

## Building Competitive Advantage through Human Capital and the Impact on Business Performance: Analysis at Individual and Organizational Level

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### Info Article

#### History Article:

Submitted 23 August 2022

Revised 17 October 2022

Accepted 31 October 2022

#### Keywords:

Competitive Advantage;

Sustainability Strategy;

SMEs

### Abstract

This research aims to determine sustainable strategies to improve business performance, focusing on creativity, innovative behavior, and psychological empowerment at the individual level, as well as digital leadership, competitive advantage, and business performance at the organizational level. This study employs a quantitative approach, where a questionnaire was distributed to 254 SMEs in West Sumatra, Indonesia, and the analytical technique used is path analysis using PLS-MGA. The results show that innovative behavior has a greater impact on business performance at the individual level, while digital leadership has a greater impact on business performance at the organizational level. Understanding these different impacts can help organizations understand how to apply the right practices to improve their business performance, either by enhancing innovative behavior at the individual level or by improving digital leadership at the organizational level.

## Membangun Keunggulan Kompetitif melalui Modal Manusia dan Dampaknya pada Kinerja Bisnis: Analisis pada Tingkat Individu dan Organisasi

### Abstrak

Penelitian ini bertujuan menentukan strategi berkelanjutan untuk meningkatkan performa bisnis yang dikaji pada kreativitas, perilaku inovatif dan pemberdayaan psikologis pada tingkat individu serta digital leadership, competitive advantage dan business performance pada tingkat organisasi. Penelitian ini menggunakan pendekatan kuantitatif dimana kuesioner disebarkan kepada 254 UKM di Sumatera Barat, Indonesia dan teknik analisis yang digunakan adalah analisis jalur menggunakan PLS-MGA. Hasil penelitian menunjukkan bahwa perilaku inovatif berdampak lebih besar pada performa bisnis di tingkat individu sedangkan digital leadership berdampak lebih besar pada performa bisnis di tingkat organisasi. Memahami perbedaan pengaruh ini dapat membantu organisasi memahami cara menerapkan praktik yang tepat untuk meningkatkan kinerja bisnis mereka, baik melalui peningkatan perilaku inovatif di tingkat individu atau melalui peningkatan digital leadership di tingkat organisasi.

JEL Classification: J24, J54, M54

How to Cite: Yuwanda, T., Fadhlán, A., Daud, I., (2023). Building Competitive Advantage through Human Capital and the Impact on Business Performance: Analysis at Individual and Organizational Level. *Jurnal Dinamika Manajemen*, 14(1), 72-86.

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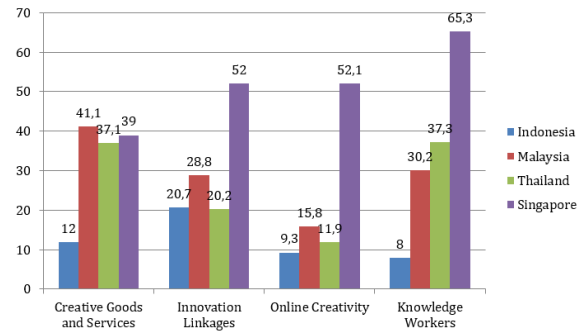
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## INTRODUCTION

In the current dynamic environment, where globalization and complex technologies are growing rapidly, it has impacted the micro, small, and medium enterprises (SMEs) (Horkoff et al., 2019; Uddin et al., 2020). SMEs need sustainable business development strategies to excel over their competitors and survive in the current era (Elidemir et al., 2020; Ferreira et al., 2020). However, in today's era, the development of required strategies is not just about product and service variations that are easily imitated by competitors, but also by improving the dynamic human resource capabilities influenced by the environment (Liu & Gima, 2018). These capabilities are difficult to imitate and compete against. There are several dynamic capabilities that business owners and employees should possess, such as creativity, innovative behavior, and adaptability with technology (Anwar, 2018). It is almost impossible to excel without creative and innovative ideas and optimal utilization of technology (Khan et al., 2018). SMEs classified as the best are those that are creative, innovation-oriented, and able to leverage technology, creating a new market and value-added differentiators from their competitors (Wasono & Furinto, 2018; Munir & Beh, 2019). Many researchers also conclude that dynamic capabilities, such as creativity and innovative behavior, are necessary to achieve competitive advantages and sustain business growth (Lee et al., 2019; Singh & Sarkar, 2019). Thus, being creative, innovative, and leveraging technology is a sustainable strategy for SMEs to improve their competitive advantage.

