

THE EFFECT OF STRATEGIC AGILITY, ENTREPRENEURIAL LEADERSHIP AND INNOVATION CAPABILITY ON SME'S PERFORMANCE

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Abstract

Small and Medium Enterprises is one of the business sectors that has the most influence on the growth of the national economy. Some Small and Medium Enterprises have succeeded in developing but not a few have failed, for example due to the economic crisis. The survival and development of Small and Medium Enterprises is influenced by various factors. The factor to be seen in this research is the role of Strategic Agility, Entrepreneurial Leadership, and Innovation Capability in developing the performance of Small and Medium Enterprises. The research method used in this study is quantitative with the SEM-PLS method to analyze these three concepts on the performance of Small and Medium Enterprises. This research focuses more on the role of Strategic Agility, Entrepreneurial Leadership, and Innovation Capability on SME Performance so that they can grow and develop.

Keywords: SMEs, Strategic Agility, Entrepreneurial Leadership, Innovation Capability.

Abstrak

Usaha Kecil dan Menengah merupakan salah satu sektor usaha yang paling berpengaruh terhadap pertumbuhan perekonomian nasional. Beberapa Usaha Kecil dan Menengah berhasil berkembang namun tidak sedikit juga yang gagal, misalnya karena krisis ekonomi. Kelangsungan hidup dan perkembangan Usaha Kecil dan Menengah dipengaruhi oleh berbagai faktor. Faktor yang akan dilihat dalam penelitian ini adalah peran Strategic Agility, Entrepreneurial Leadership, dan Innovation Capability dalam mengembangkan kinerja Usaha Kecil dan Menengah. Metode penelitian yang digunakan dalam penelitian ini adalah kuantitatif dengan metode SEM-PLS untuk menganalisis ketiga konsep tersebut terhadap kinerja Usaha Kecil dan Menengah. Penelitian ini lebih menitikberatkan pada peran Strategic Agility, Entrepreneurial Leadership, dan Innovation Capability terhadap Kinerja UKM agar dapat tumbuh dan berkembang.

Kata Kunci: UKM, Kelincahan Strategis, Kepemimpinan Wirausaha, Kemampuan Inovasi.

INTRODUCTION

According to Law No. 20 of 2008, the definition of Micro, Small and Medium Enterprises (MSMEs) in the writings of the LPPI and Bank Indonesia of 2015, a company classified as MSME is a small company that is owned and managed by a person or owned by a group of people with total income and wealth. certain. Small and Medium Enterprises (SMEs) are businesses in a productive economy and are not branches or subsidiaries of a central company and are directly or indirectly part of small or large businesses with a total net worth according to the provisions of

laws and regulations (BI). and LPPI, 2015). According to Presidential Regulation No. 7 of 2021, a derivative of Law number 11 of 2020 concerning work creation, small businesses have a turnover of 2-15 billion, while medium businesses have a turnover of IDR 15 billion – IDR 50 billion. Meanwhile, according to the World Bank, based on the number of employees, Small Businesses have 3-30 employees and Medium Enterprises have 30 to 300 employees. According to the LPPI and BI (2015) there are 9 classifications/classifications of MSME for the economic sector, namely: 1) Agriculture, Livestock, forestry and fisheries, 2) Mining and quarrying, 3) Processing industry, 4) Electricity, gas and clean water , 5) Buildings, 6) Trade, hotels and restaurants, 7) Transportation and Communications, 8) Finance, Rental and Company Services, and 9) Services.

MSMEs have an important role in the economy. MSMEs play a strategic role in the development of the national economy. According to the 2021 Permenkop and UKM, MSMEs contribute to the national GDP in 2019 by 60.5% with a national entrepreneurship ratio of 3.3% with a total employment absorption of 96.9%, total employment of 99.9%, total investment of 60%, and total exports of 15.6 %. MSMEs were also able to survive during the 1998 monetary crisis when many large companies went bankrupt. MSMEs also help create jobs by absorbing more than 90% of the workforce, thus supporting income for households (LPPI and BI, 2015). Of the total business population in Indonesia, SMEs are the dominant business actors at 99.9%. MSMEs also contributed to export volume of 14.06% (Rp. 166.63 trillion) of total national exports (LPPI and BI, 2015). So, MSMEs are the backbone of the national economy and are the main players in supporting economic activities in various sectors in Indonesia.

Even though Small and Medium Enterprises (SMEs) play an important role and contribute to the national economy, there are still many SMEs that have obstacles, constraints, and in the end are unable to survive or go out of business. According to the LPPI and BI (2015), the obstacles and obstacles that arise from SMEs can come from internal and external sources. Constraints experienced by SMEs are internal, such as: not having access to capital/financing, HR capabilities in using technology and product marketing, not having a legal entity and being accountable. While the constraints experienced by SMEs are external, such as a business climate that is not yet conducive, inadequate infrastructure, limited access to raw materials and technology. Small and Medium Enterprises (SMEs) must be able to compete in a competitive market, not to mention having to compete with large companies. This is because competitive market conditions are an aspect that cannot be separated from attention.

By looking at the current and future opportunities and potential in Indonesia, the existence of Small and Medium Enterprises (SMEs) must always be considered and continuously developed because they will contribute to the national economy. The application of the concept of strategic entrepreneurship (SE) with Entrepreneurial Leadership can help Small and Medium Enterprises

overcome the obstacles/obstacles they face so that Medium Enterprises can successfully run their business or business. On the other hand, Strategic Agility and Innovation Capability also play an important role in the development of Small and Medium Enterprises. The latest research from AlTaweel & Al-Hwary (2021) and Musa & Fontana (2017) still separately discusses the influence of Entrepreneurial Leadership, Strategic Agility, and Innovation Capability on the performance of Small and Medium Enterprises (UKM). Therefore, this study wants to see how the role of Strategic Agility, Entrepreneurial Leadership, and Innovation Capability on the performance of Small and Medium Enterprises (SMEs) so that they can successfully develop and run their businesses/businesses so that they can become Big Enterprises.

