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ABSTRACT

Demographic Bonus Of Human Resources And Increased Innovation : Case Study On SMEs Bali Province

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Abstract. The digital era makes change faster, various innovations are created in various industries. Leaders play an important role in realizing innovation in an organization. The demographic bonus in the form of the number of productive age human resources owned by the Indonesian nation will be the support for the creation of innovation. This study aims to examine the role of Cognitive Intelligence Competencies, Emotional Intelligence Competencies, Social Intelligence Competencies, leaders of creative Small and Medium Industries (IKM) in Bali Province in increasing innovation. The research subjects in this study were IKM leaders in Bali Province who were engaged in the creative industries, namely crafts, fashion and culinary, totaling 616 and the number of samples selected using the Slovin method so that a total of 242 people were obtained. This study found that Cognitive Intelligence Competencies, Emotional Intelligence Competencies, Social Intelligence Competencies were not able to directly influence innovation. In this study it was found that the competencies possessed by leaders in the form of Cognitive Intelligence Competencies, Emotional Intelligence Competencies, Social Intelligence Competencies cannot directly affect the creation of innovation. In the next research, research can be carried out in addition to leadership competencies, other things that can encourage innovation among SMEs actors.

Keywords: Cognitive Intelligence Competencies, Emotional Intelligence Competencies, Social Intelligence Competencies, Innovation.

INTRODUCTION

Data released by the *Global Innovation Index (GII)* 2019 Indonesia has a score of 29.8 or is ranked 85th in the field of innovation from 129 countries in the world. In the ASEAN region, Indonesia's innovation ranking is in the second lowest position. Other neighboring countries in ASEAN that managed to enter the world's top 10 were only Singapore with a score of 58.4. Malaysia is ranked 35th, Thailand is ranked 43rd, Vietnam is ranked 42nd, the Philippines is ranked 54th, Brunei Darussalam is ranked 32nd and Cambodia is ranked 96th. The Global Innovation Index was compiled by Cornell University, the World *Intellectual Property Organization (WIPO*), and *the European Institute d'Administration des Affaires.* (*INSEAD).* This global benchmark for recording innovation activity in 129 countries was compiled with 80 indicators. The GII shows that countries that prioritize innovation in policy have significantly increased their rankings. *The Global Innovation Index* (*GII*) uses *input* and *output* pillars in conducting an assessment where innovation *inputs* are various resources intended for the process of creating innovation, while innovation *output* is the result obtained

from the innovation itself. The *input* pillars consist of *Institutions* , *Human Capital and research, Infrastructure, Market Sophistication* and *Business Sophistication* , while *the sub outputs* consist of *Knowledge and Technology output* and *Creative output* [1].

One of the *input pillars* in assessing the innovation index is *Human Capital and research* . Indonesia is still lagging behind in terms of the quality of human resources, both in creating products and services and in conducting *research and development.* On the other hand, Indonesia has a demographic bonus with a very high number of human resources of productive age. Indonesia's economy in the future will be supported by demographic *trends* , where based on BPS data, the ratio of the productive age group in Indonesia is expected to continue to increase from 67.4% in 2010 (population 237.6 million) to 69.7% in 2025. Indonesia needs human resources who can face change and bring progress through new ways. New ways that are based on awareness are part of the *disruptive phenomenon* a *mindset* that can lead to the achievement of high performance as an agent of change, it is synonymous with innovation [2]. Improving the quality of human resources through the formal and *non* - formal education sector is an urgent matter that needs to be prioritized to improve the competitiveness of Indonesia, which is currently ranked 67th out of 125 countries in the world [3].

output pillar in GII from sub *creative output* is divided into *intangible assets, creative goods and services and online creativity* . In this study, it will focus on the *output creative goods and services.* Bali Province is one of the regions in Indonesia that has a prospective in producing high value products and export standards. Business actors in Bali are aggressively spurring competitiveness, including efforts to increase innovation and product design creation. The interest of the younger generation in Bali in entrepreneurship is quite a big contribution to 12.57% of Gross Domestic Product (GDP) or is in the second highest position in Indonesia after Yogyakarta Province at 16.12% [4].

