ENTREPRENEURIAL LEADERSHIP, TURNOVER INTENTION AND PROFITABILITY NEXUS

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ABSTRACT

This study aims to provide insights into entrepreneurial leadership among employees of Small and Medium Enterprises (SMEs) by demonstrating the relationships between entrepreneurial leadership, turnover intention and profitability. The study uses responses from 150 SMEs in Ghana relying on regression analysis techniques to test the research propositions. This study validates the assumptions that entrepreneurial leadership influence turnover intention of employees. This study also affirms that entrepreneurial leadership foster SMEs profitability. While our findings may be limited to the context examined, nonetheless this study adds to the emergent scholarship on entrepreneurial leadership. This study enriches the understanding of the entrepreneurial leadership, turnover intention, and profitability of domesticated SMEs. The absence of entrepreneurial leadership can have a negative effect on turnover intention and profitability.

Keywords: Entrepreneurial Leadership, Turnover Intention, Profitability, SMEs

JEL Classification: M10, M31

INTRODUCTION

In a globally competitive business environment, a firm’s internal resources enable it to create value and deliver a superior competitive advantage. In this context, entrepreneurial leadership is an important strategic resource for Small and Medium Enterprises (SMEs) that want to retain their employees and improve profitability (Rahim et al., 2015; Yang et al., 2019; Sawaean & Ali, 2020). More so, the 21st-century present challenges which have led to the business environment change its focus to entrepreneurial leadership (Mishra & Misra, 2017). It is believed that a skilled and motivated entrepreneur can survive a turbulent business environment (O’Reilly & Pfeffer, 2000). A review of the literature on the subject has mostly focused on understanding how transformational, ethical and authentic leadership styles affect turnover intention and performance and with most reporting positive relationship (e.g., Gyensare et al., 2016; Demirtas & Akdogan, 2014; Azanza et al., 2015). Yet, there is more to understand on how “entrepreneurial leadership” influence employee “turnover intention” and profitability of SMEs in the emerging market context. Although entrepreneurial leadership is important for the success of SMEs (Valdiserri & Wilson, 2010), scholars opine that an understanding of entrepreneurs’ leadership behaviours is still lacking (Renko, El Tarabishy, Carsrud & Brännback, 2015; Wright et al., 2015; Sam et al., 2012). Academic discourse on entrepreneurial leadership, turnover intention and profitability is necessary and timely, which supports recent calls (Yang et al., 2019, Nwachukwu, Chladkova & Zufan, 2017) for researchers to shed light on the important relationship. Following many requests are to provide insight into the consequences of entrepreneurial leadership in the SMEs context. This paper examines the contribution of entrepreneurial leadership to turnover intention and profitability. Specifically, our aim is to provide evidence on the relationships in the context of SMEs in Ghana. We have reasoned that analysing the phenomenon of entrepreneurial leadership and its consequences, especially in the context of the emerging market, is a
necessary and relevant research endeavour. This allows us to extend the generalisability of this concept and its role beyond previous studies in developed economies. Arguably, entrepreneurial leaders are important in SMEs. This paper contributes to the entrepreneurship and small business management literature by proposing and validating a research model that focuses on the effect of entrepreneurial leadership on turnover intention and profitability. Specifically, the authors have employed data collected at the individual level i.e. the employees to evaluate the relationships between entrepreneurial leadership, turnover intention and profitability of SMEs in Ghana. In entrepreneurship research, analyses at the individual level are important. This study supports to the Resource-Based View that turnover intention and profitability are fostered by organisational resource such as entrepreneurial leadership. Considering that entrepreneurial leadership have received less attention, SMEs comprise the majority of firms in an economy (Berthon et al., 2008). Hence our study attempts to narrow this gap in the literature. Finally, the following two specific objectives guide this study: (1) to examine how “entrepreneurial leadership” influence turnover intention of employees, (2) to evaluate the relationship entrepreneurial leadership and profitability in the context of SMEs in Ghana.

