing new ideas 6. Encouraging initiatives (Widiartanto & Suhandak, 2013)

3.6 Data Analysis

3.6.1 Data Processing

The data collected is processes through some steps that consist of:

1. Collecting and Coding the Data

When all data already collected from all respondents, the researcher has to merge all the data into one file, this activity called data coding. The purpose of data coding is to make sure all the collected data from respondent being able to process by using data processing application.

2. Data Processing

After coding the data, data is ready to be processed and the result will be used as the reference and source for data analysis. In this research, researcher use SPSS 16.0 and Microsoft Excel for processing data from characteristic of the respondent, and SmartPLS 3.0 for processing variable.

3. Data Interpretation

After data is processed by using data processing application which is SPSS 16.0 and SmartPLS 3.0, the final result is ready to be analyzed. In data analyses, researcher reveals about the finding and fact in the field.

3.7 Descriptive Analysis

To analyze the data, the researcher will use Statistical Package for Social Science (SPSS 16.0) program. SPSS used for analyzing the respondent characteristic. In this research, researcher uses SPSS for efficiency reason. SPSS is efficient and easy to use. SPSS is representing the frequency and percentage of respondent data. SPSS also used for analyzing data each variable to get mean of each variable. And to determining the validity, reliability, the data will be analyzed by using Structural Equation Model tendency (SEM) by SmartPLS 3.0 as the software application. According to Reinartz, Haenlein, & Henseler (2009), PLS is more appropriate when the number of observations is below 250. This research also uses SmartPLS 3.0 to estimate the validity, reliability of data. SmartPLS determines the relationship between independent and dependent latent variable as linear composite like multiple regression multivariate techniques. The SEM tool is able to determine both the indirect and direct path influences among all of the latent variables in a homological network simultaneously. PLS path modeling is a strong SEM technique which is flexible in handling, a very user-friendly path modeling tool, with an intuitive visual interface.

3.8 Test of Instrumental (Outer Model)

The measurement model is a concept and model of research that is tested in a prediction model of relational and casual relationships. According to Ghozali (2012), SmartPLS does not assume any particular distribution for parameter estimation, parametric techniques to test the significance of the parameters are not required, by using the measurement model approach or outer model to evaluate validity and reliability.

3.8.1 Validity Testing

Validity testing is a test of the accuracy of measurement instruments that will be used in this study. Validity testing is purposed to establish the goodness of measurement, whether we are measuring the right things or not (Ghozali, 2001). this test is intended to measure to extend to which precision instrument of research so as to provide accurate information. Thus, validity testing is using corrected item-total correlation. In the PLS evaluation the validity of the measurement model or outer model using reflective indicators evaluated with convergent and discriminant validity.

3.8.1.1 Convergent Validity

Convergent validity is related to the principle that the measurements of a construct should be highly correlated (Jogiyanto and Abdillah, 2009). The research results are valid if there are similarities between the data collected with the actual data occurred on the object under study. Valid happens if the instrument can be used to measure what will be measured. The results of the data obtained from the questionnaire collection must be tested for its validity and reliability.

Hair et al. (2006) in Jogiyanto and Abdillah (2009) suggests that the rule of thumb that is usually used to make a preliminary examination of the factor matrix is $+0.30$ considered to have met the minimum level, for $+0.40$ loading is considered better, and for loading > 0.50 considered practically significant. Thus, the higher the loading factor, the more important the role of loading in interpreting the matrix factor. Rule of thumb used for convergent validity is outer loading > 0.7 , community > 0.5 and average variance extracted (AVE) > 0.5 (Chin, 1995 in Jogiyanto and Abdillah, 2009).

3.8.1.2 Discriminant Validity

Discriminant Validity is performed to compare AVE roots for each construct with a correlation between constructs with other constructs in the model. Discriminant validity is judged on the basis of cross loading if the construct correlation with the measurement item is greater than the size of the other construct, then this indicates that the latent construct predicts the size of their block is better than the size of the other block. Can also be assessed with the square root of average variance extracted (AVE), if the AVE root square value of each construct is greater than the correlation value between constructs with other constructs in the model it is said to have good discriminant validity (Chin, 1997 in Jogiyanto and Abdillah, 2009). Furthermore, Hanseler, Ringle & Sarstedt (2015) demonstrate comparing Fornell-Lacker criterion and the assessment of (partial) cross loading. Finally, they provide guidelines on how to handle discriminant validity issues in variance-based structural equation modeling.

3.8.2 Reliability Testing

According to Ghozali (2001) reliability is measuring instrument to measure a questioner, which represent an indicator of construct variable. Reliability is intended to measure the extent to which a variable or set of variables is consistent with what is intended to measure (Hair *et al.*,1998). Reliability is different with validity testing; validity testing is how an item is measured and reliability is measuring the evidence of consistency of the research instruments.

Reliability of a measure indicates the extent to which it is without bias (error free) and ensures consistent measurement across time and across the various items in the instruments. The purpose of using reliability test is related to accuracy, stability, and consistency. According to Sekaran (2006), the reliability of a measure is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the "goodness" of a measure. Reliability test is the instrument which able to explain the symptom of a group. The way to determine the reliability level of one instrument in the research can be accepted if the value of Cronbach's alpha closer the reliability coefficient gets to 1.0, the better. In generally, reliabilities of Cronbach's alpha and composite reliability are less than 0.60 are considered to be poor, those in the 0.70 range, acceptable and those over 0.80 good (Sekaran, 2006). For determining the reliability, the reliability of each statement is processed by using SmartPLS 3.0.

3.9 Structural Model Test (Inner Model)

The structural model is performed by looking at the R square values for dependent constructs for model assessment, path or t-values of each path to be tested significantly between constructs in structural. Changes in R-square values

can be used to assess the effect of certain independent variables on dependent variables whether they have substantive influences. In this research, the model is valid if the estimation of R Square more prominent than 0.2. As (Urbach & Athlemann, 2010) said, endogenous latent variable which has $R^2 = 0.67$ indicating “good model”, $R^2 = 0.33$ indicating “moderate” model, $R^2 = 0.19$ indicating “weak” model.

3.9 Hypothesis Testing

SmartPLS does not assume normality and data distribution, SmartPLS uses a nonparametric test to determine the significance level of path coefficient, where t (statistical) value generated by running the Bootstrapping algorithm on SmartPLS is used to determine whether or not the hypothesis is accepted. Hypothesis testing proposed, can be seen from the value of T statistics. The hypothesis will be supported if the statistical T value exceeds the T-table range -1 to +1, since the value close to zero indicates a weaker relationship explanation between independent and dependent constructs. Path analysis was tested at the critical value of t-statistic 1.65 ($\alpha = 0.10$), 1.96 ($\alpha = 0.05$) and 2.57 (0.01) for two-tailed cut-offs (Hair et al, 2013). The results of this hypothesis test using the significance of at least (1.64).

RESULTS AND DISCUSSION

4.1 Profile of Respondents

The questionnaire of this research was distributed in August 2017. The questionnaire was filled by the owner/managers of SME as the respondents. The end of August 2017, all of the questionnaire was collected back from 180 respondents and processed using SmartPLS 3.0 and SPSS 16.0.

During the questionnaire distribution to the respondents, the researcher had to help the respondents to fill out the questionnaire. Due to questionnaire made by the researcher does not use incomprehensible terms or abbreviation, the respondents might not have focused on how much they have to fill the questionnaire. While filling out the questionnaire, the researcher helped them by giving the simplest explanation in order for the respondent to understand. They focused on SMEs in embroidery and handicrafts in West Sumatra. However, the researcher did not fulfill the standard samples for each district in West Sumatra. The questionnaire was filled up based on respondent willingness. There was no element of force when the questionnaire was being filled.

The questionnaire was spread as a tool to analyze and assess the relationship between transformational leadership and organizational culture on organizational innovation in handicrafts sector in West Sumatra. Around 180 responses need to be recorded and processed in order to analyze the relationship between those variables. The respondents fell into several categories based on their role, gender, age, occupation, education, and income.

SPSS 16.0 was used to analyze the characteristics of respondents from 180 recorded responses. It interprets the data and reveal the characteristics of the respondents.

4.1.1 Respondent Characteristics Based on Gender

The number of female owner/manager in handicraft sector that participates in this research are 127 or 70.6% of total respondents. The rest of 53 is coming from male owner/manager in handicraft sector in which consist of 29.4% of the respondents. The number of female owner/manager dominate, which means in West Sumatra women/female are keener to run organization. And based on the cultural history of West Sumatra female are more likely to be persistent in running an organization and keeping their product consistent time by time. This data is supported in table 4.1

Table 4.1
GENDER

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	53	29.4	29.4	29.4
Female	127	70.6	70.6	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0

4.1.2 Respondent Characteristics Based on Age

The owner/manager are grouped into 4 categories based on their age. The findings are shown in table 4.2. the owner/manager vary from 17 years old up to older than 50 years old. The owner/manager from the age of 50 years old dominate the respondents. 64 owner/managers are recorded to be an an age older than 50 years old. The second place occupied by the owner/manager with the age

range from 31 - 40 years with 46 owner/managers. Continued with the range age of 41 - 50 years there is 44 owner/managers. Furthermore, only 25 owner/managers with the range age of 20 - 30 years old. And lastly, there is only 1 owner/manager in the range age of 17 - 20 years old. It is shown that not much of entrepreneur in West Sumatra, especially in handicrafts sector, are in their productive age which is 17 - 30 years old. These implications are supported by table 4.2

Table 4.2
AGE

	Frequency	Percent	Valid Percent	Cumulative Percent
17 – 20 years old	1	.6	.6	.6
20 – 30 years old	25	13.9	13.9	14.4
31 – 40 years old	46	25.6	25.6	40.0
41 – 50 years old	44	24.4	24.4	64.4
> 50 years old	64	35.6	35.6	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0

4.1.3 Respondent Characteristics Based on Occupation

In table 4.3 it is known that the respondents who participated in this study based on the occupation. The respondents who work as entrepreneur dominated which is 151 respondents with the percentage of 83.9% of total respondents. After that, respondents that work as civil servant/police amounted to 11 respondents with a percentage of 6.1% and other types of work with a percentage that is not too high is 1 respondent with the percentage of 0.5% as a farmer/fisherman. 3 respondents as students with the percentage of 1.7%. and 7.8% of the respondents answered other than the given choices. Respondents who work as an entrepreneur is higher than the other occupation is due to the targeted respondents for this study. Furthermore, the respondents who work as civil servant/police is

categorized as respondents who do as a side business apart from their real occupation.

Table 4.3
OCCUPATION

	Frequency	Percent	Valid Percent	Cumulative Percent
Students	3	1.7	1.7	1.7
Civil Servant/Police	11	6.1	6.1	7.8
Entrepreneur	151	83.9	83.9	91.7
Farmers/Fisherman	1	.6	.6	92.2
Others	14	7.8	7.8	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0

4.1.4 Respondent Characteristics Based on Education

Respectively, the highest percentage has come from the respondent who had finished senior high school which shown 52.8 % or 95 respondents in table 4.5. 18.9 percent or 34 respondents who had finished until primary school and junior high school. Nine respondents (5 percent) are able to finish up to diploma degree. Furthermore, 22.2 % or 40 respondents got a bachelor's degree. And the lowest percentage which is 1.1 % or 2 respondents who had master/doctorate degree. It is shown that some of the owners of the creative industry especially in handicraft sector had a high educational background. The educational background will help the owner to innovate and compete with other competitors in order for the organization to survive in the market.

Table 4.4
EDUCATION

	Frequency	Percent	Valid Percent	Cumulative Percent
Primary School	15	8.3	8.3	8.3
Junior High School	19	10.6	10.6	18.9
Senior High School	95	52.8	52.8	71.7
Diploma Degree	9	5.0	5.0	76.7
Bachelor Degree	40	22.2	22.2	98.9
Master/Doctorate Degree	2	1.1	1.1	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0S

4.1.5 Respondent Characteristics Based on Income

The findings from this research questionnaire exhibit that 17.8 % of the respondents are obtaining less than 2,000,000 as their monthly income. Around 39 of the respondents or 21.7 % of them display the amount of income around 2,000,000 - 4,000,000. The owner/managers with monthly income range from 4,000,001 - 6,000,000 are as much as 15.0 percent of the respondents or 27 respondents. 12.2 % or 22 respondents has monthly income of 6,000,000 – 8,000,000. While those who have more than 8,000,000 income every month are summed up to be 66 respondents or 33.3 percent. The higher percentage is shown by a respondent that has more than 8,000,000 per month. Most of the respondents are the owner are the of the organization, therefore it is proved by the highest frequency. These implications are supported by table 4.5

Table 4.5
INCOME

	Frequency	Percent	Valid Percent	Cumulative Percent
< Rp. 2.000.000	32	17.8	17.8	17.8
Rp. 2.000.000 – Rp. 4.000.000	39	21.7	21.7	39.4
Rp. 4.000.001 – Rp. 6.000.000	27	15.0	15.0	54.4
Rp. 6.000.000 – Rp. 8.000.000	22	12.2	12.2	66.7
> Rp. 8.000.000	60	33.3	33.3	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0

4.2 Characteristics of Organization

4.2.1 Organization Characteristics Based on the length of period

Based on table 4.6 Organization characteristic based on how long them survive in the field is 6-20 years amounted to 83 organizations with a percentage of 46.1%. while the organization with more than 21 years in the field amounted to 52 organizations and a percentage of 28.9%. the least percentage has amounted for the organization with less than 5 years in the field 45 organizations with a percentage of 25.0%. This is due to handicrafts sector is a heritage for West Sumatra from a long time ago and it continued by future generations until now.

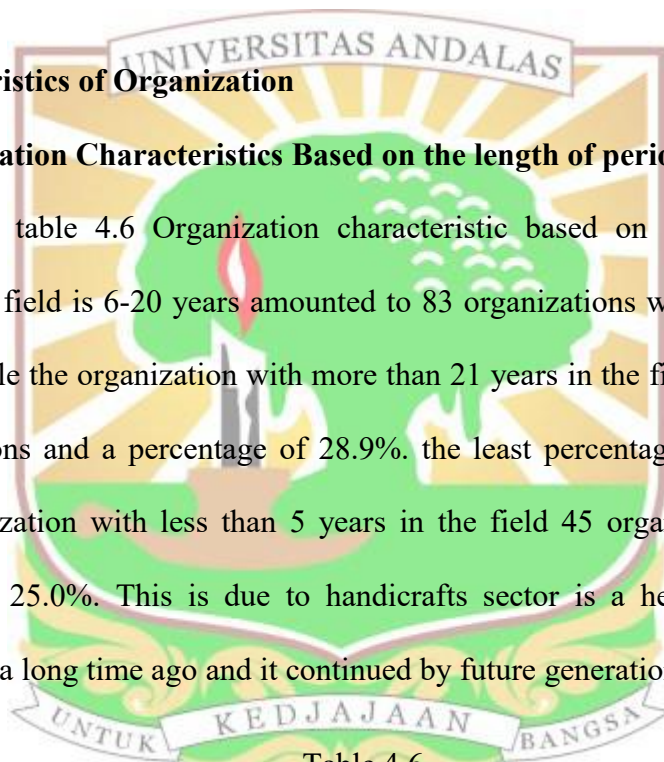


Table 4.6
LENGTH OF PERIOD

	Frequency	Percent	Valid Percent	Cumulative Percent
< 5 years	45	25.0	25.0	25.0
6 – 20 years	83	46.1	46.1	71.1
> 21 years	52	28.9	28.9	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0

4.2.2 Organization Characteristics Based on Type of the Organization

Table 4.7
ORGANIZATION TYPE

	Frequency	Percent	Valid Percent	Cumulative Percent
Embroidery	101	54.3	54.3	54.3
Weaving	28	15.1	15.1	69.4
Silverware	2	1.1	1.1	70.4
Wedding Craft	22	11.8	11.8	82.3
Pottery	3	1.6	1.6	83.9
Leather	5	2.7	2.7	86.6
Accessories	6	3.2	3.2	89.8
Others	19	10.2	10.2	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0

For this research, the researcher divided organizational type into 8. The largest organization type in West Sumatra according to this research is embroidery. 54.3% of the respondents had embroidery business with 101 respondents for this research. Followed by weaving with 28 respondents with 15.1%. also, 22 respondents with 11.8% that had wedding craft business. The table shown that many respondents/owner in West Sumatra handicrafts sector still existed. The existence of embroidery in West Sumatra point out that

4.2.3 Organization Characteristics Based on Number of the Employees

Based on the table below, organization characteristics based on the number of employees. Most of the respondents for this study have less than 10 employees who work in their organization, it is shown in the table 116 respondents with a percentage of 64.4. while 42 respondents with a percentage of 23.3 had 11 – 30 employees. 18 respondents or 10.0 % had 31 – 300 employees. Only 4

respondents had more than 300 employees with the percentage of 2.2. Based on the data it can be concluded that the number of employees for handicraft business is not much. It is probably due to the willingness of the youth who doesn't want to have a skill. Most of the employees in this sector are the housewife. They work as their side job apart from being a housewife to earn extra money for living. In conclusion, it is hard for the owner to find full-time employees.

Table 4.8
NUMBER OF EMPLOYEE

	Frequency	Percent	Valid Percent	Cumulative Percent
< 10 employees	116	64.4	64.4	64.4
11 – 30 employees	42	23.3	23.2	87.8
31 – 30 employees	18	10.0	10.0	97.8
> 300 employees	4	2.2	2.2	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0

4.2.4 Organization Characteristics Based on Income Per Year

Based on table 4.9 it can be concluded that the number of organization based on the number of turnover per year with more than Rp.300.000.000 has amounted to 137 organization with the percentage of 76.1, while 39 organization or 21.7% is the organization with an annual turnover of Rp.300.000.000 – Rp.2.500.000.000. the least amount of turnover of more than Rp.5.000.000.000 which only amounted to 2 organization with a percentage of 1.1 percent. thus, it can be analyzed that handicraft industry earned less than Rp.300.000.000 per year due to the length of manufacturing products. Also, on table 4.9 most of the organizations had only less than 10 employees, it greatly affects the organization turnover due to the number of employees and will not able to meet the consumer demand.

Table 4.9
INCOME

	Frequency	Percent	Valid Percent	Cumulative Percent
< Rp. 300.000.000	137	76.1	76.1	76.1
Rp. 300.000.000 – Rp. 2.500.000.000	39	21.7	21.7	97.8
Rp. 2.500.000.000 – Rp. 5.000.000.000	2	1.1	1.1	98.9
> Rp. 5.000.000.000	2	1.1	1.1	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0

4.2.5 Organization Characteristics Based on Asset

Organization characteristics based on the asset they owned. Most of the organization had an asset of Rp.50.000.000 – Rp.500.000.000 hat amounted to 84 organizations with the percentage of 46.7. 76 organizations or 42.2% had an asset of less than Rp.50.000.000. 17 organizations with the percentage of 9.4 had an asset of Rp.500.000.000 – Rp.10.000.000.000. moreover, only 3 organizations or 1.6% of total respondents had more than Rp.10.000.000.000 of their entire assets.

Table 4.10
ASSET

	Frequency	Percent	Valid Percent	Cumulative Percent
< Rp. 50.000.00	76	42.2	42.2	42.2
Rp. 50.000.000 – Rp. 500.000.000	84	46.7	46.7	88.9
Rp. 500.000.000 – Rp.10.000.000	17	9.4	9.4	98.3
> Rp. 10.000.000.000	3	1.7	1.7	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0

4.2.6 Organization Characteristics Based on Exporting Activities

Based on table 4.13, only 64 organizations exported their products with the percentage of 35.6. follow by 116 organization that never export their product with a percentage of 64.4 of total respondents. It can be explained that preference of handicraft products is more to Indonesian. Due to foreigners does not use traditional products in daily activities. On the other hand, some organization that exported their product abroad could enhance and introduce West Sumatra culture and riches to other nationalities.

Table 4.11
EXPORTING ACTIVITIES

	Frequency	Percent	Valid Percent	Cumulative Percent
YES	64	35.6	35.6	35.6
NO	116	64.4	64.4	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0

4.2.7 Organization Characteristics Based on Target Market

According to table 4.13. It is explained that the target market of handicraft industry is in Sumatra, it is shown by the highest percentage of 46.1% or 83 organizations are in Sumatra. Followed by organizations that targeted abroad as they target market, 7 organizations with the percentage of 3.9% targeted overseas. Only 2 organizations have target market on Java. It can be seen that many handicraft organization targeted their market in several islands in Indonesia. 18 organizations at 10% of the respondents targeted their products to Sumatra, Java and Overseas. In conclusion, the target market of handicraft industry is around Sumatra due to closest area of production.

Table 4.12
TARGET MARKET

	Frequency	Percent	Valid Percent	Cumulative Percent
Sumatra	83	46.1	4.61	46.1
Sumatra, Java	12	6.7	6.7	52.8
Sumatra, Java, Kalimantan	7	3.9	3.9	56.7
Sumatra, Java, Kalimantan, Sulawesi	3	1.7	1.7	58.3
Sumatra, Java, Kalimantan, Sulawesi, Papua	1	.6	.6	58.9
Sumatra, Java, Kalimantan, Sulawesi, Papua, Overseas	8	4.4	4.4	63.3
Sumatra, Java, Kalimantan, Sulawesi, Overseas, Others	1	.6	.6	63.9
Sumatra, Java, Kalimantan, Sulawesi, Overseas	9	5.0	5.0	68.9
Sumatra, Java, Kalimantan, Sulawesi, Others	1	.6	.6	69.4
Sumatra, Java, Kalimantan, Overseas	5	2.8	2.8	72.2
Sumatra, Java, Kalimantan, Overseas, Others	1	.6	.6	72.8
Sumatra, Java, Sulawesi, Overseas	1	.6	.6	73.3
Sumatra, Java, Overseas	18	10.0	10.0	83.3
Sumatra, Java, Others	1	.6	.6	83.9
Sumatra, Kalimantan	1	.6	.6	84.4
Sumatra, Overseas	12	6.7	6.7	91.1
Sumatra, Overseas, Others	1	.6	.6	91.7
Sumatra, Others	2	1.1	1.1	92.8
Java	2	1.1	1.1	93.9
Overseas	7	3.9	3.9	97.8
Others	4	2.2	2.2	100.0
TOTAL	180	100.0	100.0	

Source: proceed from the questionnaire by using SPSS 16.0

4.3 Descriptive Analysis

The analysis is conducted in order to test each variable in the questionnaire. The questionnaire is developed using Likert Scale. Likert Scale assesses respondent's opinion on a scale from 1 to 5. The closer the value of the mean of Likert Scale to 5 the more positive the response of the respondents. On the opposite, if the mean of a variable in Likert Scale is verging towards 1, it indicates negative responses from respondents.

The exhibiting table below displays the frequencies of response from each variable. The values of the mean from each indicator are drawn using SPSS 16.

4.3.1 Respondent's Response on Transformational Leadership

Thirteen indicators are used to analyze how will transformational leadership affect organizational innovation in handicraft industry.

Table 4.13
Respondent's Response to Transformational Leadership

No	Indicators	Respondent's Answer					Total	Mean
		SA	A	N	D	SD		
TRANSF1	My chief encourages the employees	50	106	15	4	5	180	4.06
TRANSF2	My chief appreciates the employees	60	102	13	1	4	180	4.18
TRANSF3	My chief generates a sense of pride and respect for the employees	67	101	8	0	4	180	4.26
TRANSF4	My chief affecting the employee with an outstanding talent	45	116	13	2	4	180	4.08
TRANSF5	My chief creates a climate of trust among the employees	50	116	8	2	4	180	4.14

TRANSF6	My chief creates a climate of corporation among the employees	50	118	7	1	4	180	4.16
TRANSF7	My chief creates a climate of participation among the employees	50	114	12	0	4	180	4.14
TRANSF8	My chief treats the employees as individuals, encourages and supports their development	46	119	11	0	4	180	4.13
TRANSF9	My chief encourages us to take the problems into consideration from a new point of view	36	117	22	1	4	180	4.00
TRANSF10	My chief encourages us to take the problems into consideration from a different point of view	28	114	32	2	4	180	3.89
TRANSF11	My chief has a clear vision and imagination about the future	38	134	7	1	0	180	4.16
TRANSF12	My chief is conclusive about the values on what she/he said	37	136	5	1	1	180	4.15
TRANSF13	My chief is conclusive about the applying on what she/he said	38	132	9	0	1	180	4.14

Thirteen indicators were used to analyse how transformational leadership in handicrafts sector were used. Indicator 3 showed the most positive response from

all the respondents. The majority of the respondents picked strongly agree as their answers which was the owner generates pride and respect for their employees.

4.3.2 Respondent's Response on Organizational Culture

Seventeen indicators were used to analyze how will organizational innovation affect organizational innovation in handicraft industry.

Table 4.14
Respondent's Response on Organizational Culture

No	Indicators	Respondent's Answer					Total	Mean
		SA	A	N	D	SD		
CULT1	Employee involvement in work	55	114	8	0	3	180	4.21
CULT2	Information sharing	39	127	10	2	2	180	4.10
CULT3	Emphasis on team work	38	115	19	6	2	180	4.01
CULT4	Systematic organizational of jobs	23	114	30	11	2	180	3.81
CULT5	Changes in marketing practice	18	125	22	9	6	180	3.78
CULT6	Capabilities are treated as a source of competitive values	22	143	13	2	0	180	4.09
CULT7	Clear set of value	12	143	21	4	0	180	3.91
CULT8	Acceptable code of conduct	19	140	16	5	0	180	3.96
CULT9	Respond to competitor	38	133	6	3	0	180	4.14
CULT10	Customer decisions are very important	45	131	3	0	0	180	4.23
CULT11	Encourage direct contact with customers	51	124	5	0	0	180	4.26
CULT12	Disappointment as a chance for learning and improvement	45	129	5	1	0	180	4.21

CULT13	Invention are encouraged	29	120	24	4	0	180	3.94
CULT14	Risk taking are encouraged	20	101	34	16	9	180	3.60
CULT15	Good mission that gives direction and meaning	12	134	23	9	2	180	3.81
CULT16	Good mission that gives direction and meaning....	15	133	24	6	2	180	3.85
CULT17	Employees understanding of what need to be completed	36	131	10	2	1	180	4.11

Seventeen indicators were used to analyse how organizational innovation in handicrafts sector were used. The largest mean is showed in CULT11 with the value of 4.26. Customer decision is import for most of the owners. 175 respondents chose between strongly agree and agree. Hence, the organizations really depend on what the customers want.

4.3.3 Respondent's Response on Organizational Innovation

Six indicators were used to analyze how will organizational innovation affect organizational innovation in handicraft industry.

Table 4.15
Respondent's Response on Organizational Innovation

No	Indicators	Respondent's Answer					Total	Mean
		SA	A	N	D	SD		
ORG INNOV1	Improving working practices	19	146	10	4	1	180	3.99
ORG INNOV2	Training employees routinely	19	100	37	13	11	180	3.57
ORG INNOV3	Creating new services	28	108	33	11	0	180	3.85
ORG INNOV4	Creating modifications	29	116	27	8	0	180	3.92

	of services							
ORG INNOV5	Developing new ideas	29	121	23	7	0	180	3.96
ORG INNOV6	Encouraging initiatives	31	120	16	11	2	180	3.93

Six indicators were used to analyse how organizational innovation in handicrafts sector were used. The largest mean value possessed of 3.99 by the first indicator in which means that most of the respondents were the organization tried to improve working practices among the employees in the organization.

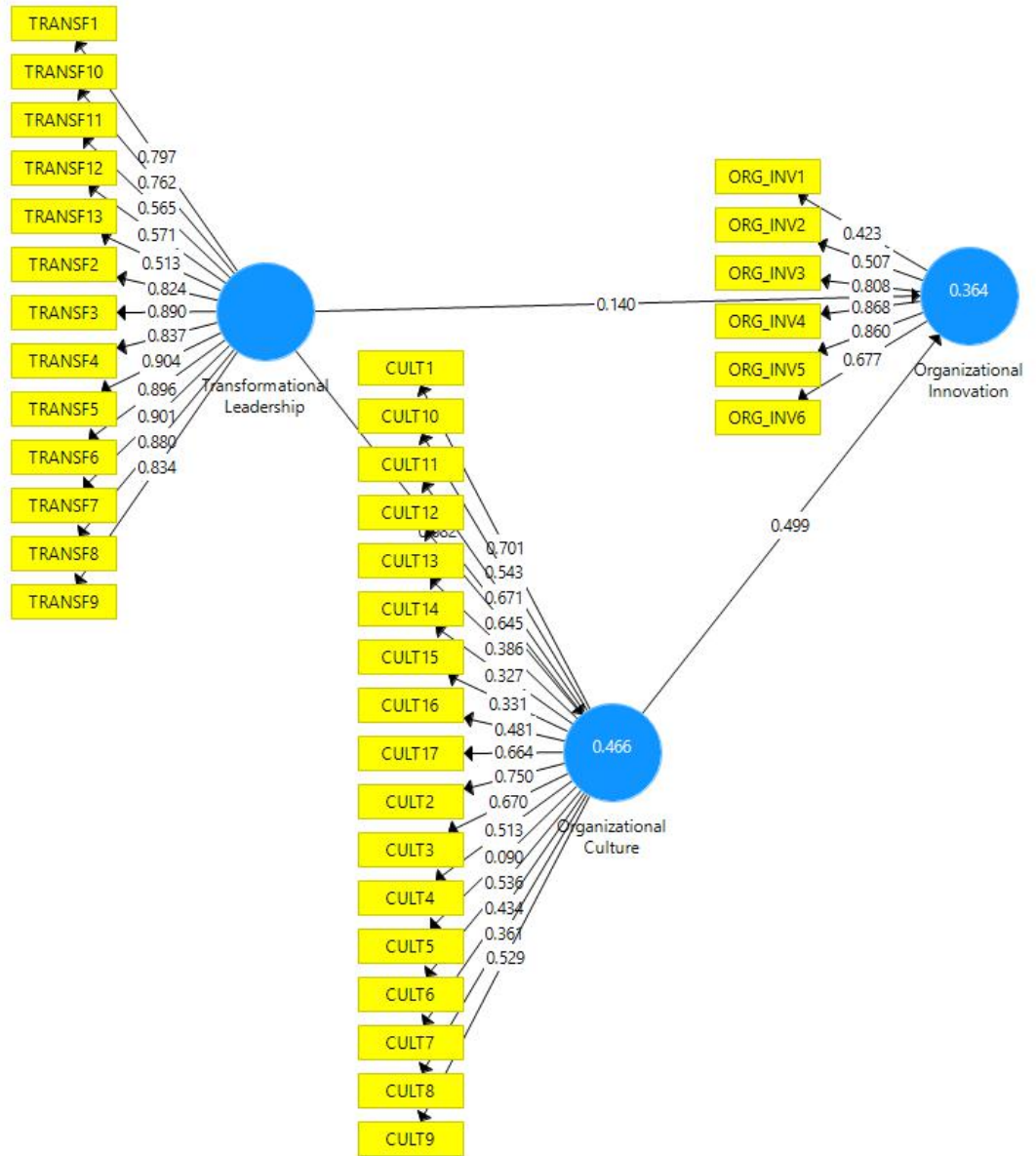
4.4 Test of Instrumental

4.4.1 Validity Testing

Validity testing is conducted prior to data collection. SmartPLS 3.0 used in the research to test the validity of indicator from each variable. Two types of evaluation consideration are used in the research. The evaluations are based on convergent validity and discriminant validity. Convergent validity will be used to examine whether indicator from each variable in the research measure its variable correctly and accurately. The basic implication of convergent validity testing is measuring the correlation between item score and indicators or component score with the constructed score.

The value of outer loading is measured by from algorithm process. The least accepted score to ascertain the indicators from each variable are valid is above 0.5. Although the value between 0.5 until 0.7 is still accepted, this condition is considered to be acceptable if only the value of AVE is higher than 0.5 (Chin, 1998 & Ghozali, 2006). After processing the data, researcher finds that 8 indicators are considered to be invalid due to the value of Outer Loading and AVE

that do not meet the minimum requirements of higher than 0.5. The value of original outer loading and AVE in this research could be seen in table 4.16



Source: proceed from the questionnaire by using SmartPLS 3.0 In 2018

Figure 4.1
First Outer Loading Model in validity

Table 4.16
Outer Loading in Validity

	Organizational Culture	Organizational Innovation	Transformational Leadership
CULT1	0,701		
CULT2	0,750		
CULT3	0,670		
CULT4	0,513		
CULT5	0,090		
CULT6	0,536		
CULT7	0,434		
CULT8	0,361		
CULT9	0,529		
CULT10	0,543		
CULT11	0,671		
CULT12	0,645		
CULT13	0,386		
CULT14	0,327		
CULT15	0,331		
CULT16	0,481		
CULT17	0,664		
ORG_INV1		0,423	
ORG_INV2		0,507	
ORG_INV3		0,808	
ORG_INV4		0,868	
ORG_INV5		0,860	
ORG_INV6		0,677	
TRANSF1			0,797
TRANSF2			0,824
TRANSF3			0,890
TRANSF4			0,837
TRANSF5			0,904
TRANSF6			0,896
TRANSF7			0,901
TRANSF8			0,880
TRANSF9			0,834
TRANSF10			0,762
TRANSF11			0,565
TRANSF12			0,571
TRANSF13			0,513

Source: proceed from the questionnaire by using SmartPLS 3.0 In 2018

Table 4.17
Average Variance Extracted (AVE) First Testing

	Average Variance Extracted (AVE)
Organizational Culture	0,286
Organizational Innovation	0,507
Transformational Leadership	0,631

Source: proceed from the questionnaire by using SmartPLS 3.0 In 2018

As seen in table 4.16 And 4.17, the value of outer loading of 8 indicators do not meet the minimum requirement of outer loading. Due to the invalidity of some indicators, the researcher reruns the data with the absence of using the same number of respondents (180 respondents). The result of the second SmartPLS run is shown in table 4.18 And 4.19 The second run of SmartPLS method bears out more valid and reliable findings.

Table 4.18
Second Run of Outer Loading in Validity

	Organizational Culture	Organizational Innovation	Transformational Leadership
CULT1	0,746		
CULT2	0,809		
CULT3	0,712		
CULT4	0,490		
CULT6	0,513		
CULT9	0,490		
CULT10	0,597		
CULT11	0,708		
CULT12	0,660		
CULT17	0,673		
ORG_INV2		0,514	
ORG_INV3		0,839	
ORG_INV4		0,895	
ORG_INV5		0,885	
ORG_INV6		0,684	
TRANSF1			0,797
TRANSF2			0,825

TRANSF3			0,891
TRANSF4			0,837
TRANSF5			0,905
TRANSF6			0,896
TRANSF7			0,902
TRANSF8			0,880
TRANSF9			0,834
TRANSF10			0,762
TRANSF11			0,564
TRANSF12			0,569
TRANSF13			0,511

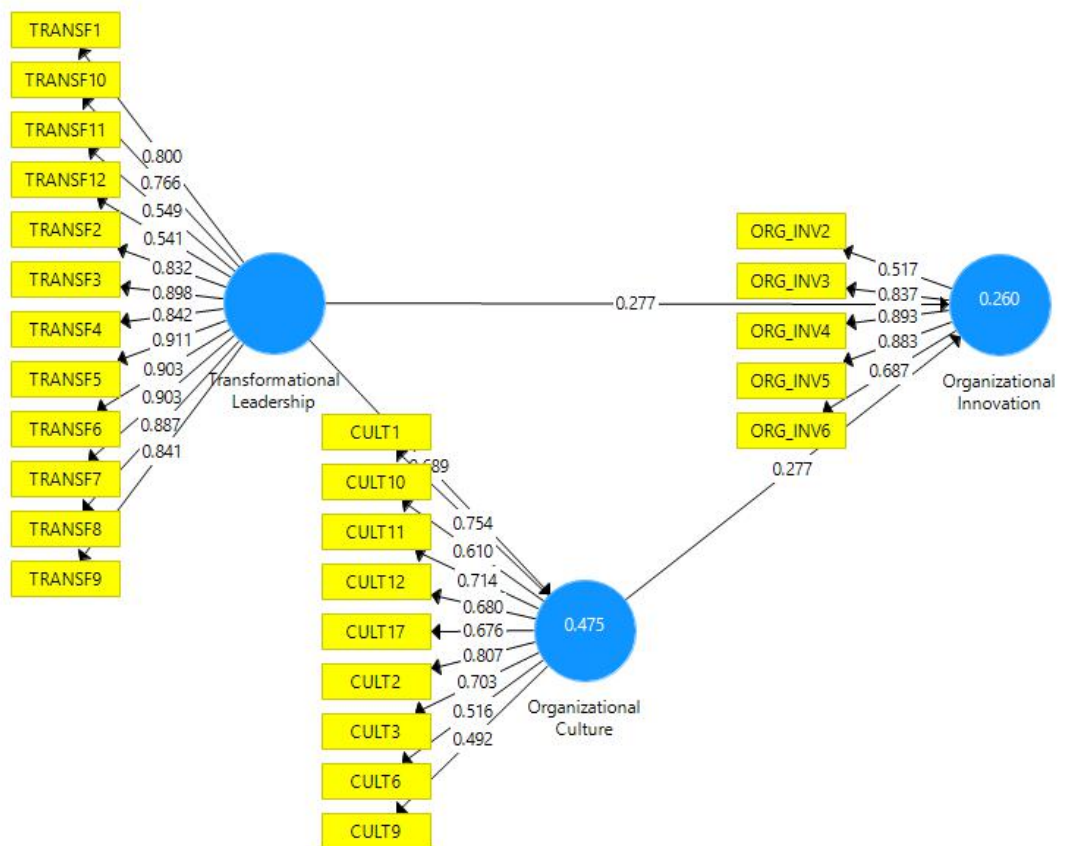
Source: proceed from the questionnaire by using SmartPLS 3.0 In 2018

Table 4.19
Second Run of Average Variance Extracted (AVE)

	Average Variance Extracted (AVE)
Organizational Culture	0,421
Organizational Innovation	0,604
Transformational Leadership	0,631

Source: proceed from the questionnaire by SmartPLS 3.0 in 2018

As seen in table 4.19 And 4.20, the value of outer loading of 5 indicators do not meet the minimum requirement of outer loading. From the data above, after data processing, there is no outer loading that has a value less than 0.5 the smallest value of outer loading is 0.564 in which represent TRANSF11. These results indicate that all latent variables used in this study have good discriminant validity. But, the researcher also has to get the value of AVE higher than 0.5. in order to get AVE value higher than 0.5, the researcher has to run third outer loading.



Source: proceed from the questionnaire by using SmartPLS 3.0 In 2018

Figure 4.2
Second Outer Loading Model in validity

The figure above shows that the data is valid based on convergent construct testing process. All of the outer loadings meet the rule of thumb > 0.5 and it also caters the requirement value of AVE > 0.5 .

Table 4.20
Third Run of Outer Loading in Validity

	Organizational Culture	Organizational Innovation	Transformational Leadership
CULT1	0,778		
CULT2	0,850		
CULT3	0,751		
CULT11	0,679		
CULT12	0,646		
CULT17	0,676		
ORG_INV3		0,838	
ORG_INV4		0,905	

ORG_INV5		0,901	
ORG_INV6		0,686	
TRANSF1			0,800
TRANSF2			0,833
TRANSF3			0,898
TRANSF4			0,843
TRANSF5			0,911
TRANSF6			0,904
TRANSF7			0,903
TRANSF8			0,887
TRANSF9			0,841
TRANSF10			0,767
TRANSF11			0,546
TRANSF12			0,538

Source: proceed from the questionnaire by SmartPLS 3.0 in 2018

Table 4.21
Third Run of Average Variance Extracted (AVE)

	Average Variance Extracted (AVE)
Organizational Culture	0,538
Organizational Innovation	0,701
Transformational Leadership	0,665

Source: proceed from the questionnaire by SmartPLS 3.0 in 2018

As seen in table 4.21 And 4.22, the value of outer loading of 2 indicators do not meet the minimum requirement of outer loading. From the data above, after data processing, there is no outer loading that has a value less than 0.55 the smallest value of outer loading is 0.676 in which represent CULT17. These results indicate that all latent variables used in this study have good discriminant validity

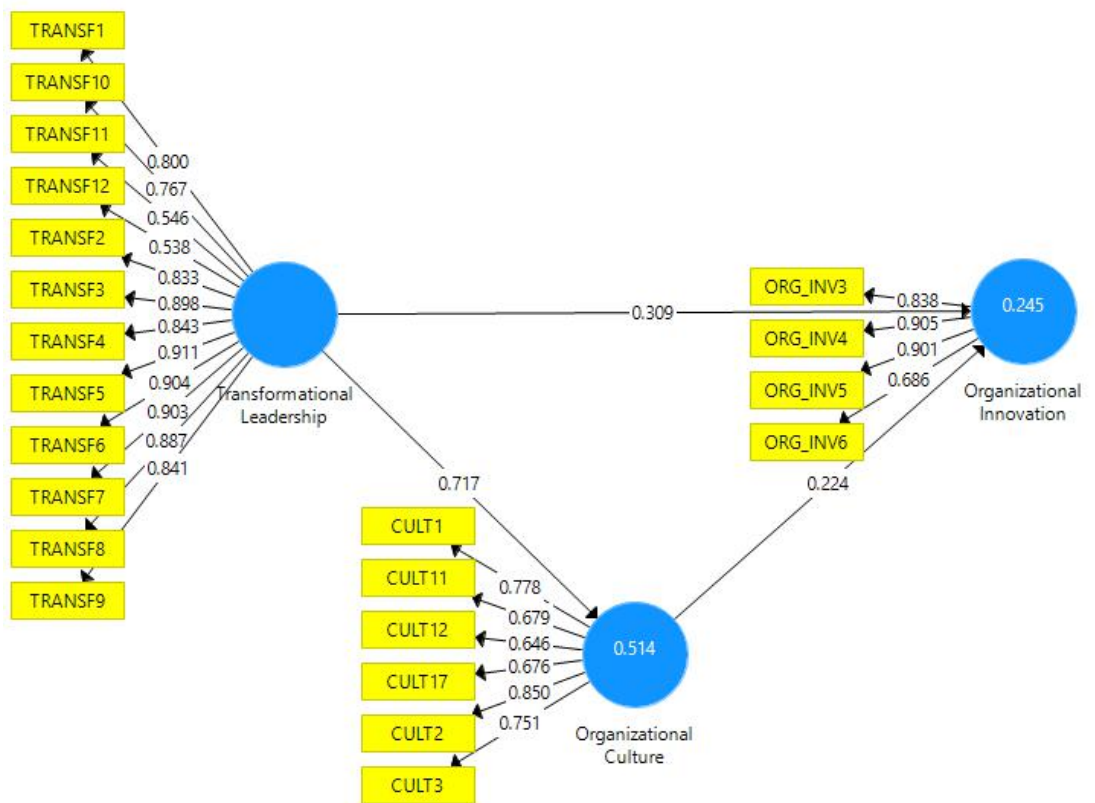


Figure 4.3
Third Outer Loading Model in validity

The figure above shows that the data is valid based on convergent construct testing process. All of the outer loadings meet the rule of thumb > 0.55 and it also caters the requirement value of $AVE > 0.55$