In the development of Small and Medium Enterprises (SMEs), the role of Entrepreneurial Leadership (EL) is indispensable. Entrepreneurial Leadership is a combination of Entrepreneurship and Leadership in an Organization/Company. Entrepreneurial Leadership is a combination of the concept of entrepreneurship, entrepreneurial orientation.¹ And entrepreneurial management, as well as the concept of Leadership. Entrepreneurial Leadership through its dimensions can make organizations work more effectively and innovatively in collective processes to maintain organizational agility and adaptability by encouraging idea generation, idea selection, idea development and idea dissemination in innovation management. This is in accordance with the current SME context because it will be seen how the leadership style of SME owners and managers in creating strategies and value for stakeholders and their influence on innovation capability to respond to changes in an environment full of uncertainties. Empirical studies clearly identify how Entrepreneurial Leadership produces successful outcomes and influences SME growth. According to Rahim et al. (2015) that there is a relationship between Entrepreneurial Leadership and the performance of Small and Medium Enterprises (SMEs) organizations in Malaysia. There is a relationship between EL, innovation capability and performance in SMEs. So, based on previous studies, this research wants to see the role of EL on the strategic agility, innovation capability, and performance of these SMEs.

The concept of strategic agility is also needed in medium enterprises. Strategic agility is a vital capability adopted by organizations for the formulation and modification of business models to become more interactive. Many studies that discuss the concept of Strategic agility are related to innovation capability and performance within a company. Altaweel and Al-Hawary (2021) see the role of strategic agility in medium business performance through innovation capability. Kohtamaki et al. (2020) in Altaweel and Al-Hawary (2021) convey the conceptualization of SA in innovation through 3 general practices related to generating proactive ideas, developing products

¹ Covin, Jeffrey G., and Dennis P. Slevin. "The entrepreneurial imperatives of strategic leadership." *Strategic entrepreneurship: Creating a new mindset* (2017): 307-327.

based on value, and commercializing products based on market orientation strategies. SA can support organizations to improve their financial performance.² Increase their market share and increase the effectiveness and efficiency of resources by restructuring their harmony with the surrounding conditions. Although research on SA is mostly in large companies, other research still discusses the concept of SA in Small and Medium Enterprises (SMEs), such as Arbussa et al (2017) which discusses the concept of SA in SMEs can spur Business Model Innovation (BMI) which ultimately prevents stagnation. Company.³

Strategic agility is based on several capabilities and organizational dimensions. The components or dimensions of strategic agility described in the literature are related to strategic sensitivity, leadership unity, and resource fluidity. Small and Medium Enterprises (SMEs) can use strategic agility to move through complex and iterative strategic planning. Based on agile principles, Small and Medium Enterprises can treat goals and plans as working hypotheses to be tested and adjusted by checking results more frequently. This is in accordance with the context of Medium Enterprises in the current era where it is required to be more agile and have speed in developing products/services and be able to adjust strategies taking into account the conditions and situations of the environment.

The concept of Innovation Management can have an impact on the innovation performance of SMEs. In innovation management, organizations must first have innovation capabilities. Innovation Capability is an aspect that influences an organization's ability to manage innovation.⁴ In addition, innovation also has a positive effect on SME performance which is moderated by factors such as company age, type of innovation, and cultural context. In subsequent studies, innovation management is divided into 4 stages of the process involving idea generation, idea selection, idea development, and idea dissemination that affect innovation performance. This research will look at how innovation capabilities are needed by SMEs in developing products, processes and services that will be delivered to customers so that in the end they can improve company performance.

The application of the concept of strategic entrepreneurship (SE) with Entrepreneurial Leadership is expected to be able to assist SMEs in overcoming the obstacles/obstacles they face so that SMEs can successfully run their business/business. On the other hand, Strategic Agility and Innovation Capability also play an important role in the development of Small and Medium

² Kale, Emine, Ahmet Aknar, and Özlem Başar. "Absorptive capacity and firm performance: The mediating role of strategic agility." *International Journal of Hospitality Management* 78 (2019): 276-283.

³ Arbussa, Anna, Andrea Bikfalvi, and Pilar Marquès. "Strategic agility-driven business model renewal: the case of an SME." *Management Decision* (2017).

⁴ Saunila, Minna, Sanna Pekkola, and Juhani Ukko. "The relationship between innovation capability and performance: The moderating effect of measurement." *International Journal of Productivity and Performance Management* 63.2 (2014): 234-249.

Enterprises. The latest research from AlTaweel & Al-Hwary (2021) and Musa & Fontana (2017) still separately discusses the influence of Entrepreneurial Leadership, Innovation Management, Strategic Agility, and innovation capability on the performance of Small and Medium Enterprises (SMEs). Therefore, this study wants to see how the role of Strategic Agility, Entrepreneurial Leadership, and Innovation Capability on the performance of Small and Medium Enterprises (SMEs) so that they can successfully develop and run their businesses/businesses so that they can develop into large enterprises with uncertain environmental dynamics.

LITERATURE REVIEW

Entrepreneurial Leadership

Entrepreneurial Leadership (EL) is a combination of Entrepreneurship and Leadership in an Organization/Company. Entrepreneurial Leadership is a combination of the concept of entrepreneurship, entrepreneurial orientation, entrepreneurial management, and the concept of Leadership. Entrepreneurial leadership is the ability to influence others in strategically managing resources to seek opportunities and profit-seeking behavior. EL creates a vision scenario that is used to arrange and mobilize helpers from participants who are committed to the search for and exploitation of strategic value creation. EL can also be defined as the process of influencing the organization through leadership and direct involvement in the creation of value for stakeholders by combining unique innovations and resources to respond to opportunities. EL is a leadership role performed in entrepreneurial new ventures that is more of a general sense of entrepreneurial leadership style.⁵ So, EL is about how to influence others to achieve goals through effective communication to recognize opportunities and share a vision for the future that organizations can exploit sustainable competition. Following is the development of the definition of Entrepreneurial Leadership from Leitch & Volery (2017):⁶

Table 1. The development of the definition of Entrepreneurial Leadership (Leitch & Volery (2017)

No	Theory Reference	Definition
1	Cunningham & Lischeron (1991)	Entrepreneurial Leadership involves setting clear goals, creating opportunities, empowering people, keeping the organization intact, and developing resource systems.

⁵ Leitch, Claire M., Christel McMullan, and Richard T. Harrison. "The development of entrepreneurial leadership: The role of human, social and institutional capital." *British Journal of Management* 24.3 (2013): 347-366.

⁶ Leitch, Claire M., and Thierry Volery. "Entrepreneurial leadership: Insights and directions." *International Small Business Journal* 35.2 (2017): 147-156.