There are 16 sub-sectors of the creative economy currently running in Indonesia, but there are three that are superior, namely *fashion* , culinary, and craft. Indonesia, especially Bali, as a local, domestic and international tourist destination, makes the culinary, *fashion* and craft industries a force in increasing regional income and increasing export value. IKM leaders should continue to innovate to produce products and services that have global competitiveness, because innovation is a socio-economic driver in a country. SMIs in Bali Province still need improvements in quality management innovation systems, food safety management systems and *good packaging* that meet standards to be able to compete in the world market. The results of interviews with creative IKM owners said that Bali's IKM products were unable to compete with other country's products because Bali's IKM entrepreneurs still used many elements of art and made *handmade works* so they could not compete in terms of price with other country's products.

Schumpeter's Theory of Innovation suggests that entrepreneurs who innovate are able to create disruption and change existing economic structures and create new ones [5]. Innovation has become a critical competency for leaders operating in a business world that is filled with challenges and requires new thinking and solutions. Innovation is increasingly recognized as a strategic imperative for sustainability and differentiation [6.7.8]. Businesses that continue to innovate can maintain their portfolio, win the competition and ultimately create a long-term competitive advantage [9] . Innovation is seen as a new idea that is used to improve a type of product or service through restructuring or cost savings, improved communication, the use of new technology for production processes, new organizational structures and new staffing plans or programs [10]. Based on some literature it was found that there are two main factors in influencing innovation, namely human capital and social capital

as antecedents to innovation [11] .

According to Mc Nair [12], leadership is the art of motivating a team or group of people to act appropriately to achieve a given common goal. The ability possessed by a leader to be able to persuade others on behalf of the organization in completing tasks in achieving organizational goals [13]. Leaders create innovation by introducing new products to the market, bringing new production methods to the industrial sector, opening access to new market segments, finding new sources of materials, and creating new organizational structures [14]. Leadership is an integral part of innovative organizational performance. Leaders build an environment that can support creativity and ultimately innovation [15,16]. In a *top-down process* , leaders manage the strategic innovation goals and activities of their organizations. Leaders can set these goals and direct them by managing time, facilities, money and knowledge resources [17]. In previous studies, it was found that leadership has a significant influence on innovation [18,19]. Leaders who are responsible for innovation must be competent in making innovation happen, but many admit that they do not believe that their practice will lead to success [20].

Leadership competence as measured by social competence, cognitive and emotional intelligence is believed to have a positive correlation with *entrepreneurial self-efficacy* which in turn helps increase the focus on innovation and motivates among team members to improve organizational performance [21]. Cognitive leadership has a positive and significant impact on *entrepreneurial self efficacy* [22]. In research [23] found that *self-efficacy* acts as a moderator in the relationship of leadership competence to the achievement of innovation goals. This study aims to examine the role of leadership competence on innovation in the leadership of creative Small and Medium Industries (IKM) in Bali Province. This research is a causality research based on the theories used as a reference in developing the concept. The theory that is used as a reference in this research is *The Entrepreneurship Theory of Innovation* from Schumpeter [24] which states that entrepreneurs who innovate are able to create disturbances and change existing economic structures and create new ones.

The design of this research is a type of quantitative research using the *positivism paradigm* which refers to the study of empirical rational principles. Using measurable data obtained from filling out questionnaires by respondents. The purpose of this study was to measure the causal relationship between variables. The scope of this research is based on human resource management where researchers conduct research on variables that can encourage innovation to occur. The exogenous variable (*exogenous variable*) of this study is leadership competence while the *endogenous variable* is innovation. The research design used is a quantitative research design and in this research design used structural equation modeling analysis or *Structural Equation Modeling (SEM)* based on *Partial Least Square* (PLS).

LITERATURE REVIEW

Schumpeter's Theory of Innovation suggests that entrepreneurs who innovate are able to create disruption and change existing economic structures and create new ones [5]. Entrepreneurial Innovation Theory identifies entrepreneurs as the main drivers of economic development through the introduction of innovation. Schumpeter 's theory of entrepreneurship characterizes the central role of entrepreneurs in economic development as the ability to disrupt the economic status quo through innovation. Schumpeter also mentioned that the innovations made by entrepreneurs are introducing new goods, introducing new

production methods, opening new markets, conquering new sources of raw materials, and reorganizing industries in new ways to solve problems.

