

# **The Effect of Entrepreneurial Leadership on Innovation Performance with Self-efficacy as a Mediator**

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## **ABSTRACT**

Entrepreneurial Leadership is a unique style of leadership that is needed to overcome the challenges and difficulties in various stages of organizational development . During the Covid-19 pandemic, SMEs needed a leadership style to be able to survive and find new innovations so that they could compete both in the local and global sphere. Recently, entrepreneurial leadership has become a new phenomenon in Indonesia in the world of business management that needs to be discussed. In this regard, in this study the importance of entrepreneurial leadership is emphasized by examining the concept of entrepreneurial leadership in the framework on the effect on innovation through self-efficacy.

**Keywords:** Entrepreneurial Leadership; Innovation; Self-efficacy.

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## **1. Introduction**

Research on leadership has produced many findings which state that leadership is a factor that supports and influences employee performance, behavior and appearance (Chen, Tang, Jin, Xie, & Li, 2014; Park, Kim, Yoon, & Joo, 2017). Various studies have also explored the significant impact of leadership style on employee innovation work behavior, their innovative ability to recognize opportunities and consequently, competitiveness and different business growth ( Chen, Li, & Leung, 2016; Koryak et al., 2015; Weng, Huang, Chen, & Chang, 2015). The leadership qualities or entrepreneurial spirit possessed by the manager of a company are not sufficient for the company's success. Managers must possess leadership and entrepreneurial qualities to be successful. At this point, the concept of entrepreneurial leadership emerged. Entrepreneurial leadership emerges from a combination of leadership qualities and an entrepreneurial soul . More and more research focuses on entrepreneurial leadership as a leadership style that is significantly capable of stimulating and encouraging innovation and seeing opportunities in very challenging, volatile and competitive conditions ( Freeman & Siegfried, 2015; Karol, 2015 ) including SMEs ( Freeman & Siegfried , 2015; Koryak et al., 2015 ). The innovative behavior of employees in recent decades has received particular attention from researchers. Human resources are important to contribute to a company's competitive advantage because innovation is the implementation of new and useful creative ideas offered by employees ( Kor & Mahoney, 2000; Walberga & Starihaa, 1992) . S ew research exploring this type of leadership style on small businesses (Karol, 2015;

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Koryak et al., 2015; Leitch et al., 2013) and high-tech business (Huang et al., 2014; Swiercz and Lydon, 2002) .

SMEs, as a pillar of the country's economy, ideally have an entrepreneurial leadership style. Competition between SMEs is getting tighter and how to survive in the midst of the Covid-19 pandemic that is hitting the world is a challenge for the owners or leaders of SMEs. The researchers continue to encourage entrepreneurial leadership as leadership style that is effective in facing the challenges of high and complex environment and stimulate and promote innovation and the introduction of opportunities in all businesses (Fontana & Moses, 2017; Freeman & Siegfried, 2015. Karol, 2015; Swiercz & Lydon, 2002) especially SMEs . Entrepreneurial leadership also influences the competitiveness, success and growth of a business regardless of its size, nature and structure (Freeman, 2014; Renko, Tarabishy, Carsrud, & Brännback, 2015). The personal competence of entrepreneurial leaders enables them to envision a successful future for their organization by developing an innovative vision and reading opportunities . Entrepreneurial leadership also creates perceptions of employees about their capabilities by involving them in developing creative ideas and building their confidence to implement these ideas.

Entrepreneurial leadership style creates self-confidence to conquer difficult jobs and challenges called self-efficacy. Self-efficacy is a person's belief in his or her own ability to carry out tasks. People who are confident in their abilities tend to succeed, while people who always feel inadequate tend to fail. Individuals who have high self-efficacy will achieve a better performance because these individuals have strong motivation, clear goals, stable emotions and the ability to provide performance for activities or behaviors successfully (Bandura, 1991; Bandura, 1978; Bandura, 1997).

