

# Human and Social Capital, Employee Engagement, Entrepreneurial Leadership, Work Behavior Influencing Smes Performance in Chongqing, China

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## Abstract

This study investigates the influence of entrepreneurial leadership, innovative work behavior, and employee engagement on the innovation performance of Chinese SMEs. The objectives are threefold: (1) to examine the influence of entrepreneurial leadership, innovative work behavior, and employee engagement on innovation performance; (2) to explore the mediating role of innovative work behavior between entrepreneurial leadership and innovation performance; and (3) to analyze the mediating role of employee engagement between entrepreneurial leadership and innovation performance. A sequential mixed-methods design was applied. Quantitative data were collected from 240 SME entrepreneurs in Chongqing using convenience sampling and analyzed through structural equation modeling (SEM) in AMOS. In addition, qualitative insights were drawn from 10 semi-structured interviews analyzed using NVivo. The findings indicate that entrepreneurial leadership, innovative work behavior, and employee engagement significantly influence innovation performance. Furthermore, both innovative work behavior and employee engagement mediate the relationship between entrepreneurial leadership and innovation performance. The study contributes to SME management by highlighting leadership and engagement as key levers for sustaining innovation.

**Keywords:** Entrepreneurial Leadership; Innovative Work Behavior; Employee Engagement; SMEs  
Innovation Performance

## Introduction

For small and medium-sized enterprises (SMEs), with the increasingly competitive market environment, innovation has become a key to their survival and development, especially for those in fast moving economic countries such as China. Built-up of financial and technological resources, in contrast to multinational companies (MNCs), SME's often face resource restraints leading to difficulties maintaining a competitive edge (Saunila, 2020). In such an environment, human capital, leadership types and internal behavior related variables are crucial for enhancing firm-level innovation. Entrepreneurial leadership, innovative work behavior and employee engagement as pivotal constructs affecting SME innovation performance are notably relevant in this study.

**Importance of Entrepreneurial Leadership** Entrepreneurial leadership has been described as an important factor in organizational innovation. That is, entrepreneurial leaders are known for their innovative trait, risk taking capability and for being proactive in identifying and reacting to the changes in environment (Renko et al., 2015). They create a culture to promote experimentation, creativity and engage the employees in non-repetitive tasks (Nguyen et al., 2021). In large capital scarcity SMEs, located in volatile unpredictable markets as dynamic and adaptable play important role and in this context entrepreneurial leadership that provides strategic vision and create conducive organizational climate which is inevitable to sustain innovation outcomes (Eisenhardt & Martin, 2000).

**Innovative Work Behavior as the Cause of Innovation** Organic leadership is also considered relevant with innovative work behaviour (IWB) which is employees' attempt to introduce new ideas against the existing organisational processes and procedures (Afsar & Umrani, 2020). There are three phases for IWB: idea exploration, idea generation and idea exploitation which form the integral part of firms that seek to be continually adaptable when they want to sustain their competitive advantages. Previous studies show that the leadership style directly affects employee behaviour and entrepreneurial leadership is particularly effective to stimulate their innovative behaviours in SMEs (Nguyen et al., 2021). Innovation performance Will meaningfully benefit from it (in terms of new produces, processes and business models) which is positively related to the extent that employees are stimulated to scan their environment for problems solving creatively and extend beyond traditional activities Improves when Employees are encouraged in doing so (Hervas-Oliver et al., 2021).

**Role of Employee Engagement** Employee engagement in terms of the physical, emotional and cognitive aspect of how employees invest themselves into their roles also has an important relationship with organizational innovation (Kahn, 1990; Saks, 2006). Employees who are engaged have a higher probability to exhibit a proactive behavior, which crosses departments and even survive during organizational changes (Sun & Bunchapattanasakda, 2019). SECT (Blau, 1964) explains that employees will be more committed and have higher levels of ISB if they perceive that they are treated fairly by their leaders, trust them and receive support from them. Therefore, entrepreneurial leadership is connected to innovation outcomes through employee engagement, which acts as a psychological mediator.

**Relevance in the Chinese Context** China provides a special environment to study these factors. As the world's second economy, China has attached great importance to the SMEs that have become an important force driving economic growth with a share of more than 60% in GDP and nearly 80% in employment (Lu et al., 2020). But Chinese SMEs are confronted with limited resources, regional imbalances and fierce competition. SMEs seeking to innovate in the context of rapid industrial transformation may find this is a shared reality in Chongqing, which is an important gateway city in Western China. In this type of environment, leadership, employee engagement and innovative work behaviour are even more crucial for maintaining competitiveness as well in supporting national innovation strategies (Saunila, 2020).

**Problem Formulation and Where Our Keywords' Insights Lay** Although the individual significance of these constructs of entrepreneurship leadership, IWB and EE have been well established, surprisingly little attention is paid to integrate them into a single model for testing their combined effects on SMEs' innovation performance in China. Prior works have usually focused either on leadership or engagement and failed to consider the mediating processes in between leadership as an input trigger factor, and innovation outcome as its result product (e.g., Nguyen et al., 2021; Afsar & Umrani, 2020). The purpose of this study was to fill this gap using a sequential mixed-methods design to examine how entrepreneurial leadership influences IWB and employee engagement, and how these constructs, in turn, affect SME innovation performance in Chongqing.

Through mapping the research directional focus with the identified keywords, this study highlights how much exploring relationships among these constructs needs to be in order to offer theoretical and practical values for SMEs managers, decision makers and researchers.

## Research Objective

1. To examine the influence of entrepreneurial leadership, innovative work behavior, and employee engagement on the innovation performance of Chinese SMEs.
2. To investigate how innovative work behavior plays as a mediating role in the relationship between entrepreneurial leadership and the innovation performance of Chinese SMEs.
3. To explore how employee engagement plays as a mediating role in the relationship between entrepreneurial leadership and the innovation performance of Chinese SMEs.

## Research Hypothesis

This research seeks to explore the potential influences of entrepreneurial leadership, innovative work behavior, and employee engagement on corporate innovation performance among Chinese SMEs. Based on the extensive literature review detailed in Chapter 2 and the particular context of SMEs in China, the following hypotheses have been proposed:

- H1: Entrepreneurial leadership has a positive influence on corporate innovation performance
- H2: Entrepreneurial leadership has a positive influence on innovative work behavior
- H3: Innovative work behavior has a positive influence on corporate innovation performance
- H4: Entrepreneurial leadership has a positive influence on employee engagement
- H5: Employee engagement has a positive influence on corporate innovation performance

## Literature Review

This study is grounded in a multi-theoretical framework that integrates both organizational and behavioral theories to explain how entrepreneurial leadership, innovative work behavior, and employee engagement collectively influence the innovation performance of SMEs. The theoretical foundation consists primarily of Dynamic Capabilities Theory and Social Exchange Theory, while the conceptual review outlines the definitions and interrelations of the core constructs under study.

### Theoretical Foundations

1. Dynamic Capabilities Theory posits that firms must continuously sense opportunities and threats, seize them through strategic resource deployment, and transform their internal structures and competencies to remain competitive in rapidly changing environments. In the context of SMEs, where

agility and adaptability are essential, dynamic capabilities enable firms to reconfigure their routines, enhance innovation, and respond to technological and market shifts (Teece, 2007). Entrepreneurial leadership is viewed as a strategic capability that facilitates this transformation by promoting innovation, experimentation, and forward-thinking culture (Eisenhardt & Martin, 2000).

2. Social Exchange Theory emphasizes the role of reciprocal relationships between employees and their organizations. When employees perceive fairness, respect, and mutual support in the workplace, they are more likely to exhibit behaviors that exceed formal job requirements—such as innovative work behavior and engagement. This theory provides a behavioral foundation for understanding why engaged employees are more committed and willing to contribute creative ideas (Blau, 1964). Entrepreneurial leadership fosters such reciprocal relationships by empowering employees, recognizing efforts, and offering developmental opportunities.

### Conceptual Framework

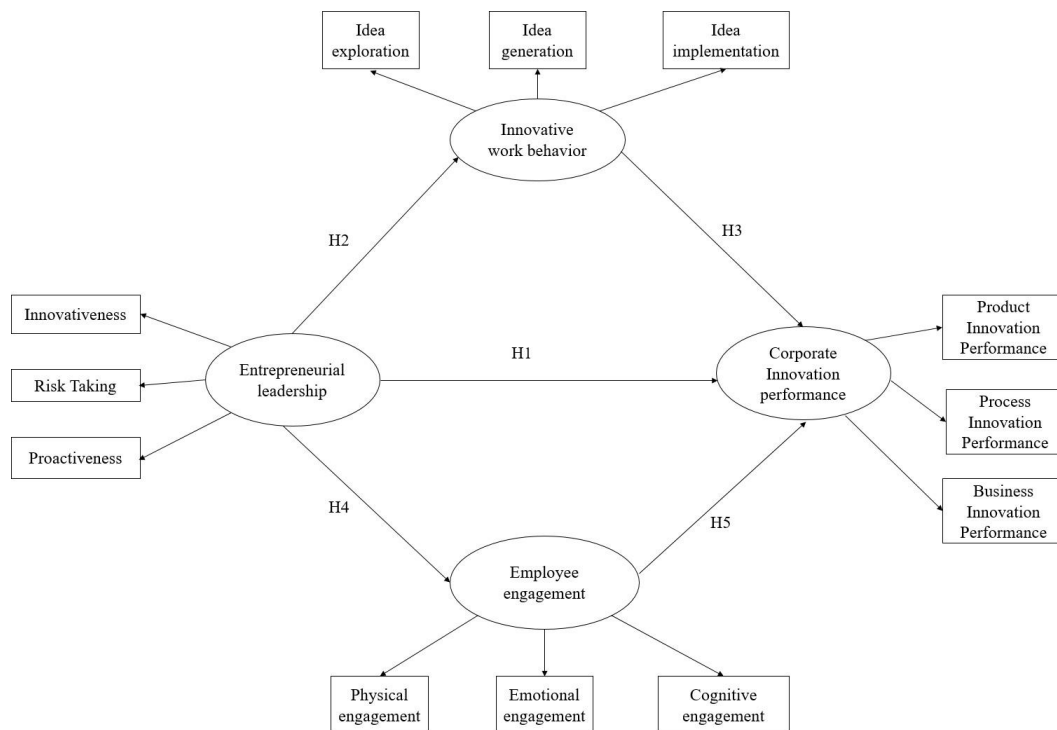


Figure 1 Conceptual Framework

## **Research Methodology**

### **Research Design**

This study adopted a sequential mixed–methods design, integrating quantitative and qualitative approaches to provide a comprehensive understanding of the relationships among entrepreneurial leadership, innovative work behavior, employee engagement, and SME innovation performance. The rationale for using a mixed–methods approach lies in its ability to not only test hypotheses through statistical modeling but also to enrich the findings with qualitative insights derived from the lived experiences of SME leaders (Creswell & Plano Clark, 2018).

### **Quantitative Phase**

The first phase employed a quantitative design to test the hypothesized relationships among the variables.

**Population and Sample:** The target population comprised SME entrepreneurs and managers operating in Chongqing, China. Using convenience sampling, 240 valid responses were collected. This sample size is considered sufficient for Structural Equation Modeling (SEM) as it exceeds the recommended minimum of 200 cases (Hair et al., 2019).

**Instrument:** Data were collected via a structured questionnaire consisting of five sections: demographic information, entrepreneurial leadership, innovative work behavior, employee engagement, and innovation performance. Each construct was measured using established scales adapted from prior studies (Renko et al., 2015; Kahn, 1990; Afsar & Umrani, 2020). Items were rated on a five–point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree.

**Data Analysis:** Responses were analyzed using AMOS software to test the direct and mediating effects proposed in the conceptual framework. The analysis followed two steps: (1) measurement model testing to evaluate construct validity and reliability, and (2) structural model testing to examine the hypothesized relationships. Mediation effects were assessed using bootstrapping procedures with 5,000 resamples.

### **Qualitative Phase**

The second phase adopted a qualitative approach to further explain and contextualize the statistical results.

**Participants:** A total of 10 SME leaders from different industries in Chongqing were purposively selected to ensure diversity in firm size, sector, and leadership practices.

**Data Collection:** Semi-structured interviews were conducted, focusing on participants' perspectives on entrepreneurial leadership, employee engagement, and innovative work behavior within their firms. Each interview lasted approximately 45–60 minutes and was recorded with the participants' consent.

**Data Analysis:** Transcripts were analyzed using NVivo software to conduct thematic analysis. Codes were developed both deductively, based on the research framework, and inductively, allowing new themes to emerge. This dual coding strategy enhanced the validity of the findings by triangulating between theory-driven and data-driven insights.

### **Ethical Considerations**

Ethical standards were strictly upheld throughout the research process. Prior to data collection, ethical approval was obtained from the institutional review board of Southeast Asia University. All participants were provided with an informed consent form outlining the purpose of the study, their right to withdraw at any time, and the assurance of confidentiality and anonymity. No personally identifiable information was disclosed, and data were stored securely in password-protected files. The study adhered to the principles of voluntary participation, beneficence, and respect for human dignity (Bryman, 2016).

## **Research Results**

**Objective 1** The results of the structural equation modeling (SEM) demonstrated that entrepreneurial leadership (EL), innovative work behavior (IWB), and employee engagement (EE) each have a significant and positive effect on corporate innovation performance (CIP).

H1 (EL → CIP): Path coefficient = 0.553,  $p < 0.001$  → Supported

H3 (IWB → CIP): Path coefficient = 0.611,  $p < 0.001$  → Supported

H5 (EE → CIP): Path coefficient = 0.537,  $p < 0.001$  → Supported

These findings indicate that SMEs with leaders who exhibit entrepreneurial qualities (innovativeness, risk-taking, proactiveness) achieve higher levels of innovation in products, processes,

and business models. Furthermore, employees who are more engaged and demonstrate innovative work behavior significantly enhance overall firm innovation performance.

**Table 1** Direct Effects of Entrepreneurial Leadership, Innovative Work Behavior, and Employee Engagement on Innovation Performance

| Hypothesis | Path      | Std. Coefficient | p-value | Result    |
|------------|-----------|------------------|---------|-----------|
| H1         | EL → CIP  | 0.553            | <0.001  | Supported |
| H3         | IWB → CIP | 0.611            | <0.001  | Supported |
| H5         | EE → CIP  | 0.537            | <0.001  | Supported |

Objective 2 The mediation analysis using bootstrapping confirmed that innovative work behavior acts as a significant mediator between entrepreneurial leadership and corporate innovation performance.

Indirect Effect (EL → IWB → CIP): Coefficient = 0.359, 95% CI [0.314 – 0.404],  $p < 0.001$  → Significant

This suggests that entrepreneurial leadership not only has a direct impact on innovation performance but also influences it indirectly through the promotion of innovative work behavior. Leaders who encourage idea exploration, idea generation, and implementation enable employees to transform leadership vision into tangible innovation outcomes.

**Table 2** Mediation Effect of Innovative Work Behavior

| Path           | Indirect Coefficient | 95% CI (Lower–Upper) | p-value | Result      |
|----------------|----------------------|----------------------|---------|-------------|
| EL → IWB → CIP | 0.359                | 0.314 – 0.404        | <0.001  | Significant |

Objective 3 The findings further indicated that employee engagement mediates the relationship between entrepreneurial leadership and innovation performance.