After conducting convergent testing, discriminant validity is also tested in order to reconfirm that the data is valid. The validity of the data could be seen from the value of cross loading by comparing the indicator construct with the other construct. Also, with the testing of Fornell Lacker's Criterion. The cross-loading construct exhibited on table 4.22

Table 4.22
Cross Loading

	Organizational Culture	Organizational Innovation	Transformational Leadership
CULT1	0,778	0,358	0,638
CULT2	0,850	0,400	0,630
CULT3	0,751	0,338	0,543
CULT11	0,679	0,287	0,432
CULT12	0,646	0,307	0,346
CULT17	0,676	0,252	0,493
ORG_INV3	0,364	0,838	0,360
ORG_INV4	0,356	0,905	0,343
ORG_INV5	0,352	0,901	0,388
ORG_INV6	0,395	0,686	0,449
TRANSF1	0,625	0,428	0,800
TRANSF2	0,627	0,282	0,833
TRANSF3	0,660	0,354	0,898
TRANSF4	0,564	0,414	0,843
TRANSF5	0,639	0,383	0,911
TRANSF6	0,624	0,383	0,904
TRANSF7	0,639	0,443	0,903
TRANSF8	0,622	0,384	0,887
TRANSF9	0,560	0,379	0,841
TRANSF10	0,438	0,348	0,767
TRANSF11	0,454	0,375	0,546
TRANSF12	0,477	0,404	0,538

Source: proceed from the questionnaire by SmartPLS 3.0 in 2018

The basic criteria for validity in discriminant validity testing is that each indicators correlation of construct has higher value than the indicator correlation compare to other construct. This implies that the constructs have high validity. Discriminant validity testing gives an indication that the latent variables can predict the value of their blocks whether it is greater than the others. Table 4.22 Demonstrated that all of the indicators possess the high correlation value to their own variable than another variable. Conclusively, the data fulfilled the criteria that signify that the data is valid. The other way for discriminant validity could be tested and analyze are using Square Root Average (AVE) and using Fornell

Lacker's Criterion. The model has to meet the criteria of discriminant validity of the square root average is greater than the other construct.

A conclusion is drawn based on the table 4.23, that all variable passed the validity testing due to the rooted AVE (in bold) value is greater than other variables in the column.

Table 4.23
Fornell Lacker's Criterion

	Organizational Culture	Organizational Innovation	Transformational Leadership
Organizational Culture	0,733		
Organizational Innovation	0,445	0,837	
Transformational Leadership	0,717	0,470	0,816

Source: proceed from the questionnaire by SmartPLS 3.0 in 2018

Based on this test and analyses, all variables are passing the validity test with outer loading greater than 0.5 AVE (>0.5), a positive comparison value of AVE and cross loading.

4.4.2 Reliability Testing

Reliability testing is a test that confirms if the research is conducted in the same situation with the result as it is conducted in the past, present or in the future. Reliability testing is imposed by the value of Cronbach's Alpha and Composite Reliability for each block of indicator on reflection of an invalid construct. The thumb rule for Cronbach's Alpha and Composite Reliability is that the value of each construct should be higher than 0.7, although 0.6 is still accepted (Cooper & Schindler, 2008).

Table 4.24
Cronbach's Alpha and Composite Reliability

	Cronbach's Alpha	Composite Reliability
Organizational Culture	0,828	0,874
Organizational Innovation	0,853	0,903
Transformational Leadership	0,951	0,959

Source: proceed from the questionnaire by SmartPLS 3.0 in 2018

All of the construct score more than 0.7. therefore, the reliabilities mean in this research can be justified by any means.

4.5 Structural Model Test (Inner Model)

4.5.1 Assessment of R-Square

To assess the goodness of fit model with PLS, it is started from the value of R-Square for each latent dependent variable. The R-Square value is used to assess the effect of certain latent variable toward latent dependent variable whether it has substantive effect. In structural model, endogenous latent variable which has $R^2 = 0.67$ indicating "good" model, $R^2 = 0.33$ indicating "moderate" model, $R^2 = 0.19$ indicating "weak" model (Urbach *et al.*,2010).

Table 4.25
R-Square

	R Square
Organizational Culture	0,514
Organizational Innovation	0,245

Source: proceed from the questionnaire by SmartPLS 3.0 in 2018

The table above displays and demonstrates the value of R-Square model of this research. Organizational culture owns up a value of 0.514 and for organizational innovation exhibit the value of 0.245. This value means that organizational culture explained by transformational leadership by 51.4% while organizational innovation explained by organizational culture and

transformational leadership by 24,5%. The rest of the values is influenced by other variables outside of tested variables in this research model.

4.6 Hypothesis Testing

The result estimated coefficients conducted by PLS is a standardized coefficient which will be called the path coefficients (path coefficients). the original sample of constructs shows the coefficient value for each line. The level of significance in hypothesis testing can be seen in the value of coefficient path or inner model. The coefficient path score or inner model is shown by T-statistic value. It must be above 1.64 for one-tailed hypothesis with alpha 0.05 (Hair *et al.*,2001). the result of hypothesis testing can be seen on Path Coefficients in the table below.

This research used mediation to test hypotheses. This research used organizational culture as a mediating variable, that will mediate between transformational leadership and organizational innovation.

4.6.1 Mediating Variable Testing

Based on Hair *et al.*, (2014), to measure is there any influence which is given by mediating variable and how much that influence affected to this research it has 2 steps to know it, which are:

1. Testing the significances without mediating variable to PLS path model, if there are significance, continue it to the next step.

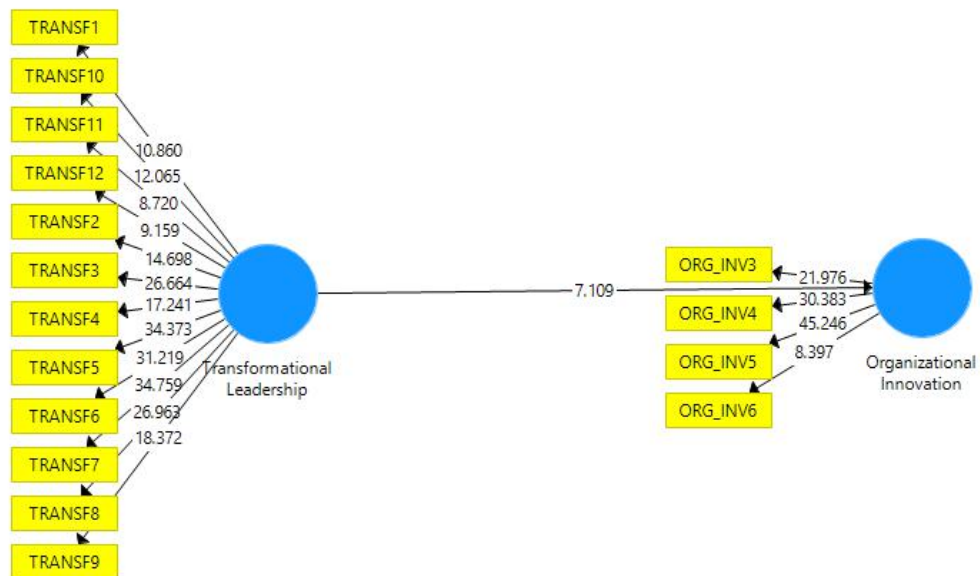


Figure 4.4
T- statistics value of mediating variable

Regarding to the figure above, the mediating variable in this research is organizational culture, but the research would like to analyse the mediator effect on transformational leadership and organizational innovation. the T-Statistics value is 7,109. This research is using a significance level of higher than 1.64. even though the P values does not exceed the requirement of 0.05, the researcher still consider the hypothesis have significant value if the T statistics higher than 1.64.

Table 4.26
Hypotheses testing (Total Effects) with mediating variable

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Transformational Leadership -> Organizational Innovation	0,479	0,492	0,067	7,109	0,000

Source: proceed from the questionnaire by SmartPLS 3.0 in 2018

2. Inserting mediating variable to PLS path model and test the significance to indirect effect, if significant continues to the next step

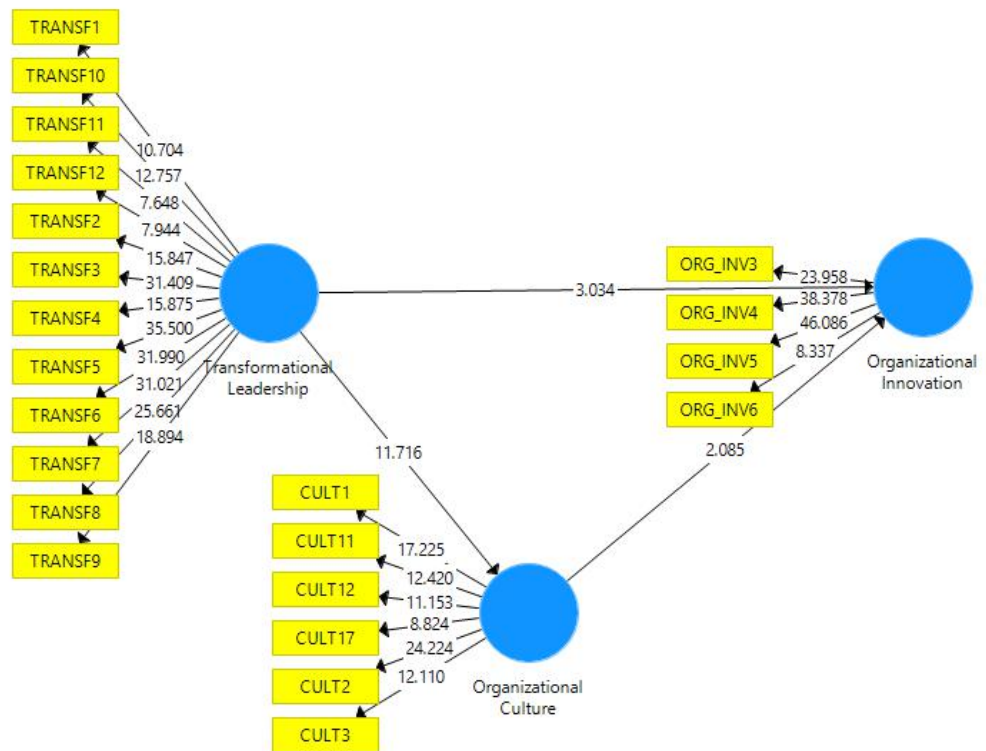


Figure 4.5
T- statistics value without mediating variable

In this research, all the hypotheses already exceed T statistics of 1.64. which mean that all the hypotheses are positively affecting each other between the variables. This research examines the indirect effect of transformational leadership to organizational culture and organizational culture to organizational innovation.

Table 4.27

Hypotheses testing (Total Effects) without mediating variable

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Organizational Culture -> Organizational Innovation	0,224	0,230	0,107	2,085	0,038
Transformational Leadership -> Organizational Culture	0,717	0,720	0,061	11,716	0,000

Source: proceed from the questionnaire by SmartPLS 3.0 in 2018

- Calculate the value of Variance Accounted for (VAF) to know the comparison of direct effect and indirect effect. Direct effect of this research are Transformational Leadership to Organizational Culture, Transformational Leadership to Organizational Innovation and Organizational Culture to Organizational Innovation. Indirect effect in this research is Transformational Leadership and Organizational Innovation.

$$\begin{aligned}
 \text{VAF} &= \frac{\text{Indirect Effect}}{\text{Total Effect}} \\
 &= \frac{\text{Indirect Effect}}{(\text{Indirect Effect} + \text{Direct Effect})} \\
 &= \frac{TL - OC \times OC - OI}{(TL - OC \times OC - OI) + (TL - OI)} \\
 &= \frac{11.7116 \times 2.085}{11.716 \times 2.085 + 7.109} \\
 &= \frac{24.4278}{24.4278 + 7.109} \\
 &= \frac{24.4278}{31.5368} \\
 &= 0.77458
 \end{aligned}$$

VAF = 77.5% = Partial Mediation

$VAF < 80\% > 20\%$ it means that variable is partial mediation. Partial mediation is the independent variable able to affect directly the dependent variable through or involving the mediating variable. Furthermore, in this research the organizational culture as a mediator, able to effect the independent and dependent variable in both ways, directly and indirectly. Which means that the SMEs especially in handicraft sector will able to enhance their organizational innovation if the owner keen to use organizational culture as a consideration for the organization. For R-Square of Organizational Culture is 0.514 and Organizational Innovation is only 0.245 and VAF value represent partial mediation between those variables. It can be concluded that in order to increase organizational innovation and transformational leadership is through organizational culture. When, organizational culture enhance, transformational leadership and organizational innovation will also increase. Hence, in this research can be summarized that organizational culture mediates organizational innovation and transformational leadership. In this research, the forth hypothesis (H4) is supported.

