

Article

Entrepreneurial leadership and organizational performance in Saudi SMEs: The mediating role of psychological empowerment

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CITATION

Belhaj, FA., Bayahya, WY. (2026). Entrepreneurial leadership and organizational performance in Saudi SMEs: The mediating role of psychological empowerment. *Human Resources Management and Services*. 8(4): 6335. <https://doi.org/10.18282/hrms6335>

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Abstract: This study investigated the influence of entrepreneurial leadership on organizational performance and examined the mediating role of psychological empowerment. A multisource research design was employed to collect data from 431 employees across 48 small and medium-sized enterprises (SMEs) listed on the Saudi Exchange Market. A survey was conducted, with entrepreneurial leadership and psychological empowerment assessed through validated psychometric scales. Organizational performance was assessed using the four-year average Return on Assets (ROA), calculated from financial statements covering the period 2022–2025. The data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM), while the mediation effect was examined through a bootstrapping procedure based on 5,000 resamples. The findings revealed that entrepreneurial leadership had a significant positive effect on psychological empowerment, which subsequently exerted a significant positive effect on organizational performance. However, the direct effect of entrepreneurial leadership on organizational performance was not statistically significant. Furthermore, the findings demonstrated that psychological empowerment mediates the relationship between entrepreneurial leadership and organizational performance. This suggests that entrepreneurial leadership enhances organizational outcomes primarily by fostering employees' perceptions of meaning, competence, autonomy, and impact. The study recommends that SME owners and managers prioritise leadership development initiatives that foster psychological empowerment as a strategic mechanism for enhancing organizational performance and promoting sustainable competitive advantage in Saudi Arabia.

Keywords: Entrepreneurial Leadership; Psychological Empowerment; Organizational Performance; Small and Medium Enterprises SMEs; Saudi Vision 2030

1. Introduction

Small and medium-sized enterprises (SMEs) are widely recognised as fundamental contributors to economic growth, as they account for more than 90% of registered businesses worldwide (Arif & Herawan, 2025; Woo, 2025). SMEs are important not only because of their contribution to business activity but also because of their role in employment generation and economic development. For example, they account for approximately 50%–60% of employment in many advanced and developing economies and contribute up to 40% of gross domestic product (GDP) in several countries (Ramadan et al., 2024; Omojokun et al., 2025). Therefore, SMEs contribute substantially to national economies by stimulating innovation, creating employment opportunities, and supporting economic diversification (Aloulou, 2023). However, many SMEs continue to face substantial challenges in sustaining high levels of organizational performance.

Limited financial capacity, restricted access to finance, volatile markets, and

shortages of qualified employees can constrain SMEs' ability to develop and grow.

Accordingly, leaders who can identify and exploit emerging opportunities while effectively mobilising scarce resources may play an important role in guiding SMEs toward improved performance, particularly under conditions of uncertainty and environmental turbulence.

In Saudi Arabia (KSA), the SME sector plays an essential role in the country's economic diversification strategy under Vision 2030. The strategy seeks to promote growth across economic sectors and strengthen the contribution of SMEs to national economic development. Vision 2030 aims to increase the contribution of SMEs to national GDP to 35% by 2030 (Vision 2030, 2024). Since the launch of Vision 2030, the contribution of SMEs to GDP in KSA has increased from approximately 20% to more than 30% in 2024 (Vision 2030, 2024). This growth has been supported by policy reforms, financial facilities, and developments in the financial infrastructure, including the establishment of the Saudi Exchange Market, a regulated stock market intended to facilitate access to capital for enterprises (Saudi Exchange Market, 2025).

The contemporary business environment is characterised by uncertainty and rapid change, which can affect organizational performance. Organizational performance may be assessed using financial indicators, such as Return on Assets (ROA), Return on Equity (ROE), and profit margins, as well as non-financial indicators, including innovation, market share, customer loyalty, and productