



A Conceptual Framework for Leadership Dynamics-Fueling SME Innovation: Systematic Review

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Abstract

This paper aims to propose a new model of entrepreneurial leadership in complex and uncertain contexts and to enhance understanding of the relationship between entrepreneurial leadership and workplace innovation in the context of SMEs. The study conducts a thorough review and synthesis of existing research to develop a conceptual framework. The systematic review conducted for this study spans from 2008 to 2023, incorporating insights from 91 relevant studies. The research identifies four major propositions elucidating the relationship between entrepreneurial leadership style and workplace innovation through the firm's dynamic capabilities. It finds that businesses employing these capabilities as a strategic approach tend to perform better over the long run. The study is limited by its reliance on existing literature and theoretical frameworks. It underscores the need for further empirical research to validate the proposed model and its applicability in various settings. It offers valuable insights for practitioners, emphasizing the strategic use of dynamic capabilities under entrepreneurial leadership to foster workplace innovation. It highlights the importance of adaptability and resource management in uncertain and complex business environments. This study's novel theoretical contribution lies in applying the dynamic capability approach to test the relationship between entrepreneurial leadership and workplace innovation in SMEs, addressing a gap in the entrepreneurial leadership literature.

INTRODUCTION

In an era marked by rapid technological advancements and shifting industrial landscapes, organizations are increasingly reliant on innovation and unconventional problem-solving strategies. This evolving context underscores the importance of leadership in either fostering or inhibiting organizational innovation (Jung, Wu, and Chow, 2008; Ting, Sui, Kweh, and Nawansir, 2021). Leadership, defined as the ability to influence employees towards a common goal, plays a crucial role in inspiring and empowering employee behavior towards innovative outcomes (De Jong & Den Hartog, 2010; Koryak et al., 2015; McMurray et al., 2013; Weng et al., 2015). Prior research has established a clear link between leadership styles and organizational performance and innovation (Koryak et al., 2015; McMurray et al., 2013).

In the realm of leadership and innovation research, there exists a significant oversight: the focus predominantly remains on larger organizations, with small and medium-sized enterprises (SMEs) often being left in the shadows (Ventsel, 2022). This gap is particularly glaring, considering SMEs' pivotal role in the global economy (Hoyk, Szalai, Palkovics, & Farkas, 2022). These entities are not just economic drivers; they are incubators of agility and innovation. However, the distinct challenges and opportunities that SMEs face, such as limited resources, fluctuating market conditions, and the necessity for swift decision-making, are not adequately addressed in current leadership research (Chatterjee, Chaudhuri, Gupta, Sivarajah, & Bag, 2023; Hoy, & Tarter, 2010). This oversight underscores the need for an in-depth exploration of how entrepreneurial leadership functions in the unique environment of SMEs.

Another critical aspect of this gap lies in the intersection of entrepreneurial leadership and corporate strategy within SMEs (Henley, 2022; Omeihe, Harrison, Simba, & Omeihe, 2023). While entrepreneurial leadership is frequently discussed in the context of startups and new ventures, its integration and impact within the strategic frameworks of more established SMEs have not been sufficiently explored (Castellano, Punzo, Scandurra, & Thomas, 2022). This research gap extends to the concept of dynamic capabilities as well. The role of entrepreneurial leadership in fostering and utilizing dynamic capabilities is well-established in the context of large corporations. However, how this plays out in SMEs, with their distinct challenges and operational scales, remains largely uncharted territory.

Moreover, the practical implications of filling this gap are substantial. SMEs are major contributors to economic growth and employment, and insights into how entrepreneurial leadership can propel innovation in these organizations are invaluable. Such understanding could guide SMEs towards adopting leadership styles and strategies that enhance their innovative capacities and competitive edge. Beyond the practical realm, addressing this gap promises significant theoretical contributions. It offers an opportunity to enrich the existing literature on entrepreneurial leadership and strategic management, particularly tailored to the context and scale of SMEs. By delving into these underexplored areas, this study aims not only to bridge a crucial academic gap but also to provide tangible, actionable insights for SMEs striving to navigate and succeed in the complex tapestry of today's business landscape.

This study aims to address this gap, contributing to the existing knowledge in entrepreneurial leadership and strategic management. By focusing on the role of entrepreneurial leadership in small and medium-sized enterprises (SMEs) with human resources units, this research offers novel insights into the interplay between leadership styles and workplace innovation. The central research question investigates how entrepreneurial leadership influences workplace innovation through the lens of dynamic capabilities within a strategic entrepreneurship framework. Additionally, this study probes whether dynamic capabilities mediate the relationship between entrepreneurial leadership style and workplace innovation at the corporate level.

Methodologically, the systematic review conducted for this study spans from 1991 to 2023, incorporating insights from 91 relevant studies. The findings are anticipated to be particularly beneficial for entrepreneurs and practitioners, providing a deeper understanding of the significance of nurturing an entrepreneurial leadership style and developing dynamic capabilities to enhance workplace innovation.

The subsequent sections of this scholarly paper are structured as follows. To commence, a comprehensive review of the pertinent literature in the domains of entrepreneurial leadership, human resources, with a specific focus on dynamic capabilities and workplace innovation, is undertaken. Within this context, the paper deliberates upon the proposed propositions delineated within the conceptual framework, drawing upon insights garnered from the existing literature. Subsequently, the second section engages in a discourse that encompasses an exploration of the theoretical and practical ramifications of the research findings, an examination of the limitations encountered during the study, and a contemplation of potential avenues for future research. Finally, the paper culminates in a concluding section, encapsulating the key takeaways and summarizing the contributions made within the study.

1. Literature Review

The relationship between entrepreneurial leadership, dynamic capabilities, and workplace innovation has been a focal point in strategic entrepreneurship research. This synthesis of the literature review explores relevant studies in this domain, which reveals gaps in current research. Entrepreneurial leadership has long been

recognized as a driving force behind organizational innovation. Antoncic and Hisrich (2001) brought to light a significant aspect of this relationship by highlighting a positive link between entrepreneurial leadership and organizational innovation.

Entrepreneurial Leadership stands as the cornerstone of organizational transformation, characterized by a range of critical attributes. Visionary Thinking is paramount, enabling leaders to anticipate and shape the future landscape of the business. This foresight is complemented by Risk-Taking, a willingness to embrace uncertainties to drive innovative results. Equally important is Proactiveness, the pursuit of opportunities with a forward-thinking mindset. These leaders are not just strategic thinkers but also Motivators and Inspirators, galvanizing their teams towards shared innovative objectives (Chatterjee, Chaudhuri, Gupta, Sivarajah, & Bag, 2023). Furthermore, Flexibility and Adaptability are key, allowing them to tailor their approach to various challenges and situations. Such leadership does not merely direct; it transforms, setting the stage for the entire organization to embark on a journey of continuous innovation and growth (Hoy, & Tarter, 2010).

