

The Role of Innovation Capability to Promote Business Performance Through Successful Strategy Execution: from Middle Managers' Perspective

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ABSTRACT

The purpose of this study is to examine the role of innovation capability to promote business performance through successful strategy execution, specially from middle managers' perspective in Indonesia by testing a hypothesized model. A quantitative survey was conducted with 500 'middle managers' in Indonesia in 2016, through the questionnaire with simple random sampling and the hypothesis were tested with SEM analysis. The results showed that creative leadership affects the organization's performance, especially for financial performance. Creative leadership has positive and significance impact towards innovation capability and successful strategic execution that leads into positive results on financial performance. However, the interesting result has been discovered when creative leadership and innovation capability does not has direct and significance effect on financial performance. The findings suggest that to give an immediate result to financial performance in a creative industry, creative leadership will lead the innovation capability that will be impactful on successful strategic execution that will give indirect effect on financial performance; while the innovation capability will not have direct impact on financial performance. To conclude a creative leadership and innovation capability will not have direct effect to financial performance, but both variables need successful strategic execution to give effect to financial performance.

Keywords: Middle Managers, Leadership, Innovation Capability

1. INTRODUCTION

The World Bank reported that Indonesia's real GDP growth picked up to 5.2 percent year-on-year in the fourth quarter of 2017 from 5.1 percent in the previous quarter. For 2017, the country's GDP growth rose to 5.1 percent from 5.0 percent in 2016, its highest growth rate in four years. The growth requires additional managers, from supervisors, middle managers, and senior managers. Boston Consulting Groups estimated that the shortage of managers will be bigger in 2020 compared to 2011 by 17%, 56%, and 6% respectively for entry level, middle managers, and senior managers. The shortage of middle managers, among others, will be very high in 2020. In contrast, it is difficult to keep middle managers. Poor leadership is the top list why middle managers are unhappy [1]. In parallel to the economic growth of Indonesia, corporations need to take advantage as well. This research will focus on how a corporate

organically growth through innovation. The role of a leader is central and how a creative leader can boost growth will be interesting.

In leadership theory, leadership styles consist of transformation leadership and transactional leadership styles [2], [3]. Both styles will be able to promote corporate financial performance [4]. Leaders have strong influence on their subordinates' work ethics [5]. Creative leaders promote creative organization and it depends on organization creative climates and organizational creative behavior [6]. Creative organization will be able to develop more innovative and competitive products [7].

Innovation Capability is the ability to continuously develop innovations as a response to a changing environment [8]. Organization must be able to develop the creative competency in order to have sustainable innovation capability. Different types of competitive advantage require different determinants when building innovation capability [9]. Thus, innovation capability varies from firm to firm and is determined by multiple factors [10]. One of those is leadership styles, both transactional and transformational leadership, in which they have positive relationship with innovation capability [10].

2. METHODS

A quantitative research was developed in this paper, the population of this research is all of middle manager in a company that moving in automotive industry, a non - probability sampling method with convenience sampling technique are used in this research, as a result 390 out of 500 respondents was valid and used to conduct this research. This research is using SEM to test the model and hypotheses.

A $p - \text{value} < 0.05$ significance level was used for all statistical tests performed. The proposed model in **Figure 1** and all hypotheses were tested with structural equation modeling (SEM) and using AMOS 20.0 software. Multiple criteria were used in the present study to evaluate the goodness of model fit including the chi-square, the comparative fit index (CFI), the root mean square error of approximation (RMSEA), standardized root means square residual (SRMR) indices and other measurement that will be discussed later on.

3. RESULTS AND DISCUSSION

In this study, the effect of creative leadership variables on financial performance through innovation capability and successful strategy execution variables will be analyzed using Structural Equation Modeling analysis techniques. With reference to the hypotheses and models built in this study, the model specifications constructed in this SEM analysis are as follows:

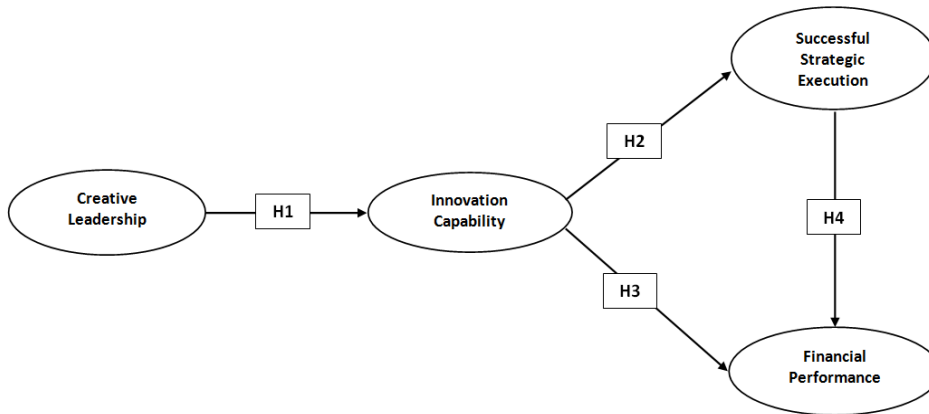


Figure 1. Conceptual Model of Creative Leadership Towards Financial Performance Through Innovation Capability and Successful Strategic Execution

The testing phase in SEM analysis consists of testing the measurement model and the structural model testing phase.

