

The Effect of Entrepreneurial Leadership on Business Performance through Sustainability

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Abstract

This study focuses on the effect of Entrepreneurial Leadership on Business Performance through Sustainability. Respondents were 65 business in Masaingi and Bonenula Villages, Central Sulawesi. The data obtained were then analysed using SEM-PLS. This mediation context indicates partial mediation because although there is a direct effect of entrepreneurial leadership on business performance, there is also an indirect effect channeled through sustainability. Therefore, based on the model structure, the results of the entrepreneurial leadership pattern directly on business performance have a greater influence with an R Square value of 0.900 or 90.0% when compared to the value of entrepreneurial leadership through sustainability with a value of 0.721 or 72.1%, this indicates that other factors affect 10% of business performance. This research shows that the application of entrepreneurial leadership and business sustainability can be one approach to improving business performance.

Keyword: entrepreneurial leadership; business performance; sustainability

1. Introduction

In the modern era of social and environmental challenges, business performance face many problem that becoming increasingly crucial (Ercantan et al., 2024). One of the things needed to improve business performance is an entrepreneurial leader. The role of an entrepreneurial leadership focuses on bringing change, a long-term perspective in making decisions; driving innovation aimed at increasing customer value; developing a skilled, loyal and highly engaged workforce; offering quality products, services and solutions; engaging in behavior and decision-making (Hallinger & Suriyankietkaew, 2018). Entrepreneurial leaders not only act as decision-makers, but also as change agents in driving socially and environmentally responsible business practices (Hensellek et al., 2023).

Entrepreneurial leaders with analytical ability, responsibility, emotional intelligence, and accountability are able to find and utilize resources to achieve competitive advantage, sustainability, and maximization for the business (Mamun & Ibrahim, 2018). This statement support by Bansal and Roth suggest that leadership is critical in promoting environmental sustainability by setting environmental goals, providing resources and support, and communicating the importance of sustainability to stakeholders (Alkhodary, 2023).

Moreover, through sustainability can also improve business performance, (Ni & Sun, 2019) showed that outbound sustainability was shown to be directly related to company

success, while inbound and internal sustainability were found to be indirectly related to business performance. It was also discovered that customer integration improved the relationship between internal and outbound sustainability (Artha & Satriadhi, 2023). Indeed, business sustainability has been a concern for a long time. During a global health crisis, which affects almost all businesses, it is necessary to think about business sustainability together (Zahara et al., 2022). Sustainability issues require to leaders in terms of directing, planning, managing, mobilizing resources, implementing strategies that have been made to achieve sustainable goals. Therefore, leadership is critical in guiding employees and all stakeholders to achieve the organization's sustainability goals (including social and environmental concerns) (Boeske, 2023). This article will explore the various aspects of entrepreneurial leadership that have a direct impact on business performance through sustainability.

2. Literature Review

2.1 Entrepreneurial Leadership

A leader must be able to influence the group towards achieving goals (Prayoga et al., 2024). According to Renko et al., entrepreneurial leadership theory, entrepreneurial leadership is an effective type of leadership to build teams to achieve innovation goals (Sarwoko, 2020). Fløistad also defined entrepreneurial leadership as a source of opportunity that revolves around achieving goals, creating chances in the job market and developing an environment for empowering people (Hussain & Li, 2022).

Entrepreneurial leaders are able to take risks, motivate teams and adapt to change (Shiferaw et al., 2023). Entrepreneurial leaders should participate in business ventures to learn through experience (Ahmed & Harrison, 2022). Entrepreneurial leaders have experience, strong managerial, communication and cultural skills to achieve success in business (Munasinghe & Ranasinghe, 2021). An entrepreneurial leader's effectiveness hinges on their decision-making skills, ability to spot opportunities, and effective resource management within the business (Hallo et al., 2020).

In addition, there are several dimension to measure entrepreneurial leadership, namely:

- 1) The ability to motivate (business actors have the ability to boost employee morale and provide advice on how to improve performance.).
- 2) Achievement-oriented (business actors can give more attention to the business or venture being undertaken; can assign tasks well; can oversee all company operations from upstream to downstream; and is willing to change the plan that has been made if there is better input).
- 3) Creative (business actors actively seek ideas and solutions for new products or business procedures; can spot opportunities in the market; and can inspire others to create new products or businesses).
- 4) Flexible (business actors: can provide a positive response to the changes that occur; can respond quickly to changes that occur).
- 5) Persistent (business actors: can handle pressure at work; can take real action; can overcome any obstacle, no matter how difficult it is; continue to carry out their work even though it is full of challenges).

- 6) Risk-taking (business actors: willing to bear the possibility of the company's financial losses, willing to bear the possibility of losses in the social aspects of life).
- 7) Visionary (business actors: have ideas about future business; can notify employees about business developments undertaken; can convey plans and expectations of business actors for the future business they have to employees; can convince employees about the prospects of the business they have) (Srimulyani et al., 2023).

H1a: Entrepreneurial leadership has a significant effect on business performance.

H1b: Entrepreneurial leadership has a significant effect on sustainability.

2.2 Business Performance

Jauch and Glueck stated business performance is measured by sales, profits, return on capital, turnover, and market share. However, a business can run well if leaders can carry out their duties and responsibilities (Sulistiyawati, 2022). These indicators help business owners to understand their business and make decisions to improve performance (Alkhodary, 2023). Business performance includes planning, modeling, rating and other components to work together and support each other to achieve effective performance control (Srimulyani et al., 2023).

There are several dimensions to business performance:

- 1) Sales volume (business sales in the last three years have increased every year; increases on certain occasions (exhibitions/holidays)).
- 2) Production results (total production continues to increase (in the last three years); the number of products that can meet market demand).
- 3) Operating profit (business income increases every time there is a certain event (exhibition/holiday)); in general, operating income (in the last three years) has increased every year).
- 4) Business growth (customers continue to increase every year (in the last three years)); customers come from various regions outside the current business area; product marketing is not only in the area where the business actors currently live).
- 5) Business development (business actors: have more than one place of business; have opened a business branch outside the current place of business; have additional facilities (e.g., machines to support production processes/computers/laptops/notebooks/smartphones etc.) That support increased business production; adding types of businesses to support the operationalization of existing businesses to survive and maintain businesses).

H2: Business Performance has a significant effect on sustainability.

2.3 Sustainability

In the business world, "sustainability" is defined as a way of conducting business without adversely affecting the environment, community or society as a whole. This is based on the fact that failure to develop and implement an overall sustainable business strategy can result in social inequality, environmental degradation and injustice (George et al., 2022). Bansal and DesJardine defined business sustainability as the ability of a company to thrive in the present without compromising the future. Different organizations have their own interpretation of this concept (Hamsal & Ichsan, 2021).

However, a lot of businesses are opting for sustainable practices and embracing sustainable values and principles. This is a trend that is here to stay especially as the macro

environment takes a favourable turn towards sustainable development (Chungyalpa, 2019). According to (Saavedra García, 2022) there are three dimensions of sustainability, include: environmental, social, and economic, directly addressing the issue of environmental damage that generally goes hand in hand with economic growth, which is opposed to the need to promote growth to reduce poverty.

Sustainable business must benefit the company, society and the environment. This is difficult as companies often have to choose between the three due to limited resources (Reyes, 2022). However, focusing only on financial returns may benefit the company in the short term, but this strategy is not sustainable in the long term (Jiao et al., 2023). Thus, business sustainability is becoming increasingly critical as organizations become more aware of their obligations to society in terms of the use of resources drawn from society and the environment to generate economic wealth (Sheehy & Farneti, 2021).

H3: Entrepreneurial leadership through sustainability has a significant effect on business performance

3. Material and Method

3.1 Design Study

This research is conducted to determine the effect of entrepreneurial leadership on business performance through business sustainability. This research will involve identifying the importance of entrepreneurial leadership that can influence business performance, as well as the impact of business performance through business sustainability. The research steps will include data collection through surveys to evaluate the influence of entrepreneurial leadership on business performance. Data analysis will be conducted to understand the relationship between these variables and their implications on business performance. The conclusion of this study is expected to provide valuable insights into the important role of entrepreneurial leadership on business performance through business sustainability.

