

Investigating the Relationship between Entrepreneurial Leadership and SMEs Performance with Organizational Agility and Dynamic Capability as Mediating Variables

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Abstract - To realize adaptive capacity, improve performance and long-term survival, organizations must be more entrepreneurial. In a dynamic and uncertain marketplace, the influence of effective leadership can be felt throughout the organization and can substantially affect the performance and agility of the company. Agility is when unprecedented changes emerge, and companies must agilely learn about effective ways to manage those changes. Organizational agility can be defined as fast and accurate adaptations and the ability to respond to unexpected and unpredictable changes from internal and external factors. This capability is needed so the company can survive and continue to operate, especially for small and medium-sized enterprises (SMEs). For SMEs, maintaining the company's sustainability so that the company has good performance and has the appropriate strategy and capabilities is essential. This research will analyze how significant the effect of entrepreneur leadership is on the performance of SMEs, nevertheless, it is argued that organizational agility and dynamic capability can strengthen the relationship between entrepreneurial leadership and performance of SMEs. The results of this research are expected to be useful for SME owners to be able to apply business agility and dynamic capability in the face of uncertainty that can interfere with SMEs' performance.

Keywords - Organizational Agility; SMEs Performance; Entrepreneurial Leadership, Dynamic Capability

I. INTRODUCTION

The conditions faced by the company today where the business environment is increasingly turbulent and competitive, requires a type of entrepreneurial leader that is different from the form of leader's behavior to run the company [17]. In most of the world's economies, regarding efficiency and effectiveness in the dynamism of the market and job creation, small and medium enterprises (SMEs) include most of the companies that play a role and are affected in these conditions [7]. So, to maintain the competitive advantage of the SMEs and increase creativity in a dynamic environment, the advantages owned by entrepreneurial leaders who are flexible to dynamic environments are needed [8]. The leader plays a fundamental role in inspiring and enabling innovation and identification of opportunities by individuals and groups of employees [19]. It is a unique leadership style that innovatively brings together diverse talents to perform and exceed expected results [9]. Thus, the performance of any companies is influenced by the leadership style [8].

Effective leadership can substantially affect the performance of the parties in the organization and not only affect performance but also the entire organization can feel the impact of effective leadership [26]. Then the entrepreneurial leadership competence of the owner/manager combined with their energy, talents, and skills is an essential factor for the survival of SMEs in a dynamic and unpredictable environment [7].

As the pace of change is fast and markets become more complex, this situation requires business to become more innovative and more agile [10]. So, in today's volatile and competitive environment, businesses must be built on core capabilities to enable them to survive [12]. Effectively, companies need to use agile capabilities that are dynamic and flexible [5]. To maintain a competitive advantage and meet market demand, business need to be able to maintain high agile operations to master their market information [12]. Nowadays, to answer the challenges of a very dynamic business environment, the concept of agility is getting greater attention because it can adjust and run a business quickly [11]. In a competitive market, a very agile company will be able to develop so that other company lose business because of agile competitors [2]. However, while most companies now give high priority to achieving business agility, the thought of Agile management being too hasty or poorly carried out can generate widespread cynicism [3].

The agile concept includes how to produce new products and services to bring in new customers, which can be called strategic agility, and includes making existing businesses more focused on customer value and called operational agility [3]. In competing and coping with authentic changes in the business environment, organizational agility has become a necessary capability for companies [12]. The various relevance of agility to new companies, such as competitive advantage, its contribution to business performance, customer satisfaction, and effectiveness, cannot be overemphasized, and most global surveys allude to this statement [5]. Thus, researchers began to conduct empirical research to determine the relationship between strategic agility and company performance, and so far, the results seem mixed [4].

Some of the main factors in an agile environment are delivering goods or services quickly to customers and adopting market needs in new products [2] which are very closely related to business performance. Therefore, in recent years, due to the significant contribution of agility

to business success, especially in dynamic environments, agility has come to the attention of researchers [11]. Measuring whether the enterprise has achieved its efficiency and effectiveness in managing resources can be done through the results of the performance evaluation [6]. So, the objectives of this research not only to analyze the relationship between the entrepreneurial leadership and SMEs' performance, but also to find out whether components of organizational agility mediate the relationship between entrepreneurial leadership and dynamic capability. Lastly, this research also tries to find out whether dynamic capability mediates the relationship between organizational agility and business performance of SMEs.

The paper is structured as follows. First is the introduction. In the next section, a literature review of research is developed. Section three is for the formulation and explanation of the conceptual framework and hypotheses. Lastly, section four is the conclusion and future research.

II. LITERATURE REVIEW

2.1. Entrepreneurial Leadership

Managers who are proactive, have technical skills, are sensitive, and have strong relational skills are needed by today's enterprises [21]. Conditions that often change and a lot of uncertainty require leadership as a key factor in dealing with these situations [24]. The functional competencies of entrepreneurial leaders are needed to influence and inspire their group members to expand and take innovative and entrepreneurial action [17]. According to Ensley et al. [18], the results of their research indicate that company performance is highly dependent on the behavior of its leaders. Entrepreneurial leadership is a combination of entrepreneurial management and entrepreneurial orientation leadership [14]. Also, the concept of entrepreneurial leadership integrates the concepts of leadership and entrepreneurship and underlines a strategic entrepreneurial approach centered on entrepreneurial initiatives [25]. Leaders like this have a higher responsiveness to change than other leadership styles and work on creative aspects [8]. Entrepreneurial leaders can enable employees to be more committed to their duties by building trust in the team and creating strong positive emotions for the job [7]. As a result, entrepreneurial leadership emerges as a popular leadership style that describes a leader as having a combination of the ability to deal with vulnerable market situations along with an entrepreneurial approach, thus gaining a competitive advantage for a company [8] to achieve performance improvement. Entrepreneurial leaders can gather support from key stakeholders, anticipate potential resistance, provide essential resources and information, or remove barriers to achieving desired goals through permanent contact with the internal and external environment [7].

2.2. Business Performance

In understanding the operational performance of the enterprise, the measurement and evaluation of subjective assessments or quantification criteria in the enterprise are measured using performance evaluation [6]. The main goal of strategic management is to achieve a performance improvement so that graduates from strategic management are very interested in research related to enterprise performance measurement [13]. In his research, Kurniawan [11] distinguished performance into two aspects. First, financial performance includes measures such as achieving net profit goals, achieving sales goals, increasing net income [11]. Meanwhile, non-financial performance includes measures such as improving new products and services, increasing employee, customer, and franchise satisfaction [11]. In section 1, it was explained the importance of conducting performance evaluations. To evaluate performance, there are three types of performance with conceptual scope for the business performance that need to be considered: financial performance, operating performance, and organizational effectiveness [13]. First, financial performance, whose general indicators are profit after tax, operating income, operating growth rate, return on capital, and profit rate [13]. Second, operational performance can be defined as the combination of financial performance with operational performance such as consumer, product quality, added value, and other non-financial indicators [13]. Lastly, organizational effectiveness is the most comprehensive of business performance which, except for the two performances mentioned earlier, also includes conflict resolution, goal satisfaction for everyone concerned, and employee morale [13].

2.3. Organizational Agility

Fast-paced, customer-focused continuous innovation initiatives needed to survive in today's dynamic marketplace are driven by agile processes and concepts [1]. The terminology of business process agility can be defined as the requirements for developing new products and can also be interpreted as a companies' response to changes in customer demand, as well as changes in product mix, competitor actions, and product prices [11]. Previous research has shown that organizational agility can be emphasized in three important elements: customer agility (CA), business partnership agility (PA) and operational agility (OA) [15]. Zaini et al. [12], in his research summarizes the definition of the three components of organizational agility as follows: the first, operational agility is defined as an ability to process information that contributes significantly to sensing and response capabilities efficiently and effectively by gathering operational-related data to turn priorities into action by identifying business process opportunities and uses [12]. Second, the customer agility (CA) concept has been linked to an organization's ability to grasp the market capabilities associated with customers and how to react to them [12]. Thus, CA can be defined as the management of

changing customer preferences and needs within the company [12]. Finally, business partnership agility is defined as the ability to improve processes, efficiency, and effectiveness by leveraging the competencies, knowledge, and assets of business partners to identify and implement new business opportunities by facilitating collaboration between companies that enable partners to access the most comprehensive and timely information in supply chain [12].