Dynamic Capabilities serve as the crucial intermediary, transforming the vision and drive of entrepreneurial leadership into actionable strategies. These capabilities are multifaceted: Sensing Capabilities involve the keen perception of environmental opportunities and threats, while Seizing Capabilities focus on the effective capitalization of these prospects. Transforming Capabilities are about the ongoing renewal and reshaping of the organization's resources to stay relevant and competitive. Equally important are Learning Capabilities, which emphasize the acquisition and application of new knowledge, and Reconfiguring Capabilities, which deal with the strategic realignment of resources to adapt to dynamic market conditions (Teece, Pisano, and Shuen 1997). These capabilities collectively ensure that the organization remains agile, responsive, and innovative, perfectly positioned to turn leadership vision into reality (Jung, Wu, and Chow, 2008).

The culmination of entrepreneurial leadership and dynamic capabilities is realized in Workplace Innovation. This dimension manifests in various tangible forms: Product Innovation brings forth new or improved offerings to the market, while Process Innovation enhances the methods of production or delivery. Organizational Innovation involves reshaping business structures, practices, or cultures to foster a more innovative environment. Marketing Innovation breaks away from traditional norms, introducing novel strategies to the market. Lastly, Behavioral Innovation signifies a shift in employee attitudes and creativity, fostering a workplace culture that values and encourages innovation. Together, these forms of innovation represent the tangible outcomes of the framework, illustrating how visionary leadership, coupled with dynamic capabilities, leads to substantial and transformative organizational changes (Zhang and Chen, 2021). This interconnected process not only drives the creation of new products, services, and practices but also solidifies the organization's competitive edge and long-term success.

Their research, which predominantly centered on product innovation, shed light on how leaders with entrepreneurial characteristics could foster a culture of innovation within firms. They emphasized the role played by such leaders in encouraging creative thinking and risk-taking among employees. However, despite their valuable insights, it's important to note that Antoncic and Hisrich's work primarily focused on product-level innovation, leaving a substantial gap in the exploration of workplace innovation. Dynamic capabilities represent a pivotal aspect of understanding how firms adapt and innovate in dynamic environments. Teece, Pisano, and Shuen (1997) introduced the concept of dynamic capabilities, emphasizing their role as vital mediators linking firm resources to strategic adaptability. Their work laid a strong foundation for comprehending how organizations can develop the ability to sense, seize, and reconfigure resources in response to changing circumstances. Despite this foundational work, limited research has explored how dynamic capabilities mediate the intricate relationship between entrepreneurial leadership and workplace innovation. Thus, an opportunity exists to delve deeper into this essential mediator and its implications for enhancing innovation within the workplace.

The strategic entrepreneurship framework introduced by Zahra and Garvis (2000) marked a significant milestone in understanding the integration of entrepreneurial and strategic management perspectives within organizations. This framework emphasized the importance of aligning entrepreneurial leadership with firm strategy, providing valuable insights into how these two dimensions can work together synergistically. However, it should be noted that this framework did not explicitly address the mediating role of dynamic capabilities in the context of workplace innovation. Thus, while it contributed significantly to the broader field of strategic entrepreneurship, there is room for further exploration regarding the interplay between entrepreneurial leadership, dynamic capabilities, and workplace innovation within this framework.

When considering the corporate-level analysis of entrepreneurial leadership and workplace innovation, it's essential to recognize the work of Rauch, Wiklund, Lumpkin, and Frese (2009). Their study delved into entrepreneurial orientation at the corporate level, offering valuable insights into how this orientation impacts organizational performance. However, this study did not specifically examine the mediating effect of dynamic capabilities on workplace innovation within a corporate context. Consequently, it highlights the need for further research that considers the broader organizational perspective, exploring how dynamic capabilities mediate the relationship between entrepreneurial leadership and workplace innovation at this level.

Furthermore, Dynamic capabilities, as introduced by Teece, Pisano, and Shuen (1997), have been recognized as a critical element in connecting a firm's resources to its strategic adaptability. Their foundational work in this area has greatly contributed to our understanding of dynamic capabilities. However, despite their pioneering efforts, there remains a notable gap in the literature regarding the mediating role of dynamic capabilities in the relationship between entrepreneurial leadership and workplace innovation. While Teece and his colleagues laid the groundwork for comprehending the concept of dynamic capabilities, there is a dearth of research that explores how these capabilities function as mediators specifically within the context of fostering workplace innovation. To further elucidate the role of dynamic capabilities as mediators, additional research studies are essential. Recent research by Smith and Johnson (2021) delves into the mediation effect of dynamic capabilities in the relationship between leadership and innovation, shedding light on the intricate mechanisms through which dynamic capabilities facilitate workplace innovation.

Furthermore, the work of Chen and Wang (2018) contributes to this discourse by exploring how dynamic capabilities mediate the link between leadership styles and innovation outcomes. Their study provides valuable insights into the mediating processes that underlie the relationship between leadership and innovation, emphasizing the importance of dynamic capabilities in this context. While these studies offer valuable perspectives, the limited number of research endeavors addressing the mediation role of dynamic capabilities in the context of entrepreneurial leadership and workplace innovation underscores the need for further exploration and the potential for uncovering more nuanced insights in this vital area of study.

The strategic entrepreneurship framework developed by Zahra and Garvis (2000) has played a pivotal role in enhancing our understanding of how entrepreneurial leadership integrates with strategic management within organizations. This framework has been instrumental in elucidating the importance of fostering an entrepreneurial mindset within established firms, emphasizing the alignment of entrepreneurial leadership with overall corporate strategy. However, a noticeable gap exists within this framework—it does not explicitly address the mediating role of dynamic capabilities in the context of workplace innovation.

To address this gap and provide a more comprehensive perspective, recent research conducted by Chen and Liu (2022) examined relationship among organizational innovation – executive/individual cognition and building dynamic capabilities, but researcher failed to find a study that exactly has explored the mediation of dynamic capabilities in the relationship between entrepreneurial leadership and workplace innovation. Their study offers valuable insights into the transformative role of dynamic capabilities, demonstrating how they facilitate the translation of entrepreneurial strategies into tangible workplace innovation outcomes. Additionally, the work of Wang and Li (2019) contributes to this discussion by investigating how dynamic capabilities serve as mediators, connecting entrepreneurial leadership approaches with concrete innovation results within organizations.

So, the strategic entrepreneurship framework by Zahra and Garvis (2000) has laid the foundation for understanding the synergy between entrepreneurial leadership and firm strategy. However, the absence of an explicit focus on dynamic capabilities as mediators presents an opportunity for further research. Chen and Liu (2022) and Wang and Li (2019) have taken steps to address this gap, shedding light on the pivotal role of dynamic capabilities in bridging the gap between entrepreneurial leadership and workplace innovation, offering valuable insights for enhancing organizational innovation processes.

The examination of entrepreneurial leadership and its impact on workplace innovation has been an area of scholarly interest. However, a significant gap within this domain pertains to corporate-level analysis. While certain studies have delved into the relationship between entrepreneurial leadership and workplace innovation, a limited number have ventured into corporate-level analysis. A prominent study by Rauch, Wiklund, Lumpkin, and Frese (2009) explored entrepreneurial orientation at the corporate level, shedding light on how an organization's overall orientation can impact its performance. Nevertheless, this study did not specifically investigate the mediation effect of dynamic capabilities on workplace innovation within the corporate context. Consequently, this gap underscores the need for further research that considers the broader organizational perspective and explores how dynamic capabilities mediate the relationship between entrepreneurial leadership and workplace innovation at the corporate level.

To fill this gap, recent research conducted by Zhang and Chen (2021) has investigated the mediating role of dynamic capabilities in the relationship between corporate-level entrepreneurial leadership and workplace innovation. Their study offers a more comprehensive understanding of how dynamic capabilities operate within the corporate context to facilitate and drive workplace innovation.

Furthermore, the work of Li and Liu (2020) contributes to this discussion by exploring the corporate-level analysis of entrepreneurial leadership and its impact on innovation outcomes. Their study provides valuable insights into the relationship between corporate entrepreneurial leadership and workplace innovation, shedding light on the potential mediating effects of dynamic capabilities in driving innovation within organizations.

So, while corporate-level analysis of entrepreneurial leadership and workplace innovation has received limited attention in the literature, the studies by Zhang and Chen (2021) and Li and Liu (2020) contribute significantly to this emerging area of research. These studies underscore the importance of considering the

broader organizational context and exploring how dynamic capabilities mediate the relationship between corporate-level entrepreneurial leadership and workplace innovation.

2.1 Remarks on Literature Review

In the realm of small and medium-sized enterprises (SMEs), the concept of entrepreneurial leadership has emerged as a significant driver of innovation. This leadership style, characterized by attributes like risk-taking, proactive behavior, and a strong vision, has been a focal point of numerous studies. These investigations have revealed how such leadership traits can profoundly influence an organization's culture and overall performance. Particularly in SMEs, where resources are often limited and the need for agile decision-making is high, the impact of entrepreneurial leadership on fostering a culture of innovation cannot be overstated. The ability of these leaders to inspire, motivate, and lead their teams through challenging and often uncertain business landscapes is pivotal in determining the success and innovative capacity of these enterprises.

Despite the recognition of entrepreneurial leadership's influence on innovation, there's a notable gap in understanding its specific impact within the unique setting of SMEs. Existing literature has extensively covered various aspects of entrepreneurial leadership but often in the context of larger organizations or in a more general sense. The distinct challenges and opportunities that SMEs face, such as resource constraints, market volatility, and less formalized management structures, make it imperative to examine how entrepreneurial leadership manifests and influences innovation in these smaller business settings. This gap in research highlights the need for a more focused study on how entrepreneurial leadership traits like risk-taking, vision, and proactiveness specifically drive innovation in SMEs.

The first research question delves into how entrepreneurial leadership in SMEs specifically influences workplace innovation. This inquiry is significant as it seeks to unravel the particular ways in which the leadership qualities inherent in entrepreneurial leaders—such as their vision, risk-taking capacity, and proactive approach—impact the innovative practices and outcomes in SME environments. Given the unique challenges faced by SMEs, including limited resources and a need for quick decision-making, understanding the specific influence of entrepreneurial leadership on innovation is crucial. This question aims to shed light on whether and how the entrepreneurial mindset and leadership approach foster an environment conducive to innovation, and how these leadership practices translate into actual innovative activities and processes within SMEs.

Dynamic capabilities, on the other hand, represent an organization's ability to effectively integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. This concept has gained significant traction in the field of strategic management, especially in studies focusing on innovation and organizational adaptability. In the context of SMEs, these capabilities are especially crucial as they often operate in highly dynamic markets. The ability to quickly adapt, be it through new product development, process innovation, or strategic pivoting, is essential for these smaller firms to survive and thrive. The role of dynamic capabilities in enhancing an organization's resilience and innovation potential has been well-documented, yet its interaction with entrepreneurial leadership within the SME sector warrants deeper exploration.

The second question explores the relationship between entrepreneurial leadership and the development of dynamic capabilities in SMEs. This is pivotal as it examines how the qualities of entrepreneurial leadership contribute to building and enhancing the very capabilities that allow an organization to adapt and innovate in response to changing market and environmental conditions. The focus here is to understand if and how the leadership style and decisions of entrepreneurial leaders in SMEs facilitate the development of dynamic capabilities such as sensing market opportunities, seizing these opportunities, and reconfiguring organizational resources and processes. This research could provide valuable insights into how leadership can effectively cultivate and harness these dynamic capabilities to maintain competitiveness and drive innovation in the challenging SME landscape.

Similarly, while the importance of dynamic capabilities in fostering organizational adaptability and innovation is established, its direct contribution to workplace innovation in the SME context remains underexplored. Studies have delved into dynamic capabilities at a broader level, yet how these capabilities translate into tangible innovative outcomes in SMEs is not fully understood. SMEs, with their unique characteristics and operational challenges, provide a different landscape where the development and application of dynamic capabilities might play out differently compared to larger organizations. This gap in the literature underscores the need for research that specifically investigates how dynamic capabilities in SMEs influence their innovation processes and outcomes, considering the distinct nature of these enterprises.

The third question probes into how dynamic capabilities impact workplace innovation in SMEs. This line of inquiry is crucial to comprehend the extent to which the development and application of dynamic capabilities contribute to tangible innovative outcomes in the unique environment of SMEs. It's important to explore whether these capabilities, once developed, directly lead to innovations in products, services, or processes within these smaller firms. The question aims to understand the mechanisms through which dynamic capabilities, such as the ability to sense and seize market opportunities and reconfigure resources, drive innovation. This exploration is critical in determining how SMEs can leverage their unique characteristics and dynamic

capabilities to not only adapt to changing market conditions but also to actively innovate and stay ahead in their respective industries.

The fourth and final research question examines whether dynamic capabilities serve as a mediator between entrepreneurial leadership and workplace innovation in SMEs. This inquiry is vital to understand the interconnectedness of these elements within the SME context. It seeks to unravel whether the influence of entrepreneurial leadership on innovation is direct or if it operates through the development of dynamic capabilities. This question delves into the possibility that entrepreneurial leadership might foster the development of dynamic capabilities, which in turn drive innovation in the workplace. This line of inquiry is crucial for comprehending the full spectrum of how leadership and internal capabilities interact to create a sustainable and innovative environment within SMEs.

