

## CHAPTER I

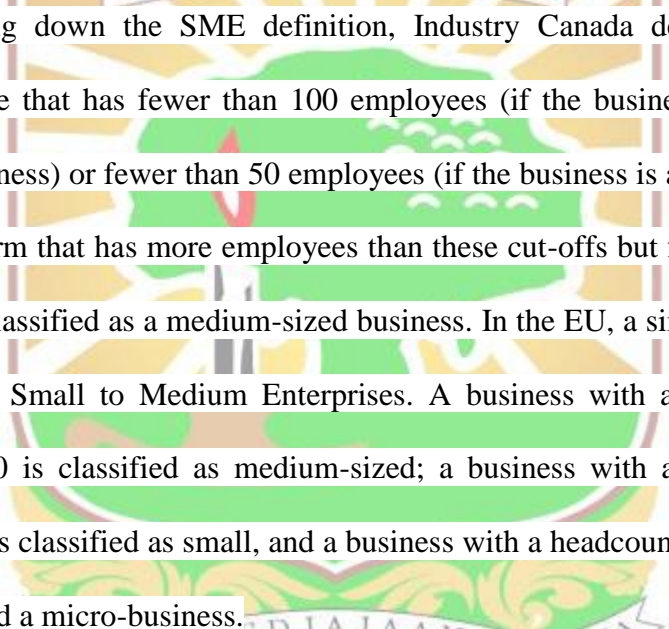
### INTRODUCTION

#### 1.1 Background

Small Medium Enterprises (SMEs) are important avenues for job creation and a powerful source for innovation (Dauda & Akingbade, 2010). The existence of Small Medium Enterprises in a country is definitely inevitable, awareness of citizens who want to innovate and have business despite the constraints in terms of capital, marketing, and management, but in terms of labor-intensive that makes SMEs mushrooming. Principally the definition and criteria of SMEs in foreign countries are based on aspects of the number of labor, income and total assets. but the SMEs criteria in Indonesia is different. This difference is due to one factor of the economic level of a different country, so it can indicate that the business can be said micro, small, medium, or large though. Thus the criteria of each country follow the country's economic standards or with the intention of raising the standard of a business in that country.

Susan (2017) stated that in America, the definition of an SME varies by industry, based on the North American Industry Classification System (NAICS). NAICS is a system developed by the U.S., Canada, and Mexico to standardize and facilitate the collection and analysis of business statistics. To be considered a small business and be eligible to apply for government contracts and targeted funding, a business must be within the defined limits in terms of a number of

employees or revenue. In manufacturing, for example, an SME is defined as having 500 employees or less, whereas in wholesale trades it is typically 100 employees or less. Ranges within sectors can vary quite a bit. For instance, in sector 21, Mining, Quarrying and Oil and Gas Extraction, a business involved in Copper Ore and Nickel Ore Mining can have up to 1,500 employees and still be considered an SME while a business involved in Silver Ore Mining can only have up to 250 employees.



Breaking down the SME definition, Industry Canada defines a small business as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business). A firm that has more employees than these cut-offs but fewer than 500 employees is classified as a medium-sized business. In the EU, a similar system is used to define Small to Medium Enterprises. A business with a headcount of fewer than 250 is classified as medium-sized; a business with a headcount of fewer than 50 is classified as small, and a business with a headcount of fewer than 10 is considered a micro-business.

Kurniawan (2012) explain the definition of SMEs in Indonesia according to Law No. 20 of 2008 is as follows :

1. Micro Business, with criteria has maximum asset 50 million rupiah, with omzet maximum 300 million rupiah.

2. Small Business, with the criteria has assets more than 50 million rupiah up to 500 million rupiah, with a turnover more than 300 million rupiah up to 2.5 billion rupiah.
3. Medium Enterprises, with the criteria of having assets of more than 500 million rupiahs with 10 billion rupiah, with a turnover of more than 2.5 billion rupiah up to 50 billion rupiah.

In developing countries such as Indonesia, SMEs are associated with domestic economic and social problems such as high levels of poverty, unemployment, inequality of income distribution, unequal development processes between urban and rural areas, and urbanization (Sari, 2011). The development of SMEs is expected to contribute positively to overcome the problems mentioned above. According to Ministry of Industry of Indonesia, SMEs contribution to gross domestic product increased from 57.84 percent to 60.34 percent in 2010 – 2015. Labor absorption in this sector also increased, from 96.99 percent to 97.22 percent in the same period. Among SMEs, creative economy industries also recorded a positive contribution to the growth of 5.6 percent. Its contribution to GDP reached 7.1 percent, and absorbed 10.7 percent or about 12 million total workforce.

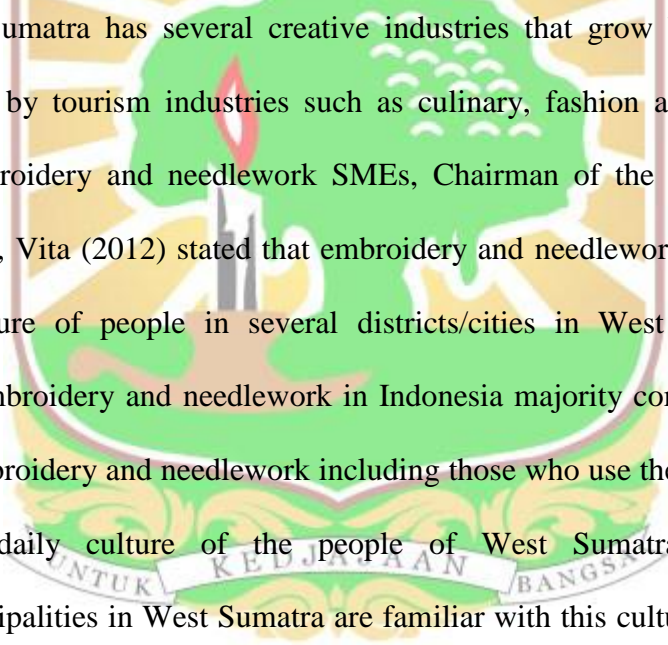
SMEs certainly can not be separated with the existence of creative economy industry. This creative economy industry grew 5.76 percent in 2015 or above the national economic growth average of 5.74 percent, with an added value of Rp 641.8 trillion or seven percent of national GDP. Indonesian government through the Ministry of Tourism and Creative Economy has identified the scope

of creative industries consisting of 15 sub-sectors that is : Advertising, Architecture, The Art of Goods Market, Craft, Design, Fashion, Video Film and Photography, Interactive, Games, Music, Performing Arts, Publishing and Printing, Computer Services and Software, Television & Radio, Research and Development and Culinary. From all subsectors of the creative economy developed, three of them recorded the largest contribution to GDP. Namely, culinary of Rp209 trillion or 32.5 percent, fashion for Rp182 trillion or 28.3 percent, and craft of Rp93 trillion or 14.4 percent (Industry ministries of Indonesia).

The growth of Indonesia creative industry is considered capable of pushing the achievement of economic growth target of about 6.8 percent, the product is not merely the product of the manufacturer but also the product that has more value so that it can make people's purchasing power getting better. In Indonesia, creative industry is developing rapidly, experts and economists argue that the pace of the country is partly contributed by the creative industries that continue to grow and develop at any time. The creative industry itself according to the Ministry of Trade of Indonesia is an industry derived from the utilization of activities, skills and individual talents to create welfare and employment by generating and exploit the creative power and creativity of the individual. Every year, the development of creative industries in Indonesia is always growing, reciprocally in West Sumatera.

In West Sumatera, SMEs also have many contributions to the economy. Steffy (2016) gained increased contributions from SMEs in west Sumatra in three

years (2012 – 2015). SMEs gives 57.94 - 60.34% contribution in GDP. SMEs also affects the level of labor 96.99 - 97.24% (secondary data that has been processed). This shows that SMEs contributed quite significantly to the economy in West Sumatra. SMEs also have a fairly high number, the total of Small and Medium Enterprises in West Sumatra Province is 548,497 unit in 2015. One of the causes of many actors SMEs in West Sumatra is currently the population in productive age more than the number of jobs available. These triggers make people create his own chances by opening a business.



West Sumatra has several creative industries that grow based on local culture driven by tourism industries such as culinary, fashion and handicrafts. Focus on embroidery and needlework SMEs, Chairman of the Daily National Crafts Council, Vita (2012) stated that embroidery and needlework have become the daily culture of people in several districts/cities in West Sumatra. The potential of embroidery and needlework in Indonesia majority comes from West Sumatra. Embroidery and needlework including those who use the machine have become the daily culture of the people of West Sumatra. Almost all districts/municipalities in West Sumatra are familiar with this culture and already can provide income. Embroidery and needlework SMEs in West Sumatra have known and much in demand by local people and outside the region.

Referring to data that obtained from pre-survey interviews with embroidery and needlework SMEs actors in West Sumatra, obtained information that some embroidery and needlework business owners ignore learning orientation to the workers. It means business owners are concerned only with the occupied



slots of workers in their business. whereas learning orientation can affect organizational innovation and organizational performance in their own business. Garrido & Camarero (2010) Explain that SMEs need learning oriented in order to innovate and survive, given the changing environmental conditions and the importance of developing the human resource capacity. Furthermore, Day (1994) Stated that learning orientation is a process that is effective to improve the performance of companies. Several empirical studies have examined the relationship between these three variables. Baker and Sinkula (1999a) conduct a study finding learning orientation have an impact on innovation and performance. The knowledge of entrepreneurs in the field of embroidery and needlework SMEs on learning orientation is still very minimal. This is because entrepreneurs have not considered the importance of learning orientation although this can affect organizational innovation and organizational performance in their business.

