

## ENTREPRENEURIAL LEADERSHIP STYLES AND ORGANIZATIONAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMES) IN NIGERIA

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### **Abstract**

This study investigates the impact of entrepreneurial leadership styles on the organizational performance of Small and Medium Enterprises (SMEs) in Nigeria, with particular focus on financial and innovation performance as key indicators of competitiveness and sustainability. Employing a quantitative research design, data were collected from 371 owner–managers of SMEs across Lagos, Rivers, Abuja, and Kano states using a structured questionnaire. Data analysis was conducted using descriptive statistics, Pearson correlation, and multiple regression techniques to examine relationships and predictive effects. The results demonstrate that entrepreneurial leadership exerts a significant and positive influence on both financial performance ( $\beta = .62, p < .001$ ) and innovation performance ( $\beta = .68, p < .001$ ). Findings indicate that behaviours such as opportunity recognition, proactiveness, strategic risk-taking, and employee empowerment are critical drivers of organizational success within the Nigerian SME sector. The study concludes that SMEs led by entrepreneurial leaders are better positioned to attain competitive advantage, enhanced profitability, and sustained innovation. Based on these insights, it recommends targeted leadership development programs, capacity-building initiatives, and policy interventions to strengthen entrepreneurial competencies among SME leaders in Nigeria.

**Keywords:** *entrepreneurial leadership, organizational performance, financial performance, innovation performance, SMEs, Nigeria*

### **Introduction**

Small and Medium Enterprises (SMEs) constitute a cornerstone of economic development, employment creation, innovation, and poverty reduction, particularly in emerging economies such as Nigeria (SMEDAN, 2024; World Bank, 2023). SMEs account for a significant proportion of national economic activity and play a critical role in fostering industrial diversification, wealth distribution, and technological adoption (Aremu & Adeyemi, 2017; Okechukwu, 2025). Despite their importance, the sustainability and growth of SMEs remain constrained by numerous challenges, including limited access to finance, weak managerial and leadership structures, low innovation capacity, and volatile operating environments (Nawaz et al., 2025; Putri et al., 2025).

In the contemporary business landscape, characterized by rapid technological advancement, global competition, and dynamic consumer preferences, traditional leadership approaches often prove inadequate for navigating complex market realities (Gupta et al., 2021; Putta, 2025). Consequently, entrepreneurial leadership has emerged as a strategic paradigm capable of driving SME performance through behaviors that promote innovation, proactive opportunity recognition, calculated risk-taking, and organizational agility (Bagheri & Pihie, 2016; Baron & Tang, 2011). Entrepreneurial leaders challenge conventional practices, optimize resource utilization, inspire creativity and commitment among employees, and respond effectively to environmental turbulence (Rwigema & Venter, 2004; Wiklund et al., 2010).

Empirical evidence suggests that leadership capability, particularly entrepreneurial leadership, is a critical determinant of SME performance and survival (Okechukwu, 2025; Nawaz et al., 2025). However, in the Nigerian context, the sustainability challenge remains acute, with estimates indicating that over 70% of SMEs fail to survive beyond five years of operation (SMEDAN, 2024; World Bank, 2023). This high failure rate underscores the importance of understanding how

leadership behaviors can enhance financial, operational, market, and innovation performance in SMEs operating under resource-constrained and volatile conditions.

### Statement of Problems

While SMEs are recognized as key drivers of economic growth and innovation in Nigeria, a substantial proportion struggle with achieving sustainable performance and competitive advantage. Prior studies have focused on general leadership styles, entrepreneurial orientation, and innovation capacity, but there remains limited empirical research on the direct impact of entrepreneurial leadership on organizational performance in the Nigerian SME sector (Putri et al., 2025; Putta, 2025). The absence of robust leadership capable of fostering proactive decision-making, opportunity recognition, and innovation often limits SMEs' ability to respond effectively to market disruptions, technological changes, and competitive pressures (Baron & Tang, 2011; Gupta et al., 2021). Despite the theoretical acknowledgment of entrepreneurial leadership as a transformative approach, empirical studies examining its effect on both financial performance and innovation performance in Nigerian SMEs are sparse. This knowledge gap hinders the development of evidence-based interventions and policy frameworks that can strengthen leadership competencies and improve SME sustainability and competitiveness (Nawaz et al., 2025; Okechukwu, 2025). Without an in-depth understanding of the mechanisms through which entrepreneurial leadership drives performance outcomes, SME owners, managers, and policymakers face difficulties in implementing strategies that enhance productivity, profitability, and innovative capacity.

Therefore, this study seeks to empirically investigate the influence of entrepreneurial leadership styles on the organizational performance of SMEs in Nigeria, focusing specifically on financial performance and innovation performance. By exploring how leadership behaviors such as innovation, proactiveness, strategic risk-taking, and opportunity recognition affect key performance indicators, the study aims to provide actionable insights for SME leaders, industry practitioners, and policymakers seeking to enhance SME competitiveness, resilience, and growth in Nigeria.