The necessity and significance of these research questions stem from the need to understand and harness the unique dynamics of SMEs in promoting innovation. SMEs play a crucial role in economies worldwide, and unlocking the potential of entrepreneurial leadership and dynamic capabilities within these enterprises can significantly contribute to their growth and competitiveness. By focusing on how entrepreneurial leadership directly impacts innovation and how it interacts with dynamic capabilities, this research will provide actionable insights for SME leaders and policymakers. It will help in developing strategies and policies that not only foster a conducive environment for innovation but also leverage the unique strengths of SMEs to drive sustainable growth and competitiveness in the global marketplace.

Moreover, the exploration of these questions will contribute to the academic discourse by filling the identified gaps in the literature, particularly in understanding the specific contexts and mechanisms through which entrepreneurial leadership and dynamic capabilities influence innovation in SMEs. This research holds the promise of advancing both theoretical understanding and practical applications in the field of SME management and innovation, thereby making a significant contribution to the broader field of business studies.

3. Research Methodology

This study, anchored in the Cochrane Handbook's guidelines (Higgins & Green, 2011), underwent four phases to discern essential constructs for identifying the gap in Entrepreneurial Leadership Style.

Phase 1: Literature Collection

The first phase of the research methodology involves a comprehensive literature collection process, spanning from 2008 to 2023. This phase is dedicated to gathering academic literature that focuses on key themes such as entrepreneurial leadership, workplace innovation, and dynamic capabilities, particularly within the context of Small and Medium-sized Enterprises (SMEs). To ensure a thorough and wide-ranging collection of relevant studies, prominent academic databases such as Scopus, Web of Science, and Google Scholar are utilized. The search process is guided by key terms including "entrepreneurial leadership", "workplace innovation", "dynamic capabilities", "SMEs", and "organizational performance". This targeted approach ensures the acquisition of relevant and significant scholarly material that lays the groundwork for the research.

Phase 2: Screening and Selection

Following the collection of literature, the second phase involves a meticulous screening and selection process. In this stage, the initial collection of documents is carefully examined for their relevance to the research topic. This screening is primarily based on the titles, abstracts, and keywords of the documents. The selection criteria prioritize peer-reviewed articles, conference papers, and publications from renowned journals, ensuring that only high-quality and credible sources are considered. The focus is to select studies that specifically address the relationship between entrepreneurial leadership and innovation in SMEs, thereby aligning with the core objectives of the research.

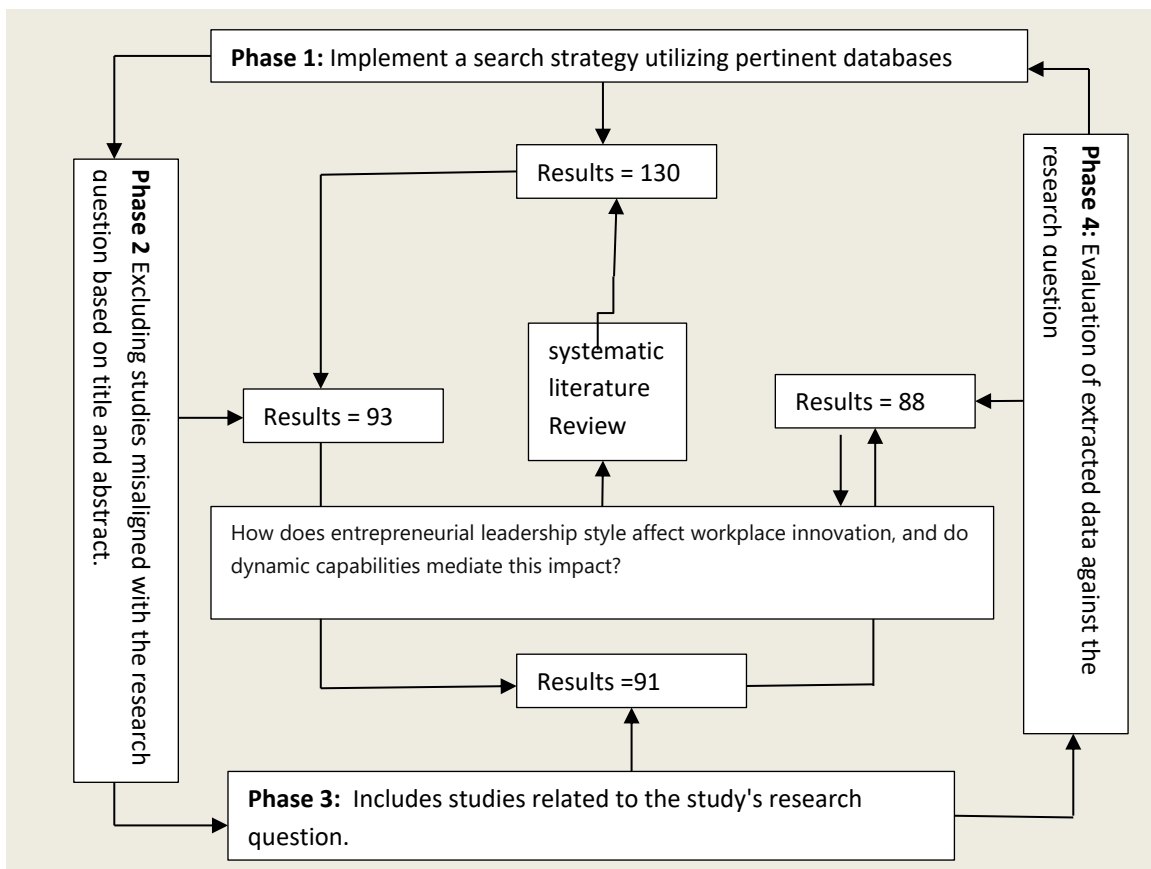
Phase 3: Quality Assessment

The third phase entails a rigorous quality assessment of the selected articles. In this critical stage, each article undergoes a detailed evaluation based on several criteria. These include the methodological rigor of the studies, their relevance to the research question at hand, and their overall impact within the field. This phase may also involve an extensive cross-referencing of citations within the articles to identify seminal works and key contributors to the topic. This thorough assessment ensures that the research is built upon a foundation of high-quality and impactful studies.

Phase 4: Data Extraction and Synthesis

In the final phase, there is a systematic extraction and synthesis of key data from the chosen studies. This phase is centered around collating and analyzing findings that specifically relate to the impact of entrepreneurial leadership on innovation in SMEs. The synthesis involves identifying patterns, themes, and gaps within the literature, providing a comprehensive understanding of the subject. Additionally, this phase considers the role of dynamic capabilities as a potential mediator in the relationship between leadership and innovation. The outcome of this phase is a rich, nuanced understanding of the research area, setting the stage for insightful conclusions and recommendations.

