Impact of Effective Entrepreneurial Leadership Style on Organizational Performance: Critical Review

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Abstract

In an increasingly unpredictable and competitively volatile dynamic economy and rapidly changing business environment, organizations are required a new type of management - an entrepreneurial leadership which is significantly differs from the classical business leadership concept in behavioral norms. As a manager, an organization's leader realizes legitimate powers and status authority to effectively solve organizational problems and as an entrepreneurial leader uses the power of personal influence on subordinates. Thus, the entrepreneurial leadership style has more opportunities to effectively manage the organization than just a manager or simply an informal leader with no status authority. SME’s are considered as the fundamental part of nations’ economy and it is imperative to perceive how the role of entrepreneurial leadership may affect on the organizational performance.

Taking this into consideration, the research paper is seeking to examine the relationship of entrepreneurial leadership and organizational performance by quantitative analysis of 87 participants of SME’s in the United Arab Emirates. The study provided an indicative relationship between entrepreneurial leadership variables and organizational performance where the key findings reveal that entrepreneurially mindset leaders benefit more from this style of leadership to improve and enhance robustly their organizational performance.

Keywords: Entrepreneurship, Leadership, Organization, Performance, United Arab Emirates.

1. Introduction

For establishing a successful business, an entrepreneur is requisite to possess exceptional qualities and skills that will enable to grow, develop and multiply business organization. It is the entrepreneur that determines the firm's life span: from ability to lead, make decisions, interact with employees, anticipate the situation and others. All these skills and traits are peculiar to the leader which is a part of such group relationships as leadership. These relations consist in the fact that the group has a leader - a person who will not only lead people but also make all decisions, be responsible for the work of each member of the group and employees who can and are willing to follow the initiative of the leader. Respectively, the followers try to succeed more than they can to fulfill their tasks, as a result of being inspired by the ideas of their innovator and entrepreneurial leader. Entrepreneurial leadership is based on the fact that the leader observes himself/herself as an entrepreneur managing own business. This requires great self-confidence to think, behave and act as an entrepreneur in the interests of realizing the organization's vision and plans for the benefit of all its players. Remarkably that leadership is the most effective form of interaction (management) with other people at the start-up stage: the leader-entrepreneur becomes the pioneer of a small organization, takes all decisions and responsibility for the work of each employee, interacts directly and welcomes the informal atmosphere for a greater spirit in a team. The subject of leadership is becoming more popular all over the world where the United Arab Emirates takes a special place. And this is understandable, a significant number of organizations realize that the effectiveness and success of their activities depends on how strong their leadership potential is. For the UAE businesses, this is still a novelty where a weak leadership potential becomes a serious obstacle to further growth and efficiency. Some UAE companies are challenging with a unique tasks as the fundamental change in strategy or the development of new products; some businesses include improvement of operating activities and the creation of new businesses. However, all of these companies have the same problems in common: how to achieve company’s goals; where to search for talented employees with knowledge and leadership qualities; who will be able to determine the direction of change and achieve the goals set. The problem of entrepreneurial leadership becomes especially essential due to the fact that
local Emirati companies are increasingly faced with foreign competitors both in the UAE and abroad. At the same time, international companies have not only an advantage in the field of functional management - they also possess the years of experience in understanding and developing their leadership potential. Definitely, this is a time when UAE enterprises willing to preserve and strengthen their competitiveness need to start systematically to work on developing leadership. Thus, one of the primary goals of this research is to identify the possible effects of entrepreneurial leadership towards SME’s organizational performance in the UAE through distilling key elements of entrepreneurship and leadership from the academic literature. To try to highlight the essential role of leadership and entrepreneurial skills to small and medium business performance by testing different variables and finally to attempt by concluding an implementation policy for UAE policy in the future.

2. Literature Review

The concept of entrepreneurial leadership has a history over twenty years (Lippitt, 1987). Empirical studies measuring different methods of entrepreneurial leadership appeared quite recently in the international literature. For example, the study of impact of leadership on employee recognition (Bagheri, 2017). The outcomes indicate a positive entrepreneurial leadership’s impact on opportunity recognition. Zijlstra (2014) conceptualized the role of entrepreneurial leadership, leadership and entrepreneurship through such variables as autonomy, creativity, productivity and risk taking. Another attempt to analyze the entrepreneurial leadership of taxonomic demonstrated the significance of entrepreneurial leaders in the future (Karmarkar et al. 2014). Malaysian example of examining the relationship between entrepreneurial leadership and organizational performance indicates a positive correlation (Rahim et al. 2015). As a result; the necessity for entrepreneurial leaders in today’s organizations as well as study aspects of this phenomena are increasing tremendously. The below given characteristics are trying to discover the nature and background of entrepreneurial leadership through understanding the concepts of entrepreneurship, leadership and organizational performance.

Entrepreneurship

Entrepreneurship plays an important role in the social and economic development of any country and greatly contributes to the formation of healthy competition, the growth of goods production, the expansion of the service sector, the creation of new jobs and, in general, raising the standard of living of citizens. Today, this is the most promising growth sector of the economy, gradually increasing its contribution to ensuring overall economic growth. The terminological essence and content included in the concept of "entrepreneurship", changed and ordered in the development of economic theory. Landstrom (2000) describes entrepreneurship as discovering new business possibilities, organizing necessary resources and exploiting the business possibilities on the market. Previous research works are viewed as an opportunistic way of business (Kirzner, 1973; Landstrom and Johannisson, 2001; Shane and Venkataraman, 2000). Most practitioners and researchers focus on making a profit, treating it as the ultimate goal of entrepreneurship (Greene at all, 1999; Kuratko and Hodgetts, 2007; Chandler, 1990; Cohen and Leventhal, 1989). However, entrepreneurship has as its final goal not so much profit as the continuity of the reproduction process associated with the reproduction of demand and the satisfaction of the ever-changing, ever-increasing needs of the individual or social group, society as a whole. In this sense, the emphasis is not on maximizing profits but on the consumer’s needs, satisfaction of which due to the high level of business organization can yield maximum profit.

Leadership

Leadership is becoming increasingly popular all over the world. And this is recognizable: significant number of companies realize that the effectiveness and success of their activities depends on how strong is their leadership potential. The "classic" functional approach, which considers strategy, organization, operational activities as self-sustaining functions is adjusted taking into account the importance of leadership as a key factor in their successful implementation. Leadership is the art of influencing others to their maximum performance to accomplish any task, objective or project (Cohen, 1990). Leadership is the art of mobilizing others to want to struggle for shared aspirations (Kouzes and Posner, 1995). Leadership may be considered as the process (act) of influencing the activities of an organized group in its efforts toward goal setting and goal achievement. (Stogdill, 1950). Various styles of leadership may influence on organizational effectiveness and performance. As stated by (Nahavandi, 2002), today’s organizations need effective leaders who understand the complexities of the rapidly changing global environment. Effective leaders ensure their organization performs well (Fiedler, 1964) or their
Entrepreneurial Leadership

Entrepreneurial leadership is not a position, but a process. An entrepreneurial leader takes responsibility for helping the company to create conditions in which, instead of being managed, it organically creates its own order of matters and reacts creatively to changes in the external environment. This role of the leader not only makes the organization more productive, it gives the leaders themselves more freedom. Entrepreneurial leadership is an effective and needed leadership style (Tarabishy et al., 2005). By helping to reveal the creative power of their organization, the entrepreneurial leaders thereby give the opportunity to reveal their own creativity. As discussed by Derue, Nahrgang, Wellman, and Humphrey (2011) leader effectiveness refers to the amount of influence a leader has on individual or group performance, followers’ satisfaction, and overall effectiveness. Thus, entrepreneurial leadership is viewed more as a combination of personal qualities and characters. Entrepreneurial leadership was studied by McGrath and Macmillan (2000) who paralleled leader and leadership with a new challenged and globalized market situation.

