



## Defining the Role of Emotional Intelligence (EI) and Leadership on Its Affect towards SMEs Entrepreneurial Orientation (The Study of SMEs at PLUT K-UMKM Batu)

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### **Abstract**

The organizational culture more or less affected on company (SMEs) performance. Decent organizational culture would create a good and conducive work environment, which also autonomously boost the company's growth and performance. Furthermore, conducive work environment also related with some aspects especially leader figure. The leadership capability and leader's emotional intelligence would be a key on how employee's behavior towards company's growth through their entrepreneurial orientation. SMEs as economic pillar in Indonesia should have high entrepreneurial orientation. For instance in East Java, SMEs take a big part of Batu City's gross income up to 48% beside of their tourism sector. This condition should be enhanced by increasing SMEs' entrepreneurial orientation through internal management. This research are focused on how emotional intelligence and leadership capability could affects the entrepreneurial orientation of SMEs in Batu City. By using explanatory quantitative research and case study methods in PLUT K-UMKM Batu City, this study expected to give an insight of emotional intelligence and leadership capability role on entrepreneurial orientation.

**Keywords:** *Emotional Intelligence; Leadership; Entrepreneurial Orientation; SME; Corporate Entrepreneurship*

### **1. Introduction**

The growth of SMEs in Indonesia recently has been obstructed by COVID 19 pandemic. Based on Central Bureau of Statistic data, total 69,92% SMEs are affected and suffered financial loss. This condition continually become the agenda of National Economic Recovery Program (PEN) by Indonesia's Ministry of Finance, has offered several catalytic programs which could increase SMEs growth in Indonesia such as; interest subvention, tax incentive and working capital loan (Kemenkeu, 2021). In Batu City, Kredit Usaha Rakyat (KUR) or people's business credit has been applied in order to help SMEs increase their capital source, with total 6000 SMEs registered on this program (Sulvi Sofiana, 2021). It is expected give positive impacts on SMEs growth and raise its contribution towards Batu City's net income.

Nevertheless, those external catalyst factor won't be effective if the internal management are still lacking. On this condition, psychological aspects take a big role on adapting OPCE (Organizational Preparedness for Corporate Entrepreneurship)'s concept, which lead SMEs to be more innovative and

proactive (Suvonova et al., 2019). Corporate entrepreneurship or entrepreneurial orientation concept are related with managerial activity which related to relationship between leader and subordinates. Regarding to those statement, many researchers claim that leadership take a big role or becoming the key of corporate entrepreneurship successes (Boukamcha, 2019). Beside leadership capability aspect, there's also factor called 'psychological capital' which related to individual positive mind and action while accomplishing task (Suvonova et al., 2019). (Ahmetoglu et al., 2011) also stated that emotional intelligence could be extremely effect on how success individual entrepreneurial orientation, in this case the ability to interact effectively are associated to higher emotional intelligence which also lead individual to attempt innovations and opportunities. Both aspects leadership and emotional intelligence somehow could be very subjective, related to its trait which related to individual interaction.

The digital disruption era has been affected on how SMEs' competition atmosphere, under this raising competition among SMEs many studies have focused on best management practices and corporate entrepreneurship (Meekaewkunchorn et al., 2021). The corporate entrepreneurship or entrepreneurial orientation concept are aligned to corporate performance which conclude the market share, sales volume, and profit growth (Meekaewkunchorn et al., 2021). This is why SMEs should have a good entrepreneurial orientation to enhance their performance through decision making process and activities (Kasim & Altinay, 2016). Regarding to best management practices concept and decision making process in order to enhance SMEs performances, this research is expected to give an insight and examines the relationship between emotional intelligence and leadership capability on entrepreneurial orientation, either both or partial ways.

## 2. Literature Review

### A. Emotional Intelligence (EI)

The emotional intelligence or emotional quotient are capability of each individual to control and express their feelings or emotions, which is used to motivate other or as self-motivation (Nghah et al., 2016). Indeed, the diversity of human interaction are reflecting emotional intelligence's level of individual, which is shown through the action and reaction individual made. Furthermore, social interactions such as doing pitching, handling and leading employees or subordinates, or maintaining good relations with customers are important in (Aly et al., 2021; Nghah et al., 2016).

In correlations with entrepreneurship orientation, the business process of entrepreneurship is also having emotional challenges shown as the figure below:



Figure 1. J-Curve of Emotional Challenges on Entrepreneurship, Source: (Aly et al., 2021)

The up and down of being entrepreneur especially when the position is on the “Death Valley”, entrepreneur are tend to having emotional challenges (Aly et al., 2021). Nevertheless, those emotional challenges could be overcome by having emotional support which are ground by rational perspective and applied with cognitive process (Fernández-Pérez et al., 2019). This condition also aligned to Theory of Planned Behavior (TPB) especially when it comes to individual’s choices of abstain or strive in a business (Fernández-Pérez et al., 2019) On it’s practice, measuring emotional intelligence between SMEs employees are divided into several dimension there are; well-being, self-control, emotionality, sociability, adaptability and self-motivation. Nonetheless, emotional intelligence is still influenced by geographical aspects, people in Western are tend to more individualis and having higher level of independence emotional intelligence aren’t affect their entrepreneurial orientation (Fernández-Pérez et al., 2019). Therefore, a relationship between emotional intelligence and entrepreneurial orientation should be tested partially and simultaneously, the hypothesis of this variable are:

*H1: Emotional Intelligence are partially influence on Entrepreneurial Orientation of SMEs actor at PLUT K-UMKM Kota Batu.*

## **B. Leadership Capability**

On business process, leadership capability related with the process of influencing and convincing people in a company to gain the organizational goals. Leader are expected to lead and bring the company to facing uncertainty on competitive business environment (Aslan et al., 2011; Bruce J. Avolio & Bernard M. Bass, 2001). Furthermore, the way a leader arranges or leading their employees are related with leadership style. The leadership style is divided into three styles there are; transformational, transactional, and passive-avoidant (Boukamcha, 2019; Bruce J. Avolio & Bernard M. Bass, 2001). Beside that there also leadership style that commonly found on organization there are; task oriented, relation oriented and change oriented leader (Demircioglu & Chowdhury, 2021), which in practice also has different way to achieving its goals. This style also could have influenced how strategical a SMEs leader. Strategic leadership are defined as a decision making process that desired and acceptable to implement in organization/company in order to survive in high competitive environment (Aslan et al., 2011). This statement also supported by how a leader could influencing the value of SMEs, workflow efficiency, acquiring and managing resource, changing strategy, and mostly are creating entrepreneurial orientation (Demircioglu & Chowdhury, 2021).

Associated to creating entrepreneurial orientation, a leader should be more innovative and could growth the creativeness of employees. Based on Abdelrahman and Al Zawati (2016), the innovation leadership concept is focused on two tasks there are; 1) innovative approach to bring innovation in a brand new way thinking methods of organization’s challenges and 2) how a leader learns to grow their subordinates creativeness through products or services. Nevertheless, leadership capability also assessed through different dimensions such as; interpersonal, efficiency, well-being, confidence, professionalism and management skills. Hence, how leadership influence partially or simultaneously on entrepreneurial orientation should be tested, the hypothesis of this variable are:

*H2: Leadership capability are partially influence on Entrepreneurial Orientation of SMEs actor at PLUT K-UMKM Kota Batu.*

## **C. Entrepreneurial Orientation (Corporate Entrepreneurship)**

Known as intrapreneurship, the concept of entrepreneurial orientation is not define commonly. Yet, this concept is associated to all the activity or process in entrepreneurship which related to how management undertakes strategy to enhance product’s innovation, risk management/risk taking, and pro-activeness (Boukamcha, 2019). Entrepreneurial orientation also affected by how large the organization or company are, but usually high drive entrepreneurial orientation could grow a small company or SMEs.

On this disruption era, where SMEs would compete in a same market place (e-commerce), entrepreneurial orientation could be strategic surviving strategy through their willingness becoming more innovative, risk-taking and pro-active (Ranto, 2016). Furthermore, those innovative, risk-taking and pro-activeness are explained as follows:

- Innovative: SMEs capability to explore, support and venturing creative idea which implemented on new business idea (Solano Acosta et al., 2018).
- Risk- Taking: SMEs willingness to accept and overcome decision which has probability to fail (Solano Acosta et al., 2018).
- Pro-active: SMEs capability to seeks new business opportunity (expand their production line) and decline their products which already on non productive life cycle (Solano Acosta et al., 2018).