Indirect Effect (EL → EE → CIP): Coefficient = 0.537,  $p < 0.001$  → Significant

This demonstrates that entrepreneurial leadership enhances employees' physical, emotional, and cognitive engagement, which in turn drives innovation performance. Engaged employees show greater initiative, collaboration, and resilience, enabling SMEs to sustain innovation in competitive environments.

**Table 3** Mediation Effect of Employee Engagement

| Path          | Indirect Coefficient | p-value | Result      |
|---------------|----------------------|---------|-------------|
| EL → EE → CIP | 0.537                | <0.001  | Significant |

### Summary of Results Linked to Objectives

Objective 1: All three constructs (EL, IWB, EE) significantly and positively influence innovation performance.

Objective 2: Innovative work behavior mediates the effect of entrepreneurial leadership on innovation performance.

Objective 3: Employee engagement mediates the effect of entrepreneurial leadership on innovation performance.

Together, these results confirm that entrepreneurial leadership influences innovation outcomes both directly and indirectly through employee behavior and engagement, providing robust support for the conceptual model.

the Table 4 presents the results of path coefficients and hypotheses testing for four research variables.

**Table 4** Results of path coefficient between latent variables and hypotheses testing

| Hypothesis | Path      | Std. Coefficient | p-value | Result    |
|------------|-----------|------------------|---------|-----------|
| H1         | EL → CIP  | 0.553            | ***     | Supported |
| H2         | EL → IWB  | 0.587            | ***     | Supported |
| H3         | IWB → CIP | 0.611            | ***     | Supported |
| H4         | EL → EE   | 0.629            | ***     | Supported |
| H5         | EE → CIP  | 0.537            | ***     | Supported |

H1: EL → CIP (Entrepreneurial Leadership → Corporate Innovation Performance) Coefficient = 0.553 Interpretation: Entrepreneurial leadership has a strong, positive direct effect on innovation performance. Leaders who are innovative, proactive, and risk-taking directly enhance a firm's innovation outcomes.

H2: EL → IWB (Entrepreneurial Leadership → Innovative Work Behavior) Coefficient = 0.587 Interpretation: Entrepreneurial leadership significantly increases employees' innovative work behavior. Good leadership inspires employees to explore ideas, generate solutions, and implement innovations.

H3: IWB → CIP (Innovative Work Behavior → Corporate Innovation Performance) Coefficient = 0.611 Interpretation: Innovative work behavior directly contributes to higher innovation performance.

Employees who are proactive in idea creation and execution lead to better product, process, and business innovations.

H4: EL → EE (Entrepreneurial Leadership → Employee Engagement) Coefficient = 0.629

Interpretation: Entrepreneurial leadership strongly boosts employee engagement across physical, emotional, and cognitive dimensions. Empowering and visionary leaders make employees more involved and committed.

H5: EE → CIP (Employee Engagement → Corporate Innovation Performance Coefficient

= 0.537 Interpretation: Employee engagement has a significant positive impact on innovation outcomes.

When employees are engaged, they contribute more creatively and consistently to innovation efforts.

**Table 5** Bootstrap Mediation Analysis

| Effect Type     | Path (EL →<br>IWB → CIP) | Coefficient | 95% CI<br>(Lower–Upper) | p-value | Result      |
|-----------------|--------------------------|-------------|-------------------------|---------|-------------|
| Indirect Effect | EL → IWB → CIP           | 0.359       | 0.314 – 0.404           | ***     | Significant |

Path: Entrepreneurial Leadership (EL) → Innovative Work Behavior (IWB) → Corporate Innovation Performance (CIP)

Indirect Effect Coefficient = 0.359: This value represents the strength of the indirect influence of entrepreneurial leadership on innovation performance through innovative work behavior.

95% Confidence Interval (CI: 0.314 – 0.404): Since this range does not include 0, it confirms that the indirect effect is statistically significant — meaning there is a reliable mediating effect.

p-value = \*\*\* ( $p < 0.001$ ): This further indicates that the mediation effect is highly significant, with less than 0.1% chance of occurring by random error.