Table 4.28
 Hypotheses Testing

	T Statistics (O/STDEV)	Conclusion
Organizational Culture -> Organizational Innovation	2,085	SUPPORTED
Transformational Leadership -> Organizational Culture	11,716	SUPPORTED
Transformational Leadership -> Organizational Innovation	6,089	SUPPORTED
Transformational Leadership -> Organizational Innovation	7,109	SUPPORTED

4.7 Hypotheses Discussion

4.7.1 The influence of transformational leadership towards organizational culture

In this research, transformational leadership affects significantly towards organizational culture. As we can see in table 4.28, T statistics is 11.716 which exceed the requirement of 1.64. this research strengthens the previous research, which the research found out that transformational leadership had a positive significant on organizational culture, (Bass & Avolio (1993) in Xenikuo (2006). Leadership and culture are so well interconnected that it is possible to describe an organizational culture characterized by transformational qualities. This research also suggested that transformational leaders move their organizations in the direction of more transformational qualities in their cultures, namely, accomplishment, intellectual stimulation, and individual consideration, therefore, suggesting that transformational leadership has a direct effect on culture.

According to this research, transformational leadership had several indicators, the two highest mean are the owner generates a sense of pride and respect for the employees and also appreciates the employees. Which means that the owner of the organization brings out self-respect within the organization. It is reasonable for the owner to have that value within the organization. By giving appreciation to the employees, it will indirectly help the organization to grow by appreciating the one who work in the organization. Followed by the other indicator which is the owner has a clear vision and mission and imagination about the future. Relate to the target market and the exporting activities done by some owners, it can conclude that most owners apply a clear vision and mission that they have.

Transformational leadership and organizational culture related to each other proved by the indicators above. Finally, indicators above show that the relationship between transformational leadership and organizational culture have positive relation in the organization.

4.7.2 The influence of organizational culture towards organizational innovation

In this research, organizational culture affects significantly towards organizational innovation. As we can see in table 4.28, T statistics is 2.085 which exceed the requirement of 1.64. this research strengthens the previous research, which the research found out that organizational culture had a positive significant on organizational innovation. West (2000) bring up that positive cultural characteristics can provide an organization with the necessary ingredients to innovate. Innovation and culture are intimately linked. In this context, the handicraft industries had to have strong culture in order for the organization to survive in the market. Furthermore, strong culture indicates that the organization might able to innovate their products.

According to this research, organizational culture had several indicators, the highest are the organization encourage employee have direct contact with the customers and customer decisions are very important to the future business. Which means that most of the owner encourage their employees to serve the customer and give the best service possible, in order for the customer to feel they been serve in a good way and possibly will be back for another purchase in the organization. By considering customer decision on what the customer wants, it

will eventually help the organization to gain their competitive advantages. If the organization already have valuable organizational culture, the organization also consider about the innovation that the organization should have done in order for the organization to sustain in the industry. Moreover, those indicators show that organizational culture positively relate with organizational innovation.

4.7.3 The influence of transformational leadership towards organizational innovation

In this research, organizational culture affects significantly towards organizational innovation. As we can see in table 4.28, T statistics is 6.089 which exceed the requirement of 1.64. According to Lale & Ilsev (2007) organizational innovation is the tendency of the organization to develop new or improved products/services and it success in bringing those product/services to the market. Transformational leaders enhance innovation within the organization, the tendency of organizations to innovate. Transformational leaders have a vision that motivates their followers, increases their willingness to perform beyond expectations and challenges them to adopt innovative approaches in their work. Therefore, this research strengthens the previous research, which the research found out that transformational leadership had a positive significant on organizational innovation.

According to this research, organizational innovation had several indicators, the highest are the organization improve the working practices, develop new ideas and encouraging initiatives. Which means that organizational improved due to the leadership style used by the owner of the organization. Some organization won't innovate the organization, due to lack of experience and doesn't want to change

anything within the business. Referring to West Sumatra people, the owner of the creative industries will stick to what they already do and will not want to improve. On the other hand, in this research most of the owner of the organization improve the working practices by giving training to the employees, moreover, the employees able to upgrade the working practices. Furthermore, the owner develop new ideas, in order to regenerate the organization improvement. And it is important for the creative industries owner to encourage their employees about potential initiatives. It will not go wrong for the owner to ask for suggestion to their employees. In conclusion, transformational leadership positively influence organizational innovation.

4.7.4 The influence of organizational culture mediating transformational leadership and organizational innovation

In this research, organizational mediates transformational leadership and organizational innovation. As we can see in table 4.28, T statistics is 7.109 which exceeds the requirement of 1.64. from diversity to freedom, respect to acknowledgment, wisdom to intuition, motivation to commitment, everything is embedded in the culture so we can elaborate that is refers to norms, values, artifacts, and behavioral pattern in organization, thus, this cultural process supports and triggers innovation significantly (Hogan and Coote, 2014). Hence, organizational mediates transformational leadership and organizational innovation.

Referring to the previous research, organizational culture successfully mediates between transformational leadership and organizational innovation. This

research also found that organizational culture can be the mediator, due to the result of VAF value to find out the percentage of 77%. > 20% and <80% can be considered as partial mediation. Which the organizational culture could be the mediator between the dependent and independent variable and could be not, depending on the researcher. Moreover, all the indicators from each indicator represent on how the organization doing. If the organization able to combine those three variables in the organization context, the owner of the organization able to bring forward their organization.



CHAPTER V

CLOSING

This chapter provides conclusion from finding and discussion presented on the previous chapter, followed by assessment of the potential limitation is study, implication and possible future directions for the research.

5.1 Conclusion of the Research

The purpose of this research is to find out the relationship between transformational leadership and organizational innovation with organizational culture as the mediator in handicraft industries in West Sumatra. This research also finds out whether variable have significant relationship and positive effect or not. This research is using primary data collected by spreading 180 questionnaires to the owners of the handicraft industries. There were four hypotheses developed in this research to test whether each variable will affect the organizations. Therefore, the result of the analyses are:

1. Transformational leadership has positive relationship with organizational culture. The higher level of transformational leadership indicates the higher level of organizational culture in handicraft industries.
2. Organizational culture has positive relationship with organizational innovation. The higher level of organizational culture indicates the higher level of organization innovation in handicraft industries.
3. Transformational leadership has positive relationship with organizational innovation. The higher level of transformational

leadership indicates the higher level of organizational innovation in handicraft industries.

4. Organizational culture mediates the relationship between transformational leadership and organizational innovation. Which lead to higher change to increase transformational leadership and organizational innovation in handicraft industries by combining those three variables in day to day organization.

5.2 Implication of the Research

Based on the phenomenon faced by the handicraft sectors. The researcher came out with several implications for researcher, practitioners and the owner of the organizations.

1. For researcher, this research is for improving the understanding about transformational leadership, organizational culture and organizational innovation. The correlation between each variable other towards SMEs especially in Handicraft sectors.
2. For practitioners, this research could be used as a source of information in order to understand the relationship between those variables and how it can link to the object of the research.
3. Owners of handicraft industry could use it as basic information in order to enhance the organization competitiveness and performance to compete with other competitors. By combining all the the variables and applying it into the real day to day organization. The owner will be able to get the benefit, such as the customer of the organization will be able receive the

best service given by the employees, the employees will also obtain an experience that they will never get in the other organization. Also, the organization will be able to improve the working practices.

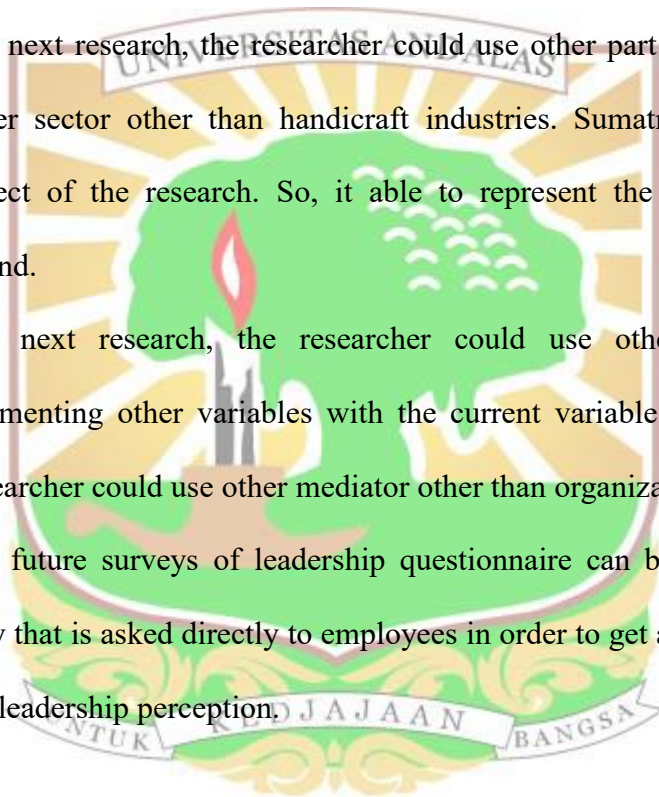
5.3 Limitations of the Research

Researcher found some limitations when conducting this research. Some of the limitations are as follows:

1. This research has limitation of bias responses given by the respondents. Some of the respondents did not want to share their real thought of how the organizations is running. And they might give answers to the questionnaire that is not representing the current situations.
2. This research only uses handicraft sector in West Sumatra as the object of the research. It doesn't represent the whole nation of Indonesia. Other sector could be used on the other research.
3. This research only used three variables to conduct the research. Which are transformational leadership, organizational culture and organizational innovation. Organizational culture as the mediator in this research
4. Questionnaire of leadership style used in the organization should be asked to the employee.

5.4 Recommendation of the Research

1. For next researcher who want to conduct similar research, the number of samples could be multiplied. To avoid biases of the owner of leadership style that they organization used, the researcher has to make sure evertthing is under control, also how to prevent if there is a ny bias answer from the owner of the organization by re-check to the employees.
2. For next research, the researcher could use other part of Sumatra and other sector other than handicraft industries. Sumatra island as the object of the research. So, it able to represent the whole Sumatra island.
3. For next research, the researcher could use other variables or augmenting other variables with the current variable. Also, the next researcher could use other mediator other than organizational culture.
4. For future surveys of leadership questionnaire can be designed in a way that is asked directly to employees in order to get a more objective for leadership perception.



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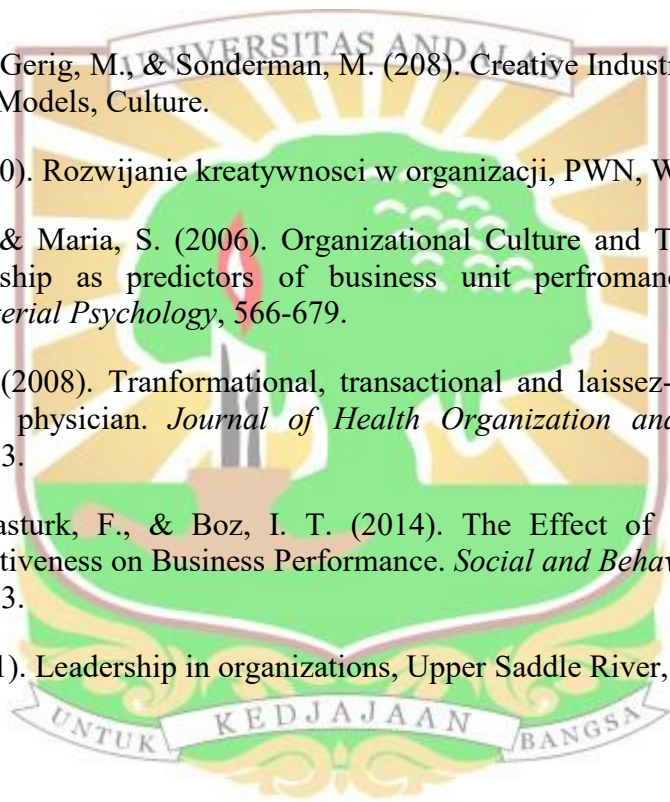
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APPENDIX A RESEARCH QUESTIONNAIRE

Dear,
Madam and Sir

With respect,
Our team of devotion from faculty of economics Andalas university, Padang would like to submitted a request to madam and sir to be respondents in our study entitled: **The development of innovation-oriented model of market orientation, Entrepreneurial Orientation, Leadership, Culture in creative industries in West Sumatra.** this questionnaire is aim to get information about the implementation of innovation in the business. The information obtained will be kept confidential and only used for research purpose only.

for your help and your participation we would like to say thankyou..

PART A. Respondent Characteristics

Hint: choose the answer that you have provided for the following question, mark checklist ()

No	Questions	Answer choices
1.	Name:	
2.	E-mail:	
3.	Telp. Number/HP:	
4.	Organization Address:	
5.	Organization Role:	
6	Domicile (City):	
7.	Gender:	a. Male b. Female
8.	Age:	a. 17 - 20years old b. 20 -30 years old c. 31-40 years old d. 41-50 years old e. More than 50 years old
9.	Occupation:	a. Students b. Civil Servant/ Police c. Enterpreneur d. Farmer/ Fisherman e. Do not work f. Others (Mention)
10.	Last Education:	a. Primary School b. Junior High School c. Senior High School d. Diploma Degree e. Bachelor Degree f. Postgraduate/ Doctorate Degree

11.	Income Per Month:	<ul style="list-style-type: none"> a. Less than Rp. 2.000.000 b. Rp. 2.000.000 – Rp. 4.000.000 c. Rp. 4.000.001 – Rp. 6.000.000 d. Rp. 6.000.001 – Rp. 8.000.000 e. More than Rp. 8.000.000
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BAGIAN B. Karakteristik Usaha

Hint: choose the answer that you have provided for the following question, mark checklist ()

No.	Questions	Answer choices
1.	Organization Name	
2.	Organization Length of Period	<ul style="list-style-type: none"> a. < 5 year b. 6 – 20 year c. ≥ 21 year
3.	Organization Type	<ul style="list-style-type: none"> a. Emboridery b. Weaving c. Silverware d. Wedding Craft e. Pottery f. Learther g. Accessories g. Others (Mention)
4.	Number of Employees	<ul style="list-style-type: none"> a. 10 employees b. 11 – 30 employees c. 31 – 300 employees d. > 300 employees
5.	Income per year	<ul style="list-style-type: none"> a. Rp.300.000.000,00 b. Rp.300.000.000,00 -Rp.2.500.000.000,00 c. Rp.2.500.000.000,00-Rp5.000.000.000,00 d. Rp5.000.000.000,00
6.	Asset	<ul style="list-style-type: none"> a. Rp50.000.000,00 b. Rp50.000.000,00-Rp.500.000.000,00 c. Rp500.000.000,00-Rp.10.000.000.000,00 d. Rp10.000.000.000,00
7.	Do the organization have trade business license ?	<ul style="list-style-type: none"> a. Done b. Not Yet
8.	Do the organization accept contract ?	<ul style="list-style-type: none"> a. Done b. Not Yet
9.	Do the organization export the products?	<ul style="list-style-type: none"> a. Yes b. No
10.	Target Market	<ul style="list-style-type: none"> a. Sumatera b. Jawa c. Kalimantan d. Sulawesi e. Papua f. Overseas (Mention the Country)

		g. Others (Mention the Region)
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BAGIAN C.