LITERATURE REVIEW

Theoretical Perspective

We draw on the Resource-Based View (RBV) and Human Capital Theory (HCT) theoretical lens to explain how entrepreneurial leadership and turnover intention foster profitability. In both strategic management and entrepreneurship literature RBV have been used to examine differences in size and performance of different firms (Arthurs & Busenitz, 2006; Teece, 2014; Zahra et al., 2006), human resource and strategic performance (Vu & Nwachukwu, 2020). In the entrepreneurship contexts, researchers have focused on resources that can help firms to spot and leverage opportunities to enhance performance (Brush et al., 2001). Extant literature suggests that business growth is contingent on available resources (Carter et al., 2003; Leitch et al., 2013; Nwachukwu & Chladkova, 2019) and entrepreneurs’ efforts to create, add and modify entrepreneurial resources (Teece, 2012; Zahra et al., 2006). Specifically, the human resources of entrepreneurs consist of all unique insights, skills, intellectual characteristics, education, business ownership experience and capacities (Unger, Rauch, Frese & Rosenbusch, 2011; Ventakaraman, 1997) that foster productivity (Bates, 1990; Otani, 1996). It suggests how a person optimise interpersonal relationships, networks, and communication skills (Martinez, Morales & Verdu, 2013). In this context, entrepreneurial leadership is a unique, valuable, non-substitutable, and imperfectly imitable resources that may have a significant influence on turnover retention and profitability of SMEs. Backes-Gellner & Werner (2007) observe that both generic and specific component of entrepreneur’s human capital has direct and indirect effects on new business growth. The RBV perspective and HCT is considered relevant because small and medium enterprises rely heavily on the resources of owners’ characteristics and skills. As such, entrepreneurial leaders can leverage resources (characteristics and skills) to explore and exploit opportunities and to survive, grow and achieve competitive advantage. Also, the operating environments of SMEs are characterized by uncertainty which requires high-quality human resources and competency to cope. Indeed, turnover intention of employees and SMEs profitability is perceived to be highly dependent on entrepreneur leadership ability which is a unique and inimitable resource. Arguably, SMEs can enhance profitability and have loyal employees when entrepreneurs accumulate high human capital.
The Concept of Entrepreneurial Leadership

The concept of entrepreneurial leadership emerged due to the combination of “Entrepreneurship” and “leadership” (Yang, 2008). Increasing “uncertainty” and “competition” led to a new leadership style, “entrepreneurial leadership” (Gupta et al., 2004). Swiercz, et al., (2002) assert that entrepreneurial leaders are interested in creating and managing new ventures. Kuratko (2007) notes that entrepreneurial leadership involves influencing others to seek and take advantage of opportunities. Goossen & Stevens (2013) assert that entrepreneurial leadership involves creating an environment that inspires committed followers towards spotting opportunities and exploiting them for sustainable value creation. The first strand of entrepreneurial leadership literature focused on new and /or small business owners leadership roles (Hmieleski & Ensley 2007; Koryak et al., 2015; Kang, Solomon & Choi, 2015; Leitch, McMullan & Harrison, 2013) and family businesses and corporations acting entrepreneurially (Simsek et al., 2015). Further, entrepreneurial leadership has been examined as the culture (value system) of a firm of any size or age that shows the entrepreneurial values and vision of its leaders (Covin & Slevin 2002; Gupta et al., 2004). Dover, Hariharan & Cummings (2014) posit that entrepreneurial leadership use an innovative approach to identify opportunity and create value for stakeholders. Renko, et al., (2015) point out that entrepreneurial leadership involves influencing and directing followers toward achieving the firm's objectives by spotting and leveraging entrepreneurial opportunities. According to Yu & Kwan (2015), entrepreneurial leadership entails risk-taking, proactiveness and innovativeness as well as organizing and planning. Rae (2016) submits that entrepreneurial leadership foster a culture of innovation by recognising and exploiting opportunities to enhance performance and create value for various stakeholders.