Researcher also interested in how the influence of leadership style towards organizational innovation and organizational performance in embroidery and needlework SMEs in West Sumatera. Pertaining to leadership style, one of the theories that emphasize the most comprehensive change in leadership is the theory of transactional and transformational leadership (Bass and Avolio, 1993). The initial idea of transactional and transformational leadership style was developed by James MacGregor Burns who applied it in the political context. Further, the idea was complemented and introduced in the organizational context by Bernard Bass (Bass and Avolio, 1993). In embroidery and needlework SMEs in West Sumatera, researchers more focus on transformational leadership. This is due to

the typical on the embroidery and needlework of SMEs in West Sumatera based on the attitude and behavior of reciprocity (interaction) between business owners and employees who support organizational change. The role of a leader in the theory of Transformational Leadership is the main one as a catalyst for the changes that will be implemented, meaning that the leader plays a role in improving existing human resources and strive to give a reaction that raises the spirit and high performance for members.

Garcia-Morales *et al.*, (2012) stated that some researchers identified different leadership styles suitable for fostering innovation such as supportive, participative, vision setter, charismatic and collaborative etc. This opinion is inferred from previous researchers such as Bass, Harris, Roberts and Howell. They mention that transformational leadership as an ideal style for encouraging and promoting innovation. In particular transformational leadership has been identified as a refreshingly different approach to supporting employees, one that has the potential to markedly revolutionize organizational performance (Bass, 1985; Harris, 1985; Roberts, 1985; Howell *et al.*, 1990).

This study also investigates the influence of organizational innovation towards organizational performance on embroidery and needlework in West Sumatra. Organizational innovation have raised its place rapidly and these concepts have secured their position within the scope of business strategies, its because competition has become a pressure tool for business all around the world. In a study conducted in Spain, Aragon-Correa *et al.* (2007) have concluded that innovativeness has a positive effect on business performance. The study

conducted in manufacturing firms. In a study conducted in logistics companies in Malaysia, Samad (2012) has also concluded that innovativeness has a positive effect on business performance. And also there are many other studies that show the influence of organizational innovation on organizational performance.

Embroidery and needlework is not only a business but also a symbol of culture and icons from West Sumatera. embroidery and needlework also have products that generally have an important role in the series of activities and also the economic contribution in West Sumatera. Given the importance to advance embroidery and needlework SMEs in West Sumatera and based on the background that has been described above, the authors are interested to conduct research with title **“A framework for SMEs performance in West Sumatera : An Embroidery and Needlework perspectives.**

## **1.2 Problem Statement**

1. How is the influence of learning orientation toward organizational innovation?
2. How is the influence of transformational leadership toward organizational innovation?
3. How is the influence of organizational innovation toward organizational performance?
4. How is the influence of learning orientation toward organizational performance?
5. How is the influence of transformational leadership toward organizational performance?



### 1.3 Objectives of the research

Based on the formulation of the problems above, objectives of the research is as follows :

1. To investigate the influence of learning orientation toward organizational innovation
2. To investigate the influence of transformational leadership to organizational innovation
3. To investigate the influence of organizational innovation to organizational performance
4. To investigate the influence of learning orientation toward organizational performance
5. To investigate the influence of transformational leadership to organizational performance

### 1.4 Contributions of the research

Reciprocally this research is expected to contribute to:

#### 1. Theoretical benefits

For literature and Next study, it is expected to train and develop other references, as well as add some insight and knowledge related to learning orientation, organizational innovation and transformational leadership toward organizational performance. In this research, the concepts used include the

influence of these variables implementation in embroidery and needlework SMEs in West Sumatra.

## 2. Practical Benefits

For embroidery and needlework Small Medium Enterprises in West Sumatra, this research can be used as a source of information and reference for the embroidery and needlework of SMEs in West Sumatra on the influence of learning orientation, transformational leadership and organizational innovation on the organizational performance of their business. It is necessary for the perpetrators of embroidery and needlework SMEs in West Sumatra pay attention to this aspect in order to improve their organizational performance.

### 1.5 Scope of the research

The scope of this research is limited by discussing only learning orientation, transformational leadership and organizational innovation which influenced the organizational performance of embroidery and needlework SMEs, with the data used by the embroidery and needlework owners of SMEs located in West Sumatra. Base from background of research, the focus of this research is on how to To investigate the influence of learning orientation, transformational leadership and organizational innovation towards organizational performance in embroidery and needlework Small Medium Enterprises in West Sumatra.

### 1.6 Research Outlines

In order to make it easier and make moderate the forwarding of content, This research is divided into five chapters:

CHAPTER I Contains about the background to the research, problem statement, objectives of research, the contribution of research, and outline of research.

CHAPTER II This chapter contains the literature, theory, last research related to this research. This chapter also contains the theoretical framework of this research.

CHAPTER III This chapter contains the explanation about research method which are research design, population, and source of the sample, type of data and variable measurement, research variables, operational definition, data analysis, test of instrumental, structural model test, and hypothesis testing.

.CHAPTER IV This chapter contains the explanation about result and consist of the characteristic of respondent, descriptive analysis, structural measurement of the influence of consumer trust towards purchase intentions of electronic retailing.

CHAPTER V This chapter explains about conclusion of research, implication, limitation, and recommendation further research.