## **2. Literature Review**

### *2.1 Entrepreneurial Leadership and innovation*

The success of a business depends on the skills of leaders to manage the company effectively. One of the skills that are effective in supporting company performance is entrepreneurial leadership . According to Alvarez and Barney (2002), entrepreneurial leadership is a type of leadership which consists of actions towards forming a business at the individual level, actions towards following innovation at the organizational level and actions towards benefiting from opportunities that are differentiated at the market level (Altuntas & Turker, 2014) . Entrepreneurial leadership is a concept that emerges by combining leadership potential with an entrepreneurial spirit . When important points and entrepreneurial spirit are added to the variable of leadership traits , entrepreneurial leadership emerges and can change the direction of the world (Kuru, 2016). Entrepreneurial leadership can influence and direct employee performance towards the achievement of organizational goals which involves recognizing and taking advantage of entrepreneurial opportunities (Renko et al., 2015). Entrepreneurial leadership is not synonymous with entrepreneurship. In literature, sometimes entrepreneurship and leadership are used as interchangeable terms. Then, entrepreneurial leadership was introduced. In the leadership entrepreneurial n , the leader also has entrepreneurial qualities (Gunduz, 2010). Entrepreneurial leaders are people who are in the position of employer, speculator and information (Bayrakdar, 2011). Entrepreneurial leaders can adopt fully independent and guiding roles and strategies associated with complex system organizations (Gunduz, 2010). Leading a business in a developing

country to stimulate innovation is challenging in several ways. First, leaders have difficulty encouraging employees to leave the old culture and devote their energies to creating creative and innovative ideas. In addition, the challenges of uncertainty in solving problems (Chen et al., 2016; Ng & Feldman, 2013). Second, increasing employee commitment and persistence is a challenge in itself that is not easy. Previous research has produced many research findings that support entrepreneurial leadership as an effective leadership style in facing high challenges and complex environments as well as stimulating and increasing innovation and being sensitive to business opportunities (Fontana & Musa, 2017; Freeman & Siegfried, 2015; Karol, 2015 ; Swiercz & Lydon, 2002) and especially SMEs (Huang et al., 2014; Koryak et al., 2015; Leitch et al., 2013). Entrepreneurial leaders also encourage their innovation processes and business innovation performance (Fontana & Musa, 2017; Huang et al., 2014).

### *2.2 Self-efficacy and Innovation*

Innovation or the innovation management process is an active and conscious process of organizational control, and the implementation of activities that lead to innovation (Hansen and Birkinshaw, 2007). There are four phases of the innovation process, the first is the offering part of idea creation with the process of generating ideas for new products (goods and / or services, in general). The second is the idea section that offers selection by screening new concepts based on the strategic orientation of the organization and taking into account resource allocation conditions and organizational goals . Third, the idea development section deals with turning ideas into viable products based on known best practices. The last is Idea diffusion, the offering section by presenting new innovative products to attract customers. The goal of innovation management / process innovation is to ensure that an organization m ampu continue to provide innovative new products and services to end customers, and business model innovation to maintain the competitiveness of the organization to have the performance of continuous innovation. social cognitive theory suggests that individuals are motivated by their judgments for their ability to perform specific tasks and the expected outcome of their actions (Bandura, 1986, 1997). Such as the assessment of individual abilities, beliefs, and results expectations are influenced by their abilities. Individuals with high levels of self-efficacy may feel more confident and perceive adversity as a challenge; these people may also set high goals and put more effort into overcoming challenges. Hsu et al (2010) in their research found that employees with high levels of creative self-efficacy showed high levels of innovative behavior at work, and optimism had an indirect effect on employee innovative behavior, and played a moderating role. Employees who have greater optimism show more innovative behavior at work.

### *2.3 Entrepreneurial Leadership and Self-efficacy*

Self-efficacy refers to a personal belief or an individual's belief in his or her own ability to perform a given task effectively. Self-efficacy theory emphasizes that human actions and success depend on the depth of the interaction between one's personal thoughts and the given task (Bandura 1986, 1997). Individuals with a low sense of self-efficacy will have negative thoughts and perceive task demands as threats not as challenges and so they set low goals on themselves (Aid Suraya & Wan Ali 2009; Bandura 1994) The literature states that self-efficacy will emerge if someone have a high goal orientation (Robbins, 2001). The higher a person's self-efficacy, the greater his confidence in his ability to succeed in a task (Robbins, 2001). Entrepreneurial leadership style fosters self-confidence and optimism to conquer tough tasks and challenges. Liu & Gumah (2020) in their

study produced findings that transformational and transactional leadership increase self-efficacy. Several previous studies on the relationship between self-efficacy and innovative behavior have been conducted. (Hsiao et al., 2015; Kumar & Uz Kurt, 2010; Momeni, 2014; Parthasarathy & Premalatha, 2017) states that there is a positive relationship between self-efficacy and innovation behavior. In their opinion, a worker who has high innovative behavior has high self-efficacy. This supports the research of several previous studies on the relationship between self-efficacy and innovative behavior.

### **3. Discussion**

Entrepreneurial leadership is a process of influencing organizations through direct involvement in leading and creating value for stakeholders by bringing together innovations and unique packages of resources to respond to existing opportunities (Darling, et. Al., 2007). Gupta, et. al., (2004) resource demonstrated entrepreneurial leaders who create visionary scenarios to gather and mobilisasi employees to have the commitment and vision of the discovery and exploitation of strategic value. Leading a business in a developing country to stimulate innovation is challenging in several ways. First, leaders have difficulty encouraging employees to leave the old culture and devote their energies to creating creative and innovative ideas. In addition, the challenges of uncertainty in solving problems ( Chen et al., 2016; Ng & Feldman, 2013 ). Second, increasing employee commitment and persistence is a challenge in itself that is not easy. Previous research has produced many research findings that support entrepreneurial leadership as an effective leadership style in facing high challenges and complex environments as well as stimulating and increasing innovation and being sensitive to business opportunities ( Fontana & Musa, 2017; Freeman & Siegfried, 2015; Karol, 2015 ; Swiercz & Lydon, 2002) and especially SMEs (Huang et al., 2014; Koryak et al., 2015; Leitch et al., 2013). Entrepreneurial leaders also encourage their innovation processes and business innovation performance (Fontana & Musa, 2017; Huang et al., 2014). Entrepreneurial leadership also affects the competitiveness, success and growth of a business regardless of its size, nature and structure (Freeman, 2014; Renko, Tarabishy, Carsrud, & Brännback, 2015). The entrepreneurial activities of SME leaders also significantly increase the influence of other leadership styles such as transformational. According to the theory, personal competence entrepreneurial leaders allows them to envision a successful future for the organization by developing its vision of innovative and determine opportunities, while the functional competence entrepreneurial leaders empower them to mem p engaruhi and inspire members of the group to leave the performance in conventional and expand their efforts to carry out innovative and entrepreneurial actions . Entrepreneurial leaders also shape employees' perceptions of their capabilities by involving them in developing innovative ideas and building their trust and commitment to implementing these ideas.

Previous research on the influence of entrepreneurial leadership on innovation has been widely carried out. Entrepreneurial leaders influence innovation and opportunity recognition especially in SMEs (Renko et al., 2015) in several ways. First, they play a very important role in developing an entrepreneurial vision that inspires business (Chen, 2007; Freeman, 2014; Guo, 2009; Karol, 2015) and generate innovative ideas to solve problems and improve company performance (Chen, 2007; Fontana & Musa, 2017; Guo, 2009; Gupta et al., 2004). Meanwhile , innovation is one of the core competencies of entrepreneurial leaders (Chen, 2007; Kuratko, 2007; Surie & Ashley, 2008). Leaders also apply entrepreneurial leadership capabilities (innovation, risk-taking and

