

## **The Effect of Entrepreneurial Leadership, Self-Efficacy and Organizational Performance: A Conceptual Paper**

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**Abstract:** Entrepreneurship education programs are proliferating in universities and colleges in the country due to the importance and increasing acceptance of entrepreneurship. However, one may argue the purpose of having entrepreneurship education to those who are not interested in starting a business. What do entrepreneurship subjects contribute towards students generally? The purpose of entrepreneurship education is not only to nurture entrepreneurs, but to inculcate entrepreneurial orientation and characteristics to the students. Therefore, this study investigates how entrepreneurial orientation that has been gained by students in entrepreneurship subjects, influence their academic grades. So far, there is lack of empirical study on this matter creating a literature gap. The study is done at Universiti Teknologi MARA, Malaysia. The result shows that three elements of entrepreneurial orientation (risk-taking, proactiveness and competitive aggressiveness) positively influence academic grades while the remaining elements of entrepreneurial orientation (autonomy and innovativeness) do not influence academic grades.

**Keywords:** Entrepreneurial Leadership, Self-Efficacy, Organizational Performance, Conceptual Paper

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### **INTRODUCTION**

In Malaysian economy, the government recognizes that successful businesses will create jobs and contribute to economic growth. The government has developed six priority areas which are business development, training, acculturation, providing premises, finance and marketing in helping out small business enterprises to develop their businesses (Sulaiman, 2004) as well as various supporting mechanisms and policies that exist for entrepreneurs such as the establishment of a special ministry for entrepreneurs in 1995 (Ariff and Abubakar, 2003). The establishment of the ministry clearly showcases the importance of the government placement upon the issue of entrepreneurship and entrepreneur development. Entrepreneurship and business are inseparable, same goes to organization and performance. Often business organizations are evaluated on their financial performance (Subramaniam and Nilakanta, 1996) and the entrepreneur himself is evaluated on the organizational performance (Covin and Slevin, 1991). The entrepreneur as the leader of the organization is the one who will decide on the best course of actions for the organization. Consequently, the entrepreneur has to have a certain degree of competencies and capabilities to steer the organization to achieve the desired goal. Hence, recently researchers are coming out with the new term for leadership called entrepreneurial leadership that used to explain both the entrepreneurial and the leadership aspects (Ireland & Hitt, 1999; McGrath & MacMillan 2000; Meyer & Heppard, 2000). The term entrepreneurial leadership is used to accommodate the needs of a leader in the business world that is equipped with entrepreneurial behavior and competencies. Self-efficacy is one element that helps entrepreneurs to succeed in the business. It is a concept that measures a person's belief in his or her ability to succeed in entrepreneurial venture (McGee, Peterson, Mueller and Sequiera, 2009). Existing literature indicated that self-efficacy motivates entrepreneurs to set up business (Chen

et al., 1998), encourages entrepreneurs to strongly commit to their goals (Clercq et al., 2009) and are positively related to risk preference (Barbosa et al., 2007). Therefore this paper would like to conceptualize on the effect of entrepreneurial leadership and self-efficacy towards organizational performance.

## LITERATURE REVIEW

### *Entrepreneurship*

The most common conception of entrepreneurship generally involves the creation of a new business (Dees, 2001). However, it is a very vague explanation for a term that has long history and more significant meaning. The term entrepreneur was originated in French economics as early as the 17<sup>th</sup> and 18<sup>th</sup> centuries. In French, it means someone who undertakes to do a job (Dees, 2001). Though this explanation does not reflect the term entrepreneurship yet, but it build up the foundation of understanding what is the meaning by entrepreneur.

In 19<sup>th</sup> century, a French economist by the name of Jean Baptiste Say defined entrepreneurs as the individual that shifts economic resources out of an area of lower and into an area of higher productivity and greater yield (Dees, 2001). He was the first to add a fourth actor and attribute a definite position to the entrepreneur as distinct from the capitalist (Schumpeter, 1954). Jean Baptiste Say believed innovation belonged to the entrepreneur. The entrepreneur was creative and combined resources in a revolutionary way as to bring about innovative change and added value. The entrepreneur was seen as distinct from the capitalist who merely managed the labor and the land to realize accrued capital (Say, 2001). His writing helped legitimize and secure the role of the entrepreneur, and the inclusion of entrepreneurship among the major facets of economic theory ensured the entrepreneur would be included in future research.

Later on in the 20<sup>th</sup> century, Joseph Schumpeter (1954), described entrepreneurs as the innovators who drive the creative-destruction process which is considered as the defining element of capitalism. Schumpeter described that entrepreneur reforms or revolutionizes the pattern of production. He further added that entrepreneurs are the change agents in the economy. By serving new markets or creating new ways of doing things, they move the economy forward.

Drucker (2007) agreed on the basis of entrepreneur's definition by Jean Baptiste Say and Joseph Schumpeter, he added that he does not sees entrepreneurs as the cause of change but he but sees them as exploiting the opportunities that change creates. He further described entrepreneur as a person that always searches for change, responds to it, and exploits it as an opportunity.

Rahim and Mohtar (2015) defined entrepreneur as "an innovator that creates and exploits opportunity, consequently creating value and change towards the economy and society".

### *Leadership*

The basic challenge of entrepreneurial leaders (McGrath and MacMillan, 2000) is to envision future possibilities and enable the organization to transform its current transaction set (Venkataraman and Van de Ven, 1998). Moreover, such adaptation must be accomplished without overstraining the unit's resource endowments. In addition, this must often be done in the face of conservative and risk-averse attitudes stemming from followers' lack of confidence in the gains from innovation in uncertain environments.

At its most general level, the vast literature on leadership literature focuses on the ability of leaders to influence a group of followers and emphasizes the relations among three key factors: the leader, the followers, and the landscape. While theories of leadership abound, in this article, we focus on three cross-cultural, universal perspectives of leadership that have emerged in recent years that are relevant to the context outlined above—leadership capable of sustaining innovation and adaptation in high-velocity and uncertain environments.

First, the neocharismatic/transformational leadership perspective evolved in response to limitations found in traditional transactional leadership theories, such as the path-goal theory (House, 1971) and operant conditioning (Luthans and Kreitner, 1975; Podsakoff et al., 1982). In these traditional theories, the leader's role is instrumental rather than inspirational, is based on the principal of exchange, and functions to provide the necessary incentives or disincentives to obtain desired task outcomes. In contrast, the neocharismatic leadership perspective focuses on how leaders evoke superordinate performance from followers through a transcendence of self-interested behavior by appealing to higher needs for self-actualization, deeply held personal values, and implicit motivations of followers

(Burns, 1978; Bass, 1985). As Burns (1978, p. 20) observes, the act of leadership “binds leader and follower together in a mutual and continuing pursuit of a higher purpose.”

Entrepreneurial leadership has much in common with transformational leadership in that the leader evokes superordinate performance by appeals to the higher needs of followers. However, the entrepreneurial leader’s ability to evoke such performance is founded in the context of the firm’s need to adapt to emerging environmental contingencies. Thus, the basic challenge is to create a willingness in followers to abandon current conventional but careersecure activities for creative, entrepreneurial action.

Second, team-oriented leadership theories, by focusing on the interactions between leaders and group members, specifically emphasize the ability of leaders to elicit heightened levels of group participation and involvement by team members. This view includes leader–member exchange theory, which examines leadership from the perspective of role theory and posits that role development results in differentiated role exchanges between the leader and subordinates within an organization (Graen and Cashman, 1975; Graen and Uhl-Bein, 1995). Support for this approach from field studies suggests that leader–member exchange may predict outcomes such as team performance (Graen et al., 1982) and managerial progress (Wakabayashi and Graen, 1984; see Graen and Uhl-Bein, 1995, for a review). The similarity between team-oriented leadership and entrepreneurial leadership is that in both cases the leader elicits high levels of participation and involvement by the group. Yet, the difference is that entrepreneurial leaders must orchestrate constantly changing role definitions driven by an uncertain organizational context, rather than negotiate based on the more stable role exchanges characteristic of static environments.

Third, value-based leadership, a perspective elaborated by House and Aditya (1997) suggests that leaders articulate a captivating vision or mission in ideological terms, show a high degree of confidence in themselves and their beliefs, and set a personal example of involvement in and commitment to the mission for followers to emulate. Leaders thus appeal to a vision and mission derived from a set of superordinate values and behave in a manner that reinforces the mission, communicating high expectations to followers, and conveying confidence in their ability to meet such expectations (Conger and Kanungo, 1987; Shamir et al., 1993). In the business context, values-based leadership may be an important source of advantage, since commitment, a resource that is difficult to imitate, can be gained by affecting the values and beliefs that underlie individuals’ perceptions (Ghemawat and del Sol, 1998). The similarity between value-based and entrepreneurial leadership lies in the leader’s capacity to build a high-expectation vision and to convey confidence in the followers’ ability to accomplish that vision. Again, the difference stems from organizational context—the leader cannot themselves demonstrate the extraordinary effort needed to accomplish the entrepreneurial task, but, instead, must rely on the commitment of followers to use their specialized skills to enable the accomplishment of the entrepreneurial task.

In summary, specifically in the organizational context, components of transformational, team-building, and value-based leadership that are relevant for entrepreneurial leadership are those that enable the leader to mobilize the capacity to meet the entrepreneurial challenge. This can only be done by a leader who can:

1. extract exceptional commitment and effort from organizational stakeholders,
2. convince them that they can accomplish goals,
3. articulate a compelling organizational vision,
4. promise their effort will lead to extraordinary outcomes, and
5. persevere in the face of environmental change.

### *Entrepreneurial Leadership*

Drawing on these ideas of leadership, it was suggested that entrepreneurial leaders face two interrelated challenges—first envisaging and creating a scenario of possible opportunities that can be seized to revolutionize the current transaction set, given resource constraints. First challenge is called scenario enactment. The second challenge is to convince both potential followers and the firm’s network of stakeholders that the transformation of this transaction set is possible by assembling resources (including recruiting additional cast) to accomplish the objectives underlying the scenario. This challenge is called cast enactment—creating a cast of characters—people endowed with the appropriate resources needed to execute the transformation.

Scenario and cast enactment are interdependent since transforming the transaction set through scenario enactment cannot be conceived without an appropriate cast and the cast cannot be assembled until a convincing scenario is communicated. Both processes evolve cumulatively and iteratively, much like the process of competence development involves the parallel evolution of cognitive understanding and deftness in practice in project teams (McGrath et al., 1995) or the complementary processes of concrete and abstract learning (Brown et al., 1989).

In addition, entrepreneurial leadership (like neocharismatic and value-based leadership) goes beyond organizational adaptation, which is the focus of population ecology (Hannan and Freeman, 1977) or evolutionary economics (Nelson and Winter, 1982). The actions that entrepreneurial leaders precipitate in pursuit of their vision constitute proactive “enactment” of new combinations of capabilities in the organization—reconfigured and focused to forge an entirely reconstructed transaction set for the firm.

The creation of these conditions calls for the execution of five specific entrepreneurial leadership roles adapted and modified from McGrath and MacMillan (2000), three of which are associated with scenario enactment and two with cast enactment. First, by undertaking the role of “framing,” entrepreneurial leaders “frame a challenge that will push the team to the limits of its abilities without pushing them over their limits” (McGrath and MacMillan, 2000). Thus, entrepreneurial leaders balance the desire for aggressive improvement with a pragmatic understanding of the capabilities of individuals that will be involved in realizing the transformation.

“Framing the challenge” calls for the entrepreneurial leader to combine highly ambitious goals with insightful understanding of the limits of what can be accomplished (Brazeal and Herbert, 1999). The result is discovery of a vision “worthy of persistence” (Pinchot, 1994).

In their role of “absorbing uncertainty,” the entrepreneurial leader formulates a vision of the future state to be enacted by the followers and, then, shoulders the burden of responsibility for being wrong about the future. By absorbing the paralyzing effects of uncertainty for followers, the entrepreneurial leader builds their confidence enabling them to act as if it is possible to realize the vision. The role of product champions (Shane, 1994) is well recognized for absorbing uncertainty to facilitate innovation.

In their “path-clearing” role, entrepreneurial leaders negotiate the internal and external environments (Cyert and March, 1966; Thompson, 1983). They are able to anticipate and dissolve potential resistance, obtain support from key stakeholders within the firm as well as from external constituencies, and eliminate obstacles to the accomplishment of desired goals.

Critical resources and information are thereby made available (Daily and Dalton, 1993; Lewis, 1980). Those three roles help to accomplish scenario enactment.

The following two roles are associated with cast enactment. In “building commitment,” entrepreneurial leaders use their team-building skills to inspire and mold a team that is highly committed to extending extraordinary energy and effort to accomplish the scenario described by the leader (Bandura, 1970).

At the same time, there is a need to “specify limits” to hold and sustain commitment in the face of contingencies and constraints on action. By decisively specifying limits, the leader reshapes individuals’ perceptions of their own capabilities by eliminating self-imposed ideas of limitation. Moreover, creativity flourishes when constraints are defined; Clark et al. (1985) find that clearly specifying constraints yields breakthrough results in new product innovation. Together, these five roles, subsumed under the two dimensions of enactment, provide the theoretical framework for the construct of entrepreneurial leadership.

Mohtar and Rahim (2014) have conceptualized the idea of relationship between entrepreneurial leadership and organizational performance. They discussed that by making assumption that the entrepreneur is the leader of the organization, they presented the idea of the entrepreneur behavior and effectiveness are associated with the organization performance.

### *Self-Efficacy*

It can be summarized that the behavior associated with entrepreneurship based on the previous studies are aggressive, achievement oriented, have locus of control, are independent, and have tenacity, persistence and perseverance (Kuratko and Welsch, 1994; Longenecker, *et al.*, 2000). According to Longenecker *et al.* (2000), entrepreneurs with high need for achievement are those who like to compete with some standard of excellence and prefer to be personally responsible for their own tasks. Entrepreneurs with self-confidence are those individuals who feel that they can meet the challenges that confront them. They have the locus of control or the belief that his or her success depends on his or her own effort.

Entrepreneur self-efficacy, on the other hand, according to McGee, Peterson, Mueller and Sequeira(2009), is conceptualized as a construct that measures a person’s belief in their ability to successfully launch an entrepreneurial venture. They argued that entrepreneur self-efficacy is particularly useful since it incorporates

personality as well as environmental factors, and is thought to be a strong predictor of entrepreneurial intentions and action. Chen *et al.* (1998) defines entrepreneur self-efficacy as the strength of a person's belief that he or she is capable of successfully performing the various roles and tasks of entrepreneurship. Reviews on the development of entrepreneurial characteristics such as need for achievement, internal locus of control, risk-taking and innovation (Johnson, 1990; McClelland, 1987; Ndubisi, 2007; Sirec and Mocnik, 2010) and entrepreneur self-efficacy (Boyd and Vozikis, 1994; Chen, *et al.*, 1998; Luthans and Ibrayeva, 2006) have been recognized as highly associated with entrepreneurial behavior. Nevertheless, as pointed out by Boyd and Vozikis(1994) it is crucial to make a distinction between entrepreneur self-efficacy and the concept of locus of control, as well as need for achievement.

The previous study by Boyd and Vozikis(1994), has argued that locus of control is a generalized construct that covers a variety of situations, such as the perception that rewards are contingent on an individual's own behavior, while self-efficacy is task and situation specific. Thus, individuals may exhibit a strong locus of control in general, but may have low self-efficacy with regard to a specific task (Bandura, 1977). Boyd and Vozikis(1994) have also distinguished the difference between the concept of self-efficacy and the characteristics of need for achievement. They further stressed that self-efficacy is often confused with the belief that effort will lead to desired performance. Furthermore, Boyd and Vozikis(1994) consider self-efficacy to be a broader concept than the belief that effort will lead to desired performance, and thus encompasses other factors such as mood and coping abilities under stress.

