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## How Leadership and Organizational Culture Shape Organizational Agility in Indonesian SME's

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### ABSTRACT

*A highly competitive market has increased the importance of organizational agility in attaining competitiveness through strengthening leadership and organizational culture. This study aims at examining the effect of entrepreneurial leadership on organizational agility mediated by organizational culture in Indonesian Small and Medium-sized Enterprises. There was a lack of evidence on which entrepreneurial leadership could significantly influence organizational agility through organizational culture. Using simple random sampling technique, a total of 200 employees from the centre of Industrial Village in East Jakarta, Indonesia was selected as the sample. Data were obtained through survey method and quantitatively analysed using Structural Equation Modelling. The findings show that entrepreneurial leadership and organizational culture respectively have positive and significant direct effects on organizational agility. Entrepreneurial leadership has a positive and significant direct effect on organizational culture, and entrepreneurial leadership has a positive and significant indirect effect on organizational agility mediated by organizational culture. The research findings can provide guidelines for the SMEs entrepreneur to facilitate appropriate leadership and organizational culture, so as to foster organizational agility and achieve business benefits.*

**Keywords:** *organizational agility, entrepreneurial leadership, organizational culture, organizational behavior*

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## INTRODUCTION

In most developing countries, Small and Medium-sized Enterprises (SMEs) play significant and strategic role in the national economic growth. The contribution of SMEs in Indonesia, for example, is quite significant which was about 60% of the total Gross Domestic Product (GDP) in 2018. Employment absorption in the SMEs sector also increased from 96.99 percent to 97.22 percent in the same period (Gewati, 2018). However, despite their pivotal roles in the development of the country's economy, Indonesian SMEs face significant barriers to compete and grow their businesses. Wilantara & Susilawati (2016) claim that more than 60% of Indonesian SMEs' problems lie on the organizational knowledge, which signalize the low capacity of human resources. This condition has implications on weak governance and poor management among the leaders that make it difficult to optimally develop SMEs. In addition, the organizational culture cannot support the emerging of creativity among the employees. This can be seen from the work culture of SMEs where employees only pursue predetermined production targets, stuck with work routines and have lack opportunity to develop knowledge and skills, which ultimately leads to low quality and innovation in the products output. As a result, SMEs' products cannot fulfill the demands and tastes of the market that are constantly changing. Besides that, poor technological capabilities among the employees causes inefficient production and limited marketing access. These constrains make it difficult for SMEs to develop and grow, even some have difficulties to survive their business (Azisah, 2018).

Low capacity of human resources, weak technological capabilities, limited market access and weak governance and leadership are the indication of weak organizational agility (Keijzer, 2016). Based on the existing problems, it is indicated that most Indonesian SMEs are having weak organizational agility. This condition certainly needs improvement, otherwise; it can threaten the survival of SMEs in the future. To survive and win the business in today's increasingly fierce competition, it is very crucial for any kinds of organizations, including SMEs, to have strong organizational agility (Wageeh, 2016; Žitkienė & Deksnys, 2018). Setili (2014) claimed that organizational agility is a critical factor to adapt with the turbulent changes that happen in this disruptive era. Harraf et al. (2015) declared that building organizational agility must be put as a priority when the organizations are to achieve organizational effectiveness and excellence. The value of organizational agility has been previously proven by a number of researchers. It was found that organizational agility had positive impacts on the organizational performance (Cegarra-Navarro et al., 2016; Chakravarty et al., 2013; Kuleelung, 2015; Lee & Yang, 2014), organizational effectiveness (Ghasemi & Jenaabadi, 2015) and organizational efficiency (Yeganegi & Azar, 2012). By obtaining organizational agility it will enable organizations to better know the threats and opportunities faster than the competitors and to better draw up the required action to achieve competitive advantage (Tikkamäki & Mavengere, 2013).

