

Entrepreneurial Leadership and Its Influence on Small Firm Innovation Capability

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Abstract

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Entrepreneurial leadership plays a critical role in enhancing the innovation capability of small enterprises. Using a literature-based approach, this study examines how key elements of entrepreneurial leadership such as strategic vision, proactiveness, and risk-taking affect the development and implementation of innovation within small businesses. The findings reveal that entrepreneurial leadership contributes significantly to competitive advantage by fostering innovation in products, processes, and business models. Leaders who demonstrate entrepreneurial traits are more likely to establish an organizational culture that supports creativity, adaptive learning, and experimentation, which are essential for continuous innovation. Furthermore, innovation capability is not solely influenced by the individual characteristics of the leader but also by the structure of the organization, its internal culture, and the strength of its external networks. The study concludes that small enterprises require an adaptive leadership style that integrates both entrepreneurial and innovative dimensions as a long-term sustainability strategy. Embracing such a leadership model can enable small firms to navigate uncertainty and remain competitive in a dynamic business environment.

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1. Introduction

In an era characterized by rapid technological changes and constantly evolving market dynamics, small firms face various significant challenges to survive and grow sustainably. Competitive pressure and global economic uncertainty increasingly force small firms to be able to adapt quickly and efficiently. One of the most decisive factors in facing these challenges is the company's ability to innovate consistently. Innovation itself has long been recognized as a key driver of sustainable competitive advantage and an important foundation for the long-term survival of a company. This becomes even more relevant, especially for small firms that generally have limited financial, human, and technological resources. Therefore, it is very important to review and understand how innovation capability can be effectively developed within the context of small firms. One important determinant that plays a central role in this process is the leadership style applied by the company's leaders, especially an entrepreneurial leadership style.

Entrepreneurial leadership refers to a leadership style that specifically combines entrepreneurial behaviors such as proactiveness, risk-taking, and an orientation toward innovation with traditional managerial practices. This style is used to steer the organization toward sustainable growth and innovation creation. A leader who applies this type of leadership style not only acts as an administrative manager but also as a strategic change agent who actively seeks new opportunities, motivates team members to be involved in the innovative process, and makes strategic decisions in the face of complex and uncertain situations. Different from a transactional leadership approach that focuses on the exchange of tasks and rewards,

or a transformational leadership approach that focuses on changing the values and motivation of subordinates.

Entrepreneurial leadership specifically emphasizes the creation of new values and organizational transformation through an adaptive, flexible, and highly opportunity-oriented approach. This type of approach is very relevant and strategic in the context of small firms, which usually have a more agile organizational structure but also tend to be more vulnerable to sudden shocks or changes in the external environment. Many previous studies show that small firms led by individuals with a strong entrepreneurial orientation tend to be more innovative and have higher growth rates compared to those that are not. For example, a study by Bagheri (2017) shows that entrepreneurial leadership contributes significantly to increasing the level of innovation in an organization by creating an organizational culture that supports experimentation, taking initiative, and continuous learning. Meanwhile, Lee and Kelly (2019) emphasize the importance of dimensions such as self-confidence, courage to act, and decisiveness in decision-making as key factors that drive innovation in an organization.

However, the relationship between entrepreneurial leadership and innovation capability, especially in small firms, still needs to be explored more deeply both conceptually and empirically. There are variations in approaches, differences in research methods, and a diversity of findings between studies that still need to be systematically synthesized to provide a more holistic, in-depth, and comprehensive understanding. This study aims to systematically analyze the existing scientific literature on the influence of entrepreneurial leadership on innovation capability in

the context of small firms. Entrepreneurial leadership, which combines the dimensions of proactiveness, risk-taking, and orientation toward creating value and opportunities, is believed to have a significant contribution to creating an organizational culture that supports experimentation, continuous learning, and innovative thinking. However, this relationship still shows variations in findings, methodological approaches, and organizational contexts from various previous studies, so a more in-depth and structured investigation is needed to identify patterns, gaps, and factors that strengthen or weaken the link between the two variables.