A recent study by Boissin, Branchet, Emin and Herbert (2009) on 272 American students at United States and 340 French students at France, analyzed the differences in sensibility regarding the creation of enterprises among American and French students. The research compared their beliefs in order to identify differences and similarities. The results showed that the intention to start up a company is stronger in the United States than in France, and indicated important differences in beliefs. The perceived self-efficacy on intention showed a positive significant relationship with regard to the United States students. However, there was no significant relationship between perceived self-efficacy on intention with regard to the French students. In general, they have recognized that entrepreneurship intentions are more positive and advanced among American students than among French students. This is because, for French, many students are hesitant and more negative about starting a business and would rather be employees. They have different beliefs which are actually based on economic and cultural backgrounds (for example, reward systems and government structures) that influence these beliefs.

Chen *et al.* (1998), who surveyed 140 university students also found that entrepreneur self-efficacy was positively associated with the person's intention to set up their own business. A study by Clercq *et al.* (2009) that examined factors associated with nascent entrepreneurs' goal commitment has also hypothesized that nascent entrepreneurs' self-efficacy relates positively to their goal commitment. The result of the hypothesis showed support that nascent entrepreneurs' self-efficacy relates positively to their goal commitment. They have argued that, the levels of effort nascent entrepreneurs are willing to exert in order to achieve their goals depend on their belief that the outcomes of their efforts are feasible and desirable. The feasibility refers to the belief that efforts enable the goal of establishing a venture, while the desirability refers to the anticipated satisfaction with goal commitment.

The study by Barbosa *et al.* (2007) on the cognitive style and risk preferences among 528 university students from Russia, Norway and Finland found that, different cognitive styles and level of risk preference are associated with different types of entrepreneurial self-efficacy. They found that individuals with a high risk preference have higher level of entrepreneurship intentions and opportunity seeking self-efficacy. Entrepreneur's personal characteristics such as need for achievement and locus of control show positive relationship associated to entrepreneurial self-efficacy (Luthans and Ibrayeva, 2006) which indicate that a positive relationship exists between achievement motivation and entrepreneurship (Johnson, 1990; McClelland, 1987).

### *Organizational Performance*

Organizational performance is essential for business world (Herman & Renz, 2004; Tucker, 2010). It is an indispensable component in organizational theory as well as organizational analysis (Goodman & Pennings, 1977; Quinn & Rohrbaugh, 1983). As much importance of the subject, it creates a huge debate on its definition (Quinn & Rohrbaugh, 1983, p. 363) and measurement (Selden and Sowa, 2004). Rojas (2000) stated, "organizational effectiveness has been one of the most sought out yet elusive of research subjects since the early development of organizational theory" (p. 97). Selden and Sowa (2004) argued, "numerous scholars throughout the development of organization theory have focused on developing the best way to define and/or measure organizational performance" (p. 395). Basically, organizational performance is a term used to illustrate the ability of an organization to meet its pre-determined objectives and goals (Selden & Sowa, 2004) or the result of an organization compared to its intended outputs (Ali, 2006).

Due to the debate for an accepted definition and measurement, researchers had discussed on how to evaluate organizational performance. There are researchers that argued a comprehensive and multi-dimensional framework is needed while some argued a single measurement is sufficient enough.

The first school of thought argued that organizations usually have more than one goal thus it is insufficient to measure an organization's performance using a single factor (Herman & Renz, 2004; Yacinthe, 2004). Therefore, a more complex and comprehensive measure is needed for that purpose (Quinn & Rohrbaugh, 1983; Rojas, 2000; Selden & Sowa, 2004). It is suggested that organizational performance is usually being analyzed on its organizational perspective and economic perspective (Tvorik and McGiven, 1997). For economic perspective, it may be measured by financial measures (Subramaniam and Nilakanta, 1996) in terms of sales growth, net income growth and return on investment (Talon et al. 2000) that will reflect on the firm's performance position. While organizational perspective may be measured by behavioural and sociological aspects of the organization such as intellectual capital (Sveiby, 2001).

The other school of thought believed that organizational performance may be measured by a single measurement (Liao and Chuang, 2006). Collins (2001) in his bestseller book titled Good to Great, discussed that successful companies based their performance solely on their cumulative stock return.