2	Nicholson (1998)	Entrepreneurial Leadership is about being resistant to sociability that shapes managerial personality and a willingness to manage that achieves leadership
3	Ireland et al. (2003)	Entrepreneurial Leadership is the ability to influence others and manage resources strategically with the behavior of seeking opportunities and seeking profits
4	Cogliser & Brigham (2004)	EL is not only needed to identify opportunities but also to manage the resources needed to achieve the potential of these opportunities
5	Gupta et al. (2004)	EL creates scenario visions that are used to structure and mobilize support from participants who are committed to the discovery and exploitation of strategic value creation
6	Kuratko (2007)	EL is a unique combination of concepts in identifying opportunities, taking safe risks and decisively following developments
7	Surie & Ashley (2008)	Leadership is able to support continuous innovation and adaptation in an environment full of uncertainty and high speed
8	Leitch et al. (2013)	EL is a leadership style that performs in venture entrepreneurship more than an entrepreneurial style in leadership
9	Renko et al. (2015)	EL aims to influence and direct the performance of group/organizational members in order to achieve organizational goals that involve recognizing and exploiting entrepreneurial opportunities

EL does not only function in mature companies, but also plays an important role in start-ups. Leitch's opinion supports this research which will look at the role of EL in Small and Medium Enterprises. Meanwhile, according to Renko et al. (2015), EL aims to influence and direct the performance of group/organizational members in order to achieve organizational goals that involve recognizing and exploiting entrepreneurial opportunities. Sawean et al. (2021) see that the style of EL towards SMEs in Kuwait can improve organizational performance significantly if the leader's behavior integrates a successful organizational management system such as innovation management practices. Wang et al. (2012) found the interaction of multilevel

factors (philosophical traditions, cultural values, organization, traditional and transitional factors) forming the complex and dynamic context of EL in Chinese companies.

Direct relationship between entrepreneurial leadership (EL) and organizational and business agility.⁷ One of the components of organizational agility is strategic agility.⁸ Ahmad et al. (2020) explored that leadership and individual skills have a significant impact on the strategic agility of a company.⁹ EL is an essential factor when determining strategic agility at the level of organizational analysis and conceptualization of organizational capabilities including recognizing and responding to opportunities and changes.¹⁰ The results of previous research show that there is a positive influence of leadership style on organizational agility.^{11,12,13} EL through its dimensions can make organizations work more effectively and innovatively in collective processes to maintain organizational agility and adaptability through innovation management. Entrepreneurial Leadership has a positive effect on strategic agility in SMEs in the competition of SMEs in Indonesia.

H1: Entrepreneurial Leadership has a positive effect on Strategic Agility

Positive leadership behavior can influence subordinates' perceptions of leader support, which in turn stimulates creativity, as a key factor in the innovation process. Leadership capabilities of continuous innovation and adaptation in a high-speed and uncertain environment. Leadership can influence innovation capabilities in strategic alliances. Strategic leadership and innovation strategies are critical to achieving and maintaining strategic competitiveness.¹⁴ Competing managers must possess the entrepreneurial and leadership traits to innovate, take risks,

⁷ Ibrahim, Avan, and Wiryana Najm Rashid. "The Role of Entrepreneurial Leadership in Enhance Organizational Agility in Telecommunication Sector You are here." *Sj. Sulicihan. Edu. Krd* 3.1 (2019): 182-196.

⁸ Joiner, Bill. "Leadership Agility for organizational agility." *Journal of Creating Value* 5.2 (2019): 139-149.

⁹ Ahammad, Mohammad F., Keith W. Glaister, and Emanuel Gomes. "Strategic agility and human resource management." *Human Resource Management Review* 30.1 (2020): 100700.

¹⁰ Xing, Yijun, et al. "Entrepreneurial team and strategic agility: A conceptual framework and research agenda." *Human Resource Management Review* 30.1 (2020): 100696.

¹¹ Karimi, Ozhan, Mohamadreza Daraei, and Mansoor Sepehr. "The Effect of Transformational Leadership Style on Components of Organizational Agility in Isfahan University of Technology." *International Research Journal of Management Sciences* 4.2 (2016): 149-155.

¹² Raeisi, Nagar, and Qanbar Amirnejad. "Investigating the Effect of Organizational Leadership on Organizational Agility: Mediating Role of Organizational Commitment." *International Journal of Economic Perspectives* 11.1 (2017).

¹³ Veisheh, Seidmehdi, and Neeman Eghbali. "A study on ranking the effects of transformational leadership style on organizational agility and mediating role of organizational creativity." *Management Science Letters* 4.9 (2014): 2121-2128.

¹⁴ Schweitzer, Jochen. "Leadership and innovation capability development in strategic alliances." *Leadership & Organization Development Journal* (2014).

seize opportunities, and, therefore, to excel and succeed.¹⁵ Coglser & Brigham (2004) see the role of Entrepreneurial Leadership in the innovation process, namely Entrepreneurial Leadership can involve idea generation, idea structuring, and idea promotion, where idea generation is critical in the early stages of a venture and idea structuring and idea promotion for the next stage. Entrepreneurial Leaders can be innovative. Sawean et al. (2021) see that the style of Entrepreneurial Leadership towards SMEs in Kuwait can improve organizational performance significantly if the leader's behavior integrates a successful organizational management system such as innovation management practices. There is a relationship between Entrepreneurial Leadership, innovation capability and performance in SMEs. So, Entrepreneurial Leadership through its dimensions can make organizations work more effectively and innovatively in a collective process to maintain organizational agility and adaptability through innovation management. Entrepreneurial Leadership is an effective leadership style for building teams to achieve organizational innovation.

H2: Entrepreneurial Leadership has a positive effect on Innovation Capability

Entrepreneurial Leadership involves the organization and motivation of the company's operating systems and employees to achieve the company's core values such as taking risks, seeing opportunities, product and service innovation, creating competitive advantages, and increasing the dynamic competencies of entrepreneurs. Entrepreneurial Leadership encourages organizations to adopt processes that can enhance the innovation culture of the organization by finding and capitalizing on opportunities to improve organizational performance, solving problems using creative methods, utilizing organizational resources effectively and efficiently. Sawean et al. (2021) see that the style of Entrepreneurial Leadership towards SMEs in Kuwait can improve organizational performance significantly if the leader's behavior integrates a successful organizational management system such as innovation management practices. Empirical studies clearly identify how EL produces successful outcomes and influences MSME growth. There is a relationship between Entrepreneurial Leadership, innovation capability and performance in SMEs. According to Rehman et al (2019) that there is a relationship between Entrepreneurial Leadership and the performance of Small and Medium Enterprises (SMEs) organizations in Malaysia.¹⁶ Thus, this study proposes the hypothesis:

H3: Entrepreneurial Leadership has a positive effect on Organizational Performance

¹⁵ Pauceanu, Alexandrina Maria, et al. "Entrepreneurial leadership and sustainable development—A systematic literature review." *Sustainability* 13.21 (2021): 11695.