3.1 Measurement Model and Structural Model

In the testing phase of this measurement and structural model, the model to be used in this research as follows:

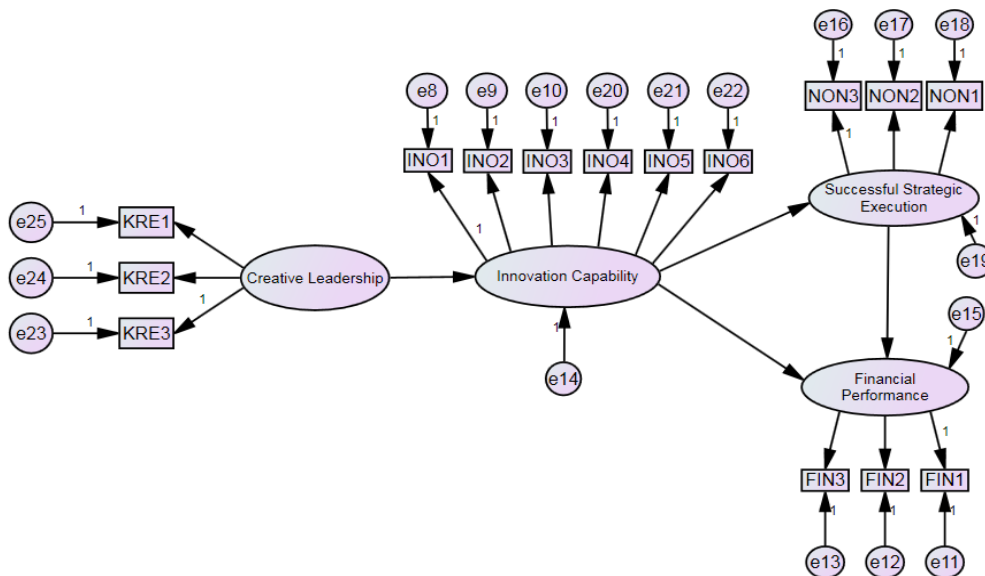


Figure 2. Measurement Model of Creative Leadership Towards Financial Performance Through Innovation Capability and Successful Strategic Execution

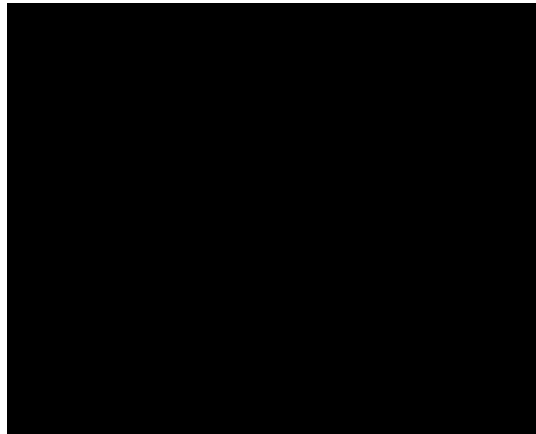
3.1.1 Sample Size

The minimum sample size for SEM analysis with the Maximum Likelihood estimation method is said to be fulfilled if the sample number reaches 200 [11]. The number of samples used in this study is 390 samples which mean the number of samples has met the requirements of sufficient number of samples in SEM analysis.

3.1.2 Construct Validity Test

After filtering the data through validity test there is one of indicator that not valid and deleted (INO 6), the result is on Table 1. Based on table 1 below can be seen the standardized loading factor (SLF) value of all variables > 0.5 indicating that all indicators are valid in measuring the constructs.

Table1.Construct validity test result



3.1.3 Reliability Test

The construct reliability test can be done by looking at the AVE and CR values of each construct. The required AVE value must be > 0.5 and the required CR value is > 0.7 . Below are the results of reliability after the measurement:

Table 2.Average Variance Extracted and Construct Reliability Test Result

Based on the above table, it can be seen that the entire AVE value of the construct exceeds 0.5 indicating that there is a good convergent between indicators in each construct. The above test results also show that the entire CR value of the construct is > 0.70 indicating that the entire construct has good reliability.