On the other hand, a new stream of research cluster had emerged that focused on resource-based of capabilities that may influence organizational performance (Tvorik and McGivern, 1997). They discussed that an organization is a repository of skills and capabilities that is lead by a certain leadership styles towards a shared vision. The synergized relationship between employee skills and leadership will create a culture of innovation that will create an increase of competitive advantage. This will result in an improvement of organizational performance.

## RESEARCH DESIGN

This study utilized five independent variable, a mediating variables and one dependent variable. The independent variables are framing the challenge, absorbing uncertainty, path-clearing, building commitment and specify limits which constitute entrepreneurial leadership, while the mediating variables is self-efficacy. Lastly the dependent variable is organizational performance (Figure 1). Path analysis will be used to test each variables relationship with each other.

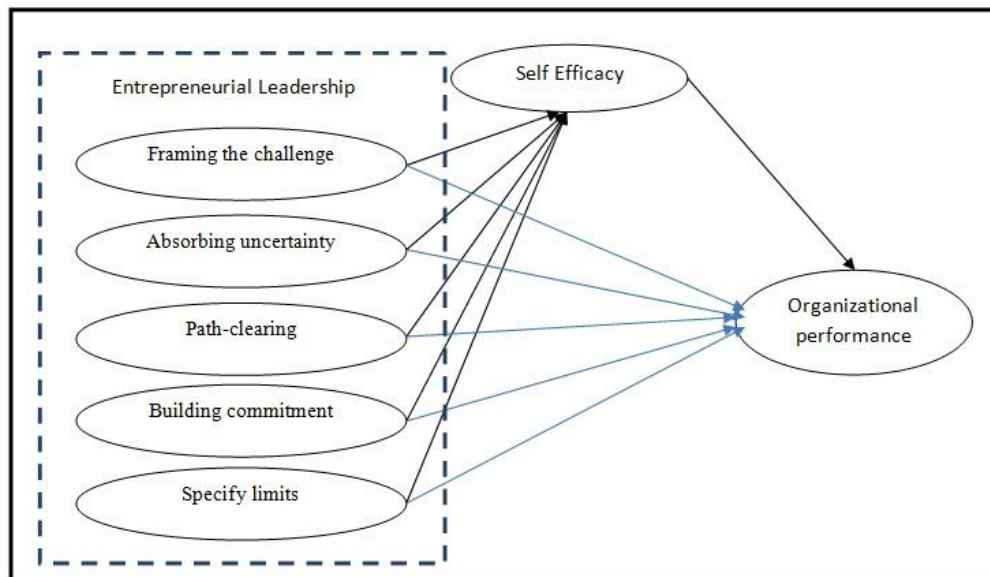


Figure 1: Conceptual Framework

The research questions are as follows:

1. Does framing the challenge influence organizational performance?
2. Does absorbing uncertainty influence organizational performance?
3. Does path clearing influence organizational performance?

4. Does building commitment influence organizational performance?
5. Does specify limits influence organizational performance?
6. Does framing the challenge influence self efficacy?
7. Does absorbing uncertainty influence self efficacy?
8. Does path clearing influence self efficacy?
9. Does building commitment influence self efficacy?
10. Does specify limits influence self efficacy?
11. Does self efficacy mediates framing the challenge and organizational performance?
12. Does self efficacy mediates absorbing uncertainty and organizational performance?
13. Does self efficacy mediates path clearing and organizational performance?
14. Does self efficacy mediates building commitment and organizational performance?
15. Does self efficacy mediates specify limits and organizational performance?

## CONCLUSION

Entrepreneurial leadership is a relatively young discipline that has many questions to be answered, and limited empirical evidence exists to prove that entrepreneurial leadership plays a role in improving organizational performance while being effective. Both, entrepreneurial leadership and self-efficacy are conducted mainly in western countries. Not much is known about entrepreneur's entrepreneurial leadership and self-efficacy in Malaysia. Furthermore, study on how entrepreneurial leadership and self-efficacy influence organizational performance was done separately. To date, study on this type of relationship that combines entrepreneurial leadership, self-efficacy and organizational performance has not been researched. Building on a very limited existing literature and research, this study will provide new knowledge to the field and address the literature gap.

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