Organizational Performance

Organizational performance and effectiveness is the ability of the organization to exist and achieve certain goals with a favorable balance of results and costs. Firms’ performance refers to the level of success of a firm (Sulaiman, Yusoff and Chelliah, 2010). This is a classic method of determining the generalized indicator of the economic efficiency of managerial work. The effect can be positive if the result is close to the ideal state, satisfies the objective function and corresponds to the constraint system. But it can turn out to be negative, if it is not possible to reach the goal. As stated, performance is a multidimensional concept (Morgan and Strong, 2003; Simpson, Padmore and Newman, 2012). It can be referred to a level which the operation fulfils the performance objectives (primary measures) and satisfies the customer’s expectations (secondary measures), (Slack, Chambers, and Johnston, 2010). Each organization starts its activity to establish certain economic indicators as targets. The efforts of management are aimed at ensuring the achievement of certain economic results. Accordingly, the scale of objectives distinguish between general, intra-company and group efficiency. Some researchers argue that performance measurement is a complex issue (Hakimpoor, Tat and Arshad, 2011). The performance of organizations can be measured in terms of innovation (Winne and Sels, 2010; Chen and Huang, 2009). In any case, the main task of the management system is to ensure an active impact on the managed object in order to improve its performance. The various properties and parameters of the subject's and the management's activity often do not agree with each other, they are in dialectical contradiction, in connection with it there is the problem of defining a generalizing indicator that would be a measure of organizational performance.

3. Method

Research Background and Research Objectives

In recent years, the UAE companies have focused more and more on improving the efficiency of their activities. Many of the most obvious changes have already been performed. Judging by the experience of the evolution of companies in other countries, now and in the near future one of the key tasks of Emirati businesses will be the development of leadership potential at all levels of the organization. Presently, a number of organizations, the shareholders and top managers attract outside experts not only to bring missing knowledge and skills but also contribute to the creation of an appropriate corporate culture, the restructuring of the company and the development of leadership. Recent research commissioned by BIS and undertaken by the University of Warwick (Hayton, 2015) proposed that there is a significant insufficiency of entrepreneurship skills in the UK’s SME’s. Arasa and Kioko (2012) suggested that organization’s competitiveness is resolved with effective leadership. The deliberation which entrepreneurial skills and specific characteristics are required is central to this study. Drucker (1985) argued that innovation is a backbone of entrepreneurship. As a result, all innovations start with creative ideas. Formulating this as a main strategy, creativity, passion, vision and risk taking variables were considered as a base of a case for policy intervention to trigger organizational performance and entrepreneurial leadership. This research part of the study has the following objectives:

1. To identify and examine total of 108 participants by researching entrepreneurial leadership skills with a focus
on impact on organizational performance.

2. To review policy initiatives and stimulate entrepreneurial leadership to be learnt for UAE employees policy.

Conceptual Framework

The conceptual framework exhibits the relationship between entrepreneurial leadership and organizational performance for this study. Entrepreneurial leader is influenced by innovation approach which is a key to become a transformational leader where the knowledge, abilities and skills get a significant importance. With the set of interpersonal skills and abilities as innovativeness and creativity, the entrepreneurial leader and leadership as a concept may positively affect on organizational performance in a dynamic and lucrative market.

Research hypotheses

Existing literature theorize different outcomes in relation between entrepreneurial leadership and organizational performance of SME’s. A number of research work indicated the reasons of positive as well as negative correlation between entrepreneurial leadership style and organizational performance of SME’s (Valdiserri and Wilson, 2010; Hung et all, 2010; Beaver, 2003). Hence, the study targets at validating the existing level of correlation between entrepreneurial leadership style and organizational performance of SME’s in the UAE context which previous studies have slightly covered. Thus, the research is expected to highlight an insight look on the leadership influence on business performance in the UAE.

The aims of the study are mainly to test how entrepreneurial leadership impacts on SME’s organizational performance through validating the following hypotheses:

H1: There is a positive effect between entrepreneurial leadership and organizational performance of SMEs in the UAE.

H2: Entrepreneurial leadership style is a significant and robust predictor of organizational performance of SMEs in the UAE.

H3: Entrepreneurial leadership is a popular management style used by SME’s in the UAE.

Research Design and Sample Selection

The study used descriptive survey research methodology. The data has been collected from the SMEs managers and owners of private sector organizations in capital city of UAE, Abu Dhabi. 100 private companies were identified as respondents for the target population of this research. The research sample size was settled via G-Power version 3.1. Considering 0.95 (greater than 0.80, with an effect size of 0.15, the study required a sample size of 108 to validate a model with five variables. Besides this, (Reinartz et all, 2009) proposed a minimum threshold of 100 samples. Thus, for proper sample study size, 100 participants been examined in Abu Dhabi.

The questionnaires were sent to randomly selected organizations from SMEs registered at Abu Dhabi Department of Economic Development (DED) using business information service portal.