The Concept of Turnover Intention

Ngamkroeckjoti, et al., (2012) assert that turnover intention is the likelihood of an employee resigning from the current job. It connotes an individual’s intention to voluntarily leave his or her employer (Belete, 2018; Seo & Ko, 2002). Employees’ turnover intention is a serious concern for every organisation regardless of size, location, or nature of business (Long et al., 2012). Turnover influences on the productivity, product and service quality and profitability (Kumar, 2011). Employees may leave on their own (voluntary) or are forced to leave an organisation (involuntary turnover). According to Perez (2008), voluntary turnovers have huge direct costs and indirect costs for firms. Voluntary turnovers could be functional and dysfunctional turnovers. Functional turnovers occur when employees leave for non-performance and dysfunctional turnovers refer to the exit of high performers (Taylor, 1998). Understanding turnover intentions among employees may assist organisations to effectively manage turnover intentions and actual turnovers (Seo et al., 1995). Extant literature has shown that effective leadership style (Siew, 2017 ), demographic factors such as tenure, wage, age, marital status, position, and working department (Chowdhury, 2015, Emiroğlu et al., 2015; Victoria & Olalekan, 2016), organizational commitment (Ahuja et al., 2007; Cave et al., 2013), organizational justice (Sokhanvar et al., 2016; Ozturk et al., 2016), organizational climate (Stone et al., 2006; Alkahtani, 2015), promotional opportunity (Hassan, 2014; Shah & Khan, 2015; Biswakarma, 2016), attractive remuneration packages (Kumar, 2011), organizational culture (Divivedi et al., 2013; Haggalla & Jayatilake, 2017), job stress (Jha, 2009; Bashir & Durrani, 2014), job satisfaction (Alkahtani, 2015; Perez, 2008) and employee intention to leave (Alkahtani, 2015; Perez, 2008).

Entrepreneurial Leadership and Turnover Intention of Employees

Several studies have tried to link turnover intentions to different styles of leadership (Gyensare et al., 2016; Demirtas & Akdogan, 2014). For instance, empirically, (Gyensare et
al., 2016) report that transformational leadership positively impacts turnover intentions. Demirtas & Akdogan (2014) observe that ethical leadership have a significant influence on employees’ turnover intentions ethical climate via ethical climate. Using structural equation modelling, (Azanza et al., 2015) report that authentic leadership influence employees’ turnover intentions. In a recent study, (Yang et al., 2019) point out the link between entrepreneurial leadership and turnover intentions of employees in small firms. They have found that entrepreneurial leadership lower employee turnover intentions. Kuratko, Goldsby & Hornsby (2004) opine that entrepreneurial leaders are inspired by their employees. Entrepreneurial leadership is important to cope with intense competition and survive in the marketplace (Kuratko, 2007). Entrepreneurial leaders can inspire employees to identify and create strategic value as well as foster superior venture performance (Yang et al., 2019). Our review of the literature suggests that studies on Entrepreneurial Leadership (EL) and Turnover Intentions (TI) are scarce. Nonetheless, we reason that firms with entrepreneurial leaders will have employees that have the intention to remain with the organisation. As a consequence, we propose:

\( H1: \) Entrepreneurial leadership positively influence turnover intentions of employees.

**Entrepreneurial Leadership and Profitability**

The leadership styles employed by managers and entrepreneurs in entrepreneurial leadership is not the same among managers and entrepreneurs (Zijlstra, 2014). Extant literature has shown that entrepreneurial leadership foster organisational goals, employee wellbeing, commitment and improve financial performance. SMEs optimise human resources to achieve superior performance. Likewise, some studies highlight the importance of leadership to strategic flexibility, performance, and effectiveness (Yukl, 2013; Engelen et al., 2015; Hmieleski et al., 2012; Ling et al., 2008). Further, various research findings have demonstrated that leadership foster entrepreneurial ventures growth (Wales et al., 2011). Rahim, et al., (2015) empirically assesses the impact of entrepreneurial leadership on the performance of Malaysian SMEs. They have observed that entrepreneurial leadership had a positive effect on organizational performance. Similarly, (Sawaean & Ali, 2020) find that entrepreneurial leadership foster organizational performance. Lajin & Zainol (2015) suggest that entrepreneurial leadership inspires and motivate employees to pursue firm vision and goals to survive and improve performance. Ireland & Webb (2007) submit that ventures with entrepreneurial leaders can achieve a competitive advantage because of the entrepreneur innovativeness and proactiveness. Entrepreneurship leadership empowers resources, solves problems, thinks critically, help ventures to achieve goals (Kuratko, 2007) and enhance creativity, innovation, and performance (Chahal, 2013). All these suggest that entrepreneurial leadership is an important driver of entrepreneurial firms’ performance. Considering the literature, we argue that entrepreneurial leadership has a significant effect on the profitability of SMEs.