¹⁶ Rehman, Shafique-ur, Rapih Mohamed, and Hazeline Ayoup. "The mediating role of organizational capabilities between organizational performance and its determinants." *Journal of Global Entrepreneurship Research* 9 (2019): 1-23.

Strategic Agility

The framework is useful for identifying the key components of Organization Agility that differentiate between three main dimensions: Strategic Agility, Operational Agility, and Leadership Agility. Strategic agility is a vital capability adopted by organizations for the formulation and modification of business models to become more interactive.¹⁷ Strategic agility is the ability to continuously adjust corporate strategy by taking into account newly emerging conditions and aspirations in Joiner, B. (2019). Strategic Agility (SA) is a company's ability to respond quickly to changes in the business environment, adapt to it, take steps to deal with uncertainty. Strategic agility is the ability to be more flexible to deal with new developments, to continuously adjust the company's strategic direction and develop new ways to create value.¹⁸ Strategic agility refers to a company's ability to quickly adapt to uncertainty. It is a high-level capability that enables the company to handle unexpected and unknown events that go beyond the normal risks faced by companies in the business environment.¹⁹ In essence, strategic agility requires the development of strategic sensing and quick decision making.

Strategically agile companies have the capacity to remain competitive by being focused on their goals while being responsive to unforeseen volatility in their business context. Strategic Agility is related to innovation and performance within an organization/company. Altaweel and Al-Hawary (2021) see the role of strategic agility in medium business performance through innovation capability. Strategic agility describes a company's ability to quickly change and reorient strategically by adapting quickly to shifting requirements, opportunities and trends.²⁰ In addition, strategic agility can also prevent company stagnation.²¹ And enable companies to react flexibly to developments resulting from dynamic markets and changing competition. Kohtamäki et al. (2020) in Altaweel and Al-Hawary (2021) convey the conceptualization of SA in innovation through 3 general practices related to generating proactive ideas, developing products based on value, and commercializing products based on market orientation strategies.²²

¹⁷ Abdolrasoul Hosseini, Seyyed, et al. "The role of servant leadership in organizational agility: A case study in Fars Social Security Organization." *European Online Journal of Natural and Social Sciences: Proceedings* 2.3 (s) (2014): pp-2935.

¹⁸ Weber, Yaakov, and Shlomo Y. Tarba. "Strategic agility: A state of the art introduction to the special section on strategic agility." *California management review* 56.3 (2014): 5-12.

¹⁹ Teece, David, Margaret Peteraf, and Sohvi Leih. "Dynamic capabilities and organizational agility: Risk, uncertainty, and strategy in the innovation economy." *California management review* 58.4 (2016): 13-35.

²⁰ Battistella, Cinzia, et al. "Cultivating business model agility through focused capabilities: A multiple case study." *Journal of Business Research* 73 (2017): 65-82.

²¹ Akbari, Morteza, et al. "Does entrepreneurial leadership encourage innovation work behavior? The mediating role of creative self-efficacy and support for innovation." *European Journal of Innovation Management* 24.1 (2021): 1-22.

²² Kohtamäki, Marko, et al. "Strategic agility in innovation: Unpacking the interaction between entrepreneurial orientation and absorptive capacity by using practice theory." *Journal of Business Research* 118 (2020): 12-25.

Strategic agility is based on several capabilities and organizational dimensions. Strategically, an agile organization will be sensitive to market changes and available opportunities, able to quickly reorganize resources to exploit existing opportunities, and work with a collective commitment to avoid slow responses along with internal conflicts. This is a dimension of strategic agility which is explained by strategic sensitivity, resource fluidity, and leadership unity.

According to Doz and Kosonen (2008), Strategic Agility or SA is needed by organizations or companies to build their ability to be more sensitive to changes in the internal and external environment through strategic sensitivity, resource fluidity, and leadership unity. SA becomes the interface between strategy and operations and can be seen as a company's business initiation in readiness for implementation. This SA can encourage the innovation process in a company or organization. Kohtamaki et al. (2020) in Altaweel and Al-Hawary (2021) convey the conceptualization of SA in innovation through 3 general practices related to generating proactive ideas, developing products based on value, and commercializing products based on market orientation strategies. Innovation capability is evaluated as process and product innovation positively related to strategic agility, which significantly mediates the relationship between innovation capability and organizational resilience.²³ So, Strategic Agility can have a positive effect on innovation capability. Thus, this study proposes a hypothesis:

H4: Strategic Agility has a positive effect on Innovation Capability

Strategic Agility is the company's ability to respond quickly to changes in the business environment, adapt to it, take steps to deal with uncertainty. Studies prove that agile organizations can respond quickly to exploit opportunities in the work environment. Strategic Agility can support organizations to improve their financial performance, increase their market share, and improve the effectiveness and efficiency of resources by restructuring their harmony with their surroundings. Strategic Agility can help gain competitive advantage and consequently realize higher market share and customer credibility, resulting in better performance in international markets.²⁴ States that SA as measured by Leadership Unity and Resource Fluidity has a significant effect on business performance. Thus, this study proposes the hypothesis:

H5: Strategic Agility has a positive effect on Organizational Performance

²³ Olaleye, B., et al. "The role of innovation and strategic agility on firms' resilience: A case study of tertiary institutions in Nigeria." *Management Science Letters* 11.1 (2021): 297-304.

²⁴ Ahammad, Mohammad Faisal, et al. "Strategic agility, environmental uncertainties and international performance: The perspective of Indian firms." *Journal of World Business* 56.4 (2021): 101218.