The 2021 Global Innovation Index report reveals that Indonesia lags behind its neighboring countries in terms of innovation which is described in figure 1 as follow:

In the "Creative Goods and Services" category, Indonesia scored 12 and is far below its neighboring countries, indicating that SMEs with creative products and services are still not widespread, and SMEs in Indonesia prefer to sell the same products as their competitors. In



**Figure 1.** Creativity and Innovation of Indonesia Based on Global Innovation Index

the "Innovation Linkages" category, Indonesia scored 20.7, above Thailand but still below Malaysia and Singapore, indicating that SMEs in Indonesia are not yet optimal in determining innovative strategies to compete. Meanwhile, in the "Online Creativity" category, Indonesia is the lowest of the four countries, indicating that SMEs in Indonesia have not yet utilized websites in their sales processes. Lastly, in the "Knowledge Worker" category, Indonesia lags behind its neighboring countries with a score of only 8, with Singapore scoring far higher at 65.3, indicating that employees in Indonesia are not well-trained and skilled, which is a major factor in SMEs' low performance. On a global scale, Indonesia is ranked 87th, while Malaysia is ranked 36th, Thailand is ranked 43rd, and Singapore is ranked 8th. These rankings indicate that the innovation and creativity of Indonesian SMEs are not yet competitive enough in the current era of globalization. In order to compete, SMEs must recognize that a creative and innovative mindset is a crucial component for employees and the use of technology for business owners in supporting business performance and winning in the market competition (Fink, 2016; Simon et al., 2018).

The use of technology is a novel approach to fast-track business growth and transformation. A leader plays a crucial role in steering the direction of the business through their decisions, which makes them integral in the transformation process. Effective management of transformation can solidify the business's standing in the market, and the utilization of technology by

a leader can positively impact the organization's performance and overall business success (Mihardjo & Rukmana, 2018). In today's rapidly evolving landscape, leaders need to focus on technology or adopt digital leadership to ensure their businesses remain competitive, maximize their achievements (Deluca et al., 2017), and enhance employee performance (Al Ajmi, 2022). Digital leadership promotes business innovation by tapping into core competencies while exploring new frontiers in the industry (Aagaard, 2017; Jackson & Dunn-Jensen, 2021; Benitez et al., 2022)

Several researchers and practitioners have developed various models to build competitive advantage through creativity and innovation, such as Elidemir et al. (2020), Ferreira et al. (2020), and Safari et al. (2020). Prior studies have also examined the role of psychological empowerment, which is believed to precede creativity and innovation, on SMEs, including Afsar and Badir (2016), Gautam (2018), and Singh & Sarkar (2019), as well as Chaithanapat et al., (2022), Munir & Beh (2019), and Sriboonlue & Puangpronpitag (2019). Van Esch et al. (2016) conducted a study on 189 companies in China, where competent and creative employees strengthened business performance. Meanwhile, at the leadership level, Do et al. (2018) revealed that leaders who encourage their employees to be creative will strengthen the relationship between employees and leaders. This relationship will enhance innovation and improve company performance. Cantele & Zardini (2018) delved into SME strategies in Italy and found that skilled employees can improve customer satisfaction, business reputation, and financial performance of the company. In addition, several studies, including those by Colakoglu et al. (2019), Friedman & Carmeli (2017), and Lin & Sanders (2017), have emphasized the importance of creativity and innovative behavior as crucial HR practices, particularly when combined with the use of technology, as highlighted in studies by Deluca et al. (2017) and Uddin et al. (2020). In Indonesia, studies by Mihardjo & Rukmana (2018) and Wasono

& Furinto (2018) have highlighted the need for SMEs to accelerate their digital transformation to support their competitiveness. However, there is currently no research that explores the role of psychological empowerment, creativity, creative behavior, and digital leadership in enhancing the competitive advantage of SMEs and its impact on business performance in a single study. Thus, it is essential to develop innovative business models that focus on the role of digital leadership to enhance the competitive advantage of SMEs as well as efforts to improve business performance in Indonesia.

Previous research has focused mainly on how to enhance employees' creativity and innovative behavior, but this study takes a more comprehensive approach by considering both individual and organizational levels to gain a better understanding of organizational behavior. Costa (Costa et al., 2013) emphasizes the importance of analyzing both levels to obtain a complete picture. At the organizational level, effective leadership, competitive advantage and business performance is crucial for organizational success (Stanescu et al., 2020). At the individual level, psychological empowerment, creativity and innovative employees can come up with new sustainable strategy (Singh & Sarkar, 2019). This study aims to investigate the effect of psychological empowerment (PE), creativity (CR), and innovative work behavior (IWB) on competitive advantage (CA), digital leadership (DL) and its impact to business performance (BP) with multigroup analysis to see the perspective of each level. This new approach will hopefully contribute to the growth of SMEs and provide solutions to develop a sustainable strategy.

### **Hypothesis Development**

#### **Creativity, Innovative Work Behavior, Psychological Empowerment on Competitive Advantage**

Numerous studies have emphasized the importance of analyzing the attitudes and actions of employees to promote effectiveness in achieving goals, with a focus on CR and IWB. CR is more likely to occur when a person's skills match their intrinsic interests, and its occur-

ce increases as skills and creative thinking skills improve (Bednall et al., 2018; Colakoglu et al., 2019). Successful implementation of creative ideas has been identified as a significant contributor to excellence in a dynamic work environment, as defined by Amabile's (1988) CR model. IWB refers to the ability of employees to generate and apply new ideas that are useful to the company, ultimately leading to sustainable business performance (Montani et al., 2017; Newman et al., 2018).

Innovation is a crucial element of organizational success, and it involves creating, developing, and implementing new ideas of commercial value (Colakoglu et al., 2019). By fostering IWB, employees can maintain business superiority and create a competitive advantage, regardless of the company's size (Elidemir et al., 2020) (Chaitanapat et al., 2022). However, it is important to consider how innovation can become a part of an employee's behavior (Singh & Sarkar, 2019). IWB is crucial in turning CR into useful actions or results (Taherparvar et al., 2014). Employee-generated ideas are often more creative than those from business owners, as they receive feedback from interacting with customers and assessing products in the field (Banmairuroy et al., 2021). To ensure SMEs' growth and speed, it is recommended to recruit younger generations as they form an innovative climate in the business environment. Building IWB requires high connectivity between SME owners and employees, starting from stimulating creativity and promoting favorable working conditions, to supporting the innovation process and stages (Friedman & Carmeli, 2017; Colakoglu et al., 2019).

The concept of PE involves measuring the extent to which employees feel empowered to take initiative and evaluate their own work (Gautam, 2018). By studying and understanding employees' psychological makeup, an organization can understand their competencies (Safari et al., 2020). When empowered, employees are more likely to exhibit creative behavior, as they find value in their work. An empowered individual generally feels free to develop new ideas, understands the substance of their work, and

conducts business activities effectively (Afsar & Badir, 2016; Safari et al., 2020; Stanescu et al., 2020). Singh & Sarkar (2019) describe how employee behavior is shaped by the organizational environment, which guides their psychology. PE also gives employees the perception that their work is beneficial to others (Ghosh et al., 2019). According to several sources (Afsar & Badir, 2016; Gautam, 2018; Ghosh et al., 2019; Liu & Huang, 2020), PE is a significant mediator or moderator of creative behavior because empowered employees are more likely to engage in creative activities and are more easily directed toward innovative work behavior (IWB). PE supports an individual's CR and IWB, and is an internal motivation that reflects employee initiative in an organization, using new ideas to develop products, performance, services, and work procedures aimed at improving business excellence (Safari et al., 2020; Stanescu et al., 2020). Moreover, employees in a creative environment feel psychologically safe to take risks and are better prepared to solve problems (Mafabi et al., 2015; Kamp et al., 2018). Empowering employees is an added value for management, which can increase competitive advantage (Gautam, 2018). With PE, employees are always striving to improve their performance and become skilled employees, which can help the organization excel (Safari et al., 2020).

CR and IWB are two dynamic capabilities that enable SMEs to achieve CA. These dynamic capabilities transform creative ideas into products and improve service quality (Elidemir et al., 2020), which are essential for business continuity (Chatzoglou & Chatzoudes, 2017; Stojcic & Orlic, 2018). Although SMEs are small organizations, they must have creative employees who can transform creative ideas into innovations in terms of products and business processes (Lee et al., 2019; Elidemir et al., 2020). Having creative employees is a key success factor for SMEs because all innovation begins with creative ideas, and with creativity, there will be potential innovation. Groselj et al. (2020) explain that a creative environment is involved in shaping IWB. Based on this, this study proposes the following hypothesis:

H1 : Creativity affects psychological empowerment

H2a-b: a. Creativity and b. psychological empowerment affects innovative work behavior

H3a-b : innovative work behavior affects a. competitive advantage and b. business performance

H4. Psychological empowerment mediates creativity against innovative work behavior

H5a-b : Innovative work behavior mediates creativity against a. competitive advantage and b. business performance

### **Moderating Role of Digital Leadership and Its Impact on Business Performance**

The field of leadership needs to be changed to incorporate technology-based leadership before SMEs can improve their innovation processes. DL is a type of leadership that uses technology and technology platforms to enhance business performance (Wasono & Furinto, 2018). DL is closely related to technological knowledge and the mastery of technology platforms, which can help businesses excel. According to Elidemir et al. (2020), a superior business not only has unique resources but also combines, configures, and adapts technology to provide sustainable competitive advantages (Banmairuroy et al., 2021). To become proficient in DL is to master digital competence (Christopoulos & Sprangers, 2021), implement technology vision and strategy (AlAjmi, 2022), strive for organizational ambidexterity (Jackson & Dunn-Jensen, 2021), set high innovation standards, and be responsive to creative ideas (Mihardjo & Rukmana, 2018). DL can transfer technology understanding to employees, who tend to be more creative and engaged in their work if they are technology-savvy (Mihardjo & Rukmana, 2018; Song et al., 2015; Uddin et al., 2020). Leaders who psychologically empower their employees can form creativity easily, and performance empowerment can increase employee trust and social bonds with leadership (Schuckert et al., 2016) (Carmeli et al., 2014; Liu & Huang, 2020). Hence, employees with high confidence levels will readily absorb technology knowledge from their leaders and develop a cre-

ative mindset to innovate. Numerous leadership styles have contributed to the development of IWB, such as transformational leadership (Wang et al., 2014; Bednall et al., 2018; Liu & Huang, 2020), participatory leadership (Newman et al., 2018), and entrepreneurial leadership that inspires and encourages employees to generate innovative ideas and implement them in the workplace (Bagheri & Akbari, 2017).

Business performance is a measurement of a company's success in achieving its business goals (Imran et al., 2018). It is crucial for business leaders to understand and measure their business performance, as they need to make informed and data-driven decisions to ensure their business is running well and continuously growing (Burrus et al., 2018). This also helps them to understand how to achieve their business goals and monitor progress towards those goals (Yamin, 2020). It includes various factors, such as revenue, profit, market share, and operational efficiency. Business performance can be measured qualitatively and quantitatively through indicators such as financial ratios, growth rates, and customer surveys (Tsai & Huang, 2020). This involves understanding and implementing techniques and strategies to improve efficiency, increase productivity, and strengthen the company's competitive position. Technology and innovation also play a crucial role in business performance (Skordoulis et al., 2020). Companies must utilize technology to improve business processes and meet customer needs. Business leaders must have a long-term vision and focus on creating value for customers and stakeholders through innovation and digital transformation (Mohammad & Wasiuzzaman, 2021). Business performance is influenced by various internal and external factors. Internal factors include the quality of human resources, business processes, and technology used. External factors include market conditions, economic conditions, and industry policies. Therefore, companies must understand and monitor these factors to ensure they have an adaptive and continuously evolving business strategy to maintain good performance (Chen et al., 2018).

In the digital age, digital leadership plays a critical role in enhancing business performance (Cortellazzo et al., 2019). To be successful in today's fast-paced and rapidly evolving business environment, companies require leaders who possess the ability to leverage digital technologies and capabilities to drive innovation, enhance efficiency, and increase profitability (Roman et al., 2018). Digital leaders achieve this by developing a clear digital strategy that aligns with business goals, promoting innovation and creativity, introducing new technologies, processes and systems that optimize business processes, leveraging data and analytics to make better decisions, and investing in employee training and development to build a skilled workforce (Bartsch et al., 2020). Through these approaches, digital leadership guides organizations in the digital landscape, allowing them to remain competitive, achieve their strategic objectives, and improve their overall business performance. With technology advancing at an ever-increasing pace, businesses must keep up with the latest developments to remain competitive.

One of the key benefits of digital leadership is the ability to develop a clear digital strategy that aligns with the overall business goals and objectives. This involves understanding the latest digital trends, identifying new opportunities, and selecting the right technology platforms to support business operations (Van Wart et al., 2016). By developing a cohesive digital strategy, organizations can focus their efforts and resources on the areas that are most likely to drive growth and success (Moon et al., 2018). Another benefit of digital leadership is the ability to promote innovation and creativity within teams. Digital leaders can create a culture of experimentation and risk-taking that encourages employees to come up with new ideas and approaches to problem-solving (Darics, 2017). This can lead to the development of new products, services, and business models that can help businesses stay ahead of the competition. Digital leadership can also help organizations transform their

operations by introducing new technologies, processes, and systems that improve efficiency and productivity. By automating routine tasks and streamlining workflows, businesses can reduce costs and improve customer satisfaction (Zeike et al., 2019). By leveraging data and analytics, digital leaders can also help organizations make better decisions. By analyzing data from various sources, digital leaders can gain insights into customer needs, market trends, and internal operations. This can help businesses optimize their processes, identify areas for improvement, and make data-driven decisions that improve business performance (Kromidha & Li, 2019). Finally, digital leadership can help businesses build a highly skilled workforce by investing in employee training and development. By providing employees with the tools and resources they need to stay up-to-date with the latest digital trends, businesses can build a workforce that is capable of driving digital transformation and improving business performance. Based on this, this study proposes the following hypothesis:

- H6a-b : a. Competitive advantage and b. Digital Leadership affects business performance
- H7 : competitive advantage mediates innovative work behavior against business performance
- H8a-b : digital leadership mediates a. innovative work behavior and b. competitive advantage against business performance

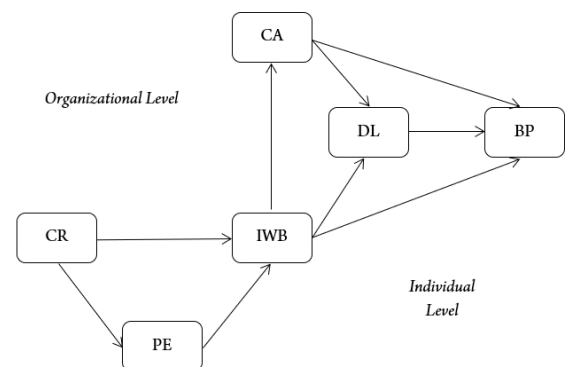


Figure 2. Conceptual Framework

**METHOD**

**Sample and Procedure**

In this research, a quantitative approach was taken to collect data from small and medium enterprises (SMEs) in West Sumatra, Indonesia, using questionnaires. The Central Statistics Agency 2020 recorded a total of 94,392 SMEs in the area, and the researchers used the slovin formula to determine a sample size of 383 SMEs. Out of those, 254 SME owners responded to the questionnaire, resulting in a survey response rate of 66.3%. The researchers used area sampling to select the sample, based on the number of SMEs in each area. The data was analyzed using path analysis with Partial Least Square - Multi-Group Analysis (PLS - MGA), which takes into account the perspectives of both individuals and business owners. The study used various statistical measures such as factor loading, construct reliability, Average Variance Extracted (AVE), Rs-

quare, discriminant validity (Fornell-Larcker Criterion), structural model and Multi-Group Analysis (MGA) to analyze the data (Hair et al., 2014).

**Measurement**

All variables were assessed using the Likert scale with five points. The PE variable was evaluated based on a study conducted by Safari et al. (2020), which included five dimensions. Similarly, CR was measured using a scale developed by Horkoff et al. (2019), consisting of five dimensions. The IWB variable was assessed using a scale developed by Taherparvar et al. (2014), which also consisted of five dimensions. DL was evaluated based on a scale developed by Mihardjo & Rukmana (2018), which comprised five dimensions. CA was assessed using a scale developed by Ferreira et al. (2020), consisting of four dimensions. Finally, BP was measured using a scale developed by Chaithanapat et al. (2022), which consisted of three dimensions.

**Table 1.** Respondents Characteristics

	Frequency	%
<b>Gender</b>		
Male	126	49.6
Female	128	50.4
<b>Age</b>		
< 30 Years	73	28.7
31 – 40 Years	99	39
41 – 50 Years	45	17.8
>50 Years	37	14.5
<b>Education</b>		
High School and Below	164	64.6
Undergraduate	90	35.4
<b>Job Level</b>		
Employee	113	44.5
Owner	141	55.5
<b>Number of Employees</b>		
<2 Person	118	46.5
2 - 5 Person	103	40.5
6 - 10 Person	33	13

**RESULT AND DISCUSSION**

**Characteristics**

Before conducting an analysis, a frequency distribution was performed to determine the characteristics of the research respondents. The results of the distribution can be seen in the following table 1

Based on the above table 1, it can be seen that the research respondents are predominantly young entrepreneurs, with more respondents aged forty and below. In addition, based on education, business owners with a high school education are more dominant, which means they prioritize practical business practices in the field over sitting in classrooms. Furthermore, in terms of occupation, 44.5% of the research respondents are employees and 55.5% are business owners. On the other hand, the respondents are predominantly those who already have some employees, which will help to clarify the results of the analysis with a multi-level perspective.

**Measurement Model**

Table I provides information on the validity and reliability of the research instrument, using various measures such as the Fornell-Larcker Criterion, Average Variance Extracted (AVE), Cronbach Alpha, Composite Reliability, and the coefficient determination value (R2) to assess the contribution of the variables being studied.

Based on the results of discriminant validity using the Fornell-Larcker Criterion, it can be seen that the correlation between different latent variables in the model must be smaller than the AVE value of each respective latent variable. Furthermore, looking at the AVE values in Table 3 below.

It can be seen that the Average Variance Extracted (AVE) value of the construct exceeds the threshold value of 0.5. Furthermore, the composite reliability value of all constructs exceeds the value of 0.6. All reliability values are well above the Cronbach threshold. Therefore, all research constructs meet the requirements (Hair et al., 2014).