Some definitions from experts state that innovation is used to improve a type of product or service through restructuring or cost efficiency, the use of new technology for production processes, new organizational structures, and new staffing programs [25]. According to Kanter [26) innovation is done to solve problems through the creation of new products and processes. Innovations designed must be relevant to be able to provide significant benefits for individuals, groups, organizations and society [27]. Two important elements in innovation are that the first innovation must be new and the second is that the innovation is to renew something that already existed. Innovation creates a new which is an idea that is considered new to individuals regardless of when it was first used or discovered and the new idea must be successfully implemented and used for economic gain [28]. The second innovation is to update something that previously existed. Updates can be made by adding product features or improving the manufacturing process. From the definition of innovation by several experts, it can be concluded that innovation is an idea, idea, and practice that is accepted as something new by a person or group to be applied or adopted. Innovations carried out by entrepreneurs are introducing new goods, introducing new production methods, opening new markets, conquering new sources of raw materials, and reorganizing the industry in new ways, hereinafter referred to as product innovation, process innovation, management innovation, marketing innovation and service innovation. .

Innovation can be supported by several supporting factors such as; 1) there is a desire to change oneself, from not being able to being able and from not knowing to knowing, 2) having freedom of expression, 3) having a mentor who is broad-minded and creative, 4) the availability of facilities and infrastructure and 5) harmonious environmental conditions both the family, social and school environment [27]. Internal and external factors can have a direct impact on an organization's innovation by the number of innovations adopted. Internal factors consisting of market orientation, learning policies and technology are designed to improve the company's innovative behavior. External factors directly affect organizational attitudes towards innovation, can inhibit or stimulate innovation-related work [29]. Innovation in the organizational context includes implementing ideas to be able to restructure, save costs, improve communication using new technologies for production processes, new organizational structures, and new staffing plans or programs.

Innovation is a similar duality between temporary and long-term emotions. When individuals initiate change or introduce new things to modify and improve established patterns, they generally experience feelings of pleasure , interest and pride, but are in situations that demand radical innovation whose constant is for the most part a source of emotional distress. permanent struggle against the world [30]. The human tendency to refuse to deviate from the usual way of acting is routine and habitual because of the fear of social sanctions, criticism and disapproval [31]. To overcome this obstacle, Schumpeter argues that a person needs a very strong will and great personal weight. Schumpeter in Goss [31] states that entrepreneurship is a strong theory of social control that rests on the limits of conventions, routines, habits, and social sanctions. This social control acts to regulate behavior in this case limiting the extent to which individuals will be prepared to engage in deviant innovative entrepreneurial actions.

1) *Cognitive Intelligence Competencies*

Cognitive domain is a domain that includes mental (brain) activities. All efforts concerning brain activity are included in the cognitive domain. The cognitive domain has six levels or aspects, namely knowledge/memorization/memory (*knowledge*), comprehension (*comprehension*), application (*application*), analysis (*analysis*), synthesis (synthesis*)* and assessment/award/evaluation (*evaluation*).

The purpose of the cognitive aspect is oriented to the ability to think which includes simpler intellectual abilities, namely remembering, to the ability to solve problems that require someone to relate and combine several ideas, ideas, methods or procedures learned to solve the problem. Thus the cognitive aspect is a sub-taxonomy that reveals mental activities that often start from the level of knowledge to the highest level, namely evaluation. Some definitions of *cognitive intelligence* according to Sun & Hui [32] Cognitive competence indicates critical and creative talents that enhance learning, problem solving, and decision making. Cognitive competence describes the use of ideas, systems thinking, and pattern recognition [33]. Boyatzis and Ratti (2009)[34] cognitive competence is an individual's ability to think and analyze information, intelligence as an individual's ability to plan, reason, solve problems, understand complex ideas, think abstractly, learn from experience and learn quickly. Cherniss [35] argues that cognitive intelligence is not just book learning, the ability to take tests well or other narrow academic skills but involves a deeper and broader ability to perceive one's environment in order to find out, capture and understand.

From some of the definitions above, it can be concluded that *leadership cognitive intelligence competence* is the ability of a leader to think critically and creatively, analyze information, plan, understand complex ideas, learn from experience to solve a problem in the organization he leads. In this study, indicators of cognitive intelligence are shown by understanding product concepts , understanding the technology used to produce products, doing thinking systematically / regularly, taking into account all things related to products, utilizing systematic / regular work patterns and being able to communicate effectively well written [36].