proactive) to increase the success and effectiveness of their task performance (Chen, 2007; Karol, 2015). Second, entrepreneurial leaders achieve their vision by recognizing and bringing out the potential capabilities of individuals and groups of employees and increasing their independence, influencing them to generate new ideas, and regulating attitudes, thoughts and behavior to implement new ideas (Fontana & Musa, 2017; Freeman, 2014; Gupta et al., 2004; Kang et al., 2015; Karol, 2015; Leitch et al., 2013; Renko et al., 2015). Third, create entrepreneurial leaders who encourage and support the environment and culture in which all employees regards innovation as one of their duties and to survive in the face of challenges meningkatkan innovation (Freeman, 2014; Karol, 2015). Furthermore, they establish the structures and mechanisms needed in the process of continuous innovation in their business (Leitch & Volery, 2017; Surie & Ashley, 2008). Previous research examined entrepreneurial leadership in large companies, the findings of which may not apply to very challenging firms and in uncertain MSME contexts (Leitch et al., 2013; Leitch & Volery, 2017). Therefore, this study examines the following hypotheses on the impact of entrepreneurial leadership on innovation and employee opportunity recognition behavior in SMEs . Many studies have linked the influence of entrepreneurial leadership style on innovation (Fontana & Musa, 2017; Huang et al., 2014) . From various previous research results it can be concluded that entrepreneurial leadership can affect the level of innovation performance in employees. Especially for MSME employees during the Covid-19 pandemic like now who are required to be able to innovate and be creative in order to compete with companies both on a local, national and international scale.

Liu & Gumah (2020) in their research produced findings that transformational and transactional leadership increase self-efficacy. Several previous studies on the relationship between self-efficacy and innovative behavior have been conducted. (Hsiao et al., 2015; Kumar & Uz Kurt, 2010; Momeni, 2014; Parthasarathy & Premalatha, 2017) states that there is a positive relationship between self-efficacy and innovation behavior. In their opinion, a worker who has high innovative behavior has high self-efficacy. This supports the research of several previous studies on the relationship between self-efficacy and innovative behavior. Research (Hsiao et al., 2015; Kumar & Uz Kurt, 2010; Momeni, 2014; Parthasarathy & Premalatha, 2017) states that there is a positive relationship between self-efficacy and innovation behavior. In their opinion, a worker who has high innovative behavior has high self-efficacy . Self-efficacy refers to a personal belief or an individual's belief in his or her own ability to perform a given task effectively. Self-efficacy theory emphasizes that human actions and success depend on the depth of the interaction between one's personal thoughts and the given task (Bandura 1986, 1997). Individuals with a low sense of self-efficacy will have negative thoughts and perceive task demands as threats not as challenges and so they set low goals on themselves (Aid Suraya & Wan Ali 2009; Bandura 1994) The literature states that self-efficacy will emerge if someone have a high goal orientation (Robbins, 2001). The higher a person's self-efficacy, the greater his confidence in his ability to succeed in a task (Robbins, 2001). Entrepreneurial leadership style fosters self-confidence and optimism to conquer tough tasks and challenges.

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with high levels of creative self-efficacy showed high levels of innovative behavior in the workplace, and optimism had an indirect effect on employee innovative behavior, and played a moderating role. Employees who have greater optimism show more innovative behavior at work .

#### **4. Conclusion**

Based on the literature review results from previous research on entrepreneurial leadership on innovation, it is found that many studies have been conducted with significant positive findings that entrepreneurial leadership has an effect on innovation. This can be implemented empirically to add to the consequential variables of entrepreneurial leadership. In direct business practice, the implications of this research can be used as a reference for how an owner or leader of a small business or MSME is effective and has high innovation performance. MSME leaders must have an entrepreneurial leadership style. The effect of mediating self-efficacy on the relationship between the influence of entrepreneurial leadership on innovation needs to be tested using data analysis and further sampling. Future research can examine the effect of mediation and conduct research quantitatively to test the theory.

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