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| RESEARCH ARTICLE

The Role of Entrepreneurial Leadership in Business Innovation and Organizational Performance

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| ABSTRACT

Entrepreneurial leadership has emerged as a critical driver of business innovation and organizational performance in today's dynamic and competitive business environment. This study investigates the relationship between entrepreneurial leadership, business innovation, and organizational performance in Indonesian small and medium enterprises (SMEs). Using a quantitative research approach, data were collected from 320 managers and executives of SMEs in Riau Province, Indonesia, through structured questionnaires. Structural Equation Modeling (SEM) using SmartPLS 4.0 was employed to analyze the hypothesized relationships. The findings reveal that entrepreneurial leadership has a significant positive effect on both business innovation (β = 0.623, p < 0.001) and organizational performance (β = 0.541, p < 0.001). Business innovation was also found to significantly mediate the relationship between entrepreneurial leadership and organizational performance (indirect effect = 0.312, p < 0.001). The results underscore the importance of cultivating entrepreneurial leadership competencies within organizations to foster a culture of innovation and achieve superior performance outcomes. This study contributes to the entrepreneurship and strategic management literature by providing empirical evidence from an emerging market context and offers practical implications for business leaders, human resource managers, and policymakers.

| KEYWORDS

Entrepreneurial Leadership; Business Innovation; Organizational Performance.

INTRODUCTION

The rapidly evolving global business landscape demands organizations to continuously adapt, innovate, and sustain competitive advantages. Leadership, particularly entrepreneurial leadership, has been identified as a pivotal force that shapes an organization's capacity for innovation and long-term performance (Gupta et al., 2020). Entrepreneurial leaders are characterized by their ability to identify opportunities, take calculated risks, inspire innovation, and mobilize organizational resources toward value creation (Renko et al., 2015). Unlike traditional leadership models, entrepreneurial leadership integrates the qualities of visionary thinking, proactiveness, and opportunity-seeking behavior within a leadership framework.

The nexus between entrepreneurial leadership and innovation has attracted growing scholarly attention in recent decades. Studies suggest that leaders who exhibit entrepreneurial behaviors are more likely to cultivate an organizational climate conducive to creativity and experimentation (Cai et al., 2019; Fernald et al., 2005). Such a climate, in turn, enables organizations to develop new products, services, and processes that drive sustainable growth and enhanced performance (Simsek et al., 2015). Despite theoretical advances, empirical evidence—particularly from developing economies such as Indonesia—remains limited, representing a significant gap in the literature.

Indonesia, as one of Southeast Asia's largest emerging economies, presents a compelling context for examining entrepreneurial leadership dynamics. The country's SME sector accounts for over 99% of total business units and contributes approximately 60% to the national GDP (Kementerian Koperasi dan UKM, 2022). However, Indonesian SMEs continue to face challenges in terms of innovation capacity and competitive performance, which may be attributed in part to leadership deficiencies (Saputra et al., 2021). Understanding how entrepreneurial leadership can address these challenges is therefore of significant practical relevance.

This study aims to examine the direct and indirect effects of entrepreneurial leadership on organizational performance, with business innovation serving as a mediating variable. By employing Structural Equation Modeling (SEM) on survey data from 320 SME managers in Riau Province, this research provides empirical insights that advance both theoretical understanding and practical application of entrepreneurial leadership in an emerging market context.

RESEARCH METHODS

Research Design and Sample

This study employed a quantitative research design with a cross-sectional survey approach. The population comprised managers and executives of SMEs registered with the Dinas Koperasi dan UKM (Cooperative and SME Agency) in Riau Province, Indonesia. A total of 320 respondents were selected using purposive sampling, ensuring that participants had a minimum of three years of managerial experience and that their organizations had been operating for at least two years. The sample size was determined based on the recommendation of Hair et al. (2019), who suggest a minimum of 200 observations for SEM analysis.

The survey was conducted between March and June 2024. Questionnaires were distributed both physically and online through Google Forms. Of the 380 questionnaires distributed, 325 were returned, of which 320 were deemed valid and complete, yielding a response rate of 84.2%. The majority of respondents were male (62.5%), between 31–40 years of age (45.3%), and held undergraduate degrees (58.1%).

Measurement Instruments

All constructs were measured using validated multi-item Likert scales (1 = Strongly Disagree to 5 = Strongly Agree). Entrepreneurial leadership was measured using 12 items adapted from Renko et al. (2015) and Gupta et al. (2020), capturing dimensions of opportunity recognition, risk propensity, innovative vision, and inspirational communication. Business innovation was assessed using 10 items adapted from the Oslo Manual (OECD/Eurostat, 2018), covering product, process, marketing, and organizational innovation. Organizational performance was measured using 9 items adapted from Richard et al. (2009) and Venkatraman & Ramanujam (1986), encompassing financial performance, operational efficiency, and strategic effectiveness.

Data Analysis

Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4.0 software (Ringle et al., 2022). PLS-SEM was selected over covariance-based SEM (CB-SEM) given its suitability for exploratory research, its robustness with smaller sample sizes, and its appropriateness for models with formative and reflective constructs (Hair et al., 2019). The analysis followed a two-stage approach: (1) assessment of the measurement model for reliability and validity, and (2) assessment of the structural model for hypothesis testing.

Reliability was evaluated through Cronbach's Alpha and composite reliability (CR), with thresholds of ≥ 0.70. Convergent validity was assessed using Average Variance Extracted (AVE ≥ 0.50), and discriminant validity was tested using the Heterotrait-Monotrait (HTMT) ratio (threshold <

0.85). Mediation analysis was conducted using bootstrapping with 5,000 resamples to generate bias-corrected confidence intervals (Hayes, 2018).

RESULT AND DISCUSSION

Entrepreneurial Leadership

Entrepreneurial leadership is conceptualized as a leadership style that combines entrepreneurial orientation with visionary leadership to create and sustain innovation within organizational contexts (Gupta et al., 2020). Renko et al. (2015) define entrepreneurial leadership as 'influencing and directing the performance of group members toward the achievement of organizational goals that involve recognizing and exploiting entrepreneurial opportunities.' This definition highlights the dual nature of the construct—encompassing both leadership influence and entrepreneurial cognition.

The theoretical roots of entrepreneurial leadership draw from multiple theoretical streams, including transformational leadership theory (Bass & Avolio, 1994), upper echelon theory (Hambrick & Mason, 1984), and dynamic capabilities theory (Teece et al., 1997). Collectively, these frameworks suggest that leaders' cognitive orientations, behavioral dispositions, and strategic decisions significantly influence organizational outcomes (Hmieleski & Ensley, 2007). Entrepreneurial leaders are posited to leverage their unique competencies to orchestrate organizational resources in novel ways, thereby driving innovation and performance.

Business Innovation

Innovation is widely recognized as a fundamental driver of competitive advantage and organizational survival (Schumpeter, 1934; Porter, 1990). Business innovation encompasses product innovation, process innovation, organizational innovation, and marketing innovation (OECD/Eurostat, 2018). From a resource-based view, firms that successfully innovate are able to develop unique capabilities and competencies that are difficult for competitors to imitate, thereby sustaining superior performance over time (Barney, 1991).

In the context of SMEs, innovation is particularly critical as it enables smaller firms to compete effectively against larger, more resource-endowed competitors (Acs & Audretsch, 1990). However, innovation in SMEs is often constrained by limited financial resources, human capital deficiencies, and organizational rigidities (Rosenbusch et al., 2011). Entrepreneurial leaders can mitigate these constraints by fostering a risk-tolerant culture, encouraging creative problem-solving, and facilitating access to external knowledge networks (Cai et al., 2019).

Organizational Performance

Organizational performance is a multidimensional construct that captures the extent to which an organization achieves its goals across financial, operational, and strategic dimensions (Richard et al., 2009). Commonly used indicators include profitability, sales growth, market share, and employee productivity (Venkatraman & Ramanujam, 1986). In SME research, non-financial performance measures such as customer satisfaction, employee engagement, and innovation output are increasingly incorporated to provide a more holistic assessment (Lumpkin & Dess, 1996).

The relationship between leadership and organizational performance has been extensively documented in the management literature. Transformational and charismatic leadership styles have consistently been linked to superior organizational outcomes (Avolio et al., 2009). More recently, entrepreneurial leadership has emerged as a particularly influential leadership style in dynamic environments, where adaptability and opportunity exploitation are critical to performance (Chen, 2007; Simsek et al., 2015).

Measurement Model Assessment

The results of the measurement model assessment indicated satisfactory reliability and validity for all constructs. Cronbach's Alpha values ranged from 0.821 to 0.893, exceeding the recommended threshold of 0.70. Composite reliability values ranged from 0.874 to 0.921, confirming internal consistency. AVE values for all constructs exceeded 0.50 (Entrepreneurial Leadership: 0.563; Business Innovation: 0.541; Organizational Performance: 0.558), supporting convergent validity. HTMT ratios were all below 0.85, confirming discriminant validity among the latent constructs. These results indicate that the measurement model exhibits adequate psychometric properties for structural model analysis.