2) *Emotional Intelligence Competencies*

Emotional intelligence competencies include self-awareness, understanding other people's feelings, motivating others, and empathy for others. *Emotional intelligence competencies* contribute to improving leadership abilities and can provide strong coordination in motivating employees, and improving performance [37]. The results of research by Matthews [38] argue that emotional intelligence has psychological elements, especially in the areas of personality, intelligence, and EI that have been identified as part of self-awareness, empathy, managing relationships, and emotional management. Self-awareness refers to the ability to accurately assess one's behavior, feelings, and emotions which also includes the expression of emotions. In conclusion, EI refers to an individual's ability for self-reflection and emotional understanding.

Several definitions of *emotional intelligence* (EI) have been put forward by several experts. Social intelligence involves the ability to monitor one's and other's feelings and emotions, to discern them and to use this information to guide one's thinking and actions. This theory views emotional intelligence as an organized response that includes many psychological disciplines including physiological, cognitive, motivational and experiential. A group of traits or abilities related to the emotional side of life, abilities such as recognizing and managing one's own emotions, being able to motivate oneself and restrain one's impulses, recognizing and managing the emotions of others, and managing interpersonal

relationships effectively.

The emotional intelligence (EI) framework reflects how the individual's potential to master skills consisting of self-awareness (*self-awareness*), self-management (*self-management*), social awareness (*social awareness*), and relationship management (*relationship management*). Conceptually emotional intelligence can be described in the table below.

A leader in carrying out his leadership in an organization requires many important things, one of which is intelligence. Intelligence is something that is needed in determining a person's success and effectiveness. In general, research shows that leaders score higher than most people on tests of cognitive ability, such as IQ tests, and cognitive ability is positively related to effective leadership. Emotional intelligence refers to a person's ability to understand, identify, and successfully manage emotions in self and others. Leaders who have a high EI are rated more effective by coworkers and subordinates. According to Mayer and Salovey [39] defines that emotional intelligence involves the ability to know, assess and express emotions accurately; the ability to use emotions to think, the ability to understand and have knowledge of emotions and the ability to manage emotions for self-development. So it can be concluded that emotional intelligence is the capacity to recognize one's own intelligence feelings and feelings of others, to motivate ourselves , and to manage emotions effectively in ourselves and others. An emotional competence is a learned ability based on emotional intelligence that contributes to effective performance.

Emotional intelligence in this study is the ability of SMI leaders to recognize, understand, and use emotional information about themselves that causes effective or superior performance. In this study, the emotional intelligence of IKM leaders includes efficiency-oriented, implementing planned work, implementing work with initiative, good self-control and flexible individuals [15].

Research studies have found that individuals who score higher on EI have the ability to accurately understand and assess the emotions of others, are better able to respond flexibly to changes in their social environment and are better equipped to build supportive social networks [39].

3) *Social Intelligence Competencies*

Social intelligence is the ability to effectively navigate and negotiate in social interactions and environments . It is equivalent to interpersonal intelligence , one of the types of intelligence identified in Howard Gardner's theory of multiple intelligences , and is closely related to the theory of mind. Social intelligence is the ability to reach maturity in the awareness of thinking and acting to carry out the role of humans as social beings in establishing relationships with their social environment. Social intelligence can also be interpreted as the ability to interact, the ability to cooperate in organizations and in negotiating. The characteristics of a person having social intelligence are [40] ; 1) being able to read situations from people's feelings and social content that affects others (*situational awareness*), 2) showing an attitude of confidence (*presence*), 3) behaving honestly and sincerely (*authenticity*), 4) speaking clearly and politely so that able to be understood by others (*clarity*) and 5) able to feel what others feel (*empathy*).

Several definitions of *social intelligence competencies* Rahim [41] state that social intelligence specifically refers to the power to observe and understand social situations. Beheshtifar & Roasaei [42] social intelligence is defined as an individual's ability to achieve the goals required in a particular social setting. With respect to business organizations, social

intelligence is defined as the intentional use of good people skills with the understanding that the effective use of those skills will have a positive impact on others in an observable way. Almatrooshi [43] social intelligence enables leaders to pursue their goals and needs effectively in their social and professional environment. An important component of building social intelligence (*social intelligence*) is communication and education. Social intelligence is the maturity of mind and character awareness to play a social role in a group or society.

