A Linkage between Entrepreneurial Leadership and SMEs Performance: An Integrated Review

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A Linkage between Entrepreneurial Leadership and SMEs Performance: An Integrated Review

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Abstract: Previous researches have shown that characteristics of entrepreneurial leadership have influence organisational performance regardless of the organisational size. This paper was set to review the relationship of vision, innovation, proactiveness and risk-taking on Small Medium Enterprises (SMEs) performance. This resulted to the question that does entrepreneurial leadership (i.e. vision, innovation, proactiveness and risk-taking) significantly relate to performance of SMEs? From the review of related literatures, the characteristics of
entrepreneurial leadership which comprises of vision, innovation, proactiveness and risk-taking are the features that can be found in both leadership and entrepreneurship, their present in organisation setting may positively impact on organisational success, the SMEs. Thus, SMEs operators that are more exposed to setting a clear goal and have clear set of activities would performed credible well interm of increase in sales, customer patronage and many other constructs that are related to the performance. In the same vein innovative SMEs tend to also performed well because of their ability in launching of a new product or advancing the existing one as well as studying of the market environment. On a general note out of four characteristics of entrepreneurial leadership, vision and innovation are the most significant toward the good performance of SMEs organisation.

Keywords: Entrepreneurial Leadership, Small Medium Enterprises (SMEs), Performance.

Introduction
Entrepreneurship and leadership are two areas of research which can be applied to organisational settings. They are well established in themselves but not often studied together; though some studies used the term “entrepreneurial leadership” few truly define the concept (Roomi and Harrison, 2011). Thus, entrepreneurial leadership (EL) is the fusion of entrepreneurship and leadership which if applied will enable organisation to take advantage of opportunity in order to gain competitive advantage (Roomi and Harrison, 2011). Cohen (2004) define, EL as any leadership that creates climates for entrepreneurial behaviours that organisation need to succeed today. It is the process of creating an entrepreneurial vision and inspiring a team to enact the vision in high velocity and uncertain environments (Bagheri and Pihie, 2009). Frederick, et al. (2007) stated that EL is a dynamic process of vision, change, and creation. The ingredients that composed entrepreneurial leadership include; the willingness to take calculated risks, formulation of effective venture team and the creative skill to marshal the needed resources; the fundamental skill of building a strong business plan and the vision to recognize opportunity where others see chaos, contradiction, and confusion. In this definition, EL consists of characteristics that related to entrepreneurship and leadership, such as vision innovation, teamwork, planning, risk-taking, effective management of resources and proactiveness. Timmons and Spinelli (1994). Stuart and Abetti (1987) stated that, EL refers to the ability for an entrepreneur(s) to have high tolerance for ambiguity, persistence, perseverance, and demonstrating high degree of creativity and builds entrepreneurial culture and organization. It is glaring base on the aforementioned analogy that entrepreneurship and leadership are highly related as such are the bases for the development of EL.

One of the most important issues in the area of research particular in leadership and entrepreneurship is EL, for example, Bagheri and Pihie (2009) and EL-Annan (2013) have examined how EL can be learned, they viewed EL as learning process or an art that can be learned in school or in an organisational setting. Chen et al. (2004) have examined the relationship between EL and team creativity toward new venture performance, while Gupta, et al. (2004) have developed EL constructs by looking at cast enactment and transformational enactment. In order to demonstrate the importance of EL to the organisation, Kuratko (2007) asserts that EL is the leadership style of 21st Century, a leadership that is needed for all types of organisation, be it small or big. Considering the pace of business development in 21st century and persistent
Increase in entrepreneurial activity the type of leaders needed are entrepreneurial leaders, these are leaders that are not emphasizing on conventional approaches to leadership but leadership that handle uncertain environment (Gupta et al., 2004). Indeed, EL is an area that comes to link entrepreneurship and leadership (Cogliser and Brigham, 2004; Fernald, 2005; EL-Annan, 2013).