**Structural Model and Hypothesis Testing**

In order to test the direct effect, structural equation model was employed, and the bootstrapping method was utilized to estimate the overall, direct, and indirect effects. This involved generating 5000 subsamples using the bootstrapping approach, and the results were presented with a 95% confidence interval corrected for any potential bias.

Direct and indirect effects : The statement implies that there are direct and indirect effects observed in the study. H1 is significantly proven as CR has an impact on PE (\*PV 0.000, \*\*PV 0.000, \*\*\*PV 0.000), which means that an increase in creativity in an employee leads to an increase in their psychological empowerment. H2a-b also shows a significant result where CR and PE have an impact on IWB (\*PV 0.000, \*\*PV 0.000, \*\*\*PV 0.000). In H3a, it is proven that IWB has a positive impact on CA (\*PV 0.000, \*\*PV 0.000, \*\*\*PV 0.000), but in H3b, some differences are observed, especially at the employee and owner level (\*PV 0.126, \*\*PV 0.001, \*\*\*PV 0.788), where employees believe

**Table 2.** Discriminant Validity (Fornell-Larcker Criterion)

Construct	BP	CA	CR	DL	IWB	PE
BP	0.847					
CA	0.389	0.791				
CR	0.356	0.426	0.831			
DL	0.345	0.431	0.432	0.785		
IWB	0.355	0.579	0.623	0.499	0.764	
PE	0.285	0.425	0.487	0.484	0.581	0.829

**Table 3.** Construct Reliability and Validity

Construct	Cronbach Alpha	Composite Reliability	AVE
BP	0.607	0.608	0.718
CA	0.699	0.702	0.626
CR	0.777	0.782	0.691
DL	0.688	0.694	0.617
IWB	0.762	0.763	0.584
PE	0.774	0.788	0.687



Table 4. Hypothesis Testing Result

Path	Model 1*			Model 2**			Model 3***			Bootstrapping Multi-Group Analysis****
	Original Sample	T-Statistics	P-Value	Original Sample	T-Statistics	P-Value	Original Sample	T-Statistics	P-Value	
<b>Direct Effects</b>										
CR -> PE	0.487	8.550	0.000	0.545	5.850	0.000	0.445	7.608	0.000	0.360
CR -> IWB	0.445	8.087	0.000	0.418	5.283	0.000	0.461	6.112	0.000	0.688
PE -> IWB	0.364	5.957	0.000	0.422	4.488	0.000	0.334	4.034	0.000	0.478
IWB -> CA	0.579	9.392	0.000	0.547	4.701	0.000	0.619	10.501	0.000	0.615
IWB -> BP	0.128	1.529	0.126	0.335	3.351	0.001	-0.032	0.268	0.788	0.017
CA -> BP	0.238	2.915	0.004	0.309	3.040	0.002	0.207	1.782	0.075	0.508
DL -> BP	0.178	2.491	0.013	-0.002	0.021	0.983	0.314	3.449	0.001	0.016
<b>Indirect Effects</b>										
CR -> PE -> IWB	0.177	5.115	0.000	0.230	3.611	0.000	0.149	3.590	0.000	0.285
CR -> IWB -> CA	0.258	5.555	0.000	0.229	3.146	0.002	0.285	5.350	0.000	0.528
CR -> IWB -> BP	0.057	1.439	0.150	0.140	2.494	0.013	-0.015	0.265	0.791	0.038
IWB -> CA -> BP	0.138	2.704	0.007	0.169	2.541	0.011	0.128	1.690	0.091	0.683
IWB -> DL -> BP	0.067	2.123	0.034	-0.001	0.020	0.984	0.101	2.358	0.018	0.078
CA -> DL -> BP	0.038	1.860	0.063	0.000	0.019	0.985	0.055	1.564	0.118	0.170
<b>RSquare</b>										
BP		0.199			0.300			0.156		
CA		0.335			0.293			0.379		
DL		0.279			0.373			0.192		
IWB		0.489			0.536			0.453		
PE		0.237			0.291			0.192		

\*Complete Overview

\*\* Group\_Employee Overview

\*\*\* Group\_Owner Overview

\*\*\*\* Bootstrap MGA Approach

that innovative behavior can improve business performance, but owners do not share the same view. H4 is significantly proven as PE can mediate CR on IWB (\*PV 0.000, \*\*PV 0.000, \*\*\*PV 0.000). Further differences are observed in H5a-b, where H5a shows that IWB mediates CR on CA (\*PV 0.000, \*\*PV 0.002, \*\*\*PV 0.000), but in H5b, it is observed that IWB is not yet able to mediate CR on CA except in model 2 (\*PV 0.150, \*\*PV 0.013, \*\*\*PV 0.791).

