The Causal Relationship Model of Transformational Leadership Market Orientation and Innovation that affect Thai Small Food Products Enterprise's Business Success

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Abstract

This study aims to test the causal relationship model of transformational leadership, market orientation, and innovation influencing the success of small food product manufacturing enterprises. The sample in the study was 365 small food product manufacturing enterprises based on the database of the Department of Industrial Works. The data were collected using questionnaires. Then, the gathered data were analyzed using the structural equation modeling technique. The results of the analysis showed that the model was fitted with the empirical data through all defined criteria of consideration. The study found that transformational leadership had a positive direct influence on business success with a path coefficient of 0.198 at a statistically significant level of .05, transformational leadership had a positive direct influence on market orientation with a path coefficient of 0.694 at a statistically significant level of .01, transformational leadership had a negative direct influence on innovation with a path coefficient of -0.004 at non statistically significant, market orientation had a negative direct influence on business success with a path coefficient of -0.072 at non statistically significant, market orientation had a positive direct influence on innovation with a path coefficient of 0.880 at a statistically significant level of .01, and innovation had a positive direct influence on the business success with the path coefficient of 0.864 at a statistically significant level of .05.

Keywords: 1) transformational leadership 2) market orientation 3) innovation 4) business success 5) structural equation Modeling 6) Thai small food products enterprise

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Introduction

Small and medium-sized enterprises (SMEs) are of great importance to the economy in various aspects, such as being a mechanism to create value for gross domestic product (GDP). According to 2021 data (The Office of SMEs Promotion, 2021, p.5), small and medium-sized enterprises (SMEs) had an economic value of 34.6% or 5,603,433 million baht. The growth rate is 3% compared to 2020. The GDP value of micro-enterprises was 417,891 million baht or 2.6 %, small enterprises 2,340,867 million baht or 14.4%. The number of enterprises at the end of 2021 was 3,178,124, a growth of 1.39% from 2020. There were 2,713,345 micro-enterprises accounting for 85.01%. The number of small enterprises was 421,588 representing 13.21%, and 43,191 medium-sized enterprises accounted for 1.35% of total enterprises. According to employment in Micro, Small, and Medium Enterprises (MSME), the total employment was 12,601,726, divided into 5,485,269 in the service sector, 4,191,010 in the commercial sector, 2,852,303 in the manufacturing sector and 73,144 in agriculture.

When compared with the structure based on economic activity, the top three activities were the services sector at 37.9 percent; the manufacturing sector at 34.2, and the wholesale/retail sector at 21.7. If considered according to the economic structure, manufacturing activity is the second largest, but data from the Office of SMEs Promotion (2020, p. 11) explained that the expenditure on raw materials or production costs of the manufacturing sector is the largest. It was the highest at 76% in micro-enterprises and 68.8% in small enterprises. These data indicated that the key aspects of MSME are as follows: 1) it is one of the main GDP value-generating mechanisms of the country, 2) based on raw material expenditure data or production costs, the manufacturing sector can distribute more income to the supply chain than the trade and service sectors, 3) it is a community business that is distributed throughout the country, which will be the main source of employment and income for the Thai community.

In addition to the importance mentioned above, it was also found that the food product manufacturing industry was the manufacturing activity with the highest proportion of GDP in the domestic production activity group in 2019 (The Office of SMEs Promotion, 2020, p. 5). It accounted for 12.2% of GDP or 262,689 million baht. The data was in line with data from The Office of the National Economic and Social Development Council (2019, p. 74), which stated that the small and medium-sized food products manufacturing industry accounted for 12.2% of GDP or 262,689 million Baht. Since food is the main factor in human life, therefore, it provides opportunities for the food product manufacturing industry to continuously grow and create new markets (Sirinon and Ponphai, 2020, p. 244) linking the manufacturing sector and supply chain (Cheungsuvadee, 2018, p. 170). Therefore, it is considered that small food product manufacturing enterprises are very important to the Thai economy.

The review was conducted to determine what factors contribute to the success of small food product manufacturing en-

terprises. Academic evidence suggests that entrepreneurs with leadership will result in good success for small enterprises due to 1) competition under rapidly changing business environments; 2) effective leadership can help improve organizational efficiency in situations where organizations face new problems and challenges (Nazarian, Soares and Lottermoser, 2017, p. 1083). The review was conducted to determine what factors contribute to the success of small food product manufacturing enterprises. Academic evidence suggests that entrepreneurs with leadership will result in good success for small enterprises due to 1) competition under rapidly changing business environments; It is necessary to have people who make decisions quickly (Tourish, 2014, p. 80). It can help improve organizational efficiency in situations where the organization faces new problems and challenges (Nazarian, Soares and Lottermoser, 2017, p. 1089). The results of the review found studies aimed at small and medium-sized businesses focusing on transformational leadership and transactional leadership with larger academic evidence. Transformational leadership focuses on motivational, compromised, collaborative leadership, rather than reward or authority.