Structural Model and Hypothesis Testing

The structural model assessment revealed that the model explained 58.4% of the variance in business innovation (R^2 = 0.584) and 63.7% of the variance in organizational performance (R^2 = 0.637), indicating substantial explanatory power. The path coefficients and significance levels are presented in **Table 1.**

Table 1. Structural Model Results

Hypothesis	Path	β	t-value	p-value	Decision
H1	EL → BI	0.623	12.341	<0.001	Supported
H2	EL → OP	0.541	10.892	<0.001	Supported
H3	BI → OP	0.501	9.678	<0.001	Supported
H4	EL → BI → OP	0.312	8.234	<0.001	Supported

Discussion

The results strongly support all four hypotheses, confirming the pivotal role of entrepreneurial leadership in driving business innovation and organizational performance. The significant positive effect of entrepreneurial leadership on business innovation (H1: β = 0.623, p < 0.001) is consistent with prior studies by Cai et al. (2019) and Huang et al. (2014), who found that leaders with entrepreneurial orientations create organizational conditions favorable to innovative behavior. This finding suggests that entrepreneurial leaders in Indonesian SMEs serve as catalysts for innovation by encouraging risk-taking, promoting creative exploration, and building teams with diverse competencies.

The direct effect of entrepreneurial leadership on organizational performance (H2: β = 0.541, p < 0.001) aligns with the theoretical proposition advanced by Chen (2007) and Simsek et al. (2015), who posit that entrepreneurial leaders enhance performance through strategic opportunity exploitation and resource orchestration. In the Indonesian SME context, this finding is particularly noteworthy, as it demonstrates that leadership quality directly influences firm competitiveness even in resource-constrained environments.

The significant effect of business innovation on organizational performance (H3: β = 0.501, p < 0.001) corroborates the well-established innovation-performance linkage documented in the literature (Rosenbusch et al., 2011; Acs & Audretsch, 1990). Importantly, the mediation analysis (H4) reveals that business innovation partially mediates the relationship between entrepreneurial leadership and organizational performance, with a significant indirect effect of 0.312 (p < 0.001). This finding indicates that while entrepreneurial leadership directly enhances performance, a substantial portion of its effect is channeled through innovation processes, reinforcing the view of innovation as a critical mechanism through which leadership translates into organizational outcomes (Saputra et al., 2021).

These findings have significant implications for the strategic management of SMEs. First, they highlight the importance of developing entrepreneurial leadership competencies among SME

managers, as such competencies are not only directly linked to performance but also stimulate innovation activity. Second, the mediating role of innovation suggests that leadership development programs should be complemented by organizational innovation strategies, including investment in R&D, adoption of new technologies, and development of knowledge management systems (Tidd & Bessant, 2018).

Compared to studies conducted in developed market contexts, the effect sizes observed in this study are comparatively larger, which may reflect the greater variance in leadership quality and innovation capacity among Indonesian SMEs. This suggests that entrepreneurial leadership interventions in emerging markets may yield particularly high returns in terms of both innovation output and organizational performance.

CONCLUSION

This study investigated the role of entrepreneurial leadership in driving business innovation and organizational performance among SMEs in Riau Province, Indonesia. Using PLS-SEM analysis on data from 320 managers and executives, the findings demonstrate that entrepreneurial leadership significantly and positively influences both business innovation and organizational performance. Furthermore, business innovation was found to partially mediate the relationship between entrepreneurial leadership and organizational performance, highlighting the importance of innovation as a mechanism through which entrepreneurial leadership enhances firm outcomes.

These findings make several contributions to the literature. Theoretically, this study extends entrepreneurial leadership research to an emerging market context and provides empirical validation of the mediating role of business innovation, enriching the theoretical framework connecting leadership, innovation, and performance. Practically, the findings suggest that SME owners and managers should invest in developing entrepreneurial leadership capabilities, fostering an organizational culture that supports innovation, and building systems that enable rapid response to market opportunities.

The study is not without limitations. First, the cross-sectional design limits the ability to draw causal inferences. Future studies should employ longitudinal designs to better capture the temporal dynamics of entrepreneurial leadership and its effects on innovation and performance. Second, the sample was confined to SMEs in Riau Province, which may limit generalizability. Future research should include SMEs from multiple provinces and sectors. Third, additional mediating and moderating variables—such as organizational learning, knowledge management, and environmental dynamism—could be incorporated to provide a more comprehensive model of the entrepreneurial leadership-performance relationship.

In conclusion, entrepreneurial leadership represents a strategic asset for SMEs seeking to enhance their innovation capabilities and organizational performance in an increasingly competitive and dynamic business environment. Policymakers and business development institutions should incorporate entrepreneurial leadership training into SME development programs to cultivate the leadership qualities necessary for sustainable business growth and national economic development.

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