In correlations with those aspects, the ASEAN Economic Community (AEC) begun on 2015 has significantly affect free trade competition. Hence, entrepreneurial orientation would be major strategy for Indonesia's SMEs to entering AEC's market. Nonetheless as stated before, an entrepreneurial orientation also affected by another aspects especially best management practices. In this research, researcher focused on how organizational aspects (leadership capability) and psychological capital (emotional intelligence) are work on entrepreneurial orientation and lead to enhancing SMEs performance. The hypothesis of probability relation between leadership capability and emotional intelligence as follows:

*H3: Emotional Intelligence and Leadership are simultaneously influence Entrepreneurial Orientation of SMEs actor at PLUT K-UMKM Batu City.*

### **3. Research Methods**

#### **A. Research Type**

This research is adopting explanatory quantitative research's approach, which is explained how variables are correspondence on each other (Hening, 2021). Yet, this explanatory research is supported by descriptive explanation about how each variable are influencing each other (Lijan P. Sinambela, 2021).

#### **B. Research Focus**

This research is focused on how partially and simultaneously emotional intelligence and leadership influenced entrepreneurial orientation of SMEs actor at PLUT K-UMKM Batu City.

#### **C. Research Location**

This research is located at PLUT K-UMKM Batu City, Malang, East Java, Indonesia.

#### **D. Data Source**

There are two types data used on this research, as follows:

- Primary data: acquire at first hand by interviews and dispense questionnaires on SMEs actor at PLUT K-UMKM Batu City.
- Secondary data: acquire by seek written information and literature whether online or offline.

## E. Collecting Data Techniques

There are several collecting data techniques on this research, as follows:

- Interviews: researcher asking several questions on some SMEs actor at PLUT K-UMKM Batu City.
- Questionnaires: researcher dispense online questionnaires related via Google Forms to all PLUT K UMKM SMEs actor and other SMEs actor in Malang.
- Documentation: researcher documenting all the literary source such as article, books, and etc.

## F. Research Instruments

In this research, questionnaires are arranged based on past questionnaires arranged by expert of each variables. Each questionnaires are selected and translated to Indonesia Language (Bahasa Indonesia). For leadership capability, researcher used questionnaires from (Bruce J. Avolio & Bernard M. Bass, 2001), for emotional intelligence researcher used questionnaires from (Suleiman Awwad & Kada Ali, 2012), and last for entrepreneurial orientation researcher using several questionnaires from (Knight, 1997; Zahra et al., n.d.), Knight (1997), and (Suleiman Awwad & Kada Ali, 2012).

## G. Data Analysis

The data collected on this research are analyzed by program IBM Statistics called SPSS 25. Before doing linear regression analysis, all the score from questionnaires are tabulated and summed up and tested how it's normality using Test of Normality (Kolmogrov-Smirnoff) with tolerance rate 0,05 and Test of Linearity with tolerance rate 0,05.

## 4. Result and Discussion

Since the questionnaires are adapted from expert and already tested before, researcher aren't doing reliability and validity test. Questionnaires are fullfill by 40 SMEs from PLUT K-UMKM Batu City that are divided into several sector such as; food and beverages, service, handcraft, holticulture, fashion, beauty and products. The respondents mostly already being entrepreneur for 1-2 years with total employees averages 1-5 person. Furthermore, the score is tabulated and summed up each respondents' score from the questionnaires, researcher test its normality by using Test of Normality (Kolmogrov-Smirnoff) to found out the normality distribution of the data, the result is stated below:

	Tests of Normality					
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
X1	.101	50	.200*	.935	50	.009
X2	.138	50	.019	.931	50	.006

**Table 1. Test of Normality Result**

By error tolerance rate 0,05 significant score that are  $\geq 0,05$  are classified to having normal distribution. Based on the table above, we could see that both X1 (emotional intelligence) and X2 (leadership) are having a normal distribution. It is proved by X1's sig. score that are  $0.200 \geq 0,05$  and X2's sig. score  $0.019 \geq 0,05$ .