Leadership social intelligence competencies are the ability or power to observe and understand social situations, as the intentional use of the skills of good people with the understanding that using these skills effectively will have a positive impact on others in an observable way. Social intelligence enables leaders to pursue their goals and needs effectively in their social and professional environment. In this study, *social intelligence competencies* are the ability of SME leaders to recognize, understand and use emotional information about other people that leads or causes effective or superior performance. In this study, *social intelligence competencies* include being good at building networks with team members, good at managing team members, good at negotiating with team members, sympathizing with team members' thoughts, having the ability to develop team members and good at verbal communication.

METHOD, DATA, AND ANALYSIS

1. Research Design

The design of this research is a type of quantitative research using the *positivism paradigm* which refers to the study of empirical rational principles. Using measurable data obtained from filling out questionnaires by respondents. The purpose of this study was to measure the causal relationship between variables. The scope of this research is based on human resource management where researchers conduct research on variables that can encourage innovation to occur. The exogenous variable (*exogenous variable*) of this study is social capital and leadership competencies by using the mediating variable, namely *entrepreneurial self-efficacy* , while the *endogenous variable* is innovation. The research design used is a quantitative research design and in this research design used structural equation modeling analysis or *Structural Equation Modeling (SEM).* based on *Partial Least Square* (PLS).

2. Methodology

This research was conducted on SMEs in the province of Bali. The total population in this study was 616 Creative SMIs in Bali Province. The creative SMEs in question are those engaged in the fashion, culinary and craft fields. By using the slovin method, a sample of 242 IKM leaders in the province of Bali was obtained. There are two research variables in this study, namely *cognitive intelligence compentencies, emotional intelligence compentencies* and *social intelligence compentencies* . *The* independent variable is leadership competence which consists of three dimensions, namely, and the dependent variable, namely innovation. The time of the study was carried out in August 2020. The data was collected using a questionnaire, the data was processed using PLS SEM for testing and answering hypotheses.

RESULTS AND DISCUSSION

Based on the answers from respondents to all categories of questionnaire assessment. The average value of respondents' answers for the leadership competence variable of 3.97 is included in the strong category, this indicates that the respondents' responses to the statements submitted are high, which means that the IKM leaders in Bali have a strong level of ability in three main competencies, namely *cognitive intelligence compentencies, emotional intelligence compentencies* and *social intelligence compentencies* in supporting leadership competencies .

Indicators that have a response with an average value above the average value of the variable are indicators of *cognitive intelligence competencies* and *emotional intelligence competencies* namely with a value of 4.11 and 4.00, respectively, which is included in the strong category. In indicators of *cognitive intelligence competencies* it was found that the respondents really understand the products they make and the technology used in the products and have the ability to communicate in writing well to support leadership competencies. *The emotional intelligence compentencies* indicator describes the IKM leadership implementing efficiency and using initiative in their work. Respondents have the lowest perception and have an average value below the average value of variables on *social indicators intelligence competencies* with an average value of 3.82. This may indicate that respondents' responses are weaker on indicators of *social intelligence competencies* , especially in the ability to manage team members and develop team members.

Table 1.1
The Results of the Validity Test of the Leadership Competency Variable Indicators

Indicator	Code	*Outer Loading*	Information
Cognitive Intelligence Competencies	X_1	0.879	Valid
Emotional Intelligence Competencies	X_2	0.995	Valid
Social Intelligence Competencies	X_3	0.919	Valid

Source: Primary data processed, 2020

Table 1.1 shows the *outer loading value* of the three leadership competency indicators that have a value above 0.50 so that all indicators are declared valid. Of the three leadership competency indicators, namely *cognitive intelligence competencies* , *emotional intelligence competencies* and *social intelligence competencies , the emotional intelligence competencies* indicator has the highest value, which is 0.995. Based on this value, it can be stated that the *emotional intelligence competencies indicator* has the largest contribution compared to other indicators. *Emotional intelligence competencies* shown by efficient behavior, carrying out planned activities, having high initiative, good self-control and having a flexible personality are the main supporters or make the highest contribution to the leadership competencies of IKM leaders in Bali Province.