3.1.4 Goodness of Fit Test

The model fit tests in this research are using CMIN/DF, NFI, CFI, IFI, RFI, GFI, AGFI, RMR and RMSEA. After the measurement here are the results of testing model:

3.2 Hypotheses Testing

As mentioned earlier that a p – value < 0.05 significance level was used for all statistical tests performed. Then hypothesis is accepted if p value < 0,05 or C.R. > 1.96 and hypothesis is rejected if p value > 0,05 and C.R. < 1.96. The results of hypotheses testing on this research are revealed below (Table 4):

Table 4.Hypotheses Test Result

Hypotheses	Variables	Effect	Estimate	S.E.	C.R.	p - value
H1	Creative Leadership to Innovation Capability	Direct	0.263	0.046	5.727	***
H2	Innovation Capability to Successful Strategy Execution	Direct	0.238	0.074	3.236	0.001
H3	Innovation Capability to Financial Performance	Direct	-0.100	0.072	-1.390	0.164
H4	Successful Strategy Execution to Financial Performance	Direct	0.424	0.070	6.060	***

Based on table 4 it reveals the value of C.R. on Hypothesis 1 on the table above is equal to 5,727, the p value equal to 0.000. The results of these two values provide information that the effects of the creative leadership towards innovation capability meet the requirements above 1.96 for C.R and below 0.05 for the p value. Thus it can be said that Hypothesis 1 in this study is acceptable. The estimated for this hypothesis is 0,263, meaning that with an increase in creative leadership of 1.00 it will increase the innovation capability by 0,263.

The same result reflected on **Hypothesis 2**, where the C.R value is 3,236 which is also meet the requirements above 1.96 for C.R and the p value is 0.001 which is below 0.05, thus it can be said that **Hypothesis 2** in this study also acceptable

On the **Hypothesis 3** the statement predicted the positive effects of innovation capability on financial performance. The results showed that it was not supported for **Hypothesis 3**. Innovation capability had no significance on financial performance, with the value of C.R. - 1.390, and *p value* > 0.05 which is 0,164.

On the contrary, **Hypothesis 4** was supported and there is a positive effect of successful strategic execution on financial performance, with the value of C.R. 6,060 and p value < 0.05 which is 0.000

3.2.1 Test of Mediation Effect

The result of analysis shows that innovation capability significantly influence successful strategy execution and successful strategy execution influence to financial performance, this indicates the role of successful strategy execution in effect of mediation influence of innovation capability to financial performance. To test the significance of the role of innovation capability in mediating the influence of successful strategy execution to financial performance, sobel test was conducted. This test is based on the coefficient value of SEM result of the following analysis. Additional Hypothesis was formulated to find the indirect effect of certain variable, the test will testing three variables which are innovation capability, successful strategic execution and financial performance. The hypothesis is:

H5: There is a significant and positive influence of innovation capability towards financial performance through successful strategic execution

The direct influence given by the innovation capability to successful strategy execution is 19.9%, while the effect of successful strategy execution variables on financial performance has a direct influence of 40.3%. From the results of the analysis, the coefficient value of the influence of innovation capability on successful strategy execution is 0.199 and the coefficient of the pathway effect of the successful strategy execution variable to financial performance is 0.403, so the results obtained calculation of significance Sobel test as follows:

Input:		Test statistic:	Std. Error:	p-value:
a	0.199	Sobel test: 2.43648864	0.03291499	0.01483064
b	0.403	Aroian test: 2.40686561	0.0333201	0.01609009
s _a	0.074	Goodman test: 2.46723309	0.03250483	0.01361617
s _b	0.070	Reset all	Calculate	

Figure 4. Sobel Test Result

Sobel test result in the picture above shows that the value of p value of Sobel test result is 0,015 and t test value of Sobel test is 2,436, because significant value <0,05 and t count> 1,96 hence can be concluded that successful strategic execution had a role in mediating the innovation capability variable and financial performance. Based on the indirect results in AMOS in this research it obtained that indirect effect between innovation capability variable to financial performance after existence of variable of successful strategy execution equal to 8%.

4. CONCLUSIONS

The study conclude that from four from five hypotheses are proven, start from the creative leadership towards innovation capability, innovation capability towards successful strategic execution, successful strategic execution towards financial performance and the study found out that innovation capability have indirect effect on financial performance through successful strategic execution all of hypotheses have significant and positive impact. As summarized on Table 5, below:

Table 5. Complete Hypotheses Test Result

Hypotheses	Variables	Effect	Estimate	S.E.	C.R.	p - value
H1	Creative Leadership to Innovation Capability	Direct	0.263	0.046	5.727	***
H2	Innovation Capability to Successful Strategy Execution	Direct	0.238	0.074	3.236	0.001
H3	Innovation Capability to Financial Performance	Direct	-0.100	0.072	-1.390	0.164
H4	Successful Strategy Execution to Financial Performance	Direct	0.424	0.070	6.060	***
H5	Innovation Capability to Financial Performance	Indirect, through Successful Strategic Execution		0.033	2.436	0.015

This research found out that creative leadership in a company will lead into improvement in Innovation capability and the innovation capability will give significance effect towards financial performance, a company with creative leader will improve the innovation capability of a company and leads into financial performance later on.

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