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The Effect of Entrepreneurial Leadership Towards Organizational Performance

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Abstract

The business context has seen rising competition for critical resources and numerous scholars have suggested that in the current complex and volatile environments, it is obvious that the escalating ineffectiveness of more traditional approaches to strategy necessitates an entrepreneurial approach. Many has suggested a more entrepreneurial approach such as entrepreneurial leadership. As SMEs are deemed as the backbone of the nation's economy, it is essential to understand how entrepreneurial leadership could affect the organizational performance. Thus, this study examines the relationship of entrepreneurial leadership and organizational performance. This research employs quantitative analysis with 391 respondents participated in this study by implementing the systematic random sampling technique from a total of 645,136 SME owners in Malaysia. The result shows that entrepreneurial leadership has positive effect towards organizational performance.

INTRODUCTION

The business context has seen rising competition for critical resources (Santora et al., 1999; Pointer & Sanchez, 1994). Many scholars have suggested that in the current complex and volatile environments, it is obvious that the escalating ineffectiveness of more traditional approaches to strategy necessitates an entrepreneurial approach (Brown & Eisenhardt, 1998; Bettis & Hitt, 1995). They argued that organizations must be more entrepreneurial to enhance their performance, their capacity for adaptation, and long-term survival. Some research studies indicate that entrepreneurial behavior in established firms is associated with superior performance (Zahra & Covin, 1995) and that this superior performance is sustainable (Wiklund, 1999). Therefore, there has been notion of adopting entrepreneurial leadership to improve organizational performance (Mohtar & Rahim, 2014). The concept of entrepreneurial leadership involves fusing the concepts of "entrepreneurship" (Schumpeter, 1934), "entrepreneurial orientation" (Miller, 1983; Covin and Slevin, 1988), and "entrepreneurial management" (Stevenson, 1983) with leadership. It emphasizes taking a strategic approach to entrepreneurship, so that the entrepreneurial initiatives can support development of enhanced capabilities for continuously creating and appropriating value in the firm. Thus, entrepreneurship can form a basis for competitive advantage and technological growth in all types of firms that are oriented towards leadership and excellence in the new global economy. On the other hand, SMEs in Malaysia is considered as the prime mover of the economy. It contributes

99.2% of total business establishments in Malaysia, with a 32% share of GDP, 59% share of employment and 19% share of total exports (SME Masterplan 2012-2020). These figures demonstrate the importance of SMEs in shaping Malaysian economic landscape. Though it is considered as a good performance, the performance of SMEs still has not reached the stage of full potential. In fact, SMEs have been very fragile and more vulnerable to the external environment (NSDC, 2012). In addition, the literature also found that the failure rate of SMEs is extremely high (Rahim et al, 2015). Therefore, this study examines on the effect of entrepreneurial leadership towards SME's organizational performance in Malaysia.

LITERATURE REVIEW

Entrepreneurship

In order to understand the term entrepreneurial leadership, one must start with an understanding of the word "entrepreneurship," for the word "social" merely modifies "entrepreneurship" (Martin & Osberg, 2007). One needs to realize that the term social entrepreneurship is a subcategory of entrepreneurship, thus it is an extension of the entrepreneurial model used in the for-profit sector. In order to have a theoretical understanding on social entrepreneurship, the link between entrepreneurial theory and social entrepreneurship should be studied. The most common conception of entrepreneurship generally involves the creation of a new business (Dees, 2001).

However, it is a very vague explanation for a term that has long history and more significant meaning. The term entrepreneur was originated in French economics as early as the 17th and 18th centuries. In French, it means someone who undertakes to do a job (Dees, 2001). Though this explanation does not reflect the term entrepreneurship yet, but it build up the foundation of understanding what is the meaning by entrepreneur.

In 19th century, a French economist by the name of Jean Baptiste Say defined entrepreneurs as the individual that shifts economic resources out of an area of lower and into an area of higher productivity and greater yield (Dees, 2001). He was the first to add a fourth actor and attribute a definite position to the entrepreneur as distinct from the capitalist (Schumpeter, 1954). Jean Baptiste Say believed innovation belonged to the entrepreneur. The entrepreneur was creative and combined resources in a revolutionary way as to bring about innovative change and added value. The entrepreneur was seen as distinct from the capitalist who merely managed the labor and the land to realize accrued capital (Say, 2001). His writing helped legitimize and secure the role of the entrepreneur, and the inclusion of entrepreneurship among the major facets of economic theory ensured the entrepreneur would be included in future research

Later on in the 20th century, Joseph Schumpeter (1934), described entrepreneurs as the innovators who drive the creative-destruction process which is considered as the defining element of capitalism. Schumpeter described that entrepreneur reforms or revolutionizes the pattern of production. He further added that entrepreneurs are the change agents in the economy. By serving new markets or creating new ways of doing things, they move the economy forward.

The common understanding of the term entrepreneur was being laid out by Jean Baptiste Say and Joseph Schumpeter. Building from that understanding there are many researchers amplified the concepts by them. One of the most prominent modern theorists of entrepreneurship to do that was Peter Drucker. Though Drucker (2007) agreed on the basis of entrepreneur's definition by Jean Baptiste Say and Joseph Schumpeter, he added that he does not sees entrepreneurs as the cause of change but he but sees them as exploiting the opportunities that change creates. He further described entrepreneur as a person that always searches for change, responds to it, and exploits it as an opportunity.

While Rahim and Mohtar (2015) operationalized the definition of entrepreneur "entrepreneur is an innovator that creates and exploits opportunity, consequently creating value and change towards the economy and society."

Leadership

Leadership is defined as "the ability to influence a group toward the achievement of goals" (Robbins, 2003, p. 314). Leadership is the art of influencing others (De Pree, 2004). A leader is "any person who influences individuals and groups within an organization, helps them in the establishment of goals, and guides them toward achievement of those goals, thereby allowing them to be effective" (Nahavandi, 2002, p.4). An effective leader influences followers in a desired manner to achieve desired goals. Leadership style is the "relatively consistent

pattern of behavior that characterizes a leader” (DuBrin, 2001, p. 121). Different leadership styles may affect organizational effectiveness and performance. Today’s organizations need effective leaders who understand the complexities of the rapidly changing global environment (Nahavandi, 2002). Effective leaders ensure their organization performs well (Fiedler, 1967) or their followers are satisfied (House, 1971).

Entrepreneurial Leadership

Due to the importance of entrepreneurship and leadership, some researchers tried to combine the two concepts into entrepreneurial leadership to explore both entrepreneurship and leadership behavior (Gupta et al., 2004; McGrath & MacMillan, 2000; Tarabishy et al., 2005). Gupta et al. (2004) defined it as “ leadership that creates visionary scenarios that are used to assemble and mobilize a ‘supporting cast’ of participants” (p. 242). Entrepreneurial leadership is an effective and needed leadership style (Tarabishy et al., 2005). Entrepreneurial leadership was coined by those who realized a change in leadership style was necessary. Entrepreneurial leadership is understandable because of the uncharted and unprecedented territory that lies ahead for businesses in today’s dynamic markets (Tarabishy et al., 2005). Autio and Antonakis (2005) indicated that the effectiveness of entrepreneurial leadership behaviors is influenced by the context of their application. Cohen (2004) stated that entrepreneurial leadership is needed more than ever before and described two kinds of entrepreneurial leaders: (a) leaders who reside at the top of the organization chart and (b) leaders at any level of the organization.

Gupta et al. (2004) has developed an instrument to measure entrepreneurial leadership. They suggest that entrepreneurial leaders face two interrelated challenges—first envisaging and creating a scenario of possible opportunities that can be seized to revolutionize the current transaction set, given resource constraints which they label as scenario enactment. The second challenge is to convince both potential followers and the firm’s network of stakeholders that the transformation of this transaction set is possible by assembling resources (including recruiting additional cast) to accomplish the objectives underlying the scenario. They call this challenge cast enactment.