2.4. Organizational Agility as a Dynamic Capability

According to Teece et al [31], dynamic capabilities are defined as “the firm’s capacity to innovate, adapt to change, and create change that is favorable to customers and unfavorable to competitors”. Thus, it is a collection of processes, routines, entrepreneurial capabilities and knowledge attributable to the management team [31]. He added that routines job among the management team of a firm can be extremely challenging in current highly competitive environment, therefore, the dynamic capabilities approach is useful in the context of agility. Additionally, entrepreneurial capability, as part of a dynamic capability, is vital for a firm to anticipate the changes in the environment, which is an important feature of why they must be an agile organization. In conclusion, for the purpose of business survival, it is important to consider the organizational agility as a mediator. Most researchers, however, refer to competitiveness as a main goal of organizational agility. Still, Hazen et al. [29]; Inman et al. [30]; Tallon and Pinsonneault [32], are among the authors that have investigated the effect of organizational agility on business performance, and Wang et al. [33] studied on the profitability. Therefore, strengthening competitiveness can be realized by improving the organization's business performance and increasing the level of agility.

III. CONCEPTUAL FRAMEWORK

The objective of this research is to investigate the effect of the entrepreneurial leadership on business performance in SMEs. In addition, this research was also to determine whether organizational agility mediates the relationship between entrepreneurial leadership and business performance. From explanations of research objective and the existing literature review, several hypotheses are formulated as follows which are also described in the conceptual framework in Figure 1:

H1= Entrepreneurial leadership is positively associated with operational agility.

H2= Entrepreneurial leadership is positively associated with customer agility.

H3= Entrepreneurial leadership is positively associated with partnership agility.

H4= Operational agility is positively associated with dynamic capability.

H5= Customer agility is positively associated with dynamic capability.

H6= Partnership agility is positively associated with dynamic capability.

H7= Dynamic capability is positively associated with business performance of SMEs.

H8= Organizational agility is mediating the relationship between entrepreneurial leadership and dynamic capabilities.

H9= Dynamic capability is mediating the relationship between organizational agility and business performance of SMEs.

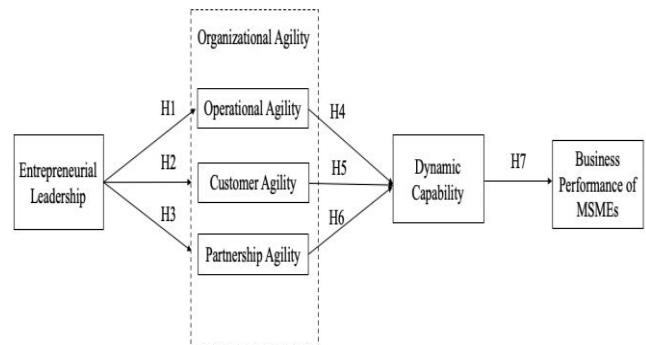


Figure SEQ Figure * ARABIC 1. Conceptual Framework

3.1 Entrepreneurial Leadership and Organizational Agility

A dynamic and agile environment characterized by unpredictable and rapid changes, increasing uncertainty for companies operating in it [18]. Previous researchers have consistently argued that in the face of a very challenging, dynamic, and complex environment, entrepreneurial leadership is considered an effective leadership style as well as stimulating and increasing recognition of opportunities in all businesses [19]. According to Gupta et al. [17], to achieve a successful future and good business performance in the companies, it takes personal competencies that entrepreneurial leaders must develop an innovative vision and define opportunities.