Figure 1: Four Phases of Systematic Review
 Source: Higgins & Green, 2011



4.Literature Review and Propositions Development

4.1 Entrepreneurial leadership (EL) and Workplace Innovation (WI)

The dynamic transformations in industry, technology, and economy have resulted in a major increased in complications and challenges for businesses (Latva-Koivisto, 2001; Ogunro, 2014). In managing business process and environmental changes, organization’s leader must possess the capability to foster performance and innovation within their organization. Research showed that the role of effective leaders plays an important element in generating new ideas, encouraging employees to develop new business strategies, realizing new opportunities, increase the commitment and direct employees to achieve the company’s goals (Chen et al. 2016; Greenberg et al. 2013; Gupa et al. 2004; Koryak et al., 2015; Rickards & Moger, 2006). Moreover, studies displayed that leadership style plays an important role in supporting a work environment that promotes creativity and innovation (Baghdri, 2017; Greenberger and Sexton, 1988; Jung et al., 2003). In sense of driving innovation, the role of leaders in influencing and driving innovation in different stages and processes has been

emphasized by several scholars (Damanpour, 1991; Kodama, 2005; Walmam and Bass, 1991). However, the impact of various leadership styles on organizational innovativeness varies, as there is compelling evidence that different stages and types of innovation necessitate distinct leadership needs (Kesting et al., 2015).

In the context of small and medium-sized enterprises, firms are mostly created by individuals with entrepreneurial mindset and entrepreneurial leadership style (Sandybayev, 2019; Stuart and Abetti, 1987). Entrepreneurial leadership defined as a dynamic process of influencing a group of individuals in the organization to achieve common goals and presenting vision, directing behaviors, optimizing risks, facing opportunities in that organization, and shaping the overall direction of an organization (Harrison et al. 2016; Henry et al. 2015; Ireland et al. 2003; Renko et al. 2015). The term “Entrepreneurial Leadership” is a combination between leadership and entrepreneurship fields (Esmer et al. 2017; Leitch et al. 2017; Renko et al. 2015) and is one of the recent styles of leadership (Esmer et al. 2017). The concept of entrepreneurial leadership was initially introduced by McGrath and MacMillan in 2000 (Tarabishy et al., 2002). Entrepreneurial leaders have significant characteristics and qualities that distinguish them from other leadership styles. For example, they are persistent, tolerant of ambiguity, enthusiastic, visionary, risk-taking, desire to innovate, adventurous, creative, opportunistic, ability to communicate, and build a network, which enable them to build an entrepreneurial culture, drives performance, innovation, and competitive advantages (Baum et al. 1998; Chen, 2007; Leitch et al. 2017; Leitch and Volery, 2017; Stuart & Abetti, 1987). Nevertheless, the extent of influence varies among leaders and is contingent upon various factors. This variance will therefore have an effect on organizational outcomes, such as fostering innovation in the workplace.

Innovation in a competitive environment is faced with several challenges and uncertainties at the organizational level. As a result, leaders are required to use creative strategies to successfully navigate these changes (Dess and Picken, 2000). Organizational leaders have several challenges in adapting to the ever-changing business environment, including employee resistance to change and competitive pressures. Consequently, leaders must redirect their focus and priorities accordingly. However, given the unique characteristics of entrepreneurial leaders, it is expected that these challenges may be successfully addressed and resolved via the implementation of creative strategies that may also impact workers. In this regards, Coffin and Slevin (1988) illustrated that entrepreneurs' most ingrained behaviors are taking risks associated with their business, the desire to innovate and change to compete, and to stay ahead of the competition. However, speaking at business-level, employees do not produce innovation independently; rather, they mostly need support from the leader during producing innovation (Tung & Yu, 2016). Moreover, employees' perception of their capabilities increases by entrepreneurial leadership support (Renko et al. 2015; Surie & Ashley, 2008). Such support can be found by raising the efficiency of employees, building their confidence, and engaging them in developing innovative ideas (Alvianto and Andarini, 2023; Cheung and Wong, 2011). Hence, entrepreneurial leaders with their innovative and risk-taking characteristics play a critical role in inspiring employees and promoting innovation processes in their organizations. However, different entrepreneurial leaders have varying degrees of success in fostering a culture of innovation in the workplace. Therefore, it is important to conduct research into this correlation to learn to what extent entrepreneurial leadership actually influences workplace innovation. Also, as entrepreneurial leadership is an emerging field of leadership, so research in this field is becoming more important for enhancing innovation and performance (Gupta et al., 2004). Therefore, this study tests this relationship and proposed the following proposition:

Proposition 1: *Entrepreneurial Leadership is positively related to the Workplace Innovation in SMEs.*

Entrepreneurial leadership, characterized by traits like innovativeness, risk-taking, and proactiveness, is fundamentally linked to workplace innovation in SMEs, a relationship supported by both theoretical frameworks and empirical evidence. Theories like the Resource-Based View of the Firm and Innovation Leadership Theory emphasize that entrepreneurial leadership is a unique resource that fosters a culture conducive to innovation. This leadership style aligns with the Theory of Entrepreneurial Orientation, suggesting that firms with strong entrepreneurial traits are more innovative. Empirical studies reinforce this, showing that entrepreneurial leaders significantly impact organizational culture, employee motivation, and strategic resource allocation, all of which are critical for innovation in SMEs. These leaders create environments where new ideas are encouraged and experimentation is valued, essential for fostering innovation in the dynamic and resource-constrained settings of SMEs. This blend of theoretical and practical insights provides robust support for the proposition that entrepreneurial leadership positively influences workplace innovation within the SME context.

4.2 Entrepreneurial leadership (EL) and Dynamic Capabilities (DC)

Leadership style may play a significant role in facilitating various aspects and orientations of human resources systems (Lopez-Cabrales et al., 2017). While transformational leaders advocate new ideas, support individuals, and involve them in activities and learning processes, transactional leaders focus on improving individuals' capabilities (Chen & Chang, 2013; Dixon et al., 2010; Lopez-Cabrales et al., 2017). Studies have confirmed that the entrepreneurial leadership style tends to perceive new opportunities and the tendency for

innovation (Renko et al., 2015; Surie & Ashley, 2008). Therefore, they support individuals' abilities to seek new opportunities and embrace change.