Computing with the sampling formula, 87 questionnaires were administered for a statistic validity. Data collection was conducted via sending emails. A structured questionnaire was adopted in collecting relevant data from the target group. The underspecified hypothesis was tested through quantitative statistical instrument Pearson for identifying correlation and simple regression by SPSS. Simple regression analysis has been used to figure out the role of independent variables in explaining changes in the dependent variables (Ken, 2010).

Reliability

In this study, internal consistency reliability of the instrument was evaluated based on Cronbach’s coefficient. The Cronbach’s Alpha value ranges between 0.920 and 0.943, which is within the recommended value (Hair, 1998). The result (Table 1) proves that the measures used in this research are reliable.
Table 1: Variables Cronbach’s Alpha

<table>
<thead>
<tr>
<th>No</th>
<th>Variables</th>
<th>Cronbach’s Alpha</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Organizational Performance</td>
<td>.943</td>
<td>12</td>
</tr>
<tr>
<td>2</td>
<td>Entrepreneurial Leadership</td>
<td>.946</td>
<td>15</td>
</tr>
<tr>
<td>3</td>
<td>Creativity</td>
<td>.920</td>
<td>13</td>
</tr>
<tr>
<td>4</td>
<td>Passion</td>
<td>.923</td>
<td>12</td>
</tr>
<tr>
<td>5</td>
<td>Vision</td>
<td>.932</td>
<td>16</td>
</tr>
<tr>
<td>6</td>
<td>Risk taking</td>
<td>.934</td>
<td>12</td>
</tr>
</tbody>
</table>

4. Results

Response Rate

The study questionnaire instrument was managed to the sampled target population as indicated in research design part. As argued, the response rate refers to the number of questionnaires returned divided by sample size and the result multiplied by one hundred (De Vaus, 2002). The following response rate (Table 2) was constructed.

Table 2: Test Response Rate

<table>
<thead>
<tr>
<th>Condition</th>
<th>Frequency</th>
<th>Percent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questionnaires sent</td>
<td>108</td>
<td>100</td>
</tr>
<tr>
<td>Invalid</td>
<td>21</td>
<td>22.68</td>
</tr>
<tr>
<td>Valid</td>
<td>87</td>
<td>93.96</td>
</tr>
</tbody>
</table>

From the 108 questionnaires sent, 87 valid responses and 21 not valid. This formed a response rate of 93.96% which is suggested to be satisfactory to analyze (Mugenda, 2009).

Correlation analysis was performed to examine the relationship between entrepreneurial leadership and organizational performance of SME’s. The Pearson correlation coefficient is 0.835 and the correlation between entrepreneurial leadership and organizational performance of SMEs in UAE is significant as per Table 3.

Table 3: Correlation between entrepreneurial leadership and organizational performance of SMEs

<table>
<thead>
<tr>
<th></th>
<th>Entrepreneurial leadership</th>
<th>Organizational Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial leadership</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
</tr>
<tr>
<td>No</td>
<td>87</td>
<td>87</td>
</tr>
<tr>
<td>Organizational Performance</td>
<td>Pearson Correlation</td>
<td>0.835**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
</tr>
<tr>
<td>No</td>
<td>87</td>
<td>87</td>
</tr>
</tbody>
</table>

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

Another statistical analysis was performed to examine the rate of entrepreneurial leadership styles based on four criteria: creativity, passion, vision and risk taking (Table 4). According to the data, 65.6% of the respondents adapt to leadership style while 34.4% do not utilize it.
As per Table 5, the regression equation has been utilized to examine dependent variable and the independent variables. The important values of discussion were the coefficient of OP=31.075+0.689(EL).

Table 5: Coefficient *Dependent Variable – Organizational Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>95% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>Lower Bound</td>
<td>Upper Bound</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>31.075</td>
<td>2.793</td>
<td>4.767</td>
<td>.000</td>
<td>5.973 E1</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial Leadership</td>
<td>.689</td>
<td>.087</td>
<td>.653</td>
<td></td>
<td>.380</td>
</tr>
</tbody>
</table>

5. Discussion

The findings of this study are based on the three proposed hypotheses:

H1: There is a positive effect between entrepreneurial leadership and organizational performance of SMEs in the UAE.