\( H2: \) Entrepreneurial leadership significantly influence SMEs profitability.

Building on Yang, et al., (2019), this paper focuses on SMEs. We propose a framework that draws on prior studies to explore leadership and entrepreneurship in SMEs in the emerging market. Specifically, Figure 1, shows the connection between entrepreneurial leadership, turnover intention, and SMEs profitability. Based on Figure 1, this paper addresses the effects of entrepreneurial leadership on turnover intention and SMEs profitability in a bid to empirically test the relationships.
FIGURE 1
CONCEPTUAL MODEL SHOWING THE RELATIONSHIP BETWEEN ENTREPRENEURIAL LEADERSHIP, TURNOVER INTENTION, AND PROFITABILITY

Source: Authors.

METHODOLOGY

Sample and Data Collection

The emergence of SMEs has significantly impacted economic development (Eze, Goh, Goh & Tan, 2013; McCann & Argilés, 2016) and innovation (Cuckovic & Bartlett, 2007; Imeokparia & Ediagbonya, 2014; Taiwo, Falohan & Agwu, 2016). SMEs account for about 95 per cent of all the firms in the world. The new trend for global economic policies is the development of SMEs to foster economic growth, especially in Africa (Robson, Haugh & Obeng, 2009; Calza & Goedhuys, 2016). SMEs accounts for about 92 per cent of all Ghanaian businesses (Abor and Quartey, 2010). According to Abor and Quartey (2010), “SMEs account for 70% of Ghana’s GDP”. “The country is one of the fastest-growing economies in Africa with a GDP growth rate of 8.14%” (World Bank, 2017). We have surveyed employees of 220 SMEs operating in the service sector in Accra Ghana between October and December 2020. The list of SMEs was extracted from Ghana export promotion authority and chamber of commerce databases. This paper employs a quantitative research approach because it intends to discover the relationships between the study variables. This is informed by studies focusing on entrepreneurial leadership (e.g. Aber Sawaean & Mohd Ali, 2020; Yang et al., 2019). We believe that the use of this approach enables us to validate our research model in other contexts apart from SMEs in Ghana. The respondents consist of employees who have worked for their firms for at least three years. This category of employees is in the right position to provide reliable information about the subject. Purposive sampling method was used to select participants (Creswell, 2005). Hard copies questionnaire was administered to respondents at their workplaces. In the final analysis, 150 questionnaires were found suitable out of 220 that was sent to participants. This accounts for a 68% response rate which is considered adequate for drawing conclusions (Bryman & Bell, 2015).

Variables and Measurement

All variables have been evaluated with the usage of a five-point Likert measurement scale, with responses ranging from 1 (strongly disagree) to 5 (strongly agree). To measure entrepreneurial leadership, we have adapted (Renko et al., 2015). Entrepreneurial leadership style focuses on fostering entrepreneurial opportunity recognition and exploitation (Renko et al., 2015). Entrepreneurial leadership style is built on two pillars: (1) opportunity-focused activities and attributes of the leader him/herself, and (2) the process of influence, whereby the leader motivates followers to pursue entrepreneurial opportunity recognition and exploitation. The measurement scale is an established and validated scale. Seven items sought information on the extent of agreement; “Often comes up with radical improvement ideas for
the products/services we are selling”, often comes up with ideas of completely new products/services that we could sell”, takes risks, has creative solutions to problems”, demonstrates passion for his/her work, challenges and pushes me to act in a more innovative way and wants me to challenge the current ways we do business.” We used one question each to evaluate turnover intention and profitability. The turnover intention was defined as “the intention to leave one’s employer for a different employer” The participants were asked: “What is your turnover plan within the next three years?” For profitability, the respondents were asked: “What is the average profitability in the last three years?” Extant literature suggests that Single-Item (SI) items have high predictive validity as Multiple-Items (MI) scales (Bergkvist & Rossiter, 2007, 2009). The variables were subjectively measured based on respondents’ perceptions. The Cronbach α of all the items was 0.74, the mean was 4.00, and the variance was 0.08. This implies that the measurement scale is internally consistent and reliable (Zikmund et al., 2013). The measurement scale was reviewed by experts to ensure face validity, “comprehensiveness” and “coherency”. Regression analysis was used to determine the level of significance and predictability of entrepreneurial leadership on turnover intention and profitability. SPSS 25 software was used for analysing our data.