3.2 Data Analysis

This study used Structural Equation Modelling (SEM) to analyse the data with Smart-PLS. This study determined the convergent and discriminant validity of the measurement model. Three metrics assessed convergent validity: Average Extracted Variance (AVE), Composite Reliability (CR), and Cronbach's Alpha. Using the Fornell-Larcker criterion, discriminant validity was determined by the square root of the AVE as it was more significant than the correlations between other constructs. The structural model was tested using two methods. First, the R-square value of the structural model is measured based on the independent variable factors. Second, calculate the model fit index.

This research used purposive sampling, and the number of samples used was 65 business people in Masaingi and Bonenula Villages, Central Sulawesi as respondents. To fulfill the requirements of filling out the questionnaire, respondents are people who have a business. This was done to achieve the research objective of measuring entrepreneurial leadership on business performance through business sustainability. This study used a quantitative approach by distributing questionnaires directly with items that had been compiled and developed previously.

4. Result

4.1 Structural Model

The process of testing the inner model or structural model aims to determine the relationship between constructs that have been hypothesized. The structural model is

evaluated by looking at the R-square value for the endogenous construct of the influence it receives from the exogenous construct; the higher the R-square value, the greater the ability of the exogenous construct to explain the endogenous variables so that the better the structural equation formed.

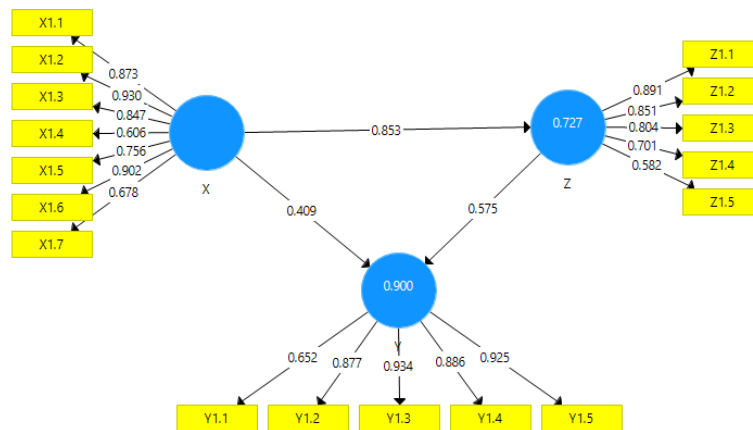


Figure 1. Result Structural Equation Modelling (SEM)

This mediation context indicates the existence of partial mediation because although there is a direct influence from X to Y, there is also an indirect influence that is channeled through the mediator variable Z. Therefore, based on the model structure, the pattern results of variable X directly on variable Y have a greater influence with an R Square value of 0.900 or 90.0% when compared to the value of variable X through the mediating variable Z with a value of 0.721 or 72.1%, this indicates that other factors affect 10% of business performance.

4.1 Hypothesis Testing

Hypothesis testing in this study can be assessed from the magnitude of the t-statistic or t-count value compared to the t-table 1.66 at 5% alpha. If the t-statistic / t-count < t-table 1.66 at alpha 5%, Ho is rejected, and if the t-statistic / t-count > t table 1.66 at alpha 5%, then Ha is accepted (Lee, 2022).

Table 1. Results of The Structural Model of The Study

Hypothesis	Direct/ indirect effect	T Statistics	P Values	Conclusion
H1a	X -> Y	4.069	0.000	Supported
H1b	X -> Z	22.310	0.000	Supported
H2	Y-Z	6.168	0.000	Supported
H3	X->Z -> Y	5.850	0.000	Supported

The structural equation model **Table 2.** reveals the results that the path coefficients of entrepreneurial leadership (H1a) directly on business performance are all statistically significant (t = 4.069, p = 0.000), **H1a is accepted.** Then testing leadership through mediating variables (H1b) with a value of (t = 22.310, p = 0.000). In other words, entrepreneurial leadership is directly influenced by business sustainability. In addition,

business performance on business sustainability (H2) obtained a value of ($t = 6.168$, $p = 0.000$) means it has a direct effect, **H2 is accepted**. The results obtained by entrepreneurial leadership on business performance through sustainability (H3) obtained a value of ($t = 5.850$, $p = 0.000$), **H3 is accepted**.