The second factor that promotes SME enterprises is market orientation. The review found that market orientation variables focus on finding ways to fulfill customer needs, study information that affects customer's purchasing decisions, and study competitors and use the information to coordinate actions in the organization, which will create an understanding of the needs and desires of customers to improve things and create satisfaction that will result in long-term profits (Deshphandé, Farley and Webster, 1993, p. 27).

The third factor that promotes SME enterprises is innovation. Levitt (1965, p. 82) describes the product life cycle as having 4 stages: 1) market development, 2) market growth, 3) market maturity, and 4) market decline. Therefore, enterprises need to create new products instead (Mckeown, 2008, p. 25). In addition to marketing processes that consider the needs of customers, competitors must also be considered. Implementation of production technology in the organization to be able to produce according to the quality and needs of customers is also considered that innovation plays an important role in the success and survival of the organization. (Martins and Terblanche, 2003, p. 64).

These three factors have a positive influence on the success of SME enterprises. Business organizations generally use financial indicators to measure their performance (Masuo, et al., 2001, p. 55). It's like driving forward with a look in the rearview mirror (Kaplan and Norton, 1992, p. 77), Al-Marai, Al-Swidi and Hanim (2014, p. 26). The authors, therefore, introduce additional market-based measurement indicators that track the performance of an organization, show progress, incentivize development, and identify and communicate problems that arise. In addition, Kumar, et al. (2014, p. 520) offer a simple QCD tool, which is effective in solving problems for SMEs and also adopts lean manufacturing into the industry.

For the reasons mentioned above, the researchers would like to test the causal

relationship model of transformational leadership. market orientation, and innovation that influences the success of small food product manufacturing enterprises to explain the causes and influences that affect the success of the enterprises.

Objectives

To test the causal relationship model of transformational leadership, market orientation, and innovation influencing the success of small food product manufacturing enterprises.

Literature Review

In the review of literature related to causal relationship models of transformational leadership, market orientation, and innovation influencing the success of small food product manufacturing enterprises, we found four related variables: 1) transformational leadership, 2) market orientation, 3) innovation, and 4) business success as follows:

Transformational Leadership

With uncomplicatedness and unorganized small businesses, one employee may take on more than one role. In addition, the assignment of the task may be unclear. However, uncomplicatedness can have a positive impact on transformational leadership, as informational leadership is more influential than in an environment where there are no strict rules (Mesu, 2013, p. 508). According to Matzler, et al. (2008, p. 671), transformational leadership is the right form of leadership for small and medium-sized businesses, because business owners often determine the vision and direction of the organization, communicate their expectations, and needs to each employee personally, and always be an inspirational person. Benabou and Tirole (2003, p. 490) explain that transformational leadership creates intrinsic motivation in employees, which is very beneficial for small businesses. Although external motivation, whether monetary or other motivations are associated with employee actions, these external motivations also have a negative effect as employees are always used to receiving rewards. Hence, it can also undermine employee motivation. Furthermore, a study by Nasir, et al. (2022, p. 8) suggested that transformational leadership had a positive effect on employee performance. As a result, to maintain productivity, organizations may need to add more external motivation such as money.

Based on a review of literature related to transformational leadership, it was found that the variables used to identify the characteristics or behaviors of transformational leadership were models and studies by Bass and Avolio (1990, p. 22), which identified four characteristics of transformational leadership as follows.

1. Idealized influence: A leader who emphasizes obedience has clear direction and goals, can communicate the vision to others, supports the direction and goals of the organization, promotes a strong corporate culture, and manages corporate emergencies well (Bass, 1990, p. 184).

2. Inspiration motivation: Convince others, continuous monitoring of work, stimulate work regularly, appreciate and encourage others, and point out important goals (Bass and Avolio, 1994, p. 27).

3. Intellectual stimulation: Leaders who encourage thinking, be open-minded, and accept the opinions of others, encouraging the use of wisdom and rationality (Bass and Avolio, 1994, p. 27; Shafique and Kalyar, 2018, p. 6).

4. Individual consideration: A leader who considers individual differences, assigns tasks based on ability, and develops people by teaching jobs, mentoring, and listening to employee problems (Bass and Avolio, 1993, p. 49).

Transformational leadership has a positive influence on success. Evidence from Manisha's study (2016, p. 73) examined the relationship between transformational leadership and the corporate performance of SMEs in Rajasthan, India, and found a significant correlation between transformational leaders and SME organizational competencies. The finding aligned with Afriyie, Du and Musah (2019, p. 16), who studied the influence of transformational leadership on SME corporate performance in Ghana. It was found that transformational leadership had a positive direct influence on organizational performance. It also influenced innovation marketing. It also supported the findings of Feranita, Nugraha and Sukoco (2020, p. 415), who studied the transformational leadership of food and beverage manufacturing SMEs in East Java. The results showed that change leadership has a statistically significant direct influence on SME performance. Recently, a study by Shahzad, et al. (2022, p. 1) found similar results to the previously mentioned studies. Their findings showed a positive relationship between transformational leadership and SMEs' performance. Hence, the first hypothesis was proposed.