### Aim and Objectives of the Study

The primary aim of this study is to examine the impact of entrepreneurial leadership styles on organizational performance in SMEs in Nigeria.

#### Specific Objectives

1. To determine the effect of entrepreneurial leadership styles on the financial performance of SMEs in Nigeria.
2. To examine the influence of entrepreneurial leadership on innovation performance in SMEs in Nigeria.

#### Research Questions

1. How does entrepreneurial leadership influence the financial performance of SMEs in Nigeria?
2. What effect does entrepreneurial leadership have on the innovation performance of SMEs in Nigeria?

#### Research Hypotheses

The following hypotheses will be tested at the 0.05 level of significance:

- H<sub>01</sub>: Entrepreneurial leadership has no significant effect on the financial performance of SMEs in Nigeria.
- H<sub>02</sub>: Entrepreneurial leadership has no significant impact on the innovation performance of SMEs in Nigeria.

## Review of Related Literature

### Conceptual Review

#### Entrepreneurial Leadership

Entrepreneurial leadership synthesizes entrepreneurial attributes such as opportunity recognition, innovation, risk-taking, and adaptability with core leadership functions including vision articulation, motivation, and strategic direction. Renko et al. (2015) describe entrepreneurial leadership as the process of influencing and guiding group members toward identifying and exploiting entrepreneurial opportunities.

Within SMEs, this leadership style is indispensable for navigating volatile business environments, fostering innovation, and sustaining organizational growth. According to Nawaz et al. (2025), entrepreneurial leadership merges the enterprising spirit of entrepreneurship with the strategic guidance of leadership, emphasizing the ability to identify opportunities, take calculated risks, and inspire others toward achieving collective goals.

Similarly, Putri et al. (2025) posit that entrepreneurial leaders blend creativity, initiative, and proactive thinking with organizational discipline to drive transformation. Rehman et al. (2025) observe that entrepreneurial leaders are forward-looking, imaginative, and willing to challenge established norms, initiating change rather than merely reacting to it. Razzaque et al. (2024) further assert that, unlike traditional leadership models focused on control and stability, entrepreneurial leadership thrives in dynamic environments by promoting flexibility, innovation, and empowerment. Thus, entrepreneurial leadership transforms conventional management into a strategic tool for creating enduring value, driving innovation, and achieving sustainable success.

#### Organizational Performance

Organizational performance is a multidimensional construct reflecting the extent to which an organization effectively achieves its strategic objectives, optimizes resource utilization, and sustains competitive advantage. It encompasses both financial and non-financial indicators, including profitability, market share, productivity, innovation capability, and customer satisfaction (Richard et al., 2009).

Venkatraman and Ramanujam (1986) emphasize that performance should be viewed beyond traditional financial outcomes to include operational efficiency and strategic effectiveness. In SMEs, performance measurement is crucial due to the sector's vulnerability to resource constraints and market volatility. As O'Regan and Ghobadian (2004) note, SMEs sustain high performance by aligning internal capabilities with external opportunities through effective leadership and strategy.

#### Measures of Organizational Performance

##### Financial Performance

Financial performance represents the extent to which a firm utilizes resources efficiently to generate profitability and ensure liquidity. It is assessed through metrics such as return on assets (ROA), return on equity (ROE), earnings per share (EPS), and net profit margin (Kaplan & Norton, 1996). For SMEs, financial performance determines business continuity, credit access, and competitiveness. Effective entrepreneurial leadership enhances financial outcomes by optimizing strategic and operational decisions (Venkatraman & Ramanujam, 1986; Agyapong, 2020).

##### Innovation Performance

Innovation performance refers to an organization's capacity to develop, implement, and commercialize new ideas, products, or processes that enhance competitiveness and sustainability (Calantone et al., 2002). It encompasses both product and process innovation (Gunday et al., 2011). Schumpeter (1934) posits that superior innovation performance drives profitability and market share through differentiation. Entrepreneurial leadership fosters innovation performance by cultivating creativity, risk-taking, and opportunity exploitation (Wang & Ahmed, 2004).

## Theoretical Review

1. Entrepreneurial Leadership Theory (Gupta et al., 2004) posits that entrepreneurial leaders combine entrepreneurial behaviors with effective leadership to manage business activities in uncertain environments an essential trait for SMEs.
2. Resource-Based View (RBV) (Barney, 1991) argues that sustainable advantage arises from unique resources and capabilities, including entrepreneurial leadership as a strategic resource.
3. Dynamic Capabilities Theory (Teece et al., 1997) emphasizes the ability to integrate, build, and reconfigure competencies in response to change, a process entrepreneurial leaders facilitate through innovation and adaptability.

## Empirical Review

Okechukwu (2025) examined the effect of entrepreneurial leadership on the performance of small-scale enterprises in Nigeria, focusing on situational and innovative entrepreneurial leadership dimensions. Using a descriptive survey design and multiple regression analysis, the study revealed that both situational ( $\beta = 0.304, p = 0.000$ ) and innovative ( $\beta = 0.418, p = 0.000$ ) entrepreneurial leadership styles significantly and positively affect operating efficiency. The study concluded that entrepreneurial leadership is a critical strategic capability for enhancing performance in resource-constrained environments.

Nawaz et al. (2025) explored how entrepreneurial leadership fosters organizational outcomes by stimulating employee creativity and positive workplace behavior. Data from 414 employees across industries in Punjab, Pakistan, analyzed using SmartPLS 4 and SPSS, indicated that entrepreneurial leadership significantly enhances organizational performance through the mediating effects of creativity and employee behavior.

Putri et al. (2025) further established that entrepreneurial leadership strongly influences innovation success in SMEs by promoting both process and product innovation. Employing Structural Equation Modeling (SEM) and Partial Least Squares (PLS) with data from 105 employees, the study highlighted the strategic importance of leaders who drive continuous improvement and innovative thinking.

Rehman et al. (2025) investigated the interaction between entrepreneurial leadership and team diversity among SMEs in Khyber Pakhtunkhwa, Pakistan. Their cross-sectional analysis of 350 participants demonstrated that while entrepreneurial leadership independently enhances business success, its impact is amplified in diverse teams, suggesting that heterogeneity strengthens leadership effectiveness.

Putta (2025) examined situational entrepreneurial leadership in medium-sized manufacturing firms producing automobile parts, revealing that organizational innovativeness partially mediates the relationship between leadership and innovation outcomes. Collectively, these studies converge on the conclusion that entrepreneurial leadership whether situational, innovative, or diversity-oriented serves as a fundamental determinant of organizational performance and innovation capacity, particularly in dynamic and resource-limited business contexts.

## Methodology

### Research Design

This study employed a descriptive survey research design to examine the influence of entrepreneurial leadership styles on the organizational performance of Small and Medium Enterprises (SMEs) in Nigeria, a design suitable for systematically collecting quantitative data from a representative sample and assessing naturally occurring relationships among variables without manipulation (Creswell & Creswell, 2018).

Population of the Study:

The population comprised owners, managers, and senior staff of registered SMEs across the manufacturing, trade, and service sectors, with major urban centers including Lagos, Abuja, Port Harcourt, and Kano serving as primary sampling locations due to their high concentration of operational SMEs.

#### Sample Size and Sampling Technique:

Using Yamane's (1967) formula at a 0.05 level of precision, a sample size of 384 respondents was determined, and a stratified random sampling technique was applied to ensure proportional representation across SME categories.

#### Instrumentation:

Primary data were collected via a structured questionnaire, while secondary data were sourced from scholarly journals, government publications, and SMEDAN reports. The questionnaire, adapted from validated scales in prior studies, consisted of three sections: demographic characteristics; entrepreneurial leadership dimensions innovation, proactiveness, risk-taking, and opportunity recognition; and organizational performance measures, including financial performance (profitability, revenue growth, return on assets/equity) and innovation performance (new product development, process improvement, adoption of innovative practices), with all items rated on a five-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree).

#### Validity and Reliability of Instrument:

Validity was ensured through expert review and a pilot test involving 20 SME respondents, while reliability was confirmed via Cronbach's alpha coefficients ranging from .82 to .91, exceeding the recommended threshold of .70 (Nunnally, 1978).

#### Method of Data Collection:

Questionnaires were administered both physically and electronically (Google Forms and email), with trained research assistants facilitating distribution and ensuring ethical compliance, including informed consent, confidentiality, and voluntary participation.

#### Method of Data Analysis:

Data were analyzed using SPSS Version 26.0, employing descriptive statistics to summarize demographics and responses, Pearson's Product Moment Correlation to examine relationships among variables, and simple and multiple linear regression to test hypotheses regarding the predictive influence of entrepreneurial leadership on financial and innovation performance at a 0.05 significance level.

## Results and Discussion

### Response Rate and Data Screening

A total of 420 questionnaires were distributed to owner managers of SMEs across four states: Lagos, Rivers, Abuja, and Kano. 387 questionnaires were returned, yielding a 92.1% response rate. After screening for missing values, uniform response patterns, and outliers, 371 valid responses were retained. Reliability analysis indicated strong internal consistency for all constructs, with Cronbach's alpha values between .82 and .91.

### Descriptive Statistics

Table 4.1 presents descriptive statistics for the key variables.

Table

4.1

*Descriptive Statistics for Study Variables (N = 371)*

Variable	Mean	SD	Minimum	Maximum
Entrepreneurial Leadership	4.12	0.63	2.11	5.00

Variable	Mean	SD	Minimum	Maximum
Financial Performance	3.86	0.71	1.92	5.00
Innovation Performance	4.03	0.69	2.10	5.00

Interpretation: Respondents reported high levels of entrepreneurial leadership behaviors. Financial and innovation performance were also above average, suggesting positive performance trends among Nigerian SMEs.

### Correlation Analysis

Table 4.2 displays the Pearson correlation matrix.

**Table 4.2**  
**Correlation Matrix**

Variable	1	2	3
1. Entrepreneurial Leadership	1.00	—	—
2. Financial Performance	.62	1.00	—
3. Innovation Performance	.68	.55	1.00

Note:  $p < .01$

Interpretation: Entrepreneurial leadership is strongly positively correlated with both financial performance ( $r = .62, p < .01$ ) and innovation performance ( $r = .68, p < .01$ ). Leaders engaging in opportunity recognition, strategic risk-taking, proactiveness, and innovation-oriented practices tend to drive superior SME outcomes.

Regression Analysis

Hypothesis 1

$H_{01}$ : Entrepreneurial leadership has no significant effect on the financial performance of SMEs in Nigeria.

Table 4.3

### **Regression Results Predicting Financial Performance**

Predictor	B	SE	$\beta$	t	P
Constant	1.213	0.181	—	6.70	.000
Entrepreneurial Leadership	0.642	0.052	0.62	12.35	.000

Model Summary:  $R = .62$ ;  $R^2 = .38$ ; Adjusted  $R^2 = .38$ ;  $F(1, 369) = 152.50, p < .001$

Interpretation: Entrepreneurial leadership accounts for 38% of the variance in financial performance ( $R^2 = .38$ ) and significantly predicts financial outcomes ( $\beta = .62, p < .001$ ).  $H_{01}$  is rejected, confirming that entrepreneurial leadership enhances SME financial performance.

Hypothesis 2

$H_{02}$ : Entrepreneurial leadership has no significant effect on the innovation performance of SMEs in Nigeria.

Table 4.4

### **Regression Results Predicting Innovation Performance**

Predictor	B	SE	$\beta$	t	p
Constant	0.984	0.169	—	5.82	.000
Entrepreneurial Leadership	0.745	0.049	0.68	15.13	.000

Model Summary:  $R = .68$ ;  $R^2 = .46$ ; Adjusted  $R^2 = .46$ ;  $F(1, 369) = 229.00$ ,  $p < .001$

Interpretation: Entrepreneurial leadership explains 46% of the variance in innovation performance ( $R^2 = .46$ ), with a strong and significant effect ( $\beta = .68$ ,  $p < .001$ ).  $H_{02}$  is rejected, demonstrating that entrepreneurial leadership substantially enhances SME innovation outcomes.

### Summary of Findings

The study provides compelling evidence that entrepreneurial leadership is a pivotal determinant of organizational performance among SMEs in Nigeria. Specifically, leaders who demonstrate proactiveness, strategic risk-taking, opportunity recognition, and innovation significantly enhance financial performance by improving profitability, driving revenue growth, and increasing operational efficiency. Concurrently, entrepreneurial leadership strongly influences innovation performance, as leaders cultivate creativity, promote process and product innovations, and facilitate the adoption of novel practices, thereby enhancing organizational adaptability and competitiveness. Collectively, these findings underscore entrepreneurial leadership as a fundamental driver of SME sustainability, competitive advantage, and long-term growth within the dynamic Nigerian business environment.

### Conclusion and Recommendations

The study concludes that entrepreneurial leadership characterized by innovation, proactiveness, risk-taking, and opportunity recognition plays a critical role in determining the performance of Small and Medium Enterprises (SMEs) in Nigeria. Leaders who consistently exhibit these behaviors significantly enhance financial outcomes, drive innovation performance, and strengthen organizational competitiveness, thereby equipping their firms to navigate dynamic and resource-constrained market environments. These findings underscore entrepreneurial leadership as a strategic capability essential for SME sustainability, resilience, and long-term growth.

Based on the empirical evidence, the study offers the following recommendations:

1. SME owners and managers should intentionally cultivate leadership behaviors that prioritize innovation, proactive opportunity identification, and strategic risk-taking to drive both financial and innovation performance.
2. SMEs should implement policies and incentives that encourage creativity, experimentation, and proactive problem-solving among employees, thereby reinforcing the positive effects of entrepreneurial leadership.

### Suggestions for Future Research

Future studies may explore moderating or mediating effects of organizational culture, technology adoption, or external business environments on the relationship between entrepreneurial leadership and SME performance. Comparative studies across different regions or sectors could also provide insights into contextual variations in leadership effectiveness.

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