Due to the continuous and rapid changes in the business world environment and its need for organizational flexibility, it has led to a shift and focus on developing dynamic capabilities. Teece (2007) determined these capabilities in three dimensions: sensing the opportunities, seizing the opportunities, and resource configuration to adopt new changes. These dimensions can be developed at the firm level through the lens of strategic Human Resource Management (Apascaritei & Elvira, 2022). Human resource systems are associated with sensing, seizing, and reconfiguration capabilities, and these are HR practices where leaders can enhance innovation and a company's competitiveness (Lopez-Cabrales et al., 2017). Since the role of the leader in an organization is the main element for its development, researchers' focus on the relationship between leadership influence on developing dynamic capabilities related issues is important to recognize opportunities and make decisions on firms' development processes (Finkelstein et al., 2009; Ling et al., 2008). Moreover, Teece (2016) emphasized that leadership style is a core element in organizations' dynamic capabilities.

Dynamic capabilities have a crucial role in entrepreneurship, contributing to the formulation of new plans and innovation processes. It also assists managers in decision-making (Katzy et al., 2001). Moreover, Zahra et al. (2006) explained that entrepreneurship's dynamic capabilities tend to be objective capabilities that are coordinated through individuals' skills and organizational knowledge. Zahra et al. (2006) emphasized that understanding these capabilities in entrepreneurship framework enable managers and leaders to shape entrepreneurial activities and processes, which in turn affect higher performance and innovation. A study showed that managers with an entrepreneurial approach are positively associated with the employees' absorptive capacity, and these managers are also positively associated with organizational restructuring by taking advantage of opportunities (Dixon et al., 2007; Filatotchev et al., 2003). Hence, human resource managers are influenced by their leaders to facilitate and manage the company's dynamic capabilities.

A study by Amin et al., (2019) explained that entrepreneurial skills such as the behavior of seeking opportunities, seizing growth and investment, must be integrated by strategic management and strategic entrepreneurship. These processes can be determined by the organization's leader who creates the appropriate conditions and environment to grow. In addition, Kyrgidou et al., (2010) illustrated the role of leaders in strategic entrepreneurship in identifying opportunities and creating wealth.

Entrepreneurial leadership is positively associated with the development of a firm's dynamic capabilities in SMEs, as evidenced by both theoretical underpinnings and empirical findings. The concept of entrepreneurial leadership, with its core elements of innovation, risk-taking, and proactiveness, aligns seamlessly with the development of dynamic capabilities, which are crucial for firms, especially SMEs, to adapt and thrive in changing environments. Theoretical perspectives, such as the Dynamic Capabilities Framework, suggest that entrepreneurial leaders are instrumental in sensing and seizing opportunities, and in reconfiguring firm resources, which are key aspects of dynamic capabilities. Empirically, studies have shown that the entrepreneurial mindset of leaders in SMEs drives the firm's agility and adaptability, enabling them to respond effectively to market changes and technological advancements. This leadership style facilitates the cultivation of a responsive and innovative organizational culture, which is essential for the ongoing development of dynamic capabilities. Thus, the interplay of entrepreneurial leadership and the cultivation of dynamic capabilities in SMEs is well-supported, highlighting the crucial role of such leadership in enhancing a firm's ability to innovate and adapt in rapidly evolving markets.

Therefore, entrepreneurial leadership is expected to have a substantial impact on the development of dynamic capabilities within organizations. Nevertheless, the capacity to cultivate dynamic capabilities varies among entrepreneurial leaders in small and medium-sized enterprises. Hence, this association can be analyzed within the context of small and medium-sized enterprises, leading to the introduction of the second proposition:

Proposition 2: Entrepreneurial Leadership is positively related to the development of firm's Dynamic Capabilities in SMEs.

4.3 Dynamic Capabilities & Workplace Innovation

Teece et al. (2007) defined the concept of dynamic capabilities as the ability of a firm to create opportunities, integrate, build, and reconfigure internal and external capabilities to deal with rapidly changing environments. Also, Zollo and Winter (2002) define the dynamic capability as "a learned pattern of collective activity" within an organization in which the organization systematically improves its operations' effectiveness. It represents three fundamental dimensions are sensing capabilities, seizing capabilities, and reconfiguration capabilities (Teece, 2007). Sensing means that to identify new opportunities in the market, firms must be smart to scan the change in the environment, demands, and changes on customer's needs (Pavlou & El Sawy, 2011). Seizing means that the company must have a decision-making internal procedure towards changes, so seizing power is required to ensure the company is able to invest (Lopez-Cabrales et al., 2017). Finally, Reconfiguration is the integration of processes, the implementation, and redesign of changes while maintaining the efficiency of these

processes, which will lead to the development of new products without loss of efficiency (Lopez-Cabrales et al., 2017).

The concept of workplace innovation is closely associated with the "resource-based view" framework proposed by Barney (1991) and the notion of "dynamic capabilities" presented by Teece et al. (1997). These theories emphasize the concept of possessing exceptional resources to obtain a competitive advantage. In this research, we consider the dynamic capabilities approach as it relates to the change in small and medium sized enterprises. This process of change revolves around the company's ability to adapt and renew its resources-including people and material resources, adopting capabilities, and competencies. Parthasarathy et al. (2011) extended the term dynamic capabilities to include material-based resources such as, equipment, systems, and platforms, and people-based resources such as, human capital and managerial cognition. In this paper, dynamic capability focused on people-base resources as they drive process innovation (Parthasarathy et al., 2011).

Studies have shown different roles of dynamic capabilities in organizations. For instance, Zahra et al. (2006) emphasized the role of dynamic capabilities in entrepreneurship. Also, Marsh and Stock (2006) endorsed the role of dynamic capabilities in terms of the operations and knowledge of creating new product. For instance, a study in hotel firms at Spain found that knowledge-based processes play a significant role in fostering firm's innovation (Nieves et al., 2016). Also, Tushman and O'Reilly (1996) determined the role of dynamic capabilities as the abilities to explore new opportunities and invest them in the firm. Finally, Makadok (2001) viewed the dynamic capabilities as the role of creating competitive advantages.

Workplace innovation refers to the process of creating and implementing new ideas and strategies in various aspects of work, including work organization, human resource management, and the utilization of supporting technologies (Pot, 2010). The concept, introduced by the Commission in 2014, encompasses various elements, including structural and cultural practices, that empower employees to actively engage and implement essential organizational transformations. These changes require immediate access to underlying abilities in order to effectively address them, given their rapid and unpredictable nature. As a result, the implementation of the dynamic capabilities approach is expected to have a positive impact on the overall performance and work quality of the organization (Oeij et al., 2017). This will lead to improving workplace conditions which are essential elements to enhance success, performance, and contribute to the innovation capability of the company (Froehlich et al., 2017).