H1: Transformational leadership has a positive influence on business success.

There is also evidence that transformational leadership influences market orientation evidenced by a study by Jaiyeoba, et al. (2018, p. 95) that studied the effects of leadership, and market focus on corporate performance with small business operators in Botswana. The study highlights transformational leadership with a positive correlation to market orientation. Their study was supported by the findings of Yadeta, Jaleta and Melese (2022, p. 42), who also found a positive relationship between transformational leadership and market orientation. Hence, the second hypothesis was proposed.

H2: Transformational leadership has a positive influence on market orientation.

According to a study by Song and Noh (2006, p. 275), which studied the positive relationship between leaders and success in new product development in South Korea, leaders with vision, and collaboration, encourage innovation and manage employees to achieve innovative goals. Tajasom, et al. (2015, p. 172) studied the role of transformational leadership and innovation performance in SMEs in Malaysia. The results suggested that this leadership can lead to SME success, which is in line with the findings of Feranita, Nugraha and Sukoco (2020 p. 421) Hence, the third hypothesis was proposed.

H3: Transformational leadership has a positive influence on innovation.

Market Orientation

In addition to leadership, which determines the direction and goals of the organization as well as manages to go in a given direction, small businesses that are successful need an effective management approach. A review of marketing related to small businesses, especially Narver and Slater's market orientation theory (1990, p. 21), explained that market orientation is an activity that requires three actions: customer focus, rivalry focus, and interagency coordination. This is in line with Kohli and Jaworski (1990, p. 2), who explained that market orientation is a behavior to create a specific understanding of the needs of customers, both now and in the future. Homburg and Pflesser (2000, p. 451) have expanded that market orientation behavior creates a corporate culture that creates value beyond competitors in order to continuously provide customers with good products and services. Slater and Narver (1994, p. 53) introduced a market orientation concept consisting of three components:

1. Customer oriented: Continuously delivering higher value than customers need Understanding the needs and desires of customers, Deshphandé, Farley and Webster (1993, p. 23) further explain that these activities contribute to long-term profitability.

2. Competitor Oriented: The organization's intention in pursuing the strategies used in the business operations of the benchmarks in the market. In order to win the competition in making customers happy, as well as the potential and strategy of competitors, it will lead to adaptation. Seeing strengths/weaknesses and threats will allow businesses to take advantage of improving the way they value their customers.

3. Inter-Functional Coordination: All departments in the organization have a role to play in knowing and understanding the needs of customers. All employees should recognize and accept that they contribute to the success of the organization and create a sustainable competitive advantage.

Market orientation will inevitably affect the success of the organization as a result of collecting marketing information, and current and future customer needs. This information is disseminated to various units in the organization to ensure satisfaction and brand well-being (Kohli and Jaworski, 1990, p. 12). Salavou (2002, p. 164) studied the profitability of food industry SMEs in Greece with market orientation and product innovation as mediating variables. The results indicated that market orientation impact on the business performance of the samples studied. This corresponds to Jaiyeoba, et al. (2018, p. 100) that found a correlation between rival focus and inter-functional coordination, which is two of the three factors of market orientation which is also a positive correlation with the financial performance of SME samples. Hence, the fourth hypothesis was proposed:

H4: Market orientation has a positive influence on business success.

In addition, market orientation can also affect innovation because by collecting data on customer needs, innovation development can be achieved in the right direction. Widiartanto and Suhadak (2013, p. 9) commented that the new industry is highly competitive. Customer orientation and innovation will be

a turning point for businesses to survive and continue to grow. This is in line with a study by Ichwan and Nursyamsiah (2019, p. 40) that looked at the relationship between market orientation and product innovation and SME business success in Yogyakarta, Indonesia, the relationship between market orientation and product innovation has been found. The findings revealed that market orientation is not directly related to SME success but it was mediated by Innovation. Hence, the fifth hypothesis was proposed:

H5: Market orientation has a positive influence on innovation.

Innovation

Levitt (1965, p. 81) explained that in business operations, it is difficult to make a product that can satisfy all people. Therefore, it is imperative that businesses create new products to cater to different customers. With this explanation, product development is of paramount importance. It is beneficial to meet diverse customer groups for increased sales, profitability, and market share. In this respect, market orientation has influenced the creation of new products (Wong and Ellis, 2007, p. 147) that will continue to benefit the business. Although the review found that innovation was divided into four groups in a variety of studies, such as Lundvall (1992, p. 26), which divided innovation into product innovation, process innovation, organizational innovation, and market innovation. However, Francis and Bessant (2005, p. 173) divided innovation into four groups: product innovation, process innovation, position innovation, and paradigm innovation. However, in this study, innovation variables are divided into 2 groups, because 1) when considering the grouping of two concepts of innovation; You will see that there are product innovations and process innovations alike 2) when considering market innovation or business positioning innovation. In this study, the concept of market orientation is already used as a variable used in the study and 3) a study by Baregheh, et al. (2012, p. 312) found only a correlation between product innovation, process innovation, and business positioning innovation. A study by Menrad (2004, p. 845) also found that the majority of German food entrepreneurs develop more product innovations and process innovations. For that reason, this study, therefore, divides innovation into 2 components:

1. Product innovation: It is the presentation of new products and product quality development, and developing new product innovations to build market share.

2. Process innovation: It is the improvement and development of existing production processes or modifications to increase production efficiency or reduce production costs.

Innovation capability is one of the factors that will help organizations continue to thrive (Rosenbusch, Brinckmann and Bausch, 2011, p. 444). Suwanjaroen, et al. (2016, p. 130) studied the influence of innovation on the business operations of the export food industry in Thailand. It was found that product innovation has a direct influence on the performance of the sample business. This is In line with the study by Aziz and Samad (2016, p. 256), who studied the relationship between innovation and competitiveness of the small and medium-sized food industry in Malaysia. It was found that innovation has a significant

positive correlation to competitiveness. Hence, the sixth hypothesis was proposed.

H6: Innovation has a positive influence on business success.

Business Success

One of the reasons businesses are struggling is that management tends to opt for simple indicators to assess their industry performance (Skinner, 1971, p. 61). In addition, the review found that most studies measure the success of small and medium-sized businesses in more than one area. The financial dimension is the most used option because it is the most effective indicator of the financial status and profitability of the organization. However, Wongchaiya and Phuenpha (2018, p. 141) explained that the success of a business is the achievement of its objectives whether it is in monetary or non-monetary form. Every organization aims to get the most profit, able to produce products or services to meet the needs of customers to the maximum in order for the business to achieve the goals or achievements laid down (Kantaputra, 2016, p. 61). Watts and McNair-Connolly (2012, p. 228) explained that each organization has its own objectives, directions, and objectives. Indicators, therefore, come into play in order to "control" and "evaluate" whether the organization is moving in the right direction. It added that this metric can assess the basic health and functioning of the organization.

This requires additional indicators, which, according to the review, reveal the marketing dimension. Oliver (1999, p. 41) and Shoosanuk, et al. (2018, p. 101) presented indicators of success in terms of customer satisfaction, resulting from quality products needed to build good relationships. When customers feel satisfied, they can encourage other prospective customers to become corporate customers. This leads to increased profitability and operational indicators.

Lekmat and Intaragasem (2019, p. 108) pointed out that improving performance using Kaizen is one of the ways to develop the potential of SMEs. According to Yanjiang (2006, p. 182), the QCD indicator, one of the tools of the Kaizen principle, is an important element that will create a continuous gradual development process. Kumar, et al (2014, p. 520) describe QCD as a simple tool for effective editing and establishing lean manufacturing standards in the industry as well. This study also looked at performance indicators in three components.

1. Financial indices are measured by sales, which is the ability to generate income for an organization. This is the most used metric. It is measured by cost or decrease in cost (Kerin, et al., 2003, p. 310) and by profit (Cantele and Zardini, 2018, p. 171).

2. Marketing indices are measured by repeat purchases, which Tripopsakul (2018, p. 30) and Shoosanuk, et al. (2018, p. 105) pointed to as behaviors that express customer satisfaction, and word of mouth, is the act of telling close people to use products they are impressed with (Hawkins, Best and Coney, 2001, p. 22).

3. Operational indices, which use the concept of Quality Cost Delivery (QCD) (Yanjiang, 2006, p. 182; Kumar, et al., 2014, p. 527). This is measured by efforts to reduce produc-

tion costs or to reduce resource consumption, and delivery can be delivered on time, right location, and right number as needed.

The three indicators will inevitably reflect the right direction in shaping business management through transformational leadership variables, market orientation, and innovation.

Research Methodology

Population and Sample

The population used in this study was nationwide owners of small enterprises producing food products according to data from the Department of Industrial Works (2020). It screens data from two conditions: the population in the food product manufacturing group and the small business in accordance with the Thailand Standard Industrial Classification (TSIC), which is divided into 7 groups: 1) meat and poultry production and processing, 2) aquaculture production and processing, 3) fruit production, processing and preservation, 4) soybean oil production, 5) dairy product production, 6) production, processing, etc. and 7) Food production which is not specified in other categories. The latter criteria were screened by considering the population of food product manufacturing enterprises with a maximum of 50 workers and an income not exceeding one hundred million Baht (100,000,000 baht) (The Office of SMEs Promotion, 2019). According to the collection and screening, the population was 8,797. According to Hair, et al. (2010, p. 11), it is recommended to calculate a sample of 20 to 1 parameter that needs to be estimated. The subjects in this study had 18 parameters. Therefore, no less than 360 samples are required. The authors defined representatives of seven stratified populations using simple random sampling methods.

Research Tool

The questionnaire was employed as the research tool. It consists of four parts: 1) transformational leadership: the MLQ6S scale, consisting of 12 items anchored from 0 (never) to 4 (Regularly) 2) market orientation: this measure consists of 15 items anchored from 0 (never) to 4 (Regularly). The sample questions are “My business is trying to be satisfied,” “My business listens to customers' opinions to know their needs,” and “My business always follows the strategies of competitors in the market” 3) innovation: this measure consists of 9 items anchored from 0 (never) to 4 (Regularly). Some sample questions are “My business offers new products to the market,” “My business improves product quality,” and “My business develops product packaging” 4) business success: this measure consists of 13 items to inquire about the level of income or cost, from a significant decrease compared to the target (0) up to a significant increase compared to the target (4). The sample questions are “Revenue performance compared to targets,” and “Cost levels compared to targets.”

Validity

The instrument was examined using the Index of Item Objective Congruence (IOC) method, and 15 questions that did not meet the criteria (the IOC value is lower than .60). Hence, the authors checked the question that does not meet the criteria according to the instructions. It was a language issue in the questionnaire. Therefore, the authors adjusted the

language according to the recommendations of experts.

Reliability

The reliability of each measure was verified by performing an analysis of Cronbach's Alpha coefficient. The results revealed Cronbach's Alpha of .840 for transformational leadership, .862 for market orientation, .781 for innovation, and .803 for business success. As a result of determining, no alpha coefficient from any scale below 0.7, it was determined that the questionnaire was very reliable according to Nunnally (1978, p.174).

Data Collection

The data were collected by sending 360 questionnaires via mail to the prospect samples according to the Department of Industrial Works database (The Department of Industrial Works (2020). The authors followed up by telephone contact and received 180 complete questionnaires accounting for 50%. Therefore, 360 questionnaires were distributed in the second round and followed up with the same method, receiving 185 complete questionnaires, or 51.38%. This is considered an appropriate response rate in academic research, as recommended by Hoonakker and Carayon (2009, p. 366), which recommended at least 50% of the response rate. In conclusion, a total of 880 copies were distributed, and 365 completed response questionnaires were received and analyzed.

Data Analysis

Analyze data with frequency, percentage, and standard deviation to explain the characteristic of the sample and data. In addition, structural equation modeling was employed to confirm the consistency of the model with empirical data. If the analysis results do not meet the criteria for consideration indexes, the model must be adjusted by adding a covariance relationship. Hence, if the model is consistent with empirical data, relationships between latent variables will be examined.

Results

Characteristics of the Samples

Of the 365 complete respondents, 221 were female, followed by 136 males (60.3% and 37.3% respectively), 136 were aged 31-40 years, 110 were aged 20-30 years, and 65 were aged 41-50 years (37.3%, 30.1%, and 17.8 % respectively). The majority of respondents (221) had bachelor's degrees, and 102 master's degrees (60.5% and 27.9%, respectively). There were 195 cases of unpackaged food production, followed by 61 cases of flour, cereals, and 48 cases of fruit production (53.4%, 16.7%, and 13.2 % respectively). According to the age of each enterprise, 134 of them were between 1 and 3 years old, and 111 were aged 3-5 years (36.7%, and 30.4 % respectively). There were 128 enterprises that employed 6-15 workers, 120 enterprises employed workers up to 5 workers, and 42 enterprises employed workers of 16-25 (35.1%, 32.9%, and 11.5 % respectively). About 181 enterprises had annual business income between 1.81-5 million Baht, and 80 enterprises with revenues of 6-10 million Baht (49.6%, and 19.2 % respectively).