In the perspective of human resource management, building organizational agility is a complex thought that not only requires human resource competency, but also related to various psychological and cultural factors (Saha et al., 2017). How employees perceive and respond to changes and challenges is largely determined by the culture prevailing in the organization. The capability to strengthen human behavior through appropriate leadership and supportive organizational culture is necessary when organizations have desires to build strong agility. The conceptual and empirical study about the influence of leadership and organizational culture on organizational agility had been formerly discussed by several authors (Felipe et al., 2017; Khatir & Mianrood, 2016; Oliver Wyman, 2018; Panda & Rath, 2018). Despite such number of studies, there has been scant research done in SMEs sector. Most of those studies have been carried out in large organization such as universities, banks, hospitals and other big companies. There was also insufficient study about the effect of EL on organizational agility mediated by organizational culture. Hence, this research fills the gaps of previous studies and worth investigating

## **LITERATURE REVIEW**

### ***Organizational Agility***

Organizational agility (OA) has become an imperative factor for companies to be competitive in today's business environment. Agility is a source of competitive advantage in the midst of harsh and tight competition and is the main key to organizational survival (Grantham et al., 2007; Triaa et al., 2016). By having high agility, organizations have readiness to deal with changes, able to adapt and respond to changes, which is important to create competitive advantage (Gibbons, 2015).

The definition of agility according to Wright, Dyer and Takla (Bateman & Snell, 2015) is the ability to adapt to the demands of the fast changing environment. OA is very important for the survival of the organization. Wieland and Wallenburg defined OA as the ability of organizations to adapt to changes in a productive and cost-effective way (North & Varvakis, 2016). Worley et al. (2014) explained agility as the ability to make timely, effective and sustainable changes, which is operationalized by four agility routines, namely formulating strategies, perceiving, testing, and applying them. Setili (2014) defined agility as the ability to see and take advantage of new opportunities quickly. There are several components of the OA, such as proactivity, adaptability, resilience (Sherehiy & Karwowski, 2014), responsiveness, competency, flexibility and speed (Sharifi & Zang, 2001), anticipation, innovation, and learning (Triaa et al., 2016).

The success to build organizational agility is very much dependent on the human resources in the organizations. It is impossible for an organization to be agile without the support of employees. Wendler (2016) affirm that what can be agile is the employees, not the organization itself. Therefore, improving the organizational agility means improving the employees' agility. In this study the authors define OA as the ability to adjust and respond to changes quickly and innovatively in order to achieve competitive advantage.

### ***Entrepreneurial Leadership***

Entrepreneurial leadership (EL) has become the topic of interest of many researchers in recent years. The concept of EL is becoming increasingly important because organizations must be more entrepreneurial to improve performance and capacity for adaptation and long-term survival (Kuratko, 2007). Entrepreneurial leadership (EL) is a combination of leadership and entrepreneurial aspects (Leitch & Harrison, 2018). Aspects of leadership in general include the power and ability to influence, motivate and direct organizational members to be willing and able to synergistically carry out tasks in order to achieve organizational goals. While the aspects of entrepreneurship consist of business management, networking, innovation and the courage to take risks (Bateman & Snell, 2015; Tahmasebifard et al., 2017).

Renko (2018) defined EL as an activity of influencing and directing the performance of group members towards achieving organizational goals, which includes recognizing and exploiting opportunities. Currie et al. said that EL is based on leaders who create, identify, and exploit opportunities in innovative ways and are ready to take risks (Nwachukwu et al., 2017). Fontana and Musa (2017) convey that EL is about influencing others towards goals through effective communication to recognize opportunities and share visions about the future possibilities. In this study the authors define EL is the ability to manage others in the organization to take advantage of opportunities and solve problems and encourage creativity and innovation in order to achieve competitive advantage.

### ***Organizational Culture***

There are huge definitions of organizational culture. Mintzberg (Langton et al., 2016) states that culture is the soul of an organization that is a belief and values, and how all of these things are manifested. The basic values, beliefs and assumptions shared within the organization are related

to the overall group identity (Ehrhart et al., 2014). According to Keyton (Ehrhart et al., 2014), OC is as a set of artifacts, values, and assumptions that arise from the interactions of organizational members. O'Reilly (Colquitt et al., 2017) states OC as shared social knowledge in an organization relating to rules, norms and values that shape the attitudes and behavior of employees in the organization. Kinicki and Fugate (2018) stated that OC is a collection of shared assumptions that are implicit in the organization, which determines how people in the organization feel, think, and react to their environment. In this study the authors defined OC as a collection of assumptions, values and shared beliefs that determine how people in the organization feel, think, react and behave towards their environment.