The role of the leader is also to create an environment and climate that supports and encourages the innovation process in business [19]. Also, activities carried out by entrepreneurial leaders can encourage the creativity of team members and anticipate uncertainty in their operational [7]. In agile structures, the leaders have a defined business vision and direction that shared by the members and excites the members of the organization [23]. Entrepreneurial leadership is important because individual capabilities, such as creativity, enable companies to generate valuable ideas and develop innovative solutions necessary for strategic effectiveness and operational agility [28].

H1= Entrepreneurial leadership is positively associated with operational agility.

From the findings of previous research, Dabić et al. [7] stated that the anticipation of future events, the ease of exploring new opportunities, new market segments or customer for the company is determined by the personal competence of entrepreneurial leaders. From previous findings, the ability to mobilize their resources and energy for joint-directed discovery, as well as the ability to integrate the interests and skills of employees and customers, is manifested by the high degree of creative integration possessed by entrepreneurial leader [18].

H2= Entrepreneurial leadership is positively associated with customer agility.

Followers are expected to act in accordance with the vision set; then, leaders must empower, influence, and inspire their followers, where this ability is a functional competency of entrepreneurial leaders [19]. Rather than negotiating in a typical static environment, managing changing role definitions that are also driven by an uncertain context, it is more important for entrepreneurial leaders to be able to expand their network [17]. Individual capabilities, creativity, and activities of the leader can lead to environmental collaboration [28], or it can be interpreted as partnership agility.

H3= Entrepreneurial leadership is positively associated with partnership agility.

3.2 Organizational Agility and Dynamic Capability

In today's competitive and fast changing environment, organizational agility is an important and relevant concept for more companies [20]. Agility includes the company's capabilities related to internal operations, interactions with customers, and utilization of the external business partner ecosystem [15]. Organizational agility is increasingly important for achieving a sustainable competitive advantage because a company can rapidly adapt its product and service offerings to respond flexibly to changing environmental conditions [16]. This is supported by previous research by Attar & Abdul-Kareem [5], which stated that the company's efforts to thrive in today's unpredictable and competitive global business environment by using all its capabilities to proactively anticipate, respond to, and seize unique market opportunities, is organizational agility (OA). Improved collaborative processes in adapting and responding quickly to the external environment of the enterprise can be realized if the enterprise has an important capability, namely organizational agility [28]. Companies that have developed all dimensions of agility, namely, customer, partnership, and operational agility, should be in a better position to engage in more competitive action as well as a complex repertoire of actions combining all the dimensions of agility [15]. Thus, an agile organization should be responsive and flexible to changes in the external environment by restructuring and

reconfiguring its strategy so that it is not only flexible in its operations [28].

The first component of organizational agility is operational agility. Operational agility reflects the ability of an enterprise's business processes to achieve accuracy, speed, and cost savings by taking advantage of existing opportunities for innovation and competitive action to rapidly redesign existing processes or create new processes to exploit dynamic market conditions [15]. It is basically defined as how the organization can quickly respond to uncertainty and change [27]. Operational agility concentrates on maneuvering and adjusting the resources of internal and external operations as they arise and across organizational boundaries [28]. Importantly, it also includes external operational processes and does not only relate to internal processes [27]. The ability to adapt and respond to any market dynamics, as well as suppliers, supply chains, resources, and customers, is needed to enable a company to compete, which is why operational agility is important [28].

H4= Operational agility is positively associated with dynamic capability.

The second is customer agility, the definition is co-opting customers in the exploitation and exploration of opportunities for innovation and competitive action [15]. The customer aspect emphasizes learning from customers and acting according to customer demands [27]. Customer agility describes a company's ability to gain market intelligence and detect opportunities for competitive action by leveraging customer voices [15]. The relationship and communication carried out by the management of the company with customers in a company determines the agility of the company, this is defined as the agility of the customer [22].

H5= Customer agility is positively associated with dynamic capability.