Scenario and cast enactment are interdependent since transforming the transaction set through scenario enactment cannot be conceived without an appropriate cast and the cast cannot be assembled until a convincing scenario is communicated. Both processes evolve cumulatively and iteratively, much like the process of competence development involves the parallel evolution of cognitive understanding and deftness in practice in project teams or the complementary processes of concrete and abstract learning (Gupta et al., 2004).

Organizational Performance

Organizational performance has been in the limelight in both profit and social sectors (Herman & Renz, 2004; Tucker, 2010). It is considered as an essential component in organizational analysis and organizational theory (Goodman & Pennings, 1977; Quinn & Rohrbaugh, 1983). Organizational performance is a complex, multi dimensional phenomenon with little agreement as to how to define and operationalize the construct (Haber & Reichel, 2005; Dess & Robinson, 1984).

Ali (2003) has defined organizational performance as the actual output or results of an organization as measured against its proposed goals and aims. In short, organizational performance is defined as the capability of an organization to effectively achieve its goals and aims (Selden & Sowa, 2004). The aim of assessing organizational performance is to be able to compare the expected result with the actual results, examining whether there is any deviations from plans, individual performance evaluations and investigates the progress being made towards accomplishing the objectives (Hashim, 2007).

A review of the literature has identified that organization performance (business performance) has been measured using objective measures. Objective financial measures include profit, revenues, return on investment, return on sales and return on equity (Haber & Reichel, 2005). According to Dess and Robinson (1984), a majority of empirical studies equate "performance" with "success" when examining the relationship between strategic management practices and organization performance. Since firms exist to succeed at whatever venture they are engaged, defining performance places importance on only one dimension of performance. Firm performance is generally measured utilizing financial metrics such as profit, sales, cash flow, return on equity and growth (Haber & Reichel, 2005).

Entrepreneurial Leadership and Organizational Performance

An entrepreneur who holds the top position in an organization is seen as the leader of the organization that has certain leadership attributes and entrepreneurial characteristics. Many previous researches have coined the idea of entrepreneurs as the leader of the organization (Henton et al., 1997; Dees, 2009). Numerous studies has tried to understand the factors that affects organizational performance and leadership has appeared to become one of the most significant factors contributing to organizational performance. Therefore, entrepreneurs who are committed with the right leadership style may be the key towards organizational performance (Cascio et al., 2010).

Few past empirical studies have found the link between leadership and organizational performance. For example Kieu (2010), found that there is strong correlation between leadership with revenue growth and profits. While Peterson et al. (2003) has established that the commitment of leadership to be significant in the overall organizational performance. Furthermore, Chung-Wen (2008) has proven the positive relationship between leadership and organizational performance in Taiwan.

METHODOLOGY

This research employs a survey using standard questionnaire as a primary data collection technique. The questionnaire was presented in both languages, Bahasa Malaysia and English. 7-point Likert scales ranging from strongly disagree to strongly agree was used. Both measures were adopted from previous studies, entrepreneurial leadership from Gupta et al (2004) and organizational performance from Gold et al. (2001). The samples in this study are the SME owners all over Malaysia. 391 respondents participated in this study by implementing the systematic random sampling technique from a total of 645,136 SME owners in Malaysia. Frequency, descriptive, reliability, correlation and multiple regression analysis were tested in this study. The objective of this study is to examine the effect of entrepreneurial leadership towards organizational performance among the SME owners in Malaysia.

ANALYSIS AND RESULT

Descriptive Statistic

The descriptive statistics of the respondents is shown in Table 1. The respondents are SME owners nationwide with mostly has the business period of 5 years and below (n=215, 55.0%), followed by 5 to 10 years (n=102, 26.1%) and more than 10 years (n=74, 18.9%). Most of the respondents have the business structure of sole proprietorship (n=222, 56.8%) and engaged in services (n=363, 92.8%). Majority of the respondents have 5-29 staffs (n=318, 81.3%) and the most common level of education is degree (n=136, 34.8%).