Small and medium-sized enterprise (SME) on the other hand is an important sector of the global economy and it plays significant roles in the world economy and contributes substantially to income, output and employment. According to Ayyagari, Demirgüç-Kunt, and Maksimovic (2011) reported that in the World Bank survey of 47,745 businesses in 99 countries revealed that firms that have between 5 to 250 employees accounted for 67% of the total permanent/full-time employment. However, Vandenberg (2006) affirmed that SMEs contributed to poverty reduction and engaged in international business both in term of export and import. Global Alliance of SMEs (2013) reported that the proportion of SMEs vis-a-vis the total number of enterprises are more than 95%, they provide over 50% of jobs in developed countries, like U.S, UK, Germany and contribute to their GDP for more than 50%. In the emerging economies such as that of Malaysia, Hong Kong, Philippines etc, more than 90% of their business establishments are SME and they provide over 55% of total employment (Jasra, Khan, Hunjra, Rehman and Azam 2011; FA Zainol, 2013). In African countries; Ghana’s SME account for 70% of gross domestic product (GDP) and 92% of its businesses. They also make up to 91% of formalised businesses in South Africa and 70% of manufacturing sector in Nigeria (Gatt, 2012). Moreover, Henderson (2002) stated that SMEs connect the community to the larger global economy. Thurik and Wennekers (2004) assert that SMEs are the vital link to the economic development of any nation. They serve as a source of innovation, technological growth, and creation of new job (Wiklund Patzelt and Shepherd, 2009). It is apparent that SMEs are the main movers of economic growth and development. Hence, the objective of this paper is to review the impact of entrepreneurial leadership antecedents (vision, innovation, proactiveness and risk-taking) and SMEs Performance based on previous research from various scholars.

Problem Statement

Previous studies have generally established a positive relationship between aggregated measures of entrepreneurial orientation (EO) and firm performance and many scholars have argued that EO is one of the salient factors which contribute to the performance of SMEs (Kreiser et al., 2013; Wijetunge and Pushpakumari, 2014). However, there are theoretical reasons suggesting that three dimensions of EO (innovativeness, proactiveness, and risk-taking) may possess differential relationships with performance in small firms (Kreiser et al., 2013). On other part, Sandada (2014) found that, the mission and vision statements, environmental scanning and the formality of strategic planning have positive effect on the performance of SMEs. Vision, innovation, proactiveness and risk-taking are the characteristics that connect entrepreneurship and leadership; they are set of traits that are very important toward effective performance of an organisation (EL-Annan, 2013), and mentioned that proactiveness are more related to risk-taking. According Cogliser and Brigham (2004) and Fernald et al. (2005) there are the foundation of new paradigm of leadership known as entrepreneurial leadership. Thus, each of the elements of EL will be reviewed individually to see how they are related to performance.
Approaches Of Entrepreneurial Leadership

Cunningham and Lischeron (1991) have extensively investigated different approaches of entrepreneurship and entrepreneurial leadership. They include: (1) the Great Person school of entrepreneurship (2) the Psychological Characteristics school of entrepreneurship (3) the Classical school of entrepreneurship (4) the Management school of entrepreneurship (5) the Leadership school of entrepreneurship and (6) the Intrapreneurship school of entrepreneurship. The detail of these can be discussed below.

The Great Person School of Entrepreneurship

In this school or approach, entrepreneurs are born not made because of natural characteristics they possess. They are people that have the tendency of presenting ideas, concepts and beliefs that others may find interesting and stimulating. They are people with special talents that have the natural ability of recognizing opportunity and taking an appropriate action (Cunningham and Lischeron, 1991). This suggests that they are endowed with certain traits and qualities that differentiate them from other mortals. They have a strong drives for independence and success with high level of vigour and self esteem. Among their traits include; energy, perseverance, physical attractiveness, vision, single mindedness, popularity and sociability, knowledge, judgement and fluency of speech, diplomacy and decisiveness (Cunningham and Lischeron, 1991).

The Psychological Characteristics School of Entrepreneurship

This school of thought focuses on personality factors. The approach believes that entrepreneurs have unique values and attitudes toward work and life. Certain dominant needs propelling individuals to behave in certain ways. Entrepreneurs can be differentiated from non entrepreneurs by personality characteristics. People who possess the characteristics of entrepreneurs will have a high tendency (or potential) to perform entrepreneurial act, than people who do not possess such characteristics (Lachman, 1980; Cunningham and Lischeron, 1991).

The core characteristics of this approach are personal values which consist of honesty and duty to the other people, risk-taking which was argued by John Stuart Mill as the element that distinguishes entrepreneurs from managers, and need for achievement; which culminate as being industrious and hard work (Cunningham and Lischeron, 1991). The Psychological school of entrepreneurship believes that certain individual values and needs are necessary preconditions for entrepreneurship and these conditions are learned at early stage of life. In this case entrepreneurship cannot be inculcated at adulthood (Lachman, 1980)

The Classical School of Entrepreneurship

This school of thought does not consider traits or behaviours as determinant of entrepreneurship or factors that make a successful entrepreneur. According to this approaches, innovation, creativity or discovery are the key factors underlying the classical body of thought, entrepreneurship in this view refers to the process of creating opportunity or opportunity seeking-style of management that sparks innovation (Peterson, 1985). Basically what makes an
entrepreneur or what pave way to entrepreneurship is innovation and discovery. This school stated that innovation has to do with individualism. Many innovative people in using their innovative process tend to emphasized on subjectivity and individualism (Cunningham and Lischeron, 1991). The innovator is often motivated to satisfy personal needs and sometimes has little regards for the interest of the society or organisation (Zervous, 1952 cited in Cunningham and Lischeron, 1991). The major problem with this approach entrepreneurs are just concern about their own needs and wants without given due regards to other relevant stakeholders.

**The Management School of Entrepreneurship**

This school was developed from the premise of managerial functions which was initially developed by Henry Fayol. He suggests that manager perform the function of planning, organising, staffing, budgeting, and controlling (Fayol, 1916 cited in Cunningham and Lischeron, 1991). The management school suggests that an entrepreneur is a person who organises or manages business undertaking and assuming the risk for the sake of profit. John Stuart Mill in describing the entrepreneur noted that in addition to risk-taking, the functions of entrepreneur include supervision, control and providing direction to a firm (Mill, 1984 cited in Cunningham and Lischeron, 1991).

The management school of entrepreneurship is on the belief that entrepreneurs can be developed or trained in the classroom. Since many entrepreneurial ventures fail each year and significant proportion of this failure can be traced to the poor management. Thus, in this school, entrepreneurship is a series of learn activities which focus on central functions of managing a firm (Vesper, 1985). Therefore in this school entrepreneurship can be equated with management which can be learned in school and other training institutes (Cunningham and Lischeron, 1991).

**The Leadership School of Entrepreneurship**

According to this school of entrepreneurship, entrepreneur is often a leader who relies on people to accomplish purposes and objectives. The leadership school of entrepreneurship is non technical side of management school which suggests that entrepreneurs need to be skilled in appealing to others to join the cause (Cunningham and Lischeron, 1991). A successful entrepreneur must always be people manager or an effective leader/mentor that plays major roles in motivating, directing, and leading people. Thus entrepreneur must be a leader able to define vision of what is possible and attract people to rally around that vision, and transform it into reality (Kao, 1989 cited in Cunningham and Lisher, 1991). The most pervasive stream of the leadership school is concerned with how a leader gets tasks accomplished and responds to the needs of people. In this school there is mutual benefit between the leader and the followers both contribute their best in achieving the success of an enterprise (Hemphill, 1959 cited in Cunningham and Lischeron, 1991).

Entrepreneurial leadership involves more than personal traits or styles in relating to others, but changing and inculcating values, skills of setting a clear goals and creating opportunities. These include the skill of empowering people, preserving the organisational intimacy and developing a human resource system (Kao, 1989 cited in Cunningham and Lischeron, 1991).
The Intrapreneurship School of Entrepreneurship

The Intrapreneurship school evolved in response to the lack of innovativeness and competitiveness within the organisations (Cunningham and Lischeron, 1991). Intrapreneurs to the limited extent possess discretionary freedom of action, they are able to act as entrepreneurs and implement their ideas without themselves becoming owners (Cunningham and Lischeron, 1991). The Intrepreneurial School of entrepreneurship generally assumes that innovation can be achieved in existing organisation by encouraging people to work as entrepreneurs in semi autonomous units. The school belief that entrepreneurship can be applied to large corporate organisation where by individuals have the discretion to innovate in the conduct of organisational affairs.

From the discussion of the aforementioned approaches, entrepreneurial leadership can be seen as the best approach due to the fact that it posses the qualities of entrepreneurial individuals as well as entrepreneurial organisations, not only possessing the qualities of entrepreneurs but also have the ability to set vision and align people toward attaining it. According to Fernald et al. (2005) it is a leadership that is needed by big and small enterprises; a leadership style that can deal with uncertain environment (McGrath and MacMillan, 2000). It quite glaring that EL is the most important approach to entrepreneurship and SMEs.

Entrepreneurial Leadership and SMEs Performance

Vision and SMEs Performance

SME owners and managers need to identify antecedents of business performance if they want to establish high performance company; vision is one of those antecedents (Sandada, 2014). Vision is a strategic process within organisations, it indicates the state of the business in the future (Rossouw, et al., 2003), and it signifies the guiding philosophy and what give clear direction to the organisation (Kantabutra and Avery, 2010). It is a business ideology that must be shared and desire everyone’s commitment (Ungerer, Pretorious, and Herholdt, 2007). Clear vision of what an organization could accomplish or become helps employees understand the purpose, objectives, and priorities in the organization, as many studies have shown the relationship between vision and performance (Yukl, 1998)

Besides that vision characteristics and content have positive and direct effects on customer, staff satisfaction, and business performance (Kantabutra and Avery, 2010). As stated in the study that being conducted in Sydney and Bangkok; the researchers have used stratified sampling technique to determine the sample size. Total numbers of 237 stores were taken; 111 stores from Sydney and 126 from Bangkok. The study have shown the relationship between vision characteristics and content among the retail stores and how they influence performance, but the study failed to study some of the mediate or moderating variables that can influence vision and performance.

Another study conducted by D’Amboise (2000) highlighted the relationship between strategic vision manifestation on Canadian SMEs. The result indicated that there is positive and significant association between vision and a combined measure of variation in sales and profits in the case of the traditional firms but no such relationship was found for the sub-group of firms belonging
to the new economy. The results show a significant association between level of vision and the subjective measure of performance in a new economy. However, having strategic vision does not seem to be conducive to increased sales and profits in the businesses of new economy.

**Innovation and SMEs’ Performance**

Bigliardi (2013) emphasized innovation as a prime source for gaining a competitive edge in the market for all companies. Various studies have examined the relationship between innovation and organisational performance. Bigliardi (2013) has investigated the effect of innovation of small and medium enterprises (SMEs) on their financial performance, as well as the effect of firm size on the impact of innovation. He has used the sample of 98 SMEs belonging to the food machinery industry and analyzed using a regression-based analysis. The empirical findings confirm that an increase in the innovation level increased financial performance. One of the limitations of the study was SPSS 18 was used for the analysis while SEM can best fit for the analyses of the research data. Bigliardi and Dormio (2009) examined the factors influencing innovation in an organisation even though they have divided innovation into product and process, but their findings provide contradictory view about innovation. They have confirmed that Firms innovate in process in order to enhance their market share, to improve product quality and product assortments. This result from the fact that market and efficiency related objectives are strongly related with process related innovative output variables. This study was conducted in Italy, using quantitative approach.

