

The role of entrepreneurial leadership in growth oriented firms

Dr. Suman Kothari

Lecturer (Dept. E.A.F.M. Commerce), Shri Bhawani Niketan Mahila Maha Vidyalaya, Jaipur, Rajasthan, India

Abstract

Previous studies have demonstrated that there are links between leadership and entrepreneurial orientation. Entrepreneurial Orientation can be described as entrepreneurship at firm level. It represents a firm's strategic orientation to achieve organizational success. Studies show that sales growth, profit market share were higher for firms that adopted higher entrepreneurial orientation as compared to those with lower entrepreneurial orientation. The vital role in successful entrepreneurial ventures is that of good leadership.

In summary entrepreneurship is the process of creating new entry opportunities and can involve both new business startup as well as development of existing firms. At last, growth processes are supported by financial and intellectual capital as well as entrepreneurial skills.

Keywords: entrepreneurial skill, alliance formations internationalization, entrepreneurial motives and growth, entrepreneurial behaviors with small large business

Introduction

Previous studies have demonstrated that there are links between leadership and performance and others have looked at entrepreneurial orientation. Abdul Razak proposed that effective leadership behaviors and entrepreneurial attitudes are among the key factors for the success of Small and Medium Enterprises (SMEs). Leadership refers to the process of how to influence people and guide them to achieve organizational goals. Effective leaders are important because they are one of the factors determining the success or failure of a group, organization or even a whole country. Previous studies also have shown that a good leader can enhance organizational performance, increase employees' satisfaction and improve employees' motivation. Entrepreneurial orientation (EO) on the other hand can be described as entrepreneurship at the firm level [1-3]. According to Morris & Paul, EO can be defined as the company's top management inclination to take calculated risks, to be innovative, and to display proactiveness in their approach to strategic decision making. SMEs are expected to be entrepreneurially orientated in order to be competitive and an EO contributes to the success of a firm. It also means that the EO is not something that can be bought by a firm. EO is something that the entrepreneurs or owners of SMEs need to build, instill, foster and maintain. It has also been shown previously that a high level of EO improves the performance of the organizations. EO is important since it represents a firm's strategic orientation to achieve organizational success. Moreover, entrepreneurial SMEs can be an engine growth for the economic development of the country.

Entrepreneurial Orientation and Organizational Performance

According to Aloulou and Fayolle [4], an innovative firm is not considered entrepreneurial if it does not take risks or does not display proactiveness when dealing with competitors and the environment. Covin and Slevin [5] described the ability of a firm to display excellent performance in the three dimensions

of EO consisting of innovativeness, proactiveness and risk-taking can be considered to be entrepreneurial. They proposed that entrepreneurial style measured the degree to which top managers favor innovative activities, are inclined to take considerable business related risks and proactively compete with other firms. There are much existing literatures that has shown that there is a link between EO and organizational performance. However, the nature and extent of the relationship seems to be different between different types of organizations. EO is only weakly linked to the performance of start-up companies whereas in other studies, there was a moderate, positive significant relationship between EO and overall business performance. Sales growth, profit and market share were higher for firms that adopted higher EO as compared to those with lower EO. Firms with higher EO have better performance outcomes than firms with lower and medium EO.

Entrepreneurial behavior within small businesses

Clearly, the emerging studies recognize the importance of harnessing the existing human capital of a firm as well as developing effective leaders within small to medium-sized enterprises (SMEs) to enable them respond to the turbulent business environment within which they operate. Further, as small businesses leverage their human resources to attain sustainable firm performance, more research findings link effective leadership to a firm's strategic flexibility, firm performance and effectiveness. A culture of family commitment to the business and a stewardship culture positively influenced strategic flexibility, and that the interaction of the family commitment culture and stewardship culture further enhanced a family firm's strategic flexibility. Thus, various studies have highlighted the vital role played by leadership in successful entrepreneurial ventures. Notably, the ever-growing literature on EO and leadership seeks to uncover how leadership influences a firm's innovation capability, risk taking, employees' proactive behaviors, and how employees

adopt entrepreneurial attitudes and behaviors. Indeed, there is a need to meaningfully integrate existing research findings and then design systematic and extensive research to unpack leadership phenomena within small businesses.