5. Discussion

The study investigated the relationship between entrepreneurial leadership, business performance, and sustainability within the context of businesses in Masaingi and Bonenula Villages, Central Sulawesi. The findings from the structural equation model (SEM) analysis provide valuable insights into how entrepreneurial leadership influences business performance through sustainability initiatives.

Entrepreneurial leadership (H1a) was found to have a significant positive effect on business performance. This supports previous literature suggesting that entrepreneurial leaders play a crucial role in driving organizational success through their ability to innovate, motivate, and effectively manage resources (Paudel, 2019). Leaders who exhibit qualities such as risk-taking, vision, and creativity are better positioned to enhance business outcomes, including sales growth, profitability, and market share (Alshagawi & Mabkhot, 2024).

Business sustainability (H1b) was confirmed as a significant mediator between entrepreneurial leadership and business performance. This importance of integrating sustainable practices into business strategies to achieve long-term success (Alkhodary, 2023). Sustainable practices not only enhance operational efficiency but also foster positive relationships with stakeholders and mitigate environmental impacts (Wolniak et al., 2023).

The study also revealed a direct positive effect of business performance (H2) on sustainability. This finding suggests that businesses with higher performance metrics, such as increased sales volume, production efficiency, and profitability, are more likely to adopt and sustain environmentally and socially responsible practices. This aligns with the argument that economic success and sustainability are not mutually exclusive but rather complementary goals (Ogrean & Herciu, 2020).

Moreover, entrepreneurial leadership was found to exert an indirect positive influence on business performance through sustainability business (H3). This finding emphasizes the role of leaders in guiding organizations towards sustainable practices, which in turn enhance overall business performance. Effective leadership in sustainability involves setting clear goals, allocating resources, and engaging stakeholders to ensure alignment with broader organizational objectives. This statement is supported by previous research (Paudel, 2019) which states that there is a significant positive influence between entrepreneurial leadership on the performance of small and medium enterprises.

6. Conclusion, Implication, and Recommendation

Conclusion

This research was designed to gain an understanding of entrepreneurial leadership in businesses in Masaingi and Bonebula Villages, Central Sulawesi. In general, entrepreneurial leadership has an influence on business performance and business sustainability. The findings suggest that if a person who owns a business has an entrepreneurial leadership attitude, it will in turn have a positive impact on business performance and business sustainability.

Implications

These results provide practical implications for business leaders and policymakers aiming to enhance business performance through entrepreneurial leadership and sustainability initiatives. Firstly, fostering entrepreneurial leadership qualities through training and development programs can empower leaders to drive innovation and adaptability within their organizations. Secondly, integrating sustainability into business strategies not only improves operational efficiency but also enhances reputation and resilience in a competitive market environment. Lastly, the study underscores the importance of continuous monitoring and evaluation of sustainability efforts to ensure ongoing alignment with business goals and stakeholder expectations.

Recommendation

Based on the findings of this study, several recommendations can be drawn to enhance business performance through entrepreneurial leadership and sustainability initiatives. Firstly, there is a critical need to strengthen programs for developing entrepreneurial leadership qualities among business leaders. Training and development initiatives should focus on fostering innovation and adaptability, enabling leaders to effectively navigate complex and evolving business landscapes. Secondly, integrating sustainability into business strategies is essential. This integration not only enhances operational efficiency but also cultivates positive stakeholder relationships and reduces environmental impact, thereby bolstering long-term resilience and competitive advantage. Thirdly, continuous monitoring and evaluation of sustainability efforts are crucial. Regular assessments ensure that sustainability practices remain aligned with business objectives and stakeholder expectations, facilitating ongoing improvements and strategic adjustments as needed. Lastly, fostering collaboration and stakeholder engagement is paramount. Leaders should actively collaborate with stakeholders to ensure that sustainability initiatives address diverse stakeholder needs and contribute to sustainable business growth.

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