Table 1.2
The Result of the Validity Test of the Innovation Variable Indicator

Indicator	Code	*Outer Loading*	Information
Product Innovation	Y1 _	0.900	Valid
Service Innovation	Y2 _	0.931	Valid
Process Innovation	Y_3	0.958	Valid
Management Innovation	Y_4	0.987	Valid
Marketing Innovation	Y_5	0.899	Valid

Source: Primary data processed, 2020 (Appendix 5)

Table 1.2 shows the value of the *outer loading* of the five innovation indicators has a value above 0.50 so that all indicators are declared valid. Of the five innovation indicators, namely product innovation, service innovation, process innovation, management innovation and marketing innovation , the highest score is the management innovation indicator with a value of 0.987, followed by process innovation with a value of 0.958. Based on this value, it can be stated that the management innovation indicator has the greatest contribution compared to other indicators. Management innovations carried out by IKM entrepreneurs in Bali Province can support or can make a major contribution to innovation activities in their organizations.

Table 1.3
The Direct Effect of Leadership Competencies on Innovation

Model	*Path Coefficient*	*t - statistict*	*T-Table (Sig. 5%)*	*p-value*	Information
Competence → for Innovation	0.050	0.683	1.96	0.495	Not Significant

Source: data processed 2020

Based on Table 1.3 shows that leadership competence has a positive and insignificant effect on innovation, based on the path coefficient which shows a value of 0.050 with a *t-statistic of* 0.683 < 1.96. This result states leadership competence has no significant effect on innovation.

CONCLUSION

Based on the results of the research that has been analyzed, it shows that leadership competence has no significant effect on innovation. The results of this study indicate that leadership competence as measured by cognitive intelligence, emotional intelligence and social intelligence does not significantly affect the innovation of IKM leaders in Bali. Increasing the leadership competence of IKM leaders cannot significantly increase innovation. The competence of a leader shown from *cognitive intelligence competencies* ,

emotional intelligence competencies and *social intelligence competencies* , indicators of *emotional intelligence competencies* does not necessarily increase the level of innovation of the organization being led. To be able to deliver innovation Competence must be accompanied by other capabilities that can implement these capabilities and convey to members of the organization.

This finding is not in line with previous research which says organizational leaders play an important role in achieving organizational goals and objectives by creating a conducive environment that influences employee behavior, attitudes and motivation. Innovation in organizations as a result of individual, team, and organizational efforts combine to produce a new product, process, or service that is potentially attractive to the market. Leadership is an integral part of innovative organizational performance. Leaders build an environment that supports creativity and ultimately innovation [44,45]. In a *top-down process* , leaders manage the strategic innovation goals and activities of their organizations. Leaders can set these goals and direct their activities by managing time, facilities, money and knowledge resources [46]. Leaders organize two processes of providing support to teams and individuals when they turn their creative efforts into innovation and managing organizational goals and activities devoted to innovation. In previous studies, it was found that leadership has a significant influence on innovation [47]. Previous research revealed that the aspect of transformational leadership charisma can affect service and product innovation.

Leadership competence that is not accompanied by a good leadership style may not necessarily increase innovation as in previous research which revealed that leadership style plays an important role in organizational learning, innovative culture, and organizational performance. Innovative culture and organizational learning have a significant influence on organizational performance. This research is in line with research [48] which states that leaders responsible for innovation must be competent in helping innovation occur, but many admit that they do not believe that their practice will lead to success. The leadership competencies possessed by company leaders cannot increase innovation if they are not accompanied by self-confidence to be able to successfully implement innovations.

IMPLICATION/LIMITATION AND SUGGESTIONS

Implications for the government as a regulator, managerial development for IKM leaders in Bali Province. The required managerial guidance includes providing technical assistance in implementing creative ideas to create innovative products and services. The government can also provide wider access to capital for MSMEs, either through banks or revolving fund management institutions, as well as provide technical facilities for SMEs who wish to carry out export activities and product exhibitions abroad. Improvement of the coaching program in terms of management consulting to be able to foster the spirit and confidence of SMEs in Bali Province. For further researchers, they can examine other variables that can encourage a leader to increase innovation such as leadership style variables.

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