Lastly is partnership agility. This refers to the company's ability to procure and staging assets, customer support resources, and efficient manufacturing logistics to take advantage of opportunities [15]. With partnership agility, the companies can be possible to modify or adapt an expanded company network when it requires access to assets, competencies, or knowledge that are not currently in the network, to help improve business performance [15]. Partnership is the ability of organizations to leverage the knowledge and abilities of their network partners to help identify problems and seize opportunities to improve their performance [27].

H6= Partnership agility is positively associated with dynamic capability.

3.3 Dynamic Capability and Business Performance of SMEs

Dynamic changes always occur in society [42]. Some of the factors that encourage companies to digest the ideas that come from quality management are the company's need to adapt to the environment and the conditions of the speed of change in the ever-increasing business cycle [41]. The micro-foundation that can be developed and deployed concurrently and underlying enterprise-level sensing, grabbing, and reconfiguration capabilities can be identified by dynamic capabilities [37]. The general rule in managing resources and capabilities is that companies need to expect business benefits from managing capabilities and resources and must be adhered to by companies [39].

H7= Dynamic capability is positively associated with business performance of SMEs.

3.4 Entrepreneur Leadership, Organizational Agility, and Dynamic Capability

By utilizing the latest thinking in strategy and entrepreneurship, organizational agility is significant for innovation and competitiveness in company performance in contemporary business environments and business performance enhancement [15]. Although entrepreneurial leaders are important for shaping innovation and competitive action, organizational agility is also important and is a dynamic ability to detect and exploit market windows chance [15]. Managers will tend to be more innovative and proactive if they are in an uncertain business environment, compared to a less volatile environment [39]. With high environmental uncertainty, company managers will make more efforts to process and collect more information to cope with environmental changes [40]. Organizations must act dynamically from a systemic and long-term perspective [21], which is why agility is needed. Findings from the study of Ensley et al. [18] demonstrated that the agility and dynamic environment is the important context of the relationship between entrepreneurial behavior and the performance of their companies.

H8= Organizational agility is mediating the relationship between Entrepreneurial leadership and business performance of SMEs.

3.5 Organizational Agility, Dynamic Capability, and Business Performance of SMEs

Teece, Pisano, and Shuen [35] state that the company's ability to cope with a rapidly changing environment by building, integrating, and reconfiguring internal and external competencies is a dynamic capability (DC). Such capabilities of a strategic nature are becoming increasingly important to a firm's ability to capture value from global value chains, as global trade shifts from "trading in goods" to "trading in value-added" and "trading capabilities" [34]. With dynamic capability, by giving it the capacity to adapt continuously and innovate

in the long term, it is possible for the company to provide superior and sustainable performance [36]. The company also realized that in order to achieve better seizing ability the need to be more agile when forming a team with various experts was necessary [38].

H9= Dynamic capability is mediating the relationship between organizational agility and business performance of SMEs.

IV. CONCLUSION

This research proposes a conceptual model of the relationship between entrepreneurial leadership with the business performance of SMEs. The data obtained from previous research were collected so that the conceptual model in this research added ideas and hypotheses as follows; first, whether the components of organizational agility, which are operational, customer, and partnership agility mediated the relationship between the entrepreneur leadership and dynamic capability. Second, whether the dynamic capability mediated the relationship between the organizational agility and business performance of SMEs. It is hoped that this research can support previous studies on the relationship between organizational agility, entrepreneurial leadership, dynamic capability, and business performance. Also, it is hoped that the results of this research can enrich knowledge regarding business agility, dynamic capability, entrepreneurship, and business performance. This research also provides novelty by combining the four constructs into a conceptual framework. This research can be helpful for SME owners in responding to a very dynamic and agile market to keep running their operations well and maintaining good business performance or even improving their business performance.

Some of the limitations in this research are as follows. First, this research is limited to examining SMEs, while rapidly changing markets and uncertainties affect not only the SME industry but also other existing industries. Thus, that future studies should expand the scope of research not only to SMEs. Second, this research is limited to the conceptual framework. Future research should be able to use quantitative methods to test the conceptual framework in this research. It is possible if future researchers use qualitative methods to obtain more complete results.

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