The following questions is based on your perception in managing the business.

Hint: respond to the following questions with checklist () with 1 answer that is suitable for you.

No	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	The organization tend to improve working practices					
2.	The organization train employees routinely					
3.	The organization always create new services					
4.	The organization always modified the services					
5.	The organization always develop new ideas					
6.	The organization always encourage initiatives from employees					
7.	My chief encourages the employees					
8.	My chief appreciates the employees					
9.	My chief generates a sense of pride and respect on the employees					
10.	My chief affecting the employee with an outstanding talent					
11.	My chief creates a climate of trust among the employees					
12.	My chief creates a climate of corporation among the employees					
13.	My chief creates a climate of participation among the employees					
14.	My chief treats the employees as individuals, encourages and supports their development					
15.	My chief encourages us to take the problems into consideration from a new point of view					
16.	My chief encourages us to take the problems into consideration from a different point of view					
17.	My chief has a clear vision and imagination about the future					
18.	My chief is conclusive about the values					

No	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	on what she/he said					
19.	My chief is conclusive about applying on what she/he said					
20.	My organization involve their employee while working					
21.	My organization give employees chance to share information					
22.	My organization emphasis on teamwork					
23.	My organization have systematic organizational of jobs					
24.	My organization accept changes in marketing practice					
25.	My organization treats capabilities are treated as a source of competitive values					
26.	My organization has a clear set of value					
27.	My organization have acceptable code of product					
28.	My organization respond to competitor					
29.	Customer decisions are very important					
30.	My organization encourage direct contact with customers					
31.	My organization sees disappointment as a chance for learning and improvement					
32.	My organization encourage invention					
33.	My organization risk taking invention					
34.	My organization has a good mission that gives direction					
35.	My organization has a good mission that gives meaning					
36.	Employees understand of what needs to be completed					

Thank you for the participation
Wassalam.

RESEARCH QUESTIONNAIRE

Kepada Yth,
Bapak/Ibu/Sdr/i
di
tempat

Dengan hormat,
Kami tumpangtindih dari Fakultas Ekonomi Universitas Andalas Padang menyampaikan permohonan kepada Bapak/ Ibu untuk menjadi responden dalam penelitian kami yang berjudul: **Pengembangan Model Implementasi Inovasi Usaha Berbasis *Market Orientation*, *Entrepreneurial Orientation*, *Leadership Culture* Pada Industri Kreatif Di Sumatera Barat.** Pengisian kuisioner ini bertujuan untuk mendapatkan informasi tentang implementasi inovasi dalam usaha Bapak/Ibu. Informasi yang diperoleh akan dijaga kerahasiaannya dan hanya digunakan untuk kepentingan kegiatan penelitian saja.

Atas bantuan dan partisipasi Bapak/ Ibu, kami ucapkan terimakasih.

BAGIAN A. Karakteristik Responden

Petunjuk: Pilihlah satu jawaban yang telah disediakan atas pertanyaan berikut berilah tanda check list () pada pilihan yang telah disediakan.

No	Pertanyaan	Pilihan Jawaban
1.	Nama:	
2.	E-mail:	
3.	No telpon/HP:	
4.	Alamat tempat Usaha:	
5.	Jabatan di perusahaan:	
6.	Domisili (Kota):	
7.	Jenis Kelamin:	c. Pria d. Wanita
8.	Umur:	f. 17 - 20 tahun g. 20 -30 tahun h. 31-40 tahun i. 41-50 tahun j. Lebih dari 50 tahun
9.	Pekerjaan:	h. Siswa/mahasiswa i. PNS/ABRI/Polisi j. Wiraswasta k. Petani/Nelayan l. Tidak/ belum bekerja m. Lainnya (sebutkan)
10.	Pendidikan terakhir:	g. Tamat SD

		<ul style="list-style-type: none"> h. Tamat SMP i. Tamat SMA j. Tamat Akademi (D3) k. Tamat Perguruan Tinggi (S1) l. Tamat Pasca Sarjana (S2/S3)
11.	Pendapatan anda perbulan:	<ul style="list-style-type: none"> f. Kurang dari Rp. 2.000.000 g. Rp. 2.000.000 – Rp. 4.000.000 h. Rp. 4.000.001 – Rp. 6.000.000 i. Rp. 6.000.001 – Rp. 8.000.000 j. Lebih dari Rp. 8.000.000

BAGIAN B. Karakteristik Usaha

Petunjuk: Pilihlah satu jawaban yang telah disediakan atas pertanyaan berikut berilah tanda check list () pada pilihan yang telah disediakan.

No.	Pertanyaan	Pilihan Jawaban
1.	Nama perusahaan	
2.	Lama perusahaan berdiri	<ul style="list-style-type: none"> d. < 5 tahun e. 6 – 20 tahun f. > 21 tahun
3.	Jenis usaha	<ul style="list-style-type: none"> h. Kerajinan Bordir i. Kerajinan Sulaman j. Kerajinan Tenun k. Kerajinan Perak l. Kerajinan Produk pelaminan/baju penganten m. Kerajinan Gerabah n. Kerajinan Kulit o. Kerajinan Aksesoris n. Lainnya (sebutkan)
4.	Jumlah karyawan	<ul style="list-style-type: none"> e. 10 orang f. 11 – 30 orang g. 31 – 300 orang h. > 300 orang
5.	Jumlah omset per tahun	<ul style="list-style-type: none"> e. Rp.300.000.000,00 f. Rp.300.000.000,00 -Rp.2.500.000.000,00 g. Rp.2.500.000.000,00-Rp5.000.000.000,00 h. Rp5.000.000.000,00
6.	Aset yang dimiliki	<ul style="list-style-type: none"> e. Rp50.000.000,00 f. Rp50.000.000,00-Rp.500.000.000,00 g. Rp500.000.000,00-Rp.10.000.000.000,00 h. Rp10.000.000.000,00
7.	Apakah sudah memiliki izin usaha?	<ul style="list-style-type: none"> c. Sudah d. Belum
8.	Apakah menerima pesanan dengan kontrak?	<ul style="list-style-type: none"> c. Ada d. Tidak Ada
9.	Apakah melakukan ekspor?	<ul style="list-style-type: none"> c. Ada d. Tidak Ada

10.	Pasar sasaran	h. Sumatera i. Jawa j. Kalimantan k. Sulawesi l. Papua m. Luar negeri (sebutkan negaranya) <hr/> n. Lainnya (sebutkan daerahnya) <hr/>
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BAGIAN C.

Pertanyaan berikut terkait persepsi anda dalam mengelola usaha. Tidak ada jawaban benar atau salah. Petunjuk: Berilah tanggapan atas pernyataan berikut dengan memberikan tanda () pada salah satu jawaban yang paling sesuai menurut pendapat anda.

No	Pernyataan	Sangat Setuju	Setuju	Kurang Setuju	Tidak Setuju	Sangat Tidak Setuju
1.	Perusahaan kami cenderung melakukan usaha peningkatan pelaksanaan kerja.					
2.	Perusahaan kami melatih karyawan secara rutin.					
3.	Perusahaan kami selalu menciptakan produk baru.					
4.	Perusahaan kami selalu memodifikasi produk baru.					
5.	Perusahaan kami selalu mengembangkan ide baru.					
6.	Perusahaan kami selalu mendukung munculnya inisiatif dari karyawan.					
7.	Sebagai atasan, saya memotivasi dan memberikan penghargaan kepada karyawan					
8.	Sebagai atasan, saya bangga dengan karyawan saya					
9.	Sebagai atasan, saya menghormati karyawan saya					
10.	Sebagai atasan, saya bisa mempengaruhi karyawan dengan bakat yang saya miliki					
11.	Sebagai atasan, saya menciptakan rasa saling percaya antar karyawan					
12.	Sebagai atasan, saya menciptakan suasana saling bekerjasama antar karyawan					
13.	Sebagai atasan, saya menciptakan suasana saling berpartisipasi antar karyawan					
14.	Sebagai atasan. saya mendukung dan mendorong usaha pengembangan pada karyawan					

No	Pernyataan	Sangat Setuju	Setuju	Kurang Setuju	Tidak Setuju	Sangat Tidak Setuju
15.	Sebagai atasan, saya mendorong karyawan untuk menyelesaikan masalah dengan sudut pandang baru					
16.	Sebagai atasan, saya mendorong karyawan untuk menyelesaikan masalah dengan sudut pandang yang berbeda					
17.	Sebagai atasan, saya memiliki visi dan imajinasi yang jelas tentang masa depan.					
18.	Sebagai atasan, saya menentukan nilai-nilai perusahaan					
19.	Sebagai atasan, saya melakukan apa yang saya katakan					
20.	Perusahaan kami melibatkan karyawan dalam bekerja					
21.	Perusahaan kami memberi kesempatan pada karyawan untuk saling berbagi informasi					
22.	Perusahaan kami menekankan kerjasama tim					
23.	Perusahaan kami memiliki organisasi pekerjaan yang rapi					
24.	Perusahaan kami menerima perubahan praktik pemasaran					
25.	Perusahaan kami memperlakukan kemampuan sebagai sumber keunggulan kompetitif					
26.	Perusahaan kami memiliki serangkaian nilai yang jelas					
27.	Perusahaan kami memiliki kode etik yang dapat diterima					
28.	Perusahaan kami mau menghadapi pesaing					
29.	Keputusan pelanggan merupakan hal yang sangat penting bagi perusahaan kami					
30.	Perusahaan kami mendorong kontak langsung dengan pelanggan					
31.	Perusahaan kami memandang kekecewaan sebagai kesempatan untuk belajar dan berbuat lebih baik					
32.	Perusahaan kami mendorong penemuan hal baru					
33.	Perusahaan kami mendukung pengambilan risiko					
34.	Perusahaan kami memiliki misi yang terarah					
35.	Perusahaan kami memiliki misi yang berarti					
36.	Karyawan perusahaan memahami apa yang harus mereka selesaikan					

Terima kasih atas partisipasi bapak/ibu/sdr/i.
Wassalam.

APPENDIX C

Respondent's response to indicators of each variable

A. Respondent Characteristic

GENDER

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	53	29.4	29.4	29.4
Female	127	70.6	70.6	100.0
TOTAL	180	100.0	100.0	

AGE

	Frequency	Percent	Valid Percent	Cumulative Percent
17 – 20 years old	1	.6	.6	.6
20 – 30 years old	25	13.9	13.9	14.4
31 – 40 years old	46	25.6	25.6	40.0
41 – 50 years old	44	24.4	24.4	64.4
> 50 years old	64	35.6	35.6	100.0
TOTAL	180	100.0	100.0	

OCCUPATION

	Frequency	Percent	Valid Percent	Cumulative Percent
Students	3	1.7	1.7	1.7
Civil Servant/Police	11	6.1	6.1	7.8
Entrepreneur	151	83.9	83.9	91.7
Farmers/Fisherman	1	.6	.6	92.2
Others	14	7.8	7.8	100.0
TOTAL	180	100.0	100.0	

EDUCATION

	Frequency	Percent	Valid Percent	Cumulative Percent
Primary School	15	8.3	8.3	8.3
Junior High School	19	10.6	10.6	18.9
Senior High School	95	52.8	52.8	71.7
Diploma Degree	9	5.0	5.0	76.7
Bachelor Degree	40	22.2	22.2	98.9
Master/Doctorate Degree	2	1.1	1.1	100.0
TOTAL	180	100.0	100.0	

INCOME

	Frequency	Percent	Valid Percent	Cumulative Percent
< Rp. 2.000.000	32	17.8	17.8	17.8
Rp. 2.000.000 – Rp. 4.000.000	39	21.7	21.7	39.4
Rp. 4.000.001 – Rp. 6.000.000	27	15.0	15.0	54.4
Rp. 6.000.000 – Rp. 8.000.000	22	12.2	12.2	66.7
> Rp. 8.000.000	60	33.3	33.3	100.0
TOTAL	180	100.0	100.0	

B. Organization Characteristic

LENGTH OF PERIOD

	Frequency	Percent	Valid Percent	Cumulative Percent
< 5 years	45	25.0	25.0	25.0
6 – 20 years	83	46.1	46.1	71.1
> 21 years	52	28.9	28.9	100.0
TOTAL	180	100.0	100.0	

ORGANIZATION TYPE

	Frequency	Percent	Valid Percent	Cumulative Percent
Embroidery	101	54.3	54.3	54.3
Weaving	28	15.1	15.1	69.4
Silverware	2	1.1	1.1	70.4
Wedding Craft	22	11.8	11.8	82.3
Pottery	3	1.6	1.6	83.9
Leather	5	2.7	2.7	86.6
Accessories	6	3.2	3.2	89.8
Others	19	10.2	10.2	100.0
TOTAL	180	100.0	100.0	