Structural Equation Modeling Results

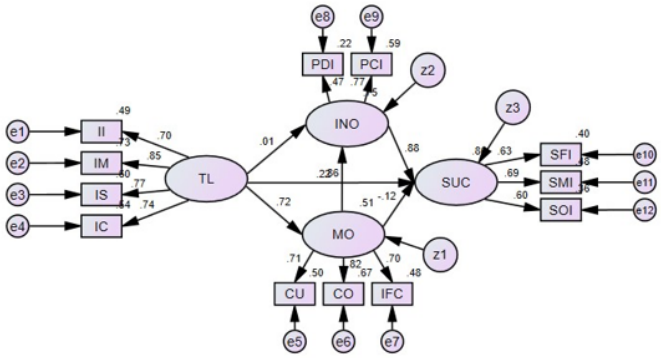
This analysis is meant to test the harmonization between the model and the empirical data. Five acceptable indices are based

on the recommendations of Schermelleh-Engel, Moosbrugger, and Müller (2003, p.52), Kelloway (2015, p.21), and Kline (2016, p.163) as follows:

Table 1 Acceptable fit indices

Fit indices	Acceptable value
Relative Chi-square (χ^2/df)	$2 < \chi^2/df \leq 5$
Comparative Fit Index (CFI)	.90 ≤ CFI ≤ 1.00
Adjusted Goodness of Fit Index (AGFI)	.85 ≤ AGFI ≤ 1.00
Standardized Root Mean Square Residual (SRMR)	.00 < SRMR ≤ .08
Root Mean Square Error of Approximation (RMSEA)	.00 < RMSEA ≤ .08

The result of the analysis of harmonization between the hypothesized model and the empirical data found that the AGFI and RMSEA values did not meet the criteria considered to be consistent as shown in Figure 1.



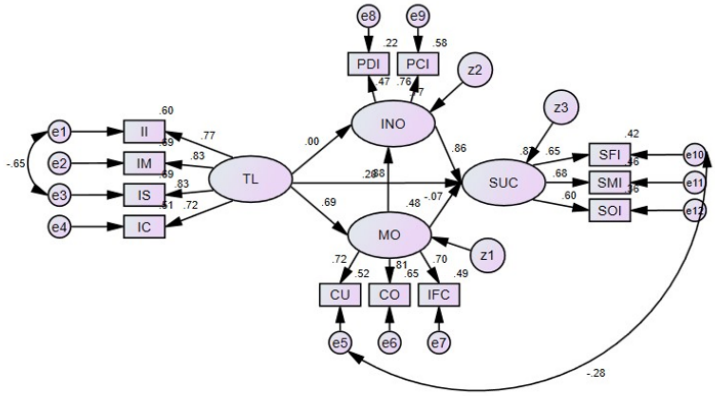
Chi Square = 234.495, df = 48, Chi Square/df = 4.885, CFI = .901,
AGFI = .846, RMSEA = .103 SRMR = 0.0607

Figure 1 Hypothesized model.

As a result of considering the above conformity indices, it was not possible to confirm that the model developed by the researchers was the most consistent model within the context in which the study was conducted. Hence, the model modification was carried out in accordance with Mueller's proposal (1996, p. 93) to make the model more consistent with empirical data. Adjusting the above model, the authors considered adding a common variance line to increase the conformity index to meet the established criteria as follows:

Firstly, consider adding a common line of variance between idealized influence and intellectual stimulation, as evidence of a link has been found, according to a study by Agyemang Buateng and Dzandu (2017, p. 484). They studied 283 employees working in industrial facilities in Ghana and found that leaders have a positive influence that can encourage employees to spread knowledge among themselves, and this was in line with Chen and Barnes (2006, p. 51) who also found this positive influence.

Secondly, consider adding a common variance between customer-oriented, and financial indices, as evidence of a link was found, according to a study by Jyoti and Sharma (2012, p. 299) in industrial enterprises with showrooms in Korea. Their findings indicated that employing customer focus will result in employees being able to create more customer satisfaction. This explains that customer-oriented influences positive performance. By adding the two common variance lines as described above. This result of a fit between the adjusted model and the empirical data passes all conformity criteria as illustrated in Figure 2.



Chi Square = 151.455, df = 46, Chi Square/df = 3.292, CFI = .944,
AGFI = .894, RMSEA = .079 SRMR = 0.0553

Figure 2 Adjusted model.

When considering an adjusted model, it was found that the variable underlies transformational leadership provided factor loadings of each element ranged from 0.72-0.83, the market-oriented latent variable has an observable group element weight value between 0.70-0.81, the innovation latent variable has an observable variable element weight between 0.47-0.76, and the success latent variable is between 0.60-0.68. The results of the fit index of the analyzed model are shown in Table 2.

Table 2 Fit indices of the hypothesized and adjusted models

Fit indices	Acceptable value	Hypothesized model		Adjusted model	
		Statistics	Results	Statistics	Results
1. Absolute Fit Index Adjusted Goodness of Fit Index (AGFI)	> 0.85	0.846	Not pass	0.894	Pass
2. Relative Fit Index Comparative Fit Index (CFI)	> 0.90	0.901	Pass	0.944	Pass
3. Incremental Fit Index					
3.1 Standardized Root Mean Square Residual (SRMR)	< 0.08	0.0607	Pass	0.0553	Pass

Fit indices	Acceptable value	Hypothesized model		Adjusted model	
		Statistics	Results	Statistics	Results
3.2 Root Mean Square Error of Approximation (RMSEA)	< 0.08	0.103	Not pass	0.079	Pass
4. χ^2/df	< 5	4.885	Pass	3.292	Pass

Based on the results of the model analysis, it is consistent with empirical data. As it is acceptable to be consistent, that why it's important to consider presenting evidence of hypothesis test results and influence analysis. According to the analysis of structural equations based on the literature reviewed, the results of the hypothesis test are detailed in Table 3.