### ***Hypothesis Development***

SMEs must have adequate OA to survive in an unpredictable environmental change and intense competition. To build OA, strategic and innovative thinking and the ability to exploit change on an ongoing basis, is very crucial (Harraf et al., 2015). The role of leadership is very important in compiling all policies and strategies used by organizations (North & Varvakis, 2016). Through appropriate leadership, ideas and actions of leaders can influence and direct the behavior of members of the organization towards achieving desired goals (Hamidifar, 2015). A number of studies have highlighted the importance of leadership in building OA. The results of previous studies show a positive influence of leadership style on OA (Hosseini et al., 2013; Karimi et al., 2016; Raeisi & Amirnejad, 2017; Veisheh et al., 2014).

To build OA, SMEs need leaders who are not only there to lead, but also become contributors or facilitators (Mast, 2018). Therefore, entrepreneurial leadership is assumed to be an appropriate leadership style to achieve OA. Based on the aforementioned conceptual and empirical studies, it is assumed that EL will influence OA in SMEs. Hence, the first hypothesis of this study is as follows:

H<sub>1</sub>: There is a positive effect of EL on OA.

Organizational success is not only the result of the strategy but also from the culture (Griffin & Moorhead, 2014). Thus, success in building OA is inseparable from the cultural influences. Moran (2015) declares that culture is one of the most important components to achieve OA. The right culture will direct employee behavior toward the achievement of OA. SMEs have to build strong OC as the effort to improve their agility.

The effects of OC on OA have been formerly studied by several researchers. The results showed that OC has a positive and significant influence on OA (Amirnejad & Milad, 2015; Fahami et al., 2017; Felipe et al., 2017; Sarshar & Hezarjaribi, 2016). It is assumed that OC will also give positive effect on OA of Indonesian SMEs. Accordingly, it is hypothesised that:

H<sub>2</sub>: There is a positive effect of OC on OA

Inside the organization, each of the employees has their own cultural backgrounds that may be different from the organizational culture. The cultural differences may cause conflict if it is not well managed (Gomez & Taylor, 2017). It is the role of leadership to synergize the cultural differences into a culture that is shared and followed by all organizational members. Alomiri (2015) stated that leaders are source of values in the organization who can influence and direct the behavior of followers toward a certain goal.

The effect of leadership on OC has been studied by a number of researchers who found a significant positive effect of leadership on organizational culture (Belias & Koustelios, 2014; Frantz & Jain, 2017; Li et al., 2017). Through appropriate leadership, strong organizational culture can be shaped. It is assumed that EL will also influence OA in Indonesian SMEs. Hence, the third hypothesis is posited:

H<sub>3</sub>: There is a positive effect of EL on OC

Schein states that leadership and OC are like two sides of the same coin (Chong et al., 2018). Leaders have the greatest influence on the values and beliefs that exist within the

organization (Hogan & Coote, 2014). The basic values, beliefs and assumptions shared within the organization are related to the overall group identity (Ehrhart et al., 2014). The right culture will direct employees' behavior to enable the achievement of organizational agility. The number of employees in SMEs which is relatively small compared to large companies, is more easily integrated under shared beliefs and values. This makes it easier for SMEs to change the culture when needed (Tidor et al., 2012).

Leadership and OC are important in determining the achievement of organizational agility (Moran, 2015). A number of studies have highlighted the positive effects of leadership on organizational agility, the positive effects of leadership on organizational culture, and the positive effects of organizational culture on organizational agility. Based on the logic of syllogism, it can be concluded that leadership has positive indirect effect on organizational agility through organizational culture. Hence, the fourth hypothesis is stated as follows:

H<sub>4</sub>: There is a positive indirect effect of EL on OA mediated by OC

## RESEARCH METHOD

In accordance with the objectives of the research, this study examines the causal relationship between the variables of entrepreneurial leadership, organizational culture, and organizational agility. Quantitative data were collected from 200 respondents who work at SMEs in the Centre of industrial village which is called Perkampunan Industri Kecil (PIK) East Jakarta. To examine the relationship between variables and measure the effect of one variable on other variables is processed by using SPSS 22.0 and Structural Equation Modeling (SEM) using LISREL 8.8. The relationship between these variables is a direct and an indirect effect of exogenous variables on endogenous variables. In this study the exogenous variable is EL, the dependent endogenous variable is OA, and the endogenous mediating variable is OC.