NUMBER OF EMPLOYEE

	Frequency	Percent	Valid Percent	Cumulative Percent
< 10 employees	116	64.4	64.4	64.4
11 – 30 employees	42	23.3	23.2	87.8
31 – 30 employees	18	10.0	10.0	97.8
> 300 employees	4	2.2	2.2	100.0
TOTAL	180	100.0	100.0	

INCOME

	Frequency	Percent	Valid Percent	Cumulative Percent
< Rp. 300.000.000	137	76.1	76.1	76.1
Rp. 300.000.000 – Rp. 2.500.000.000	39	21.7	21.7	97.8
Rp. 2.500.000.000 – Rp. 5.000.000.000	2	1.1	1.1	98.9
> Rp. 5.000.000.000	2	1.1	1.1	100.0
TOTAL	180	100.0	100.0	

ASSET

	Frequency	Percent	Valid Percent	Cumulative Percent
< Rp. 50.000.00	76	42.2	42.2	42.2
Rp. 50.000.000 – Rp. 500.000.000	84	46.7	46.7	88.9
Rp. 500.000.000 – Rp.10.000.000	17	9.4	9.4	98.3
> Rp. 10.000.000.000	3	1.7	1.7	100.0
TOTAL	180	100.0	100.0	

EXPORTING ACTIVITIES

	Frequency	Percent	Valid Percent	Cumulative Percent
YES	64	35.6	35.6	35.6
NO	116	64.4	64.4	100.0
TOTAL	180	100.0	100.0	

TARGETMARKET

	Frequency	Percent	Valid Percent	Cumulative Percent
Sumatra	83	46.1	4.61	46.1
Sumatra, Java	12	6.7	6.7	52.8
Sumatra, Java, Kalimantan	7	3.9	3.9	56.7
Sumatra, Java, Kalimantan, Sulawesi	3	1.7	1.7	58.3
Sumatra, Java, Kalimantan, Sulawesi, Papua	1	.6	.6	58.9
Sumatra, Java, Kalimantan, Sulawesi, Papua, Overseas	8	4.4	4.4	63.3
Sumatra, Java, Kalimantan, Sulawesi, Overseas, Others	1	.6	.6	63.9
Sumatra, Java, Kalimantan, Sulawesi, Overseas	9	5.0	5.0	68.9
Sumatra, Java, Kalimantan,	1	.6	.6	69.4

Sulawesi, Others				
Sumatra, Java, Kalimantan, Overseas	5	2.8	2.8	72.2
Sumatra, Java, Kalimantan, Overseas, Others	1	.6	.6	72.8
Sumatra, Java, Sulawesi, Overseas	1	.6	.6	73.3
Sumatra, Java, Overseas	18	10.0	10.0	83.3
Sumatra, Java, Others	1	.6	.6	83.9
Sumatra, Kalimantan	1	.6	.6	84.4
Sumatra, Overseas	12	6.7	6.7	91.1
Sumatra, Overseas, Others	1	.6	.6	91.7
Sumatra, Others	2	1.1	1.1	92.8
Java	2	1.1	1.1	93.9
Overseas	7	3.9	3.9	97.8
Others	4	2.2	2.2	100.0
TOTAL	180	100.0	100.0	

C. Respondent's response to indicators of each variable

ORG_INOV1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	.6	.6	.6
	2	4	2.2	2.2	2.8
	3	10	5.6	5.6	8.3
	4	146	81.1	81.1	89.4
	5	19	10.6	10.6	100.0
	Total	180	100.0	100.0	

ORG_INOV2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	11	6.1	6.1	6.1
	2	13	7.2	7.2	13.3

3	37	20.6	20.6	33.9
4	100	55.6	55.6	89.4
5	19	10.6	10.6	100.0
Total	180	100.0	100.0	

ORG_INOV3

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 2	11	6.1	6.1	6.1
3	33	18.3	18.3	24.4
4	108	60.0	60.0	84.4
5	28	15.6	15.6	100.0
Total	180	100.0	100.0	

ORG_INOV4

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 2	8	4.4	4.4	4.4
3	27	15.0	15.0	19.4
4	116	64.4	64.4	83.9
5	29	16.1	16.1	100.0
Total	180	100.0	100.0	

ORG_INOV5

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 2	7	3.9	3.9	3.9
3	23	12.8	12.8	16.7
4	121	67.2	67.2	83.9
5	29	16.1	16.1	100.0
Total	180	100.0	100.0	

ORG_INOV6

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.1	1.1	1.1
	2	11	6.1	6.1	7.2
	3	16	8.9	8.9	16.1
	4	120	66.7	66.7	82.8
	5	31	17.2	17.2	100.0
	Total	180	100.0	100.0	

TRANSF1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	5	2.8	2.8	2.8
	2	4	2.2	2.2	5.0
	3	15	8.3	8.3	13.3
	4	106	58.9	58.9	72.2
	5	50	27.8	27.8	100.0
	Total	180	100.0	100.0	

TRANSF2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.2	2.2	2.2
	2	1	.6	.6	2.8
	3	13	7.2	7.2	10.0
	4	102	56.7	56.7	66.7
	5	60	33.3	33.3	100.0
	Total	180	100.0	100.0	

TRANSF3

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.2	2.2	2.2
	3	8	4.4	4.4	6.7
	4	101	56.1	56.1	62.8
	5	67	37.2	37.2	100.0
	Total	180	100.0	100.0	

TRANSF4

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.2	2.2	2.2
	2	2	1.1	1.1	3.3
	3	13	7.2	7.2	10.6
	4	116	64.4	64.4	75.0
	5	45	25.0	25.0	100.0
	Total	180	100.0	100.0	

TRANSF5

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.2	2.2	2.2
	2	2	1.1	1.1	3.3
	3	8	4.4	4.4	7.8
	4	116	64.4	64.4	72.2
	5	50	27.8	27.8	100.0
	Total	180	100.0	100.0	

TRANSF6

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	4	2.2	2.2	2.2
2	1	.6	.6	2.8
3	7	3.9	3.9	6.7
4	118	65.6	65.6	72.2
5	50	27.8	27.8	100.0
Total	180	100.0	100.0	

TRANSF7

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	4	2.2	2.2	2.2
3	12	6.7	6.7	8.9
4	114	63.3	63.3	72.2
5	50	27.8	27.8	100.0
Total	180	100.0	100.0	

TRANSF8

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	4	2.2	2.2	2.2
3	11	6.1	6.1	8.3
4	119	66.1	66.1	74.4
5	46	25.6	25.6	100.0
Total	180	100.0	100.0	

TRANSF9

	Frequency	Percent	Valid Percent	Cumulative Percent

Valid	1	4	2.2	2.2	2.2
	2	1	.6	.6	2.8
	3	22	12.2	12.2	15.0
	4	117	65.0	65.0	80.0
	5	36	20.0	20.0	100.0
	Total	180	100.0	100.0	

TRANSF10

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	2.2	2.2	2.2
	2	2	1.1	1.1	3.3
	3	32	17.8	17.8	21.1
	4	114	63.3	63.3	84.4
	5	28	15.6	15.6	100.0
	Total	180	100.0	100.0	

TRANSF11

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	.6	.6	.6
	3	7	3.9	3.9	4.4
	4	134	74.4	74.4	78.9
	5	38	21.1	21.1	100.0
	Total	180	100.0	100.0	

TRANSF12

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	.6	.6	.6

2	1	.6	.6	1.1
3	5	2.8	2.8	3.9
4	136	75.6	75.6	79.4
5	37	20.6	20.6	100.0
Total	180	100.0	100.0	

TRANSF13

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	.6	.6	.6
	3	9	5.0	5.0	5.6
	4	132	73.3	73.3	78.9
	5	38	21.1	21.1	100.0
Total		180	100.0	100.0	

CULT1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	1.7	1.7	1.7
	3	8	4.4	4.4	6.1
	4	114	63.3	63.3	69.4
	5	55	30.6	30.6	100.0
Total		180	100.0	100.0	

CULT2

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.1	1.1	1.1
	2	2	1.1	1.1	2.2
	3	10	5.6	5.6	7.8

4	127	70.6	70.6	78.3
5	39	21.7	21.7	100.0
Total	180	100.0	100.0	

CULT3

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	2	1.1	1.1	1.1
2	6	3.3	3.3	4.4
3	19	10.6	10.6	15.0
4	115	63.9	63.9	78.9
5	38	21.1	21.1	100.0
Total	180	100.0	100.0	

CULT4

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	2	1.1	1.1	1.1
2	11	6.1	6.1	7.2
3	30	16.7	16.7	23.9
4	114	63.3	63.3	87.2
5	23	12.8	12.8	100.0
Total	180	100.0	100.0	

CULT5

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	6	3.3	3.3	3.3
2	9	5.0	5.0	8.3
3	22	12.2	12.2	20.6

4	125	69.4	69.4	90.0
5	18	10.0	10.0	100.0
Total	180	100.0	100.0	

CULT6

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 2	2	1.1	1.1	1.1
3	13	7.2	7.2	8.3
4	143	79.4	79.4	87.8
5	22	12.2	12.2	100.0
Total	180	100.0	100.0	

CULT7

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 2	4	2.2	2.2	2.2
3	21	11.7	11.7	13.9
4	143	79.4	79.4	93.3
5	12	6.7	6.7	100.0
Total	180	100.0	100.0	

CULT8

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 2	5	2.8	2.8	2.8
3	16	8.9	8.9	11.7
4	140	77.8	77.8	89.4
5	19	10.6	10.6	100.0
Total	180	100.0	100.0	

CULT9

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	3	1.7	1.7	1.7
	3	6	3.3	3.3	5.0
	4	133	73.9	73.9	78.9
	5	38	21.1	21.1	100.0
	Total	180	100.0	100.0	

CULT10

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	4	2.2	2.2	2.2
	4	131	72.8	72.8	75.0
	5	45	25.0	25.0	100.0
	Total	180	100.0	100.0	

CULT11

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	5	2.8	2.8	2.8
	4	124	68.9	68.9	71.7
	5	51	28.3	28.3	100.0
	Total	180	100.0	100.0	

CULT12

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	.6	.6	.6
	3	5	2.8	2.8	3.3

4	129	71.7	71.7	75.0
5	45	25.0	25.0	100.0
Total	180	100.0	100.0	

CULT13

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	3	1.7	1.7	1.7
2	4	2.2	2.2	3.9
3	24	13.3	13.3	17.2
4	120	66.7	66.7	83.9
5	29	16.1	16.1	100.0
Total	180	100.0	100.0	

CULT14

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	9	5.0	5.0	5.0
2	16	8.9	8.9	13.9
3	34	18.9	18.9	32.8
4	101	56.1	56.1	88.9
5	20	11.1	11.1	100.0
Total	180	100.0	100.0	

CULT15

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	2	1.1	1.1	1.1
2	9	5.0	5.0	6.1
3	23	12.8	12.8	18.9

4	134	74.4	74.4	93.3
5	12	6.7	6.7	100.0
Total	180	100.0	100.0	

CULT16

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	1.1	1.1	1.1
	2	6	3.3	3.3	4.4
	3	24	13.3	13.3	17.8
	4	133	73.9	73.9	91.7
	5	15	8.3	8.3	100.0
	Total	180	100.0	100.0	

CULT17

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	.6	.6	.6
	2	2	1.1	1.1	1.7
	3	10	5.6	5.6	7.2
	4	131	72.8	72.8	80.0
	5	36	20.0	20.0	100.0
	Total	180	100.0	100.0	

APPENDIX D
SmartPLS Result

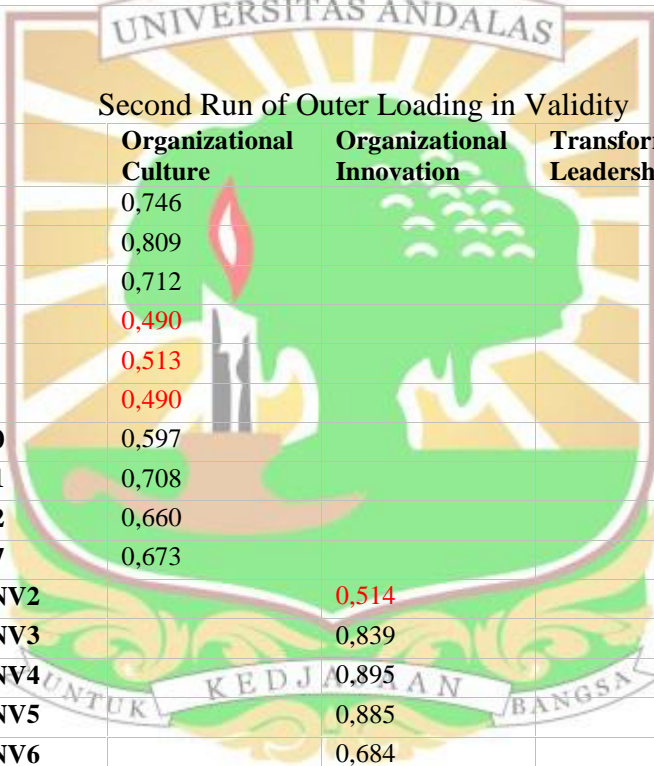
Outer Loading in Validity

	Organizational Culture	Organizational Innovation	Transformational Leadership
CULT1	0,701		
CULT2	0,750		
CULT3	0,670		
CULT4	0,513		
CULT5	0,090		
CULT6	0,536		
CULT7	0,434		
CULT8	0,361		
CULT9	0,529		
CULT10	0,543		
CULT11	0,671		
CULT12	0,645		
CULT13	0,386		
CULT14	0,327		
CULT15	0,331		
CULT16	0,481		
CULT17	0,664		
ORG_INV1		0,423	
ORG_INV2		0,507	
ORG_INV3		0,808	
ORG_INV4		0,868	
ORG_INV5		0,860	
ORG_INV6		0,677	
TRANSF1			0,797
TRANSF2			0,824
TRANSF3			0,890
TRANSF4			0,837
TRANSF5			0,904
TRANSF6			0,896

TRANSF7			0,901
TRANSF8			0,880
TRANSF9			0,834
TRANSF10			0,762
TRANSF11			0,565
TRANSF12			0,571
TRANSF13			0,513

Average Variance Extracted (AVE) First Testing

	Average Variance Extracted (AVE)
Organizational Culture	0,286
Organizational Innovation	0,507
Transformational Leadership	0,631



Second Run of Outer Loading in Validity

	Organizational Culture	Organizational Innovation	Transformational Leadership
CULT1	0,746		
CULT2	0,809		
CULT3	0,712		
CULT4	0,490		
CULT6	0,513		
CULT9	0,490		
CULT10	0,597		
CULT11	0,708		
CULT12	0,660		
CULT17	0,673		
ORG_INV2		0,514	
ORG_INV3		0,839	
ORG_INV4		0,895	
ORG_INV5		0,885	
ORG_INV6		0,684	
TRANSF1			0,797
TRANSF2			0,825
TRANSF3			0,891
TRANSF4			0,837
TRANSF5			0,905
TRANSF6			0,896
TRANSF7			0,902
TRANSF8			0,880
TRANSF9			0,834
TRANSF10			0,762
TRANSF11			0,564

TRANSF12		0,569
TRANSF13		0,511

Second Run of Average Variance Extracted (AVE)

	Average Variance Extracted (AVE)
Organizational Culture	0,421
Organizational Innovation	0,604
Transformational Leadership	0,631

Third Run of Outer Loading in Validity

	Organizational Culture	Organizational Innovation	Transformational Leadership
CULT1	0,778		
CULT2	0,850		
CULT3	0,751		
CULT11	0,679		
CULT12	0,646		
CULT17	0,676		
ORG_INV3		0,838	
ORG_INV4		0,905	
ORG_INV5		0,901	
ORG_INV6		0,686	
TRANSF1			0,800
TRANSF2			0,833
TRANSF3			0,898
TRANSF4			0,843
TRANSF5			0,911
TRANSF6			0,904
TRANSF7			0,903
TRANSF8			0,887
TRANSF9			0,841
TRANSF10			0,767
TRANSF11			0,546
TRANSF12			0,538

Third Run of Average Variance Extracted (AVE)

	Average Variance Extracted (AVE)
Organizational Culture	0,538
Organizational Innovation	0,701
Transformational Leadership	0,665

Cross Loading

	Organizational Culture	Organizational Innovation	Transformational Leadership
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CULT1	0,778	0,358	0,638
CULT2	0,850	0,400	0,630
CULT3	0,751	0,338	0,543
CULT11	0,679	0,287	0,432
CULT12	0,646	0,307	0,346
CULT17	0,676	0,252	0,493
ORG_INV3	0,364	0,838	0,360
ORG_INV4	0,356	0,905	0,343
ORG_INV5	0,352	0,901	0,388
ORG_INV6	0,395	0,686	0,449
TRANSF1	0,625	0,428	0,800
TRANSF2	0,627	0,282	0,833
TRANSF3	0,660	0,354	0,898
TRANSF4	0,564	0,414	0,843
TRANSF5	0,639	0,383	0,911
TRANSF6	0,624	0,383	0,904
TRANSF7	0,639	0,443	0,903
TRANSF8	0,622	0,384	0,887
TRANSF9	0,560	0,379	0,841
TRANSF10	0,438	0,348	0,767
TRANSF11	0,454	0,375	0,546
TRANSF12	0,477	0,404	0,538

Fornell Lacker's Criterion

	Organizational Culture	Organizational Innovation	Transformational Leadership
Organizational Culture	0,733		
Organizational Innovation	0,445	0,837	
Transformational Leadership	0,717	0,470	0,816

Cronbach's Alpha and Composite Reliability

	Cronbach's Alpha	Composite Reliability
Organizational Culture	0,828	0,874
Organizational Innovation	0,853	0,903
Transformational Leadership	0,951	0,959

R-Square

	R Square
Organizational Culture	0,514
Organizational Innovation	0,245

Hypotheses testing (Total Effects) with mediating variable

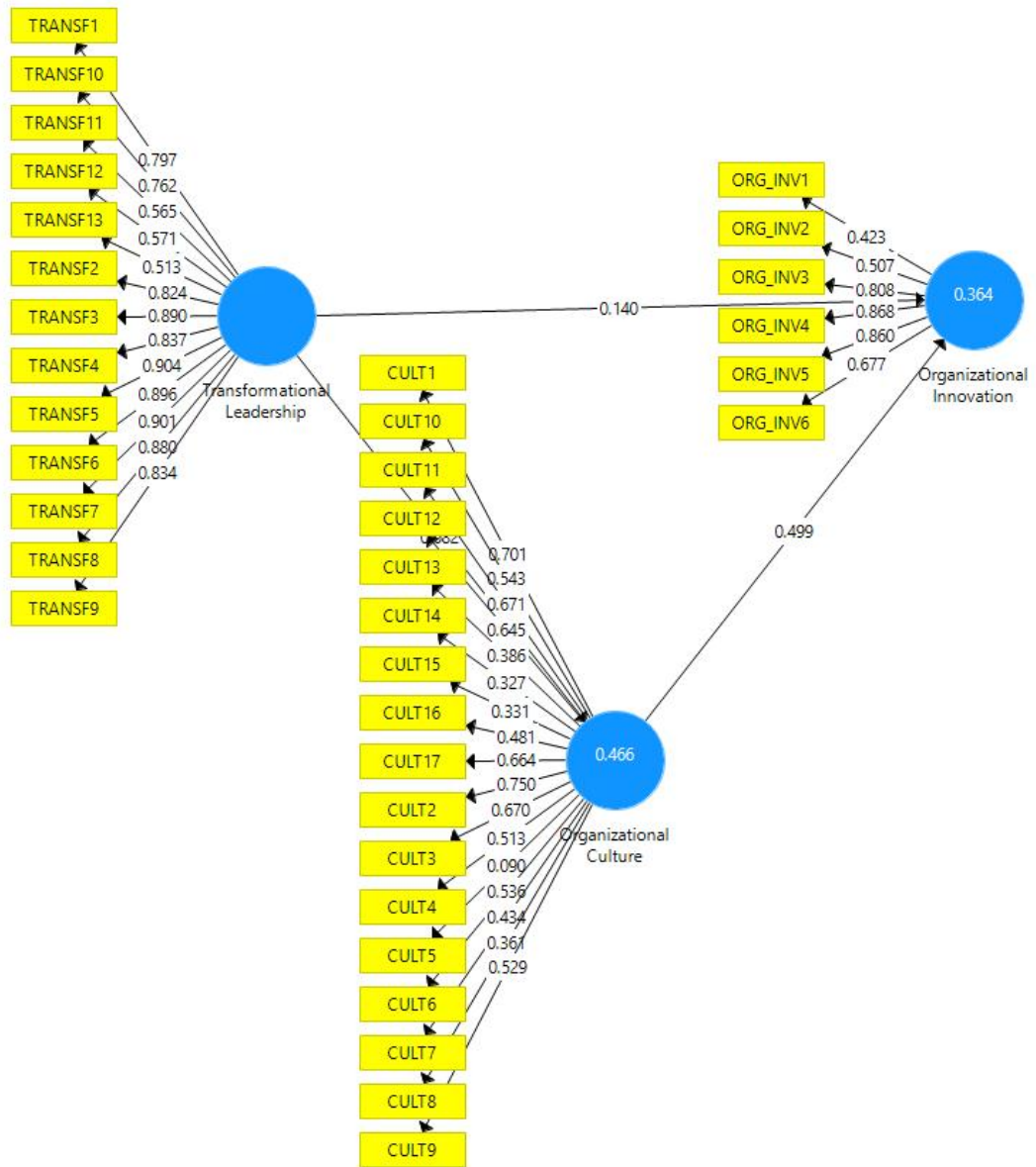
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Transformational Leadership -> Organizational Innovation	0,479	0,492	0,067	7,109	0,000

Hypotheses testing (Total Effects) with mediating variable

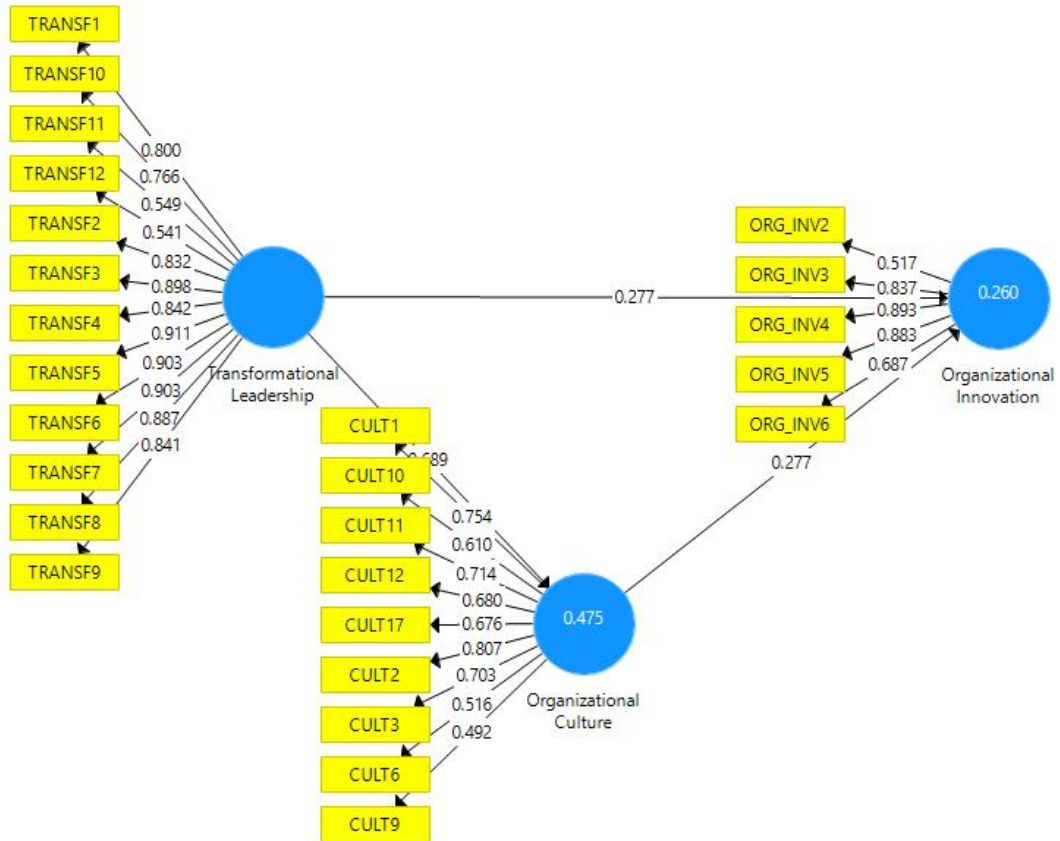
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Organizational Culture -> Organizational Innovation	0,224	0,230	0,107	2,085	0,038
Transformational Leadership -> Organizational Culture	0,717	0,720	0,061	11,716	0,000

Hypotheses Testing

	T Statistics (O/STDEV)	Conclusion
Organizational Culture -> Organizational Innovation	2,085	SUPPORTED
Transformational Leadership -> Organizational Culture	11,716	SUPPORTED
Transformational Leadership -> Organizational Innovation	6,089	SUPPORTED
Transformational Leadership -> Organizational Innovation	7,109	SUPPORTED

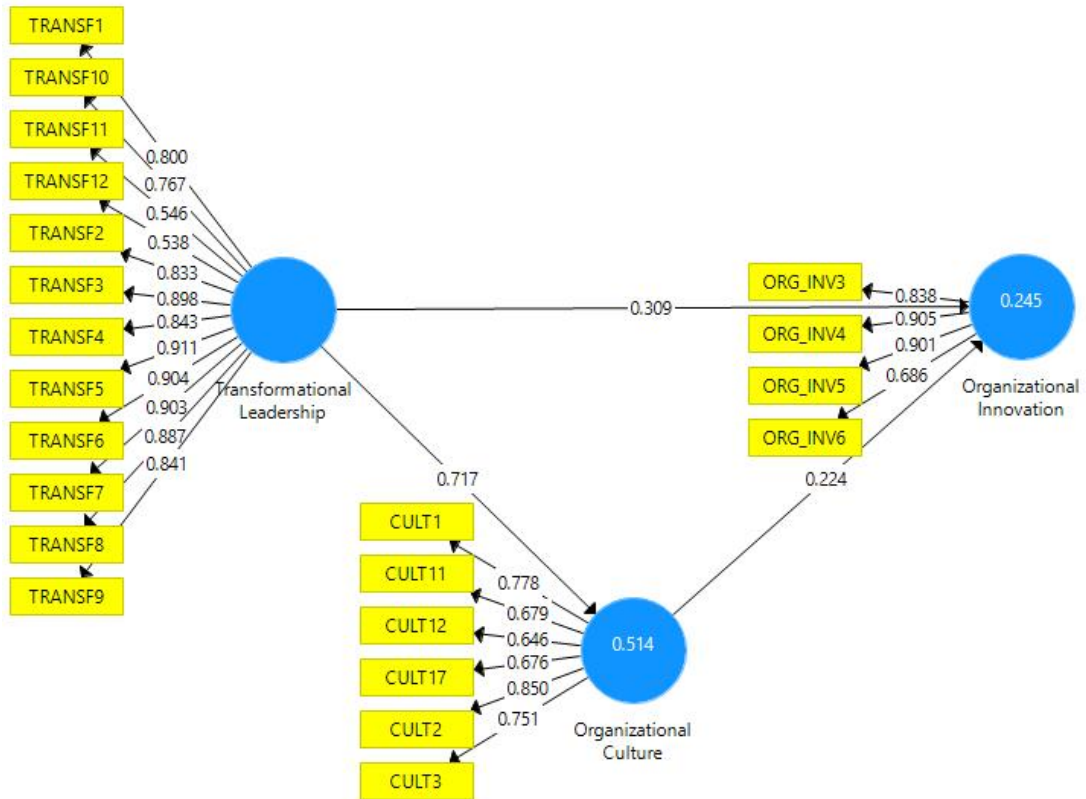


First Outer Loading Model in validity



Second Outer Loading Model in validity





Third Outer Loading Model in validity