However, to achieve sustainable innovation in the workplace, entrepreneur leaders are committed to establishing appropriate organizational structures and adopting business capabilities that support innovation (Kang et al., 2015; Leitch et al., 2013; Fontana & Musa, 2017; Freeman, 2014). Yet, these capabilities vary among entrepreneurial leaders and have distinct effects on work outcomes, such as innovation. Therefore, further research is necessary to explore this matter. Based on previous discussions, dynamic capabilities are expected to mediate an effective relationship between entrepreneurial leadership and workplace innovation. Hence, the following assumptions are made:

H3: *The firm's Dynamic Capabilities is positively related to the Workplace Innovation.*

H4: *The firm's Dynamic Capabilities mediate the relationship between Entrepreneurial Leadership and Workplace Innovation.*

Hypothesis 3 (H3) suggests that a firm's dynamic capabilities are positively related to workplace innovation, a concept supported by both theoretical models and empirical research. Dynamic capabilities, which include the ability of a firm to adapt, integrate, and reconfigure internal and external competences, are crucial for fostering innovation, especially in the context of SMEs. Theories such as the Dynamic Capabilities Framework highlight the importance of these capabilities in enabling firms to respond to rapidly changing environments and to innovate continuously. Empirical studies corroborate this by showing that firms with well-developed dynamic capabilities tend to exhibit higher levels of innovation, as they can effectively sense new opportunities, seize them, and reconfigure resources as needed.

Hypothesis 4 (H4) posits that a firm's dynamic capabilities mediate the relationship between entrepreneurial leadership and workplace innovation. This hypothesis integrates the concepts of entrepreneurial leadership and dynamic capabilities, suggesting that the impact of entrepreneurial leadership on innovation is channeled through the development of dynamic capabilities. Theoretical insights imply that entrepreneurial leaders, with their focus on innovation, risk-taking, and proactiveness, play a pivotal role in building and nurturing these capabilities. Empirically, studies have found evidence of this mediating role, indicating that the presence of strong dynamic capabilities within a firm can enhance the effectiveness of entrepreneurial leadership in driving workplace innovation. In essence, dynamic capabilities act as a bridge between the strategic vision of entrepreneurial leaders and the actual innovative outcomes within SMEs.

5. Theoretical Model

Based on the hypothesis development, the study constructs a theoretical model, as illustrated in Figure 2. This model is underpinned by various theoretical perspectives that support the connections among the identified variables. The theoretical model of this study can be segmented into three distinct parts for a comprehensive

discussion: The initial hypothesis development is the segment that forms the foundation of the model, where hypotheses are formulated based on existing literature and theoretical insights. It sets the stage for exploring the relationships between different variables within the study. To establish theoretical links the model delves into the theoretical underpinnings that connect the various variables. This part crucially demonstrates how each relationship in the model is grounded in established theories, providing a robust framework for the study. This study has segmentation into three key components, the final segment of the model breaks down the theoretical framework into three main components. Each component represents a critical aspect of the study, outlining the flow and interaction of variables within the model. This structured approach facilitates a clearer understanding of the theoretical relationships and their implications for the research.

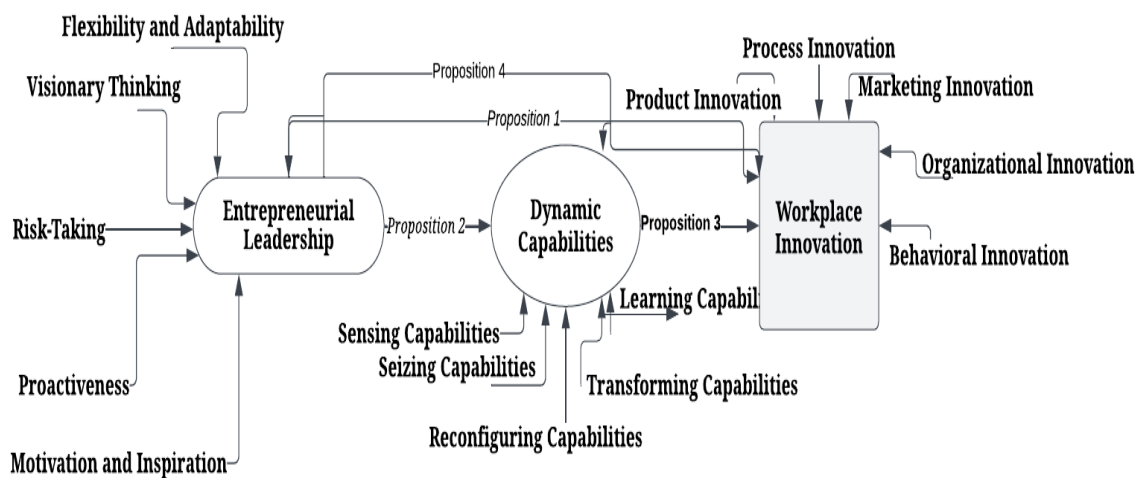
Firstly, the sub-dimensions of Entrepreneurial Leadership include Visionary Thinking, Risk-Taking, Proactiveness and Motivation, and Flexibility and Adaptability. Each of these traits plays a vital role in shaping an organization's strategic direction and innovation culture. Visionary Thinking is about foreseeing future trends and opportunities, grounded in Strategic Leadership Theory. Risk-Taking, a core concept in Entrepreneurship Theory, involves making bold decisions under uncertainty. Proactiveness and Motivation, linked with Proactive Leadership Theory, encourage a culture of initiative and engagement. Lastly, Flexibility and Adaptability, essential in today's business landscape, are highlighted by Adaptive Leadership Theory, allowing leaders to adjust to evolving situations effectively.

Secondly, Dynamic Capabilities act as a mediator in this framework, encompassing sub-dimensions like Sensing, Seizing, Transforming, Learning, and Reconfiguring Capabilities. These capabilities, as outlined in the Dynamic Capabilities Framework, enable firms to navigate and adapt to changing environments successfully. Sensing, Seizing, and Transforming Capabilities, derived from the Resource-Based View, focus on the effective utilization and adaptation of resources. Learning and Reconfiguring Capabilities, aligned with the Knowledge-Based View, emphasize the significance of continuous learning and organizational agility. *Thirdly*, the outcome of this interplay is Workplace Innovation, which manifests in various forms, including Product Innovation, Process Innovation, Organizational Innovation, Marketing Innovation, and Behavioral Innovation. Theories in Innovation Management provide insights into how the vision and capabilities fostered by entrepreneurial leadership translate into tangible organizational innovations.

So, the relationship among these dimensions is not linear but synergistic and iterative. Entrepreneurial leadership sets the foundation, instilling the vision and fostering a culture primed for innovation. This leadership then nurtures the development of dynamic capabilities, which serve as critical tools for responding to and capitalizing on environmental changes. These capabilities, in turn, facilitate the emergence of workplace innovations, which are essential for the organization's long-term success and competitiveness. This framework underlines the interconnectedness and mutual reinforcement of leadership, capability development, and innovation in creating a resilient and progressive business environment.