Entrepreneurial ambition and growth motives

Upadhy and Rutton [6] referred Bourdieu's theory to explain the entrepreneurial behaviour - "Bourdieu has shown how people, though constrained by their cultural inheritance and structural factors, in pursuit of their goals employ strategies which are based on conversion of one kind of 'capital' (social, cultural, economic) to another". They also submitted a counter-argument of Baumol (1990) - "Their (entrepreneurs) main objective is not the well-being of the society but their own personal well-being, defined in terms of wealth, power and prestige". When social actions are repeated over time and are assigned similar meanings by self and others, they become institutionalised; institutionalised action is economically efficient because making decisions and carrying them out becomes simpler when the actor predict and understand the actions of other.

All entrepreneurial ventures are not conceived with equal potential for survival or growth. The potential value of the knowledge imparted to the entrepreneur also varies from one venture to the other. Personality of the CEO, strategy and the firm structure directly influence the performance of small organizations. They developed a model and established three major determinants of growth namely ability, need and opportunity. These factors also explain the variation in growth. The need related factors are more important than the ability and opportunity. But willingness of the entrepreneurs to take credit of success or growth was also concluded as an important dimension of growth of small entrepreneurial organizations and the cognitive bias such as desire to present oneself as the best, ego protection and emotional needs influence this dimension. However the actions of the entrepreneurs cannot be described by economic interests alone as they are also driven by prestige, social status or political influence. The entrepreneurs who are also businessmen are act consciously both collectively or individually to further their political, social or economic goals. Their ambitions are not restricted to their individual interests but also to the class or social group.

Entrepreneurs of the small businesses are the sole strategic decision makers and their close control supports easy translation of entrepreneurial vision into action. The effects of founding team (the entrepreneurs) grow with time and over the years the organizational growth become self-fulfilling prophecies for many. Although the small organisations have the advantage of economies of scale, lower overheads and the capability to strike the markets fast; entrepreneurial motivation (to grow) and competence in strategy planning have strong influence on the business strategy. Unless the entrepreneurs possess some strong positive belief towards growth they would not consider strategy planning worth attempting. In strategic management literature this aspect is referred as 'strategic intent' which means the ambitious strategic objectives and concentration on these actions to achieve these objectives. In small organisation creating a niche is a typical strategic intent. Financial motives are equally important along with others if not more in small entrepreneurial organizations.

Growth accelerators

Alliances and Joint Ventures offer opportunities for firms with limited resources to access capabilities (e.g., in production, marketing, distribution) and grow more rapidly than purely internal growth would allow. Alliances and joint ventures enable risk sharing and are particularly advantageous where outcomes are uncertain. Several alliance processes have been identified including:

- Identification of partners
- Alliance formation and structuring
- Maintenance of productive alliance relationships
- Acquisition and integration of new knowledge and capabilities

Although much extant research on alliances and joint ventures is based on samples of larger and publicly traded firms, a significant proportion of all alliances involve large firms partnering with SMEs [7].

Furthermore, evidence indicates that management processes observed in the context of large firms (e.g., identification of partners, alliance structuring and governance, managing the relationship, integrating new knowledge) are --equally relevant to SMEs. However, there are unique challenges for SMEs arising from their inherent resource constraints (particularly less experience and managerial capital) and weaker bargaining power. Acquisitions offer a faster route to growth by providing access to new capabilities, markets, or both. In addition, acquisitions may enable a re-combination of resources that liberates new potential growth paths for a venture. Acquisitions, however, very often fail to achieve desired results. While defining and assessing performance of merger and acquisition (M&A) activities is not an easy task, a meta-analysis of post-acquisition performance across 93 studies suggests that, when the declared objectives of the acquisition are taken into account, only 56 per cent of M&A are successful.