On the other hand, in hypothesis H6a, it was observed that CA significantly affects BP except in model 3 (\*PV 0.004, \*\*PV 0.002, \*\*\*PV 0.075). In H7, it was also found to be significant except in model 3 (\*PV 0.007, \*\*PV 0.011, \*\*\*PV 0.091) where CA mediates IWB's effect on BP. In the final hypothesis, H8a showed several significant differences where digital leadership significantly mediates between IWB and BP but not in model 2 (\*PV 0.034, \*\*PV 0.984, \*\*\*PV 0.017), while in H8b, digital leadership has not yet mediated CA's effect on BP (\*PV 0.063, \*\*PV 0.985, \*\*\*PV 0.118).

Bootstrapping MGA: Based on Table 4, only two hypotheses are significant, where IWB has an effect on BP (PV 0.017) and DL has an effect on BP (PV 0.016). This means that there is a significant difference in the influence of IWB and DL on BP between the individual and organizational levels. This implies that the impact of IWB and DL on BP may differ depending on the level of analysis used. In this case, it may be found that IWB has a greater impact on BP at the individual level while DL has a greater impact on BP at the organizational level. Understanding these differences in influence can help organizations understand how to apply the right practices to improve their business performance, either through improving IWB at the individual level or through improving DL at the organizational level.

Rsquare: Coefficient of Determination: There are differences in the contribution results at each level, where it can be seen that the contribution of CR to PE is 23.7%, 29.1%\*\* and 19.2%. Meanwhile, the contribution of CR and PE to IWB is 48.9%\*, 53.6% and 45.3%.

The construct of DL shows that CA and IWB explain the DL construct by 27.9%, 37.3% and 19.2%. In the CA construct, it can be seen that IWB contributes to CA by 33.5%, 29.3% and 37.9%. Finally, CA, DL, and IWB contribute 19.9%, 30% and 15.6%\*\*\* to BP.

For more clarity, the bootstrapping results for the complete model can be seen in Figure 3, as follows:

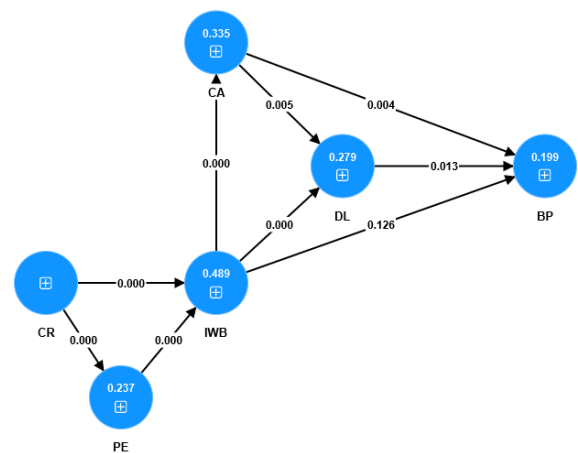


Figure 3. Bootstrapping (Complete Model)

**Discussion**

Several studies have shown that CR has a significant impact on PE, and this study adds to the view that providing employees with the flexibility to develop their creativity will make it easier to empower them - as employees feel that their opinions, ideas, and concepts are accepted by their leaders, which will affect their psychological satisfaction. Other literature explains that PE has a significant impact on IWB (Ghosh et al., 2019; Grošelj et al., 2020), which also contributes to the literature on IWB . In addition to enhancing CR, PE also accelerates the process of employees exhibiting innovative behavior. Innovative behavior is highly beneficial for SMEs, as employees will work innovatively and simplify business activities. This study also contributes to the development of CR literacy, where CR has a significant impact on IWB, supporting several studies (Ferreira et al., 2020; Munir &

Beh, 2019; Newman et al., 2018; Uddin et al., 2020). CR is the foundation for the formation of IWB, by cultivating CR in employees, IWB will be well-formed. IWB has also been proven to enhance competitive advantage (Iqbal et al., 2020; Singh & Sarkar, 2019), as innovative behavior will make employees work more simply with creative methods (Stanescu et al., 2020). On the other hand, IWB has not been proven to significantly affect business performance, where respondents evaluate that there are several other factors that are more important than employee work behavior. Meanwhile, CA has been proven to significantly influence BP, proving that a superior business is a unique business that differs from its competitors (Anwar, 2018). This is reinforced by the significant influence of DL on DL, meaning that leaders with a vision and who utilize technology in their business processes will be able to improve business performance (Do et al., 2018).