Innovation Capability

Organizational ability to create new knowledge is a key innovation capability. Ngo and O'Cass (2009) define innovation capability as an integrated process of applying accumulated knowledge, skills, and resources from firms to achieve innovation activities into technical innovations (such as products or services; and production and process technologies) and non-technical innovations (such as managerial, market, and marketing). The opinion of Ngo and O'Cass made Martinez-Roman et al. (2011) divided innovation capability into three dimensional factors: knowledge, organization, and human factors. This opinion is supported by Tidd & Bessant (2020) who stated that the birth of an innovation must begin with managing the flow of knowledge and mobilizing various sources of knowledge.²⁵ This is also complemented by organizational factors with the opinion of Ravichandran 2018 in Troise et al. (2022) who stated that innovation capacity or capability is the ability to be successful in introducing newness within the organization as a result of innovation, risk taking and entrepreneurial orientation and on the other hand being able to integrate it into other businesses. So in essence, innovation capability is defined as an aspect that influences an organization's ability to manage innovation.²⁶

Innovation capability is seen from various constructs, there is no general way to study it so there are various perspectives from innovation management. Innovation management is a reflective practice which is a key skill in reviewing and organizing knowledge to develop new approaches so as to gain competitive advantage. Innovation capability not only refers to the ability to successfully manage new businesses, but also focuses on the ability to change paradigms. Perdomo-Ortiz et al. (2006) use business innovation capabilities to describe critical success factors in the innovation process.

Innovation capability is evaluated as process and product innovation which is positively related to strategic agility, which significantly mediates the relationship between innovation capability and organizational resilience. Innovation capability as a complex activity that contributes to the creation and acceptance of new ideas in order to provide improvements to products, services and business models. There are 2 dimensions used to measure the type of innovation, namely: product innovation capability and process innovation capability. Furthermore, innovation capability can increase organizational capacity to innovate new business models that can lead to the creation of new industries.

Innovation Capability is defined as an aspect that influences an organization's ability to manage innovation. According to Perdomo-Ortiz et al. (2006) there are various perspectives from

²⁵ Tidd, Joe, and John R. Bessant. *Managing innovation: integrating technological, market and organizational change*. John Wiley & Sons, 2020.

²⁶ Ravichandran, Thiagarajan. "Exploring the relationships between IT competence, innovation capacity and organizational agility." *The Journal of Strategic Information Systems* 27.1 (2018): 22-42.

innovation management. Martinez-Roman et al., (2011) divided innovation capability into three dimensional factors: knowledge, organization, and human factors. Perdomo-Ortiz et al. (2006) use business innovation capabilities to describe critical success factors in the innovation process. Managers will recognize and manage innovation to improve operational performance. Innovation has a positive effect on performance in SMEs which is moderated by factors such as firm age, type of innovation, and cultural context. In subsequent studies, Innovation Management has an effect on innovation performance and organizational performance. Innovation in SMEs fundamentally affects business performance. There is an influence of innovation capability on performance in SMEs in Indonesia. Innovation Capability has a positive effect on SME performance. Thus, this study proposes the following hypothesis:

H6: Innovation Capability has a positive effect on Organizational performance

The following is the concept of the research model:

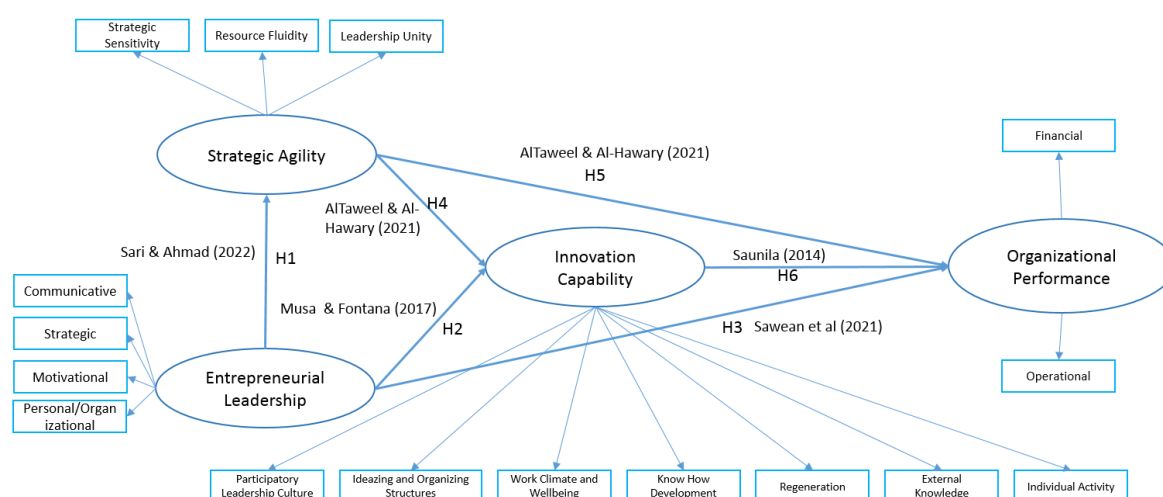


Figure 1. Research Model Concept

RESEARCH METHOD

The population that is the subject of this study is SMEs with a turnover starting from 2 billion rupiah around Jabodetabek. The data that was successfully collected to become the sample in this study came from 97 respondents. This study uses primary data obtained through a survey of respondents using a questionnaire from the Google form which consists of a number of closed questions using a 6-point Likert Scale which has a range from (1) which indicates 'strongly disagree' to (6) which indicates 'strongly agree'. Statistical tests in this study used PLS Structural Equation Modeling (SEM) using SmartPLS 4.0 tools.

The construct measurement scale or the variables in the hypothetical model refer to previous studies whose results have been tested. The scale used to measure strategic agility is a questionnaire developed by Doz and Kosonen (2010) by looking at the capabilities/dimensions of strategic sensitivity, resource fluidity, and leadership unity to see strategic agility with 15 indicators. Entrepreneurial leadership uses the indicators developed by Musa and Fontana (2017) with strategic, communicative, motivational, and personal/organizational dimensions with 25 indicators. Innovation Capability using a questionnaire from Saunila and Uko (2014) with 7 dimensions namely Participatory leadership culture, Ideation & organizing structure, Work climate & Wellbeing, Know how development, Regeneration, External knowledge, Individual activity with 33 indicators. Next for organizational performance variables use a questionnaire developed by Sawean et al (2021) with the dimensions of Financial Performance and Operational Performance.

RESULT AND DISCUSSION

Hypothesis Test Results

In the variant-based SEM model or PLS-Path Modeling, this model consists of an outer model (measurement model) and an inner model (structural model). Thus, the evaluation model in PLS-PM also consists of 2 stages, namely the evaluation of the outer model and the inner model. The latent variable measurement model is measured by a reflective indicator, the direction of the causal relationship from the latent variable to the indicator. Meanwhile, the reflective measurement model is assessed based on the validity and reliability of latent variable measurements.