2. Literature Review

2.1. The Concept of Entrepreneurial Leadership

Entrepreneurial leadership is an integration of effective leadership skills with dynamic and adaptive entrepreneurial behavior in response to change. This leadership style emerged in response to the needs of modern organizations, especially small firms, to be more agile, innovative, and competitive in a complex business environment. Lee and Kelly (2019) state that entrepreneurial leaders do not only focus on internal management such as organizing, supervising, or controlling resources, but also have a strong orientation toward emerging external opportunities and the courage to take calculated risks to create a sustainable competitive advantage. In this regard, entrepreneurial leaders have a dual role: as strategic directors and as initiators of change.

The main characteristics of entrepreneurial leaders include a high proactiveness in recognizing and pursuing opportunities, creativity in developing innovative solutions to organizational problems, a future-oriented strategic vision, and the ability to mobilize and manage resources effectively and efficiently (Fontana & Musa, 2017). In addition, they are able to build trust within the team, create a culture that supports experimentation and learning, and maintain a balance between exploring new ideas and exploiting existing resources. Entrepreneurial leadership is very important for driving organizational transformation because of its flexible and responsive characteristics to environmental changes. This leadership style is also highly correlated with the creation of innovative capabilities in an organization, especially in the small business sector which is vulnerable to uncertainty and market pressure.

2.2. Innovation Capability in Small Firms

Innovation capability refers to an organization's ability to create, adopt, and implement various new ideas that can be translated into products, processes, or business models that provide added value to customers and increase the company's competitiveness. This ability is a critical element in forming a sustainable competitive advantage, especially for small firms that often face resource limitations but have a high level of flexibility. According to Rezaei and Ortt (2018), innovation capability is highly influenced by the overall organizational context, including the internal structure of the organization, the work culture applied, and the leadership style that develops within that environment. These contexts can strengthen or weaken the

organization's capacity to absorb and process new knowledge into applicable innovations.

In small firms, this capability is often closely related to the level of operational flexibility, the speed of decision-making, and the direct involvement of leaders in almost all aspects of the innovation process (Covin & Wales, 2019). The leader's involvement in this process is not only in terms of administrative control but also in building an innovative culture that encourages employee creativity, manages risk, and creates a conducive work climate for the exploration of new ideas. Thus, innovation capability does not only depend on technology or physical resources, but also on human dynamics, organizational values, and the role of leadership in bringing innovative ideas into reality.

2.3. The Relationship Between Entrepreneurial Leadership and Innovation

A number of previous studies have consistently confirmed a positive and significant relationship between entrepreneurial leadership and the level of innovation in organizations, especially in dynamic small firms. This relationship shows that the entrepreneurial characteristics possessed by a leader, such as courage in the face of uncertainty, the ability to identify opportunities, and the drive to create change, can be an important catalyst in encouraging the creation of innovation. For example, Alnawas and Abu Farha (2020) found that leaders with an entrepreneurial orientation tend to be able to create a work environment that is conducive and supportive of the exploration of new ideas, the strengthening of team collaboration, and the taking of measured and strategic risks.

This kind of environment is very important for employees to feel psychologically safe in proposing new ideas and being actively involved in the innovative process. Similar results were also found by Kekezi and Klaesson (2020), who emphasize the importance of a clear strategic vision and high adaptability from leaders as two key factors in increasing the innovation capability of small firms. A strategic vision allows the organization to set an innovative direction, while the ability to adapt helps the organization respond to external changes quickly and effectively. Thus, an entrepreneurial leadership style not only directs the innovation process but also creates an internal support system that allows these innovations to grow and develop sustainably within small firms.

3. Method

This study adopts a systematic literature review (SLR) approach as the main method for exploring, evaluating, and summarizing various scientific works that specifically examine the relationship between entrepreneurial leadership and innovation capability in the context of small firms. This method was chosen for its ability to gather various empirical evidence from available academic literature published between 2017 and 2021, so it can present a comprehensive, data-based, and relevant understanding of the phenomenon being studied. The implementation of this study was carried out through systematic stages that began with a literature search process using specifically formulated keywords, namely “entrepreneurial leadership,” “innovation capability,” and “small firms,” which were then traced through the Google Scholar database as one of the broad and credible sources in the

field of science. The initial selection process was carried out by reviewing the titles and abstracts of each article found to ensure their suitability with the study's focus. Furthermore, the researcher set several inclusion criteria so that the review results remained high-quality and relevant, namely that the article must be published in the 2017–2021 period. Published by international scientific journals that have gone through a peer-review process, and explicitly discuss the link between the concept of entrepreneurial leadership and aspects of innovation in small-scale firms.

Out of a total of 87 articles collected in the initial stage, only 15 articles met all the selection criteria and were then used as the main source in the advanced analysis process. The analysis was carried out with a qualitative approach that aimed to identify the thematic patterns of each study, including the leadership dimensions examined, the type of approach to innovation used, the organizational conditions where the study was conducted, and the role of moderator or mediator factors that influence the relationship between the two main variables. The main focus of this review is not only on presenting a summary of the results of previous studies, but also on compiling an integrative theoretical synthesis of the various findings, assessing the practical and scientific contributions of each work, and describing research gaps that are still open to be used as a basis for the development of further studies in the realm of leadership and innovation in the small business sector.

4. Results

The literature analysis of fifteen international journals shows a consistent and repetitive pattern of findings that closely link entrepreneurial leadership with an

increase in innovation capability in the context of small firms. This relationship is not linear or simple, but rather is formed from a series of complex interactions between leader attributes, internal organizational conditions, and external factors that influence and reinforce each other. From the aspect of leadership characteristics themselves, studies conducted by Fontana and Musa (2017) and Bagheri (2017) emphasize that leaders with an entrepreneurial style generally have a strong tendency toward a proactive attitude, creative thinking, and a high level of tolerance for conditions of uncertainty. These leadership traits are believed to be able to encourage the emergence of new innovative ideas that can be further developed into new products, processes, or even business models that have added value. Furthermore, the findings obtained by Alnawas and Abu Farha (2020) strengthen this conclusion by showing that entrepreneurial leadership serves as the main trigger for the formation of a strong organizational strategic vision. This vision, in turn, allows small firms to quickly and effectively anticipate market dynamics and provide an innovative response to emerging opportunities and threats.

From the internal organizational point of view, various studies show that an organizational culture that is inclusive of experimentation, flexible to change, and supports continuous learning has an important role in mediating the impact of leadership on the level of innovation. A study by Covin and Wales (2019) reveals that small firms led by strong entrepreneurial leaders tend to have a flexible and adaptive organizational structure, so decision-making can be done more quickly and responsively to changes in the external environment. This result is reinforced by findings from Kekezi and Klaesson, (2020) who identify that internal collaboration,

the use of tacit knowledge possessed by employees, and the active involvement of all team members in various creative and innovative processes are important factors that strengthen the influence of leadership style on the achievement of innovative results. These studies consistently emphasize that a work culture that supports renewal and change becomes an important bridge in connecting entrepreneurship-oriented leadership with the innovative outputs produced by the organization.

In addition to internal factors, external elements also play an equally significant role in strengthening the relationship between entrepreneurial leadership and innovation capability. Access to strategic business networks, involvement in cross-sector partnerships, and support from a wider entrepreneurial ecosystem are the main drivers in this strengthening process. As shown by Saebi et al. (2017), leaders who have extensive and active external networks are able to access a variety of resources, both in the form of information, technology, and collaborative opportunities that are much needed in running the innovation process, especially in small firms that often face capital limitations. Furthermore, a study conducted by Pradhan and Jena (2019) also shows that the organization's exposure to the latest technology and intensive cooperation with research or academic institutions make a large contribution to the increase in innovation capability driven by entrepreneurially-minded leaders. In this context, the organization's openness to external influences, as well as the leader's ability to build strategic external relationships, becomes an important element in expanding the innovative horizons of small firms.

An in-depth analysis of the various available literature also shows that the relationship between entrepreneurial leadership and innovation capability in small firms is not direct or linear, but is greatly influenced and mediated by a number of complex intermediary factors. Factors such as an organizational culture that supports innovation, a high organizational learning orientation, and an agile organizational structure are important elements that mediate the influence of leadership on innovative outcomes. A study by Singh (2018) highlights that entrepreneurial leadership tends to stimulate the creation of an organizational culture that is open to experimentation, encourages individual initiative, and provides space for employees to learn from mistakes and try new approaches. This kind of culture serves as the main foundation for the realization of sustainable innovation in the long term. Not only that, but the factor of organizational learning also becomes an important dimension, because it allows small firms to internalize new knowledge and respond to market dynamics with more adaptive strategies.

One interesting finding that emerged from the literature review is that the effectiveness of entrepreneurial leadership is highly influenced by the level of dynamics and complexity of the external environment. A study by Montiel-Campos (2018) specifically highlights that in the context of a highly dynamic and uncertain environment, an entrepreneurial leadership style actually becomes more effective and relevant. This is due to the ability of this leadership style to navigate uncertain conditions, make quick decisions, and encourage adaptive responses through the exploration of new opportunities. Conversely, when a company operates in a relatively stable environment and does not experience many changes, the influence

of entrepreneurial leadership on innovation may be less dominant or even not very significant. In other words, the effectiveness of this leadership style is contextual and highly dependent on the external situation faced by the organization.

Furthermore, a number of studies also highlight the importance of social and emotional aspects in entrepreneurial leadership. This dimension is often overlooked in rational analysis that focuses on strategy and structure, even though it has a large role in creating a work climate that supports innovation. A study by Leitch and Volery (2017) underscores that leaders who have a high level of emotional intelligence and are able to build trust within the work team will be more successful in creating a positive, collaborative, and open work atmosphere for new ideas. The leader's ability to foster healthy interpersonal relationships, manage conflict constructively, and inspire active participation from team members is proven to encourage the emergence of more participatory and inclusive innovative processes. This is also reinforced by a study by Erlina (2020), which shows that attributes such as empathy, open communication, and the ability to listen actively are important elements that contribute directly to employee involvement in the innovative process at work.

From the point of view of innovative results or outputs, the increase in innovation capability mediated by entrepreneurial leadership can be observed through various concrete indicators. Some of these include the creation of new products or services that were previously unavailable, an increase in efficiency in operational processes, and the adjustment of business models that are more adaptive to market changes. A study conducted by Asif (2019) shows that small firms led by

figures with a strong entrepreneurial orientation tend to experience a significant increase in financial performance as a result of the continuous innovation process. In addition, there is a strong positive correlation between high innovation capability and other market success indicators, such as an increased level of customer retention and the ability to penetrate into new markets that were previously untapped.

Finally, various literature findings also indicate that the relationship between entrepreneurial leadership and innovation capability is cyclical, not just one-way. This means that success in innovation will strengthen the credibility and self-confidence of the leader in carrying out his entrepreneurial functions, which in turn will increasingly encourage the emergence of more innovative initiatives in the future. This phenomenon is described in detail in a longitudinal study conducted by De Waal and Maritz (2019), which shows that a kind of self-reinforcing cycle occurs between innovation and leadership. Successful innovation has a positive impact on a leader's reputation and authority, and in the long term, this becomes the main driver for the sustainable growth of small firms. Understanding this cycle is important for the development of organizational strategy because it shows that investing in building innovation capability through entrepreneurial leadership can provide cumulative and progressive results over time.