Next, to understand how each variables both X1 (emotional intelligence) and X2 (leadership) linearity relationship to Y (entrepreneurial orientation) researcher do a linearity test. Based on the table below we could conclude that each XI and X2 has linear relationship to Y, which are proved by their deviation from linearity score that are more than 0,05 ( $\geq 0,05$ ). The result is stated as follows:

Indicator	X1*Y	X2*Y
Deviation from Linearity	0,289	0,634

**Table 2. Test of Linearity Result**

After doing normality and linearity test, all data collected are tested has normal distribution and linear relationship both X1 and X2 to Y. Next, researcher is conduct regression analysis to know how their partial and simultaneous relationship, the result are stated as follows:

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.554	2	7.777	7.900	.001 <sup>b</sup>
	Residual	36.421	37	.984		
	Total	51.975	39			

**Table 3. Regression Analysis**

Based on the table above, we could conclude that for F-Test (simultaneously test) X1 (emotional intelligence) and X2 (leadership) are together or simultaneously have positive influenced on how Y (entrepreneurial orientation) are increased in SMEs. Hence, *H3: Emotional Intelligence and Leadership are simultaneously influence Entrepreneurial Orientation of SMEs actor at PLUT K-UMKM Batu City* are accepted on this research. This statement is proven by sig. Score which are  $0,001 \leq 0,05$ . Next, for understanding how each variables (X1 and X2) partially influenced on Y.

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	31.633	4.335		7.297	.000
	X1	.231	.078	.428	2.965	.005
	X2	.127	.078	.235	1.628	.112

**Table 4. Regression Analysis**

Based on table above we could conclude that X1 has partially influenced on Y and proven by sig.score which is  $0,005 \leq 0,05$ . By this condition *H1: Emotional Intelligence are partially influence on Entrepreneurial Orientation of SMEs actor at PLUT K-UMKM Kota Batu* are accepted. Furthermore, X2 aren't partially influenced on Y this is proven by sig. Score which is  $0,112 \geq 0,05$  and by this condition *H2: Leadership capability are partially influence on Entrepreneurial Orientation of SMEs actor at PLUT K-UMKM Kota Batu* are declined.

According to the Partial Test's result, emotional intelligence has partially influenced on raising entrepreneurial orientation's SMEs actor at PLUT K-UMKM Batu City. This result is similar with research conducted by Suleiman Awwad and Kada Ali, (2012) which found out that managers emotional intelligence are taking a big role on creating entrepreneurial orientation culture. If the managers or SMEs leaders are aware and understand of how their employees emotions and regulate both positive and negative emotions towards rational actions, it is indirectly will lead employees to act entrepreneurially (Suleiman Awwad & Kada Ali, 2012). Emotional intelligence which concluded to psychological capital

are also could increase employee's engagement, in this case the engagement (employees work meaningfully) to perceive their careers would also rise the entrepreneurial orientation (Cuéllar-Molina et al., 2019). Beside that, emotional intelligence also would influenced on how managers/ SMEs leaders making decision which indirectly include motivating employees and enhancing SMEs performance (Cuéllar-Molina et al., 2019).

Beside that, the combination of best practice managements thorough leadership are also important. This is why, the emotional intelligence and leadership capability are simultaneously affected on increasing entrepreneurial orientation of SMEs. High emotional intelligence leader or SMEs actor with good leadership capability will directly make entrepreneurial orientation increased. The combination of innovation leadership and good control of emotions are influencing on the ups and down (J-Curve) of being entrepreneur. The coping mechanism combine with strategical decision making process could make SMEs survive by venturing new business idea and also declining immature product.

## **Conclusion**

### **A. Conclusion**

This research found out that emotional intelligence and leadership are simultaneously increased entrepreneurial orientation on SMEs actor at PLUT K UMKM Batu City. While in partially, only emotional intelligence are influencing entrepreneurial orientation. The up and down of being entrepreneur are mostly drain psychologically energy as stated on J-Curve. Hence, a higher emotional intelligence is necessary in order to survive and overcome all the emotional challenges that would happen. Beside that, innovation leadership concepts which could lead to best practices management are also needed in order to enhancing SMEs performance. Nevertheless, this condition could be different on each city. Both leadership and emotional intelligence are affected by the habits and individual characteristic, in other city it could be leadership who has bigger role on raising entrepreneurial orientation of SMEs actor and vice versa.

### **B. Suggestion**

SMEs actor at PLUT K-UMKM Batu City still needs to improve their production line and marketing strategy. Most of them are still using conventional market strategy, this also could be a "homework" for SMEs' leader or actor to practice their leadership capability while making strategical decision in order to enhance SMEs performance.

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