The research findings indicate that there is a positive correlation between entrepreneurial leadership and organizational performance of SMEs in the UAE. The Pearson correlation coefficient is 0.835 and the correlation between entrepreneurial leadership and organizational performance of SMEs in UAE is significant at 0.01 significant level (2 tails) as presented in Table 3. Thus, the study indicates that entrepreneurial leadership style of the person-entrepreneur positively affects on the organizational performance. This statement is supported by Zhu, Chew and Spanger (2005) whose study identified positive relations between transformational leadership and organizational performance.

H2: Entrepreneurial leadership style is a significant and robust predictor of organizational performance of SMEs in the UAE.

As stated before, the entrepreneurial leadership is an important and robust predictor of organizational performance of SMEs in UAE. To investigate this, and find out is an entrepreneurial leadership an acceptable predictor of organizational performance, SPSS regression analysis has been employed. From the Table 5, it is seen that regression equation has been utilized to examine a second hypothesis from the following outcomes, OP=31.075+0.689(EL) Where OP is an organizational performance EL is entrepreneurial leadership. Thus, the findings are in line and consistent with the previous findings by Machin, Fogarty and Bannon (2009).

H3: Entrepreneurial leadership is a popular style currently used by SME’s in the UAE.

Observing four variables of entrepreneurial leadership as indicated in Table 4, 53.7% % of the CEOs have creativity skills; 67.8% indicated passion related to entrepreneurial leadership; 83.3% presented vision skills; furthermore, 57.5 % indicated responses related with risk taking. Considering this data, it is possible to conclude
that entrepreneurial leadership is a popular style used by SMEs in UAE which is supported by average mean of 65.6% of the CEO’s. As reported, 200,000 UAE-based SMEs are currently providing over 85% of private-sector jobs, according to the UAE Ministry of Economy (2017, p.66). These companies create innovative leaders to reinforce innovation and strengthen the pillars of the knowledge economy.

6. Conclusion

The study has researched the effect of entrepreneurial leadership on organizational performance in the United Arab Emirates by examining 87 small and medium enterprises. The main study aim was to find out the influence of entrepreneurial leadership (EL) on organizational performance (OP) of small and medium enterprise organizations. The results of this study established that there was a significant positive relationship between entrepreneurial leadership (EL) and organizational performance. This trend is supported by (O’Reilly, 2010), where leaders’ effectiveness was significant in performance improvement. The leadership predicts organizational performance. (Ojokuku, Odetayo and Sajuyigbe, 2012). Thus, the outputs of this study explain that there is strong relationship between entrepreneurial leadership and organizational performance. Considering these findings, it can be revealed that entrepreneurial leadership is a robust predictor of organizational performance.

Another results of entrepreneurial leadership style, where 65.6% of the participants use this style. Riaz and Haider (2010) observed that effective leadership is a significant part in the growth and performance of an organization. These findings demonstrate that if entrepreneurial leadership is properly used it can enhance organizational performance. For a competitive advantage, organizations need to implicate innovation related policies to stimulate entrepreneurial leadership toward the employees. As a result, by recognizing the relationship of entrepreneurial leadership towards organizational performance, owners and managers of SME’s need to sustain with a significant focus on entrepreneurial leadership to boost organizational performance.

Summing up it is possible to conclude that a successful entrepreneur should be a leader by nature or at least possess several leadership qualities. Such a “hybrid” of two individuals will achieve its goal with the greatest success. As a result of it, the following strengths are important: passion, vision, creativity, risk-taking and decision-making. The main aspect in such a person is a non-standard approach to business, using all potential to set and achieve the goal. Such entrepreneurs are inclined to constantly generate innovative ideas which allows companies to keep pace with the times and trends, be competitive and stay on the market. Entrepreneurial leaders know how to realize the ideas through effective management. Despite the fact that they are building a clear strategy, these entrepreneurs never forget that the key element is the goal and the ways to achieve it - the strategies, can change. This is one of the most important skills of entrepreneurial leaders, the ability to adapt business to the current market trends. The UAE businesses have a significant improvement but still need to decentralize their organizations, delegate authority to leaders at all levels of the organization and focus on building a development system and entrepreneurial leadership capacity. Thus, UAE enterprises will be able to overcome obstacles to the development of entrepreneurial leadership and narrow the gap separating them from the most competitive companies in the world.

References