Handling Common Method Bias

We sought the opinion of employees about entrepreneurs’ leader’s ability. The employees of the SMEs can provide relevant information about the study variables. To reduce evaluation apprehension, respondents were assured that their responses will be accorded utmost confidentiality (Conway & Lance, 2010). It was written boldly on the questionnaire that none of the answers is right or wrong. The questionnaire had different sections with different scale and formats for collecting accurate responses (Chang et al., 2010). Participants were informed that the questions addressing the independent variables are connected to that of the dependent variable (Podsakoff et al., 2003). Based on the above, common method bias is unlikely.

RESULTS

Descriptive Statistics

The results indicated that the respondents agreed that entrepreneur leaders (mean score=4.23, SD=0.76) “often comes up with radical improvement ideas for the products/services they are selling”, (mean score=4.11, SD=0.89) often comes up with ideas of completely new products/services that they could sell, (mean score=4.26, SD=1.12) they take risks, (mean score=4.01, SD=0.94) has creative solutions to problems, (mean score=4.11, SD=0.89) demonstrate passion for his/her work, (mean score=4.16, SD=0.94) challenges and pushes them to act in a more innovative way, (mean score=4.10, SD=0.91) wants them to challenge the current ways they do business. From the participants’ responses, we infer that entrepreneur leaders are innovative, risk-takers, creative, passionate, motivators and inspire team members to deliver superior performance.

Regression Results

Table 2 show the regression results. The result (β=0.220, p<0.01) support H1 entrepreneurial leadership significantly impacts turnover intention. (β=0.251, p<0.01) suggest that entrepreneurial leadership significantly influences Small and Medium Enterprises (SMEs) profitability. The variance inflation factor 1.000 for both constructs (see tables 2) are less within the accepted limit (Ringle et al., 2015), which suggest no issue of multicollinearity. The Durbin-Watson test value of 2.284 and 1.809 suggests that autocorrelation is unlikely in the model.
## Table 1

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<th>REGRESSION RESULTS - ENTREPRENEURIAL LEADERSHIP, TURNOVER INTENTION AND PROFITABILITY</th>
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## DISCUSSIONS

### Key Findings and Implications

The paper uncovers the relationship between entrepreneurial leadership in the turnover intention and profitability contexts. Our results suggest that entrepreneurial leadership has a positive and significant influence on turnover intention. Also, entrepreneurial leadership significantly impacts the profitability of Small and Medium Enterprises (SMEs). Considering the growing interest in entrepreneurship research (e.g., entrepreneurs characteristics), particularly, entrepreneurial leadership (Adomako et al., 2018; Alvarez & Barney, 2007), this study enriches empirical literature on the subject in the emerging market context. The present study adds to the Resource-Based perspective (Arthurs & Busenitz, 2006; Teece, 2014) by affirming that entrepreneurial leadership is an important resource that influences turnover intention and profitability. Internal resource (entrepreneurial leadership) of SMEs plays an important role in reducing turnover intention employees as well as foster profitability. We observed entrepreneurial leadership is important for turnover intention and SMEs profitability. This lends support to the notion that a well-managed resource enables firms to create economic value (Nwachukwu, Chladkova & Fadeyi, 2018). Our findings agree with previous studies on entrepreneurial leadership and turnover intention (e.g. Yang et al., 2019) who have reported a positive relationship between entrepreneurial leadership and turnover intention. This results also validate studies that found a positive connection between entrepreneurial leadership and performance (Yang et al., 2019; Rahim et al., 2015; Aber Sawaean & Ali, 2020; Lajin & Zainol, 2015). Indeed, entrepreneurial leaders must develop new leadership competencies and capabilities to remain competitive (Yang, 2008; Fernald et al., 2005; Gupta et al., 2004). Turnover of employees usually has adverse effects on the organisation in term of loss of human and social capital. As such, it is important to reduce employee attrition by inspiring and motivating employees. Consistent with this logic, we affirm that entrepreneurs’ leaders are able to motivate, inspire and discourage employees from leaving the organisation. Furthermore, the entrepreneur leader challenges employees to act more innovatively. In this context, employees are motivated to strive for superior performance which fosters their intention to remain with the organisation. Leaders leverage their skills and capabilities to grow and sustain competitive advantage in the marketplace (Palalic, 2017). Indeed, entrepreneurs’ leader’s innovativeness and creativity foster radical improvement of the products and/or services which may positively affect their firm profitability. Likewise, firms with entrepreneurial leaders can take risks and leverage opportunities in their operating environment and enhance business results. The paper narrows the gap in the literature on SMEs, especially in Ghana. SMEs experience intense competition and market uncertainties.
Thus, SMEs with entrepreneurial leaders are more likely to optimise their resources (human and otherwise) to effectively manage turnover intention and enhance profitability.