Data about the OA, EL, and OC were collected using measurement instruments developed from the theoretical studies. OA is measured using 5 indicators consisting of anticipatory behavior (ANTI), Responsive behavior (RESP), adaptive behavior (ADAP), innovative behavior (INO), and resilience (RESI). The EL is measured using 4 indicators namely proactivity (PRO), Innovation (INO), risk taking (RISK), and decision making (DECI). OC is measured using 5 indicators which were adapted from Sashkin and Rosenbach (2013) and the Denison Model (2014) namely managing change (CHNG), goal orientation (GOAL), team orientation (TEAM), customer orientation (CUST) and cultural strength or consistency (CONS).

Primary data were quantified using a Likert scale consisting of five rating in accordance with the contents of the statements. The pilot study was carried out by taking 40 respondents who were parts of the population and outside the determined number of samples. Validity test is done by testing the loading factor on each indicator against the variable. The indicator is declared valid if the loading factor reaches an agreement of  $LF > 0.5$  and value of the critical  $t_{count} > 1.97$ , and reliable when the value of  $CR > 0.7$  and  $VE > 0.5$  (Hair et al., 2014).

## RESULT AND DISCUSSION

Based on the data collection, the research respondents were categorized into gender, age, educational background, and length of employment. The results of respondents' profile analysis are summarized in the following table:

**Table 1: Respondents Profile**

<b>Respondent Identities</b>	<b>Category</b>	<b>Total</b>	<b>Percentage</b>
Gender	Male	123	61.5%
	female	77	38.5%
Age	≤ 20 years old	18	9%
	21 - 35 years old	68	34%

	36 - 50 years old	102	51%
	> 50 years old	12	6%
Educational Background	Elementary school	-	-
	Junior High school	149	74.5%
	Senior High school	44	22%
	Diploma	5	2.5%
	Bachelor	2	1%
Length of Employment	< 5 years	68	34%
	5 years - 10 years	94	47%
	11 years - 15 years	33	16.5%
	> 15 years	5	2.5%

The data in the table above indicate that the majority of the respondents is male, aged from 36 to 50 years, Junior High School graduates with length of employment between 5 and 10 years.

Based on confirmatory factor analysis (CFA), it can be declared that all indicators are valid with the loading factors range from 0.73 to 0.92 > 0.5, and a  $t_{count} > 1.97$ . The result of construct reliability (CR), variance extracted (VE) and Cronbach alpha (CA) tests shown in table 2 indicated that all items are valid and reliable.

**Table 2: The Results of Validity and Reliability Test**

Variable	Valid Indicator	CR	AVE	CA
OA	15	0.97	0.70	0.97
EL	14	0.97	0.73	0,971
OC	15	0.98	0.76	0.98

The value of  $CR > 0.7$ ,  $VE > 0.5$  and  $CA > 0.7$  indicate that all instruments are reliable (Hair et al., 2014). It can be concluded that all instruments are appropriate to use for the next analysis. A full model analysis is performed after it is ensured that all indicators on each variable have been declared valid and reliable. Analysis of the results of data processing at the full model of Structural Equation Modeling (SEM) is carried out with the Goodness of Fit and statistical tests. Table 3 below summarizes the results of the test.

**Table 3: Fitness Indices of the Model and Their Level of Acceptance**

Criteria	Fit Index	Recommended Value	Result	Conclusion
Absolute Fit Indices	Chi-Square, (df=834)	1085.63	1161.91	Poor Fit
	RMSEA	$0.05 < RMSEA \leq 0.08$	0.056	Good Fit
	GFI	$GFI \geq .,90$	0.90	Good Fit
Incremental Fit Indices	AGFI	$AGFI \geq 0.90$	0.90	Good Fit
	NFI	$NFI \geq 0.90$	0.97	Good Fit
	CFI	$CFI \geq 0.90$	0.99	Good Fit
	RFI	$RFI \geq 0.90$	0.97	Good Fit
Parsimony Fit Indices	AIC	$AIC < saturated = 240.00 < Independence = 8011.62$	2433	Good Fit
	CAIC	$CAIC < saturated = 755.80 <$	3404.61	Good Fit

	Independence =		
	8076.10		
ECVI	$E < \text{saturated} = 1.21$	12.23	Good Fit
	$< \text{Independence} =$		
	40.24		

Researchers are not required to fulfill all the criteria of goodness of fit. The use of 4-5 criteria is sufficient to assess the goodness of fit of a model as long as it represents the criteria of absolute fit indices, incremental fit indices, and parsimony fit indices (Hair et al., 2014). Hence, it can be declared that the model reached a good fit.

The results of the structural model analysis produce two structural equations which show the influence between variables. The structural equation of the model being tested are as follows:

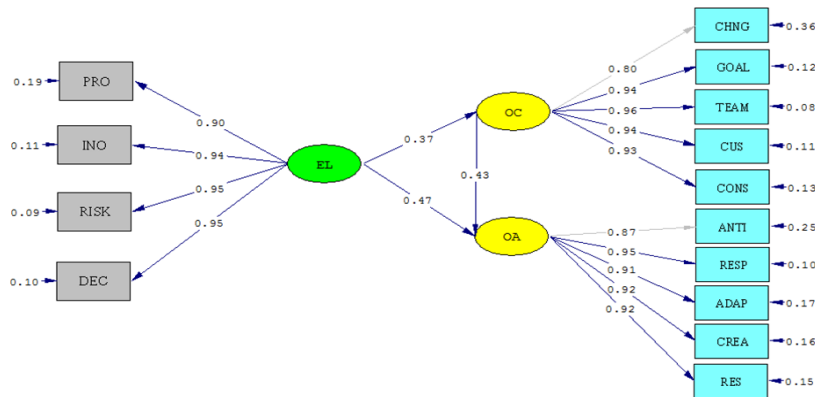
$$OC = 0.37 * EL, \text{ Errorvar.} = 0.86, R^2 = 0.14$$

	(1)
(0.073)	0.13
5.04	6.78

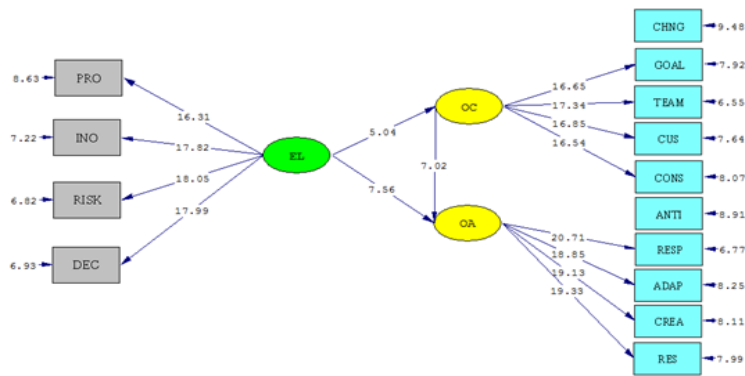
$$OA = 0.43 * OC + 0.47 * EL, \text{ Errorvar.} = 0.45, R^2 = 0.55$$

	(2)	
(0.061)	(0.062)	(0.061)
7.02	7.56	7.35

From the equation of structure (1) it is obtained that the value of  $R^2 = 0.14$  which means that the formation of OC by EL is 14%, while the remaining 86% is determined by other variables outside the test in this study. The second structural equation it is known that  $R^2 = 0.055$  which means that OA can be explained by OC and EL by 55%. In other words, the formation of OA by OC and EL is 54%, while the remaining 45% is formed by other variables not tested in this study. The full structural model is shown in figure 1 and 2 below:



**Figure 1. Structural Model of Latent Variable Paths**  
**Source: Lisrel 8.8 Output**



**Figure 2. T<sub>count</sub> of Latent Variable Path**  
**Source: Lisrel 8.8 Output**

The hypothesis test was carried out by comparing the  $t_{count}$  to the  $t_{table}$ . The number of respondents is 200, and the number of variables is three, then the value of  $t_{table}$  is 1.97. Hypothesis testing is based on structural equation modeling (SEM) analysis, where the level of significance of the path coefficient is obtained from the  $t_{count} > 1.97$  and standardized path coefficient  $> 0.05$ . Table 4 below summarizes the results of path analysis.

**Table 4: The Results of Hypothesis Testing**

No	Path	Standardized Coefficient	T <sub>count</sub>	Significance	Result
1.	EL → OA	0.47	7.56	Significant	Accepted
2.	EL → OC	0.37	5.04	Significant	Accepted
3.	OC → OA	0.43	7.02	Significant	Accepted
4.	EL → OC → OA	0.16 (0.37*0.43)	4.30	Significant	Accepted

Based on Table 4, the results of hypothesis testing can be explained as follows: Hypothesis 1 is accepted. Therefore, EL is proven to be positively and significantly affect the organizational agility.

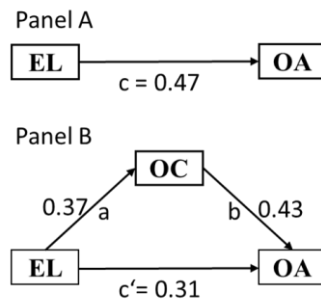
Hypothesis 2 ( $H_2$ ) is accepted. Thus, it can be concluded that EL has a positive and significant direct effect on OC.

Hypothesis 3 ( $H_3$ ) is accepted. Thus, it can be concluded that OC has a positive and significant direct impact on OA.

Hypothesis 4 ( $H_4$ ) is accepted. EL has a significant and positive direct effect on OA. This means that EL has an indirect positive effect on OA through OC.

To find out the mediation role of OC in the relationship between EL and OA, the authors used the formula by Hayes (2018) in which  $a \cdot b = c - c'$ . The value of direct effect of EL on OC is 0.37(a), and the value of direct effect of OC on OA is 0.43 (b). Before controlled by OC, the value of direct effect of EL on OA is 0.47(c). The value of indirect effect of EL on OA through OC is 0.16, which is obtained from the multiplication of the direct path of EL to OC (0.37) with the direct path of OC to OA (0.43). Therefore, the effect of EL on OA after controlled by OC is decreased to 0.31 ( $c'$ ), which is obtained from 0.47 (c) – 0.16. As the decrease is not to zero. It can be concluded that OC has partially mediated in the effect of EL on OA. The illustration the direct and indirect effect of El on OA is shown in figure 3.





**Figure 3. Panel A: The Direct Effect of EL on OA. Panel B: the Indirect Effect of EL on OA mediated by OC. Source: Hayes (2018)**

The summary of direct, indirect and total effects is shown in table 5.

**Table 5: Direct Effect, Indirect Effect, and Total Effect**

From	Through	To	Direct Effect	Indirect Effect	Total Effect
EL	-	OA	0.47	-	0.47
EL	-	OC	0.37	-	0.37
OC	-	OA	0.43	-	0.43
EL	OC	OA	0.47	0.16 (0.37*0.43)	0.63

The combination of entrepreneurial leadership and organizational culture had a greater impact on organization agility, with a combined effect regression coefficient of 0.63.

### DISCUSSION

EL has a significant and positive direct effect on OA. It can be interpreted that an increase in EL will lead to an increase in OA. This findings reinforce the theory that leadership means influencing followers to achieve a common objective (Kinicki & Fugate, 2018; McShane & Glinow, 2018). Through leadership the employees can be directed to the achievement of OA. The results of previous empirical studies (Aurélio de Oliveira et al., 2012; Karimi et al., 2016; Raesi & Amirnejad, 2017; Veiseh et al., 2014) indicated that leadership positively influenced the OA. It can be interpreted that the improvement of EL will affect the improvement of OA. Therefore, to enhance OA, EL must be improved. The improvement of EL should be done through the improvement of its indicators namely; proactivity, innovativeness, risk-taking, and decision making. When those factors are strong, then EL can be stronger, which finally impact the higher OA. Based on the analysis, it is found that risk taking has the highest score in shaping the EL. It means that risk taking is the most representative indicator in explaining the latent variable of EL in Indonesian SMEs. SMEs leaders must keep maintaining the courage to take risks, because it is very important for the success of entrepreneurial activities in an uncertain business environment (Guo & Jiang, 2020). However, the proactivity was found as the weakest indicator in explaining the EL at Indonesian SMEs. Therefore, to enhance strong EL, the main effort is to increase the leaders' proactivity. Leaders should become more proactive to think, plan, and execute and bring about necessary changes, and remain focused on their core missions (Wu & Wang, 2011). Besides being proactive themselves, leaders should also encourage the employees to be more proactive. Organizations need proactive employees to improve the efficiency of their workplace (Hu et al., 2018). Fuller et al. (2015) declared that in the environmental uncertainty, employee proactive behavior is an increasingly important determinant of organizational success.

Likewise, EL has a significant and positive direct effect on OC. This relationship can be interpreted that if EL is applied better it will strengthen the OC. Conversely, if EL is not good, it will have an impact on the weakening of OC. This finding reinforce the theory that through leadership, the appropriate OC can be created and strengthened (Klein et al., 2013). The results of

this study is in line with the results of previous studies by Frantz & Jain (2017) and Gholamzadeh et al. (2014) which found that EL has a direct positive and significant effect on OC.