### Qualitative Analysis

The qualitative research phase of this study, which was developed from semi-structured in-depth interviews with ten SME owners in Chongqing, China, sought to support and enrich the empirical findings. Using NVivo software the following themes emerged from the analysis which were closely mirrored in the study variables.

### Entrepreneurial Leadership

This finding is also in line with the points participants repeatedly raised that good SME leaders should be innovative, entrepreneurially-oriented and proactive. These traits empower leaders to spot

and act on new market opportunities, inspire their teams to embrace experimentation, and make sound decisions under uncertainty in support of a strategic vision. Leaders also explained that the practices contribute to promoting an organizational culture which supports innovation and adaptation. One participant remarked:

“As leaders, we cannot wait for the market to change; we must lead it and demonstrate to our teams that risk-taking is essential for survival.”

Another highlighted:

“Empowering my employees to take risks, even if unsure of the outcome, is how a culture of innovation comes to be,” she said.

### **Innovative Work Behavior (IWB)**

Employees who actively sought problems and opportunities, generated novel ideas, and implemented feasible solutions were important in helping their companies survive and thrive in the long run, the results suggest. The potential of IWB were reportedly fostered by open communication, autonomy provision, and support from the top level. As one manager stated:

“When employees are allowed to bring forth ideas without fear, they come up with solutions that even management haven’t considered.”

Another interviewee added:

“The greatest innovations at my company were generated by employees willing to try new ways of tackling a work-related problem.”

### **Employee Engagement**

Interview data emphasized the relevance of affective and cognitive engagement in innovation. Engaged employees would often go the “extra mile,” worked interfunctionally and held a high level of organizational commitment. Managers noted that engaged employees were more adaptable during times of change and uncertainty. One participant emphasized:

“When employees feel a real sense of connection to the business there is an ownership they take over our success,” he said.

Another shared:

“Even in down times, the engaged employee maintains his or her energy and vigilance for new ideas.”

### **Corporate Innovation Performance**

Respondents associated innovation success with real results in terms of products, processes and business models. Crucially, they found that successful innovation was not a function of individual contributions but rather leader–environment contexts which enabled teams together. As one business owner explained:

“Our greatest success wasn’t really one person’s idea, but the team effort that was highly encouraged by leadership.”

Another confirmed:

“In my organization innovation comes about through leadership ensuring the environment, though vision is carried by employees.

### **Conclusion**

This study confirms that entrepreneurial leadership significantly influences innovation performance both directly and indirectly through employee engagement and innovative work behavior. Engaged employees and supportive leadership practices foster innovation in products, processes, and business models. The findings emphasize the importance of human capital and organizational culture in sustaining innovation outcomes. In the context of SMEs in China, these dynamics are critical for ensuring long-term competitiveness. The study contributes both theoretically and practically to leadership and innovation management research.

### **Discussion**

The purpose of this study was to examine the influence of entrepreneurial leadership, innovative work behavior, and employee engagement on the innovation performance of SMEs in Chongqing, China, and to explore the mediating roles of innovative work behavior and employee engagement. The findings confirmed that entrepreneurial leadership exerts both direct and indirect effects on innovation outcomes, thereby reinforcing the central role of leadership in shaping organizational performance in resource–constrained environments.

### **Entrepreneurial Leadership as a Strategic Driver**

The results showed that entrepreneurial leadership significantly enhances corporate innovation performance (H1). Leaders who demonstrate innovativeness, proactiveness, and risk-taking behaviors provide the strategic direction and vision necessary to sustain innovation. These findings align with the work of Nguyen et al. (2021), who argued that entrepreneurial leadership fosters organizational innovation by promoting strategic foresight and adaptability. Similarly, Renko et al. (2015) emphasized that entrepreneurial leaders create an innovation-supportive climate, which was strongly echoed in the interview data of this study.