CONCLUSION

This paper enhances our understanding of the connection between entrepreneurial leadership, turnover intention, and profitability. Successful and sustainable entrepreneurship require leaders with unique abilities and personality traits (Hassan, 2014). From the SMEs’ perspective, turnover intention and enterprise profitability depend on entrepreneurial characteristics and competencies (i.e. entrepreneurial leadership). We reasoned that entrepreneurial leadership is an essential resource that is needed to keep employees in the organisation and improve profitability. Our findings have some managerial implications for SMEs. First, entrepreneurs need to pay attention to their leadership skills and abilities because it has a positive impact on the success of their firms (e.g., Vu & Nwachukwu, 2021; Arham et al., 2013). Apt leadership can help employees to remain focused, loyal, motivated and contribute to the performance of their firms. Likewise, entrepreneurial leaders’ ability to keep employees focused, motivated and loyal can improve the interaction with customers and enhance profitability. Entrepreneur leader can improve performance by creating value for customers using innovative product and services. By creating value for both customers and employees, SMEs can survive in the marketplace for a long time. Entrepreneurial leaders need both personal and functional competencies to carry out tasks and execute innovation and entrepreneurial actions (Bagheri, 2017). Therefore, entrepreneurial leaders need to develop these competencies if they want to have loyal employees and improve their profitability. However, the absence of entrepreneurial leadership can have a negative effect on turnover intention of employees and profitability.

Limitation and Further Research

This study sample 150 SMEs in Accra, Ghana which somewhat limit the ability to generalize these results. Future research can use a larger sample size in different regions in Ghana. Single questions were used to assess turnover intention and profitability. Nonetheless, a single scale measure has been found to have good predictive validity. Future research should use multiple scale to give a better insight into the phenomenon in varying contexts (countries and industries). We evaluated profitability base on respondent’s perception. Financial data may provide interesting insights into the subject. The present study used cross-sectional data, thus there is a need to view the relationship reported herein with caution. Future studies should employ longitudinal data and qualitative study to explain the nature of the relationship between the variables. Longitudinal data and qualitative research approach may provide a deeper insight into the nature of the relationship. Other contextual variables should be examined with the present study variables as this may provide new insights on the entrepreneurial leadership/turnover intention/performance relationship. Considering the importance of entrepreneurial leadership to entrepreneurial ventures, further studies can focus on validating the results of this study by identifying other antecedents and consequences of entrepreneurial leadership. Nonetheless, our study adds to the entrepreneurship literature by throwing lights on how entrepreneurial leadership discourage employee intention to leave and foster profitability in SMEs in Ghana, an emerging market.

CONTRIBUTION OF INDIVIDUAL AUTHORS

Chijioke Nwachukwu completes with the conceptualization, investigation, writing original draft.
Vu Minh Hieu oversees resources, review and editing of the final manuscripts, overall supervision.

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