Figure 2: Based on the Dynamic Capabilities Approach.

Source: Author



Therefore, entrepreneurial leadership has recently attracted researchers and practitioners' interest in leadership, entrepreneurship research, and its practitioners. Yet, few studies have investigated the impact of entrepreneurial

leadership on innovation in SMEs based on Human Resources (HR) perspective. This may be due to the fact that the use of strategic management and human resources principles are relatively limited in SMEs compared to larger companies (Bacon et al. 1996; Beaver and Hutchings, 2005). This study focused on SMEs that have HR unit. It considered the mediating role of dynamic capabilities and explored the relationship between entrepreneurial leadership and workplace innovation. Also, the dynamic capabilities applied in this study are sensing capabilities, seizing capabilities, and reconfiguration capabilities, and are related to people base resources.

6. Theoretical and Practical Implications.

Previous studies have paid considerable attention to the research in leadership, entrepreneurship, and innovation. However, few studies have focused on combining these three factors in the context of strategic entrepreneurship. The major purpose of this research is to examine how entrepreneurial leadership styles may affect workplace innovation in small and medium-sized enterprises. The entrepreneurial leadership and its workforce-related research are an area of interest today, which should be investigated from different angles with more details (Antonakis and Autio, 2006). Although previous studies have focused on the role of entrepreneurial leadership on team creativities, employee's creativities, and individuals' creative behaviors (Gupta et al., 2004; Renko et al., 2015; Bagheri, 2017), we still have limited understanding of the process and procedures that lead to these creativities. The present study posits that the impact of entrepreneurial leadership on workplace innovation can be effectively facilitated by the human resources department, particularly through the utilization of dynamic capabilities processes. This paper also provides a new model to examine the relationship between entrepreneurial leadership and workplace innovation and therefore extends previous studies in entrepreneurship and leadership. Moreover, this research supports previous notions that entrepreneurial leadership style is distinguished from other styles (e.g., transformational leadership style and transactional leadership style) in terms of risk-taking and willingness to drive innovation. Also, this paper offers more insights into the strategic entrepreneurship issue, contributing to the literature in this area. Finally, this study helps scholars develop theories in different areas related to leadership, entrepreneurship, strategic management, and innovation. This study has also provided several vital implications and useful information for practitioners that could be used to improve organizational practices. First, this study proposes to help entrepreneurs' leaders build a healthy work environment that develops the firm's innovation__ providing a healthy work environment that can encourage and motivates workers to be more productive and innovative. That can achieve by making a strategic plan that aligns all departments objectives and workers with those of the organization. That is to mitigate inconsistency and reduce conflict behaviors of members. Second, it is anticipated that the findings of this study will have several implications for current and prospective small and medium-sized business leaders and entrepreneurs who need to promote innovation in their organizations. Besides, it helps develop insights about improving opportunity recognition and dynamic capability among their workers to grow their business, which helps them compete in the market. Third, this study results help identifying entrepreneurial leaders' roles in influencing employees through strategic planning to embrace change, realize opportunities and exploit them. This can be done by influencing the human resource system and investing in the organization's dynamic capabilities. Forth, given the leader's role in influencing employees and building their confidence in their capabilities for innovation and achievement (Huang et al., 2014), this study contributes to assisting current and potential entrepreneurs in laying down appropriate foundations in creating capabilities and directing them to develop a suitable climate and environment to recognize opportunities and create innovation. Fifth, this study's finding assists HR managers by offering insights to leverage employees' beliefs and behaviors to raise their dynamic capabilities in the SME context. Thus, this will feed the company's innovation process and competitive advantages. The findings of this study can be applied to the development of training programs and curricula aimed at enhancing entrepreneurial leadership competence, skills, and capabilities among higher education students in the context of small and medium firms.

7. Limitations and Future Studies.

This study contains some limitations that must be recognized and avoided in the future. First, this study applies to the role of entrepreneurial leadership in small and medium enterprises only. But entrepreneurial leadership can be applied to large businesses as well (Freeman, 2014; Huang et al., 2014). Therefore, future research should be conducted on larger business environments to explore the relationship suggested in this study. Second, the study sample included entrepreneurs and/ or managers of human resources management units in small and medium-sized companies consisting of human resources department. To provide a deeper understanding of the relationship between entrepreneurial leadership and innovation and to understand the realization of opportunities and the role of an organization's dynamic capabilities, future studies should include employees and SMEs' leaders. Third, this study focused only on entrepreneurial leadership's effect on enterprise innovation by influencing dynamic capabilities. Given the influence of the leader on employees and their characteristics (Chen

et al., 2016), future studies may include other variables to measure the entrepreneurial leadership style's impact on other variables such as job satisfaction, employee motivation, job performance, and others. Finally, the present study employs dynamic capabilities, specifically sensing, seizing, and reconfiguring capabilities, as conceptualized by Teece (1976). Future research endeavors may explore additional capabilities, such as the ability to absorb and acquire knowledge.

8. Conclusion

This conceptual paper strategically addresses existing gaps in the literature by proposing a comprehensive research framework that examines the relationship between entrepreneurial leadership and workplace innovation in SMEs. Central to this framework is the exploration of how dynamic capabilities, particularly those managed by the HR department, influence this relationship. To systematically investigate these dynamics, the research employs a methodical systematic review, meticulously analyzing existing studies and synthesizing findings to construct a more refined understanding. Key research questions guiding this study include: How does entrepreneurial leadership in SMEs influence workplace innovation? And what role do dynamic capabilities play in mediating this relationship? The paper posits two main hypotheses based on these questions: H1 posits that entrepreneurial leadership is positively related to workplace innovation in SMEs, and H2 suggests that dynamic capabilities within an organization mediate the relationship between entrepreneurial leadership and workplace innovation.

The significance of this study lies in its attempt to bridge identified research gaps by dissecting both the direct and indirect effects of entrepreneurial leadership on innovation. This approach enriches existing literature in leadership, strategic management, entrepreneurship, and innovation, offering a more nuanced perspective of how entrepreneurial leadership can catalyze innovation in the unique context of SMEs. The systematic review method adds rigor to the study, ensuring a comprehensive and critical evaluation of existing literature. The findings and insights from this research are expected to be invaluable for academic scholars and practitioners alike, shedding light on how SMEs can foster a culture of innovation through effective leadership and strategic HR management. By elucidating the complex interplay between leadership styles, organizational capabilities, and innovation, this paper takes a significant step towards a deeper understanding of these dynamics in SME settings, ultimately contributing to the advancement of theory and practice in this vital area of business studies.

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