In this study, a mediation analysis was conducted to examine the intervention of variables. The results showed that PE mediated the relationship between CR and IWB, which is consistent with other literature (Ghosh et al., 2019; Newman et al., 2018; Schuckert et al., 2016), meaning that creative employees are more likely to exhibit innovative behavior when they have been empowered. Meanwhile, IWB mediated the relationship between CR and CA, which supports the literature (Banmairuroy et al., 2021; Jaiswal & Dhar, 2015; Mafabi et al., 2015; Sriboonlue & Puangpronpitag, 2019; Stojcic & Orlic, 2018) where IWB plays a crucial role in making a business superior, as innovative employee behavior can provide creative services and design more innovative products. However, the intervention effect of IWB has not been proven to improve business performance, which means that only the operational dimension has not been able to improve business performance, there are still marketing and financial dimensions of the business (Colakoglu et al., 2019). But if we look at the mediating effect of CA between IWB

and BP, there is significance, which means that with innovative behavior and interventions to improve company superiority, business performance can be improved. From the perspective of organization/owner level, DL can improve current business performance, as leadership controls the direction of the business, and the improvement of technology skills in leaders has been shown to improve business performance (Tsai & Huang, 2020; Yamin, 2020). The last proof where IWB mediates between DL and BP is significant, meaning that leadership that is visionary in mastering technology and digitalization will set an example for employees to be more innovative. This enriches the literature developed by several other studies (AlAjmi, 2022; Jackson & Dunn-Jensen, 2021), and should provide insight for SME owners that in today's era, business owners should be more active in mastering digitalization because with mastery, digital ideas will arise that will simplify business activities and achieve competitive advantage (Chen et al., 2018; Skordoulis et al., 2020).

In the MGA analysis, there were two different significant hypotheses. First, IWB on BP, if viewed from the Employee\_Overview, IWB can improve business performance, whereas from the Owner\_Overview, IWB alone is not enough to improve organizational performance. With this difference in perspective, business owners have a broader view where, from the dimension of business performance, employee performance is in the operational dimension, while there are financial and marketing dimensions that are considered by business owners at present. Second, DL on BP, if viewed from the Owner\_Overview, DL can improve business performance, whereas from the Employee\_Overview, DL has not been able to improve business performance. From the employee's point of view, having a technology-savvy leader will add pressure on employees, where they are required to master sales platforms and reach out to customers widely. In addition, the leader believes that optimal technology utilization can accelerate business activities and increase profits.

## CONCLUSION AND RECOMMENDATION

In order to stay competitive in today's business environment, it is important to encourage creativity among employees and shape their innovative behavior. This can be achieved by allowing employees to express their own ideas and preferences, which will make it easier for them to be innovative. At the organizational level, leaders should keep up with technological advancements and guide their employees to improve their IT skills, thereby facilitating a change towards innovative behavior and enhancing the ability to compete in the current technological era. Previous research has suggested that empowering employees psychologically can optimize social interaction, mutual trust, and knowledge transfer. It is also important to provide relevant education and training programs, encourage employees to approach tasks differently, maintain a positive organizational climate and environment, and promote knowledge transfer and collaboration among team members. Leaders should also consider the closeness between team members as a way to encourage knowledge sharing and the formation of new ideas.

To encourage individual-level innovation among employees, it is recommended that they possess a broad and flexible mindset, have the ability to adapt quickly to dynamic situations, and avoid conflicts with other colleagues. Building social networks and communication skills through relationships with others can also be helpful in improving innovation. To create high-quality innovation, small and medium-sized enterprises should consider accepting feedback from customers and external sources. By doing so, organizations can strive for sustainable excellence.

The suggested actions for SMEs (organizational level) to promote innovation are to start with selecting creative employees, as their creative image will contribute to innovative results. They should also aim to increase employees' IT knowledge, encourage brainstorming, and provide training to stimulate creative thinking processes. Leaders must model good practices related to knowledge, trends, and new techno-

logies to stay competitive. Encouraging employees to generate new ideas and contributing to business progress is essential for fostering an innovative business climate and behavior. Using digital leadership can guide employees in digital technology and provide technology training to increase competitiveness in the digital field. Furthermore, SMEs can utilize digital platforms to promote innovation.

The study took measures to ensure the validity and reliability of its findings, but it also has some limitations that need to be addressed in future research. Firstly, it only used a quantitative approach, and a mixed-method (quantitative and qualitative) approach would provide more comprehensive findings. Secondly, future research should consider expanding the population to minimize errors in reflecting SMEs in Indonesia. Thirdly, the study only analyzed data collected at the individual and organizational levels for specific variables, and future research should examine other variables such as self-efficacy and intellectual capital at the individual level and support for innovation, corporate culture, and creative climate at the organizational level.

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