5. Discussion

The results of this literature study clearly strengthen and affirm the understanding that entrepreneurial leadership is one of the most important strategic factors in encouraging and developing innovation capability in the small firm

environment. Leaders who exhibit typical entrepreneurial behaviors tend to have a tendency to create internal organizational conditions that are conducive to the emergence of creativity, the development of individual initiative, and the taking of calculated and deliberate risks. This becomes very relevant because small firms generally do not have the complete resources that large firms have, both in terms of financial, technological, and human resources, so the achievement of long-term success and competitiveness is highly dependent on the quality and direction of leadership possessed by the organization.

The discussion of the various findings that have been analyzed shows that the role of a leader in a small organization is not limited to administrative or operational functions alone, such as technical decision-making, resource allocation, or activity supervision. More than that, the leader also has a strategic responsibility to inspire team members, facilitate creative processes, and shape the direction and vision of the organization in a dynamic, responsive, and adaptive way to changes in the external environment. In this context, the factor of organizational culture and a flexible and supportive internal structure becomes the main channel that bridges the relationship between entrepreneurial leadership characteristics and the formation of strong innovation capability. Without the support of a solid innovative culture that is instilled comprehensively throughout all organizational lines, the positive influence of entrepreneurial leadership will not be able to be actualized to the maximum and sustainably.

In addition, it is very important to note that innovation cannot be separated from the context of the organization's external environment. Factors such as access

to relevant market information, the latest technological advances, and involvement in extensive business social networks are very instrumental in strengthening the influence of leadership on the innovative processes that occur within small firms. Therefore, an effective leader is not only required to be able to manage the organization's internal systems and processes efficiently, but also needs to be active in building, developing, and maintaining strategic external relationships in order to open up new opportunities for innovation. From an implementation point of view, this study suggests that leadership training and development in small firms specifically need to include entrepreneurial dimensions. Key employees or line managers who have the potential to rise to leadership positions should be equipped with skills in innovation, networking capabilities, and long-term strategic thinking. This step will not only strengthen the organization's overall structure and systems but also create a sustainable innovation chain that is supported by the active participation of all levels of the organization.

However, it is important to acknowledge that there are still some limitations in the literature that has been analyzed in this study. Most of the reviewed studies tend to use a quantitative approach and focus on the direct influence between variables, without deeply considering the influence of cultural context, gender factors, or variations in industry sectors. Therefore, to produce a more comprehensive and contextual understanding, further studies are needed that are more varied in terms of methodology, interdisciplinary perspective, and scope of analysis. This cross-disciplinary approach is expected to be able to provide a more

complete, accurate, and applicable picture of the role of entrepreneurial leadership in increasing innovation in small firms today and in the future.

6. Conclusion

Based on the results of the literature study that has been conducted, it can be concluded that entrepreneurial leadership has a very important and strategic role in increasing innovation capability in small firms. Leaders who show entrepreneurial characteristics, such as having a clear strategic vision, being proactive in the face of change, and having the courage to take measured risks, are proven to be able to create and form an organizational culture that is conducive to the creation and implementation of new, innovative ideas. This kind of culture becomes an important foundation for small firms to be able to innovate sustainably. However, innovation capability is not solely influenced by the individual characteristics of the leader, but also by a combination of various other factors, including a flexible organizational structure, an internal culture that supports collaboration and creativity, and active involvement in strategic external networks.

The interaction of these three elements is very decisive in the extent to which small firms are able to survive and compete in an increasingly dynamic, complex, and uncertain business environment. The practical implications of these findings lead to the need for owners and managers of small firms to adopt an adaptive, participatory, and innovative leadership approach. Meanwhile, policymakers also need to provide real support for the entrepreneurial ecosystem through access to leadership training, business incubation programs, and the facilitation of cross-sector

collaboration. In addition, further research is needed to examine more deeply the role of mediating and moderating variables in the relationship between leadership and innovation, as well as to explore the influence of local context on the effectiveness of this leadership model. With the right strategy, small firms have great potential to develop into resilient, responsive, and innovative business entities in facing various global challenges.

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