### **Mediating Role of Innovative Work Behavior**

The analysis also revealed that innovative work behavior (IWB) mediates the relationship between entrepreneurial leadership and innovation performance (H2, H3). Employees who actively engage in idea exploration, idea generation, and implementation act as catalysts in transforming leadership vision into tangible outcomes. This result is consistent with Afsar and Umrani (2020), who noted that transformational and entrepreneurial leadership enhance employees' intrinsic motivation to behave innovatively. The qualitative findings confirmed this dynamic, with participants highlighting that open communication and leadership encouragement were crucial enablers of IWB.

### **Mediating Role of Employee Engagement**

Employee engagement was found to significantly mediate the link between entrepreneurial leadership and innovation performance (H4, H5). Engaged employees—characterized by physical, emotional, and cognitive investment in their work—exhibited higher levels of initiative, collaboration, and resilience, ultimately improving innovation performance. This supports Kahn's (1990) seminal work on engagement and Social Exchange Theory (Blau, 1964), which suggest that fair and supportive leadership fosters reciprocal employee behaviors that go beyond formal job requirements. These findings also reinforce the insights of Saks (2006), who established engagement as a critical antecedent to workplace creativity and performance.

### **Integration with Chinese SME Context**

The results carry significant implications for SMEs in Chongqing, a city that represents both opportunity and challenge due to its dynamic industrial transformation. In line with Hervas-Oliver et al. (2021), the findings demonstrate that SMEs must leverage leadership and human capital to overcome

resource constraints and sustain competitiveness. Innovation performance, as evidenced in this study, is not solely the result of technological resources but is equally dependent on leadership styles and employee behaviors that enable firms to adapt rapidly to environmental change.

### **Practical Implications**

These results have three major practical implications. First, SME leaders in China should invest in developing entrepreneurial leadership capabilities that emphasize risk-taking and innovation. Second, human resource managers should prioritize engagement initiatives, including recognition systems and professional development, to sustain employee motivation. Third, policymakers must continue to provide supportive ecosystems—through funding, training, and regional innovation hubs—that enable SMEs to thrive in rapidly evolving markets. Collectively, these measures can strengthen the regional economy of Chongqing while contributing to China's broader national innovation agenda.

### **New Knowledge**

This study provides new knowledge by modeling the dual mediating effects of innovative work behavior and employee engagement in linking entrepreneurial leadership to SME innovation performance. Unlike prior research that examined these constructs in isolation, this integrated framework demonstrates how leadership practices are translated into employee engagement and innovative behaviors that directly enhance organizational outcomes. The results highlight that in emerging economies such as China, leadership and human capital are equally important as technological resources in sustaining innovation and competitiveness.

### **Suggestions**

#### **For SME Leaders and Managers**

Leaders should adopt entrepreneurial leadership styles that emphasize innovativeness, risk-taking, and proactiveness. By fostering a culture of experimentation and openness, leaders can create environments that enable employees to explore new ideas and implement creative solutions. Leadership training programs that focus on strategic thinking, adaptability, and employee empowerment are recommended.

### **For Human Resource Managers**

HR managers should implement initiatives that strengthen employee engagement, including recognition programs, continuous professional development, and transparent communication systems. Engaged employees are more resilient and more likely to contribute innovative ideas, thereby directly supporting firm-level innovation performance.

### **For Policymakers and Industry Support Agencies**

Government agencies and industry bodies should provide structural support to SMEs through targeted funding schemes, innovation training programs, and incentives for entrepreneurial leadership development. Establishing regional innovation hubs and SME support networks in Chongqing and other second-tier cities can foster collaboration, knowledge sharing, and resource access.

### **For Future Research**

Further studies should examine other mediating or moderating variables, such as organizational culture, digital transformation, or market turbulence, to provide a more comprehensive model of SME innovation performance. Longitudinal research designs are also encouraged to assess how the effects of leadership, engagement, and innovative behavior evolve over time. Comparative studies between Chinese SMEs and those in other emerging economies may also yield valuable cross-cultural insights.

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