Innovation is a complex phenomenon that involves the development of new production or processing techniques. It reflects a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes (Lumpkin and Dess, 1996). There are different dimensions of innovation (Lumpkin and Dess, 1996; Egbetokun, et al., 2008). Innovation is an important component of a firm’s strategy mainly because it constitutes one of the principal means through which it can seek new business opportunities (Lumpkin and Dess, 1996; Bigliardi, 2013). Today more than ever, a firm’s construction of sustainable competitive advantage crucially depends on its capacity to innovate (Marques and Ferreira, 2009). Innovation is considered by many researchers and managers to be critical for firms to compete efficiently in both domestic and global markets (Hitt, Ireland, Camp, and Sexton 2001). Indeed it facilitates the development of new organizational routines and the discovery of unique approaches to technologies, products, or processes and enables SMEs to adapt to changing market conditions through the introduction of new and refined products (McGrath, 2001; Ireland, Covin and Kuratko, 2009).

Another study by Marques and Ferreira (2009) found that factors that positively influence innovative capacity include increase in the size of firm, earlier stage of life cycle of the organisation, organisational alliance or partnership and entrepreneurial capability. However the study has also found that the firm superior innovative capacity has positive effect on organisational performance. Therefore one of limitation of this research has viewed performance from the perspective of sales level, net profit/loss and success of new product. The study need to look at effect of innovative capacity on employees as components of performance. Indeed the
study has shown that innovative capacity has positive relationship with performance, and the sample of 246 firms which comprise of small, medium and big enterprises were used.

**Proactiveness and SMEs` Performance**

Proactiveness was used to depict a firm that was the quickest to innovate and first to introduce new products or services (Miller, 1983). The idea of acting in anticipation of future demand is an important component of entrepreneurship. Venkatraman, (1989) suggested that proactiveness refers to processes aimed at anticipating and acting on future needs by "seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of life cycle". Thus, a proactive firm is a leader rather than a follower, because it has the will and foresight to seize new opportunities, even if it is not always the first to do so (Lumpkin and Dess, 1996). Proactiveness is crucial to an entrepreneurial orientation because it suggests a forward-looking perspective that is accompanied by innovative or new-venturing activity. It is being active to influence and lead the future rather than waiting to be influenced by it. It is about exploiting opportunities, and accept the responsibility of failure (Kuratko, et al., 2007). It is being able to anticipate future problems, needs for change, and improvement (Okudan and Rzasa, 2006).

In their research, Kreiser, et al. (2013) found that there is positive u shape relationship between innovation and proactiveness while risk-taking have negative u-shape relation with SMEs` performance, even though the study confirmed that individualism was found to positively moderate the relationships between innovativeness-performance and proactiveness-performance. These results suggest that differential relationships exist between three dimensions of EO and SME performance this means that there is positive relationship between proactiveness and firms` performance. Thus, it has been considered that Proactive firms are in a better position to exploit existing opportunities by scanning their environment for useful information that they can utilize to satisfy underserved markets. Furthermore, for firm to take a leadership position within the industry there is a need to have a proactive behaviour (Lumpkin and Dess, 2001). Thus, Proactive firms are also able to create new opportunities for themselves by actively seeking to redefine their market; successful organisations in this vein benefits from increased levels of demand, higher levels of customer loyalty, and greater profitability (Covin and Slevin 1989).

**Risk-Taking and SMEs` Performance**

Risk taking can be defined as a willingness to absorb uncertainty and take the burden of responsibility for the future (Chen, et al., 2004). It is one of the three key elements of EO, and one that enhances company profitability (Miller, 1983; Miller and Le Bruton-Miller, 2011). It is the degree to which managers are willing to make large and risky resource commitments and act in an uncertain environment (Miller, 1983). It has been argued that the principal factor that separated entrepreneurs from hired employees was the uncertainty and riskiness of self-employment. It was expected that firms that have better performance would also have a higher level of risk propensity (Leko-Simi and Horvat, 2006). According to risk-returned theory it asserts that the higher the risk the higher the return. Return is one of the factors for measuring
performance. It is imperative to understand at this point that every business endeavours must involve some degree of risk.