Entrepreneurship Role

At the core of the entrepreneurial venture and the initiator of the entrepreneurial process is the entrepreneur. It is important to draw a distinction between the process of small business management and the concept of entrepreneurship or the entrepreneur. Entrepreneurs have been viewed in many ways but in this context they are the key agents of change or creativity leading to new growth and opportunity. While the majority of small firms are owned and managed by individuals of varying competence, these owner-managers should not be confused with entrepreneurs. In contrast to the innovative, growth oriented and strategically minded entrepreneur, the small business owner-manager is typically defined as focused on furthering personal goals within a venture that consumes all their time and is essentially an extension of their own personality. The term owner-manager is generally correct in most small business research however it would not be so for any understanding of the entrepreneurial venture.

Competent management within the small firm is a necessary ingredient for success, but it is not the same as entrepreneurship. For entrepreneurial growth the firm requires the leadership of individuals with vision who are focused on growth and profit maximization as principal goals. Under such conditions the entrepreneur is characterized principally by

innovative behavior and will employ strategic management practices in the business.

Entrepreneurship is therefore associated with such things as the creation of new business ventures; the introduction of new innovative ideas and technologies, and the willingness to take the risks. The key ingredient in entrepreneurship is the creation of something new or the new entry of ideas. This refers to the act of launching a new venture that can involve starting up a new business, spinning out a new company from an established business, or creation of new business activities within an established firm. It can be achieved by either creation of new products and services, or entry into new markets. In summary, entrepreneurship is the process of creating new entry opportunities and can involve both new business startup as well as the development of existing firms.

Successful entrepreneurship also requires the skills to organize and manage the activities associated with innovation and change. Entrepreneurial traits have been identified as a strong desire for achievement and autonomy; high creativity; willingness to take calculated risks, and sense of self-determination. These entrepreneurial tendencies are found throughout the general population, although they may be more pronounced in some individuals rather than others [8]. Entrepreneurs are not only people who found new business ventures, but can also comprise employees within large organizations – ‘intrapreneurs’ – who lead innovative change or develop spinout companies.

Conclusion

Although it is dispersed across a range of literatures and sub-disciplines in strategy, entrepreneurship, international business, organizational theory, economics and management, the evidence suggests a number of processes and routines that support organizational growth. The major categories that has been identified by reviewing are processes for continuous improvement, innovation, internationalization, alliance formation and acquisition. Growth processes are supported by financial and intellectual capital as well as entrepreneurial skills. With the help of all these, a source by which these resource stocks are enhanced..

References

1. As-Sadeq HA, Khoury GC. Leadership styles in the Palestinian large-scale industrial enterprise, *Journal of Management Development*. 2006; 25(9):832-849.
2. Ling Y, Lubatkin MH, Simsek Z, Veiga JF. The Impact of Transformational CEOs on the Performance of Small-to-Medium-Sized Firms: Does Organizational Context Matter?, *Journal of Applied Psychology*. 2008; 93(4):923-934.
3. Lo MC, Ramayah T, Hii Wei M, Songan P. The relationship between leadership styles and organizational commitment in Malaysia: role of leader-member exchange, *Asia Pacific Business Review*. 2010; 16(1/2):79-103
4. Covin JG, Slevin DP. Strategic Management of Small Firms in Hostile and Benign Environments, *Strategic Management Journal*, 1989; 10(1):75-87.
5. Aloulou W, Fayolle A. A Conceptual Approach of Entrepreneurial Orientation within Small Business Context”, *Journal of Enterprising Culture*, 2005; 13(1):24-45.
6. Upadhyya C, Rutten M. In Search of a Comparative Framework: Small-scale Entrepreneurs in Asia and Europe”, In Mario Rutten and Carol Upadhyya, ed., *Small Business Entrepreneurs in Asia and Europe: Towards a Comparative Perspective*. New Delhi/Thousand Oaks/London: Sage Publications. 1999.
7. Hagedoorn J. Understanding the rationale of strategic technology partnering: Interorganizational modes of cooperation and sectoral differences, *Strategic Management Journal*. 1993; 14:371-385.
8. Tim Mazzarol. Strategic Management of Small Firms: A Proposed Framework for Entrepreneurial Ventures”, *Entrepreneurship as the way of the Future, Proceedings for the 17th Annual SEAANZ Conference*. 2004.