Table 1
Descriptive statistics of the respondents

Variable	Attributes	N	%
Business Period	Below 5 years	215	55.0
	5 to 10 years	102	26.1
	More than 10 years	74	18.9
	Total	391	100
Business Structure	Sole Proprietorship	222	56.8
	Partnership	110	28.1
	Private Limited Company	59	15.1
	Total	391	100
Business Type	Manufacturing	28	7.2
	Services	363	92.8
	Total	391	100

No of staffs	Below 5	49	12.5
	5 to 29	318	81.3
	30 to 74	24	6.3
	Total	391	100
Education	High School	112	28.6
	Certificate	41	10.5
	Diploma	86	22.0
	Degree	136	34.8
	Master	16	4.1
	Total	391	100

Reliability Test

Table 2 describes the reliability of the constructs. The Cronbach's Alpha value ranges between 0.920 and 0.933, which is within the recommended value. (Hair et al.,1998).The result shows that the measures used in this research are reliable.

Table 2
Reliability of the constructs

No	Variables	Cronbach's Alpha	N
1	Scenario Enactment	.933	11
2	Cast Enactment	.932	8
3	Organizational Performance	.920	5

Pearson Correlation

Pearson correlation coefficient analysis has been conducted to determine the strength and direction of relationships of each construct. Table 3 indicates that there is a strong positive relationship between both independent variables (scenario enactment and cast enactment) and organizational performance (0.574 and 0.598).

Table 3
Pearson Correlation Coefficient Analysis

Variable	Scenario Enactment	Cast Enactment
Organizational Performance	0.574**	0.598**

** Correlation is significant at the 0.01 level (2-tailed)

Multiple Regression Analysis

Further analysis was performed using multiple regression analysis. In table 4, the adjusted R square result is 0.363 which means that this model explained 36.3% of variance in organizational performance based on the independent variable (scenario enactment and cast enactment). The Durbin-Watson value (1.975) indicates independence of residual and there is no problem of serial correlation.

Table 4
Model Summary

R	R Square	Adjusted R Square	Std Error	Durbin-Watson
0.605	0.366	0.363	0.83429	1.975

DV-Organizational Performance; IV-Scenario Enactment, Cast Enactment

Next, the Table 5 shows that the model studied is deemed as statistically significant ($p < 0.000$).

Table 5
ANOVA

Model	Sum of squares	df	Mean Square	F	Sig.
Regression	156.174	2	78.087	112.188	.000
Residual	270.063	388	0.696		
Total	426.237	390			

DV-Organizational Performance; IV- Scenario Enactment, Cast Enactment

Table 6 indicates that both scenario enactment and cast enactment positively influence organizational performance ($\beta = 0.201$, $p < 0.230$, $\beta = 0.420$, $p < 0.00$). The result also shows that the variance inflation factor (VIF) is equal to 4.728 for both variables. This proves that problem of multicollinearity does not exist as the VIF values are below 10 (Kleinbaum, 1996).

Table 6
Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.454	.252		5.765	.000	
	Scenario Enactment	.234	.102	.201	2.288	.023	.211
	Cast Enactment	.465	.097	.420	4.777	.000	.211

DV-Organizational Performance

DISCUSSION AND CONCLUSION

The study shows that entrepreneurial leadership of an entrepreneur positively affects the organizational performance. The result shows that both constructs, scenario enactment and cast enactment positively influence organizational performance. Though both scenario enactment and cast enactment are considered important and interdependent (Gupta et al., 2004), however the analysis shows that cast enactment have higher influence ($\beta = 0.420$) compared to scenario enactment ($\beta = 0.201$). Therefore, though envisaging and creating a scenario of possible opportunities that can be seized to revolutionize the current transaction set is important, it is more important to be able to convince both potential followers and the firm’s network of stakeholders that the transformation of this transaction set is possible by assembling resources (recruiting additional cast) to accomplish the objectives underlying the scenario.

Consequently, by understanding the relationship of entrepreneurial leadership towards organizational performance, SME owners should adopt a more entrepreneurial style of leadership to enhance the performance of the organization. The behavioural attribute of leadership adopted by the entrepreneurs could be deemed as an internal resource and considered as a competitive advantage to remain relevant in the volatile business environment.

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