Meanwhile, OC has a significant and positive direct effect on OA. This means that to increase OA, SMEs need to improve OC. To strengthen OC, SMEs need to improve the 4 indicators which are shaping the OC namely, culture of managing change, team orientation, customer orientation, and goal orientation. The improvement of each indicator will lead to an increase in OA. This finding has empirically proved and corroborated the result of previous studies in which OC has positive effects on OA (Fahami et al., 2017; Felipe et al., 2017; Goncalves et al., 2019; Sarshar & Hezarjaribi, 2016; Yazdani & Salarzahi, 2014).

Based on the result, it is shown that team orientation gave the biggest contribution in shaping the OC. It means that team orientation is the most representative indicator in explaining the latent variable of OC in Indonesian SMEs. SMEs must keep maintaining the team orientation culture because it gives several benefits to the organizations, such as; to increase productivity; to improve product/service quality; to reduce absenteeism and turnover, which ultimately leading to improve work performance (Glassop, 2002). However, the culture of managing change was found to be the weakest indicator in explaining the OC in Indonesian SMEs. Therefore, the main priority to improve OC should be done by improving the culture of managing change. Managing change effectively is very essential for organizations to survive in the everchanging environment (M. N. et al., 2019). The efforts to strengthen the culture of managing change

Finally, OC partially mediated the effect of EL on OA. An increase on EL indirectly caused an increase on OA through OC. This means that to improve OA, the leaders need to improve the EL through OC. When the OC is increased, then it will ultimately improve the effect of EL on OA. Various theories and empirical evidence through researches have shown a direct positive effect of EL on OC and a direct positive effect of OC on OA. Even though the study about the indirect effect of EL on OA through OC has not been done, based on the logic of syllogism, it can be concluded that EL has a positive indirect effect on OA through OC. This logic is supported by the results of this study which show that EL has a significant positive effect on OA through OC. It can be interpreted that good EL will be able to increase OA, and through good OC, the influence of EL in increasing OA will be stronger.

## **CONCLUSION**

The development and change in the environment, technological advances and rapid economic and social changes as a result of globalization, have had a major influence on the industrial world. SMEs in Indonesia face the reality of challenges which can affect and threaten their survival and growth. To stay relevant to the environmental changes, SMEs should have strong organizational agility. Organizational agility should be built from the employees who have the most contribution in the business process.

The results of this study are expected to bring some managerial implication as input for SMEs entrepreneurs to improve their organizational agility. The findings show that entrepreneurial leadership and organizational culture respectively have positive and significant direct effects on organizational agility. This finding provides directions for SMEs entrepreneurs to accommodate the entrepreneurial leadership and organizational culture to foster the achievement of strong organizational agility. Comparing to organizational culture, entrepreneurial leadership has greater influence on organizational agility. Therefore, the effort to increase organizational agility should be more prioritized in strengthening the entrepreneurial leadership. Leaders should improve their proactivity as the first priority, followed by improving innovativeness, decision making ability and risk taking. When these indicators are improved, it will strengthen the entrepreneurial leadership which can give positive effects to the improvement of organizational agility.

The results of this study also indicate that organizational culture partially mediates in the effect of entrepreneurial leadership on organizational agility. It is suggested that the owners/leaders of SMEs to consider the organizational culture if they want to prompt the effect of entrepreneurial leadership on the organizational agility. Increasing SMEs' organizational culture

should be prioritized on the strengthening of managing change culture. To build this culture, SMEs leaders have to communicate and share the value of managing change, so that the employees are more aware of the need for change in order to adapt to the situation. Finally, the results of the research can be used as an input for leaders to manage the human resources in SMEs, as a basis for making decisions in the context of human resource development, as a priority setting program to improve strategies, values, and approaches in order to increase employees' organizational agility.

The results of this research also provide some theoretical contribution to enrich the management science entity in the spectrum of organizational behavior, especially within the field of small and medium-sized enterprises. However, this research still contains several limitations. The first is that this study was conducted at the SMEs which are located in the same geographical area, in Industrial Village (PIK) East Jakarta, Indonesia. The second limitation is that the sample was taken only from the clothing industrial sector, so the results are less generalizable. For the future study, it is suggested to look into different sectors of SMEs in different areas/ regions. The third limitation is that the independent variables discussed in this study were delimited to the entrepreneurial leadership and organizational culture. Further researches are recommended to study more variables which may affect the organizational agility.

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