For example, Kraiser et al. (2013) examined the relationship between each component of EO, innovation, proactiveness and risk-taking, they have taken the sample size of 1668 SMEs in nine different countries, which include, Australia, Costa Rica, Finland, Greece, Indonesia, Mexico, Netherlands, Norway, and Sweden. In the sample, owners and managers of the SMEs were the participants of the study. The study has shown negative U-shaped relationship between risk-taking and performance, but when innovation, proactiveness and risk-taking were analysed together, risk-taking have shown partial negative relationship with performance of SMEs. Considering the individual culture as moderating variable, the research has also found that risk-taking was not significantly related to firm performance.

In another study conducted by Morgan and Strong (2003) titled “Business performance and dimensions of strategic orientation”, found that three of the characteristics of strategic orientation are positively related to firm performance, these are analysis, defensiveness and futurity. The study also indicates negative relationship exist between proactiveness, riskiness, and aggressiveness. The population of the study were drawn from medium and large, high technology, industrial manufacturing firms. The study has confirmed that even among medium and high technological manufacturing firms, there is negative relationship between risk-taking and performance. The limitations of this research are poor adjusted $r^2$ of 0.14 and the used of multiple regressions instead of structural equation modelling (SEM).

A study by Arham, and Sulaiman (2013) on the other hand focused on leadership and risk-taking among entrepreneurs in Malaysia have found that entrepreneurs in Malaysia use more of transformational leadership than transactional leadership. However, what influence proactiveness and innovativeness among entrepreneurs in Malaysia is risk-taking propensity (FA Zainol, 2013). Virtually the study has used qualitative approach for the survey where nine entrepreneurs were taken for the collection of data. The study will be more appropriate for applying quantitative method or approach. In another study by Lee and Lim (2009), risk-taking and other dimensions of EO as highlighted by the study which include competitive aggressiveness, innovation and autonomy have discovered that risk-taking have the lowest positive influence on performance. The study has taken the sample size of 140 restaurants in Japan. Multiple regression method was employ to regress EO and performance while ANOVA was used to examine the relationship between each dimensions of EO and performance.

**Discussion and Conclusion**

The review above provide support for conceptualizing the impact of entrepreneurial leadership in term of four characteristics of entrepreneurial leadership; vision, innovation, proactiveness and risk-taking. This paper has shown how each of the characteristics of entrepreneurial leadership influence SMEs performance. Based on the review of the study it is quite glaring that vision, innovation and risk-taking are the most importance characteristics that have significant influence on SMEs performance and are most predictive of SMEs performance. Thus, SMEs operators that are more exposed to setting a clear goal and have clear set of activities would
performed credible well in terms of increase in sales, customer patronage and many other constructs that are related to the performance. In the same vein innovative SMEs tend to also performed well because of their ability in launching of a new product or advancing the existing one as well as studying of the market environment. On a general note out of four characteristics of entrepreneurial leadership, vision and innovation are the most significant toward the good performance of SMEs organization (LS Abu Bakar and FA Zainol, 2015).

On the theoretical aspect, this paper has underlined some of the findings of the previous research that examines the impact of vision, innovation, proactiveness and risk-taking on SMEs performance empirically. This is in respond to the conceptual paper of Fernald et al. (2005) that certain characteristics are the link of entrepreneurship and leadership which are the foundation of entrepreneurial leadership in theory. On the practical aspect, this paper would be important to SMEs operators to appreciate the processes that are fundamentally relevant to the effective performance of SMEs. On a neutral ground most of the SMEs perceived that lack or inadequate of fund is the main problem toward their poor performance, but other factors are responsible such as having a clear focus, being innovative and ability to know how to manage risk. Thus SMEs operators should appreciate the fact that the fund is not the only challenge that impedes the performance of SME, but certain entrepreneurial and leadership process are also impeding factors.

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