Table 3 Hypothesis Testing

Hypothesis	Path Diagram	Statistics		Hypothesis Testing
		Path Coefficient	C.R.	
H1 Transformational leadership has a positive influence on business success.	TL--->SUC	0.198	2.225	Accepted
H2 Transformational leadership has a positive influence on market orientation.	TL--->MO	0.694	9.890	Accepted
H3 Transformational leadership has a positive influence on innovation.	TL--->INO	-0.004	-0.041	Rejected
H4 Market orientation has a positive influence on business success.	MO--->SUC	-0.072	-0.187	Rejected
H5 Market orientation has a positive influence on innovation.	MO--->INO	0.880	6.153	Accepted
H6 Innovation has a positive influence on business success.	INO--->SUC	0.864	2.140	Accepted

C.R. ≥ 2.58 indicates that it is statistically significant at the level.01 (**)

C.R. ≥ 1.96 indicates that it is statistically significant at the level.05 (*)

The results of the analysis indicate that transformational leadership had a positive direct influence on success (H1) at a statistical significance level of .05, a negative direct influence on market orientation (H2) at a statistically significant level of .01 but had an insignificant negative direct influence on innovation (H3). Market orientation had a negative direct influence on insignificant success (H4) but had a statistically significant direct influence on innovation at .01 (H5), and innovation had a positive direct influence on success at .05 (H6). The next sequence is the result of an analysis of influence size values to explain the relationship between independent variables and dependent variables in terms of both the

size and direction of relationships (Tayrueakam, 2004, p. 18). The results of the influential size are shown in Table 4.

Table 4 Direct effect, indirect effect, and total effect

Dependent variable	Influence	Independent variable		
		TL	MO	INO
MO	DE	0.694		
	IE	-		
	TE	0.694		
INO	DE	-0.004	0.880	
	IE	0.611	-	
	TE	0.607	0.880	
SUC	DE	0.198	-0.072	0.864
	IE	0.475	0.760	-
	TE	0.673	0.688	0.864

Discussion

According to the results, transformational leadership, market orientation, and innovation had an influence on the success of small food product manufacturing enterprises. As explained in the results of the study, the analyzed model corresponds to empirical data, thus making the results of the hypothesis test known. The results of the influence size analysis can be discussed as follows:

According to H1, the result suggests that transformational leadership has a positive direct influence on achievements at a significant .05 level, in line with Feranita, Nugraha and Sukoco (2020, p. 420), which studied the influence of transformational leadership on the performance of food and beverage SMEs in East Java, Indonesia. This also supports the study of Samson and Ilesanmi (2019, p. 73), which found a causal relationship between transformational leadership and corporate competencies across a wide range of SMEs, including food industry groups across Nigeria. However, if we look at the influence of transformational leadership on success, it was found that the indirect effect was as high as 0.475, compared to the direct effect of only 0.198. This points out that transformational leadership has more indirect than a direct influence on success.

According to H2, transformational leadership has a positive direct influence on market orientation at a significant level of .01, in line with Jaiyeoba, et al. (2018, p. 95), who found a positive relationship between transformational leadership and market orientation in Botswana small enterprises with the path coefficient of 0.694.

H3 was tested and the finding revealed the negative influence of transformational leadership on innovation. This finding is not consistent with the study of Tajasom, et al. (2015, p. 172), who studied Malaysian SMEs, and Feranita, Nugraha and Sukoco (2020, p.

420), who studied Indonesian SMEs. These two studies found positive influences between transformational leadership and innovation. However, although the direct influence is negative at -0.004, the indirect influence reaches 0.611. This influence value indicated the indirect relationship between the two variables. When considering additional information, the indirect influence between transformational leadership and business success was also found to have more indirect influence. This evidence suggested that transformational leadership requires innovation as a mediating variable to Business Success.

The results of the analysis (H4) showed a negative direct influence of market orientation on profit. This contradicts the results of Salavou (2002, p. 168), who studied the profitability of SME food in Greece and found a relationship between market-oriented and profitability. It also does not support the finding of Jaiyeoba, et al. (2018, p. 95), who found a positive correlation between market orientation and financial performance in Botswana small enterprises. Yet, although the direct influence was negatively insignificant at -0.072, indirect influence values were found to be as high as 0.760 as same as H3. The results of the influence analysis indicated an indirect relationship between market orientation and business success, thus concluding that market orientation also requires innovation as a mediating variable to business success.

According to H5, the study also found a positive direct relationship between market orientation and innovation. This finding is consistent with the result of Salavou (2002, p. 168), who also found similar results. It indicated that the higher the market orientation of SMEs, the more innovation the organization will develop.

Finally, H6 showed a positive relationship between innovation and success. It is consistent with the study of Aziz and Samad (2016, p. 256), in which the relationship between innovation and the competitiveness of SME food in Malaysia has also been found.

Implications

Theoretical Implications

1. According to the results of the analysis, transformational leadership requires a mediating variable in order to positively influence business success. In this study, it was concluded that transformational leadership requires market orientation and innovation as mediating variables to achieve business success in the sample of entrepreneurs of food products SMEs.

2. It was also found that market orientation needs mediating variables to positively influence business success. This study likewise concluded that market orientation requires innovation as a mediator for business success.

Practical Implications

1. According to the results of the SEM analysis, the factor loading values of market orientation indicators that had the highest score was focusing on acquiring information from competitors to increase competitive advantage. The second most important indicator was seeking out the customers' needs so the SMEs can respond to their right and exact needs. This finding indicated that the sample values competitors over customers while Bak-

er and Sinkula (2009, p. 443) explained that market orientation is a way to fulfill customer needs by studying the data to know what the customer wants. Hence, the market orientation should be focused on customers rather than competitors, so it is suggested that SME entrepreneurs should adjust their focus to the customer first.

2. According to the innovation variable, process innovation, which is the development of production processes to increase production efficiency or reduce production costs, had the highest factor loading while developing products or proposing new products had a lower value of factor loading. This indicated that SME entrepreneurs paid more attention to optimizing the production process than developing new products. Avermaete et al. (2003, p. 8) suggested that new product innovations and new product presentations will inevitably help create a new market share for the organization as well. Therefore, it is recommended that, in addition to reducing the cost of process innovation, there should be more income from product innovation as well.

Conclusion

The results of this study show that the model is fitted with the empirical data. Relationships between each latent variable on the success of SMEs are also found. Hence, small enterprises can significantly apply and implement this result in the organization. In this study, transformational leadership, market orientation, and innovation have a significant causal relationship with each other. It can be explained in practice that entrepreneurs with transformational leadership traits consist of having influence over others, the leader who is obeyed by subordinates, having a clear direction and goals, communicating, understanding, and supporting corporate goals. Inspiring is also a transformational leadership trait, this refers to a leader who convinces others, continuously follow-up, encourages regular work, appreciates, and encourages people. Intellectual stimulation is a leader who encourages thinking, is open to listening to others' opinions, promotes rational thinking, and resolves issues carefully. Individual empathy, leaders who consider individual differences, assign tasks according to their abilities, and develop people by teaching tasks and listening to problems. These kinds of leadership should be implemented in organizations including the implementation of market orientation. Market orientation includes customer-oriented, rival-oriented, and interoperability. Customer-oriented refers to researching, and understanding customer needs and desires. Rival-oriented is related to research and tracking strategies and potential of competitors used in business operations in order to achieve adaptation, look at strengths, weaknesses, opportunities, and threats, and leverage them. Interoperability refers to all departments in the organization using data from customers and competitors to create competitive advantages. Both transformational leadership and market orientation lead to innovation, which is divided into two categories: product innovation and process innovation. Product innovation involves using the information collected to present new products and improve quality to meet customers' needs and

desires. Process innovation is associated with improving and developing existing production processes in order to increase efficiency or reduce production costs. It is also necessary to measure the performance of the organization in order to control and evaluate the results in the right direction, and able to assess the basic health of the organization, which consists of financial indicators. It is measured by sales, cost, profit, and marketing metrics, which are measured by repurchases and referrals of enterprise products from customers, and operational indicators. This is measured by the Quality Cost Delivery concept, which measures the frequency of defects and losses from production, efforts to reduce production costs, and on-time delivery of customers' needs and locations.

Interestingly, the findings show that transformational leadership does not have a direct impact on success. This is in line with Tajasom, et al. (2015, p. 181), Darmawati, Nirwanto and Subiyantoro, (2018, p. 6), Afriyie, Du and Musah (2019, p. 22), and Sulaeman, et al. (2020, p. 240), where studies suggest that leadership affects more mediating variables to organizational competencies and that transformational leadership requires mediating variables to be successful in business.

It can be seen that leadership requires mediating variables, such as a market orientation to find information from customers and competitors and utilize it in the organization. This will lead to the development of new products, and production processes to provide higher quality products as well as lower costs. All contribute to the organization's success in three areas: financial, and marketing success. Financial success involves revenue, cost reduction, and profitability in line with or above the target. Marketing success is associated with customers having repeated purchases and referrals, and operational achievements where products are of high quality, cost reduction, and on-time delivery.

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