In data processing techniques using SEM-PLS, the process of evaluating the measurement model (Outer Model) is carried out to determine the relationship between constructs and indicators by analyzing the values of convergent validity, discriminant validity, and reliability. Construct validity values were analyzed using two categories: (1) convergent validity (loading factor and AVE values); (2) discriminant validity (AVE value to R² and cross loading). Meanwhile, construct reliability values were analyzed using Cronbach's Alpha and Composite Reliability values. In Figure 4.10 below we can see how the indicators manifest the second order constructs that each one represents.

From the results of the diagram in Figure 1 it can be seen that the reflective construct of the Entrepreneurial Leadership Variable with the strategic dimension (SD), an invalid indicator with a loading factor value below 0.6, namely EL5, EL7, EL8. For the construct of the communication dimension (CD), the invalid indicator is EL11. For constructs from the dimensions of motivation (MD) and personal/organizational (PD) all indicators are valid. In the

reflective construct of the Strategic Agility variable with the Strategic Sensitivity (SS) dimension, the invalid indicator is SA5. In the construct of Resources Fluidity (RF), the invalid indicators are SA10, and for the Leadership Unity (LU) construct, the invalid indicators are SA11, SA15. On the reflective construct of the Innovation Capability variable, the dimensions of Participatory Leadership Culture (PLC), Welfare and work climate (WCW), Know How Development (KHW), External Knowledge (EK) are all valid indicators. While the Ideation and Organizing Structure (IOC) constructs which are invalid indicators are IC11, the Regeneration Construct (Reg), which are invalid indicators are IC24, and the Individual Activity construct (IA), which are invalid indicators are IC32. On the reflective construct of the Organizational Performance variable, the financial performance dimension (FP), the invalid indicator is OP3. While the operational performance (PO) constructs are all valid indicators.

After several indicators that did not meet the requirements were dropped from the model, but some were maintained, the model was re-estimated. In Figure 4.4 below it can be seen the output of the analysis of all constructs by looking at the components of convergent validity and discriminant validity for the validity test and the Composite Reliability component for the reliability test.

In the outer model, no indicators are excluded from the model because the loading factor of all indicators is more than 0.6. This loading factor value shows the correlation between the indicator and its construction, as shown in Figure 2 below:

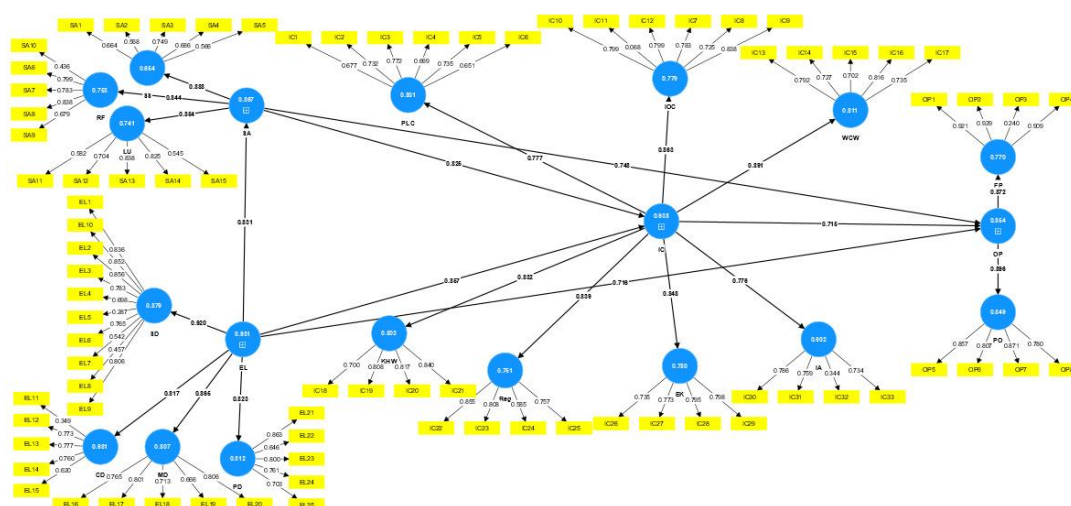


Figure 2. Evaluation of Measurement Models

Source: Process data using smartPLS 4.0

Validity and Reliability Test

After the 3 indicators on EL were removed from the model, the results showed that each construct (measurement model) had good reliability and validity. Composite Reliability and Cronbach's Alpha show numbers > 0.6 and Average Variance Extracted (AVE) shows numbers > 0.5 . The results of the validity and reliability tests can be seen in Table 2. that the variables strategic agility, entrepreneurial leadership, innovation capability, and organizational performance have Cronbach's Alpha values above > 0.6 respectively. Therefore, it can be said that the variables tested have met the requirements in the reliability test.

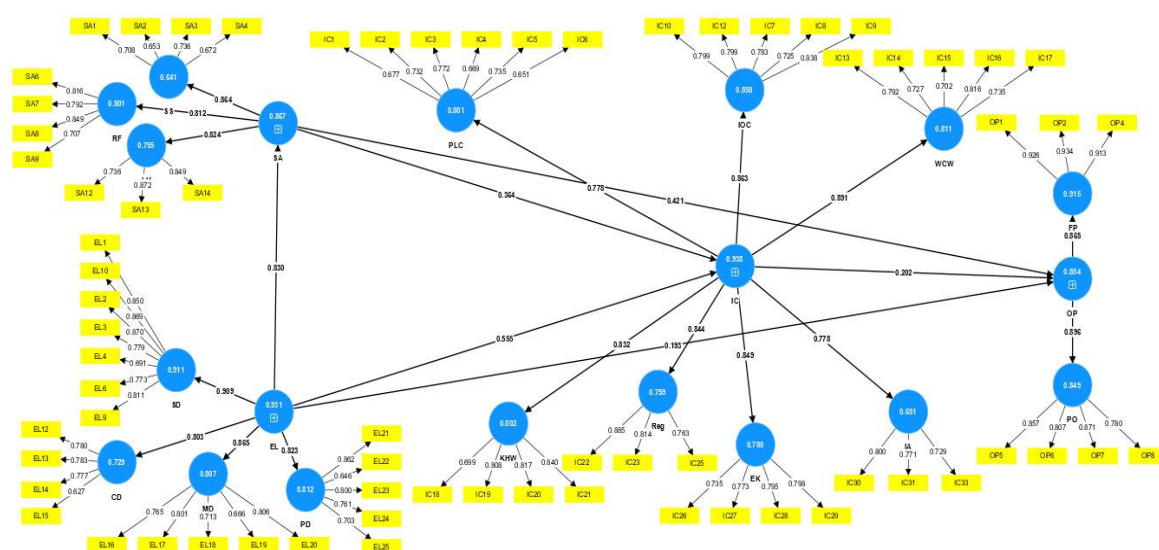


Figure 3. Evaluation of Measurement Models

Source: Process data using smartPLS 4.0

Table 2. Validity and Reliability Test Results on Variables

Latent Variable	AVE	Validity Evaluation	Composite Reliability	Reliability Evaluation
Strategic (SD)	0.654	Valid	0.915	Reliable
Communicative	0.555	Valid	0.737	Reliable
Motivational	0.565	Valid	0.816	Reliable
Personal/Organizational	0.575	Valid	0.827	Reliable
Strategic Sensitivity	0.481	Invalid	0.643	Not Reliable
Resource Fluidity	0.629	Valid	0.805	Reliable
Leadership Unity	0.674	Valid	0.763	Reliable
Participatory Leadership	0.500	Valid	0.808	Reliable

Culture				
Ideazing and Organizing Structure	0.624	Valid	0.862	Reliable
Work Climate and Wellbeing	0.571	Valid	0.816	Reliable
Know How Development	0.629	Valid	0.813	Reliable
Regeneration	0.676	Valid	0.774	Reliable
External Knowledge	0.602	Valid	0.783	Reliable
Individual Activity	0.588	Valid	0.655	Not Reliable
Financial Performance	0.885	Valid	0.915	Reliable
Operational Performance	0.688	Valid	0.859	Reliable

Source: Processed using SmartPLS 4.0

In the inner model analysis, the researcher set a significance level of 5% (error rate). This means that the probability of error that is tolerated in the study is 5% or 0.05. If the results of the statistical test obtained a p-value ≤ 0.05 , it means that the probability of error obtained is still within the tolerance limit set by the researcher, so that it is said to be significant or the hypothesis is accepted. If the results of the statistical test obtained a p-value > 0.05 , it is said to be not significant. Based on the research results it is known that all hypotheses are supported by the data. Another parameter that shows significance is the statistical value of $T > 1.96$. While the direction of the relationship can be seen in the Original Sample value.

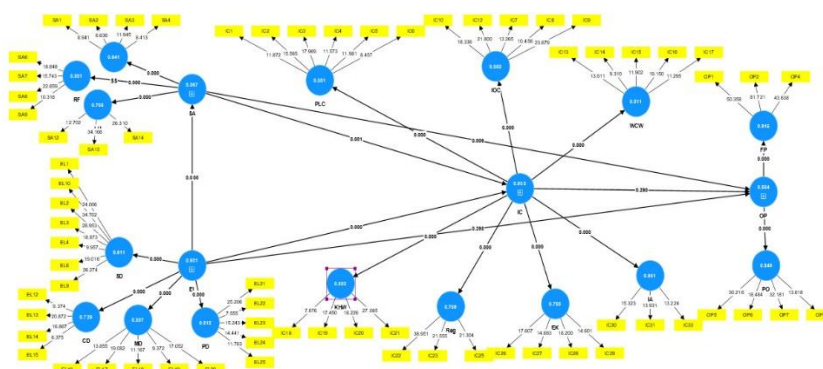


Figure 4. Structural Model Evaluation

Source: Process data using smartPLS 4.0

Table 3. Significance Test Results

Hypothesis	Relations between Variables	Path Coefficient	T-Statistics	P-Value	Result
H1	Entrepreneurial Leadership -> Strategic Agility	0.830	28.324	0.000	Hypothesis Accepted
H2	Entrepreneurial Leadership -> Innovation Capability	0.555	5.358	0.000	Hypothesis Accepted
H3	Entrepreneurial Leadership -> Organizational Performance	0.193	1.047	0.298	Hypothesis Rejected
H4	Strategic Agility -> Innovation Capability	0.364	3.418	0.001	Hypothesis Accepted
H5	Strategic Agility -> Organizational Performance	0.411	2.835	0.006	Hypothesis Accepted
H6	Innovation Capability -> Organizational Performance	0.202	1.063	0.290	Hypothesis Rejected

Source: Processed using Smart PLS 4.0

The coefficient of determination (R square) is used to show how much influence the variable has on the affected variable. Based on Table 4. the R square value of Strategic Agility is 0.689 indicating that 68.9% of the variance of Strategic Agility can be explained by changes in entrepreneurial leadership variables, while the other 31.11% is caused by other factors outside the model. the R square value of Innovation Capability is 0.777 indicating that 77.7% of the variance of Innovation Capability can be explained by changes in entrepreneurial leadership variables, while the other 23.33% is caused by other factors outside the model.

Table 4. R Square Endogenous Variables

Endogenous Variables	R-Square (R ²)	Category
Strategic (SD)	0.842	Substantial
Communicative (CD)	0.645	Moderate
Motivational (MD)	0.749	Substantial
Personal/Organizational(PD)	0.799	Substantial
Strategic Agility	0.689	Substantial
Strategic Sensitivity	0.747	Substantial
Resource Fluidity	0.660	Moderate
Leadership Unity	0.679	Substantial
Innovation Capability	0.777	Substantial
Participatory Leadership Culture	0.607	Moderate
Ideazing and Organizing Structure	0.746	Substantial
Work Climate and Wellbeing	0.735	Substantial

Know How Development	0.691	Substantial
Regeneration	0.711	Substantial
External Knowledge	0.721	Substantial
Individual Activity	0.606	Moderate
Organizational Performance	0.598	Moderate
Financial Performance	0.754	Substantial
Operational Performance	0.799	Substantial

Source: Processed using SmartPLS 4.0

Discussion

Research Test Results

The results of the Hypothesis Testing above show that the accepted hypotheses are H1, H2, H4, and H5 with a T-statistics value > 1.96 and a P-Value < 0.05 . While the rejected hypothesis is H3 and H6 where the T-statistics and P-Value values do not meet the standards of the hypothesis are accepted. Entrepreneurial leadership has no significant effect on organizational performance because it has a T-statistics value that is less than 1.96. Likewise, the relationship between innovation capability and organizational performance does not have a significant effect. While the relationship between entrepreneurial leadership on strategic agility, entrepreneurial leadership relationship on innovation capability, strategic agility relationship on innovation capability, and strategic agility relationship on organizational performance has a significant influence.

If you look at the outer loadings values in Figure 4, evaluate the measurement model after several indicators have been dropped, there is no loading factor below 0.6. These indicators are maintained (not discarded) and are considered important for measuring constructs. If you look at the t-value in Figure 4.5, this indicator has a t-value above 1.96. It can be said that these indicators are still able to explain the constructs they represent well. Another thing to note is that in hypothesis 3, the direct effect for Entrepreneurial Leadership on Organizational Performance has a T-statistics of 1.047, thus stating that Entrepreneurial Leadership has no influence on organizational performance.

Table 5. Indirect Effect (Mediation)

Specific indirect effects - Mean, STDEV, T values, p values					
	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
SA → OP → PO	0.377	0.369	0.135	2.801	0.006
SA → IC → KHW	0.303	0.303	0.091	3.312	0.001
EL → SA → LU	0.684	0.691	0.047	14.406	0.000
IC → OP → FP	0.174	0.154	0.167	1.046	0.298
SA → IC → IOC	0.314	0.316	0.094	3.354	0.001
SA → IC → IA	0.283	0.284	0.084	3.367	0.001
EL → SA → IC → KHW	0.251	0.253	0.078	3.234	0.002
EL → IC → OP → FP	0.097	0.082	0.098	0.989	0.325
EL → IC → EK	0.472	0.473	0.092	5.109	0.000
EL → IC → Reg	0.468	0.470	0.091	5.146	0.000
EL → SA → RF	0.674	0.671	0.059	11.487	0.000
EL → IC → OP	0.112	0.094	0.112	0.996	0.322
EL → SA → IC → IA	0.235	0.237	0.072	3.250	0.002
EL → SA → IC → PLC	0.235	0.238	0.071	3.310	0.001
EL → IC → OP → PO	0.100	0.085	0.101	0.992	0.324
SA → IC → WCW	0.312	0.311	0.091	3.412	0.001
SA → OP → FP	0.364	0.354	0.128	2.856	0.005
SA → IC → PLC	0.283	0.285	0.083	3.435	0.001
EL → SA → IC → WCW	0.259	0.260	0.078	3.304	0.001
SA → IC → OP → FP	0.063	0.059	0.064	0.988	0.326
EL → SA → IC → OP	0.061	0.057	0.061	0.990	0.324
EL → SA → IC → EK	0.257	0.258	0.078	3.284	0.001
EL → SA → OP	0.350	0.342	0.124	2.827	0.006

The construct of Entrepreneurial leadership has three indirect effects on organizational performance, namely first, Entrepreneurial leadership - Innovation Capability - Organizational Performance with T-Statistics 0.996; second Entrepreneurial Leadership – Strategic Agility – Organizational Performance with T Statistics 2,827; third, Entrepreneurial Leadership - Strategic Agility - Innovation Capability - Organizational Performance with T-Statistics 0.990. Thus it can be said that the indirect effect of the Entrepreneurial Leadership construct on Organizational Performance is most influenced by Strategic Agility and least influenced by Innovation Capability.

For the direct relationship between the Strategic Agility construct and Organizational Performance, it has a T-Statistics value of 2,835. Meanwhile, the indirect relationship mediated by Innovation Capability has a T-Statistics value of 0.996. This shows that the effect of Innovation Capability as a mediator between Strategic Agility on Organizational Performance has a smaller effect than the direct effect. Comprehensively, the findings of this study are that in order to improve the performance of SMEs, SMEs must have Strategic Agility capabilities that can stand alone as well as mediate between Entrepreneurial Leadership on Organizational Performance.

Table 5. Hypothesis Test Results

No	Hypothesis	Result
1	H1: Entrepreneurial Leadership has a positive influence on Strategic Agility	The hypothesis is supported by the data. In a competitive business environment with very rapid changes, strategic adjustments are needed that can respond quickly to these changes, which are obtained from strong leadership skills in strategy, motivation, and communication as well as being able to allocate resources by seeing opportunities and seeking profits that are carried out effectively. routine and ongoing
2	H2: Entrepreneurial Leadership has a positive influence on innovation capability	The hypothesis is supported by the data. To be able to create the ability/capability to innovate requires entrepreneurial leadership skills that can drive or initiate the emergence of the ability to innovate. This can be driven by the leader's decision to see opportunities to be utilized appropriately in innovating in the organization both for products, processes and services.
3	H3: Entrepreneurial Leadership has a positive influence on Organizational Performance	The hypothesis is not supported by data. Entrepreneurial Leadership Capabilities cannot directly improve organizational performance, but must be through the creation of creativity and innovation processes or management that can be carried out in organizations such as SMEs
4	H4: Strategic Agility has a positive influence on innovation capability	The hypothesis is supported by the data. Having the ability to adjust strategies quickly according to the conditions that arise increases the ability to innovate because innovation can be carried out if the sensing ability to sense and see an opportunity can be improved so that new ideas emerge to give birth to existing innovations in the organization.
5	H5: Strategic Agility has a positive influence on organizational performance	The hypothesis is supported by the data. The ability to feel what is happening inside and outside the organization to adjust the strategy by allocating the right resources and driven by quick leader decisions without intervention, allows the organization to improve its

		performance both financial and operational performance
6	H6: Innovation Capability has a positive influence on organizational performance	The hypothesis is not supported by data. The ability to innovate does not directly improve organizational performance. There must be a management or innovation process that can create new innovations that can improve performance. Innovation capability is an initial ability trigger that an organization must have in order to carry out the innovation process to improve performance

CONCLUSION

Based on the results of the study, it can be concluded that leaders who have an entrepreneurial spirit cannot directly influence their performance. Leaders who have an entrepreneurial spirit will make SMEs more agile so that they can improve the performance of the SMEs themselves. And most importantly, SMEs that are starting to enter the medium business level, must be agile in strategy and react to existing conditions. It turns out that the Innovation Capability of SMEs does not directly improve the performance of SMEs, there must be a process or practice of innovation management or other variables that become mediation or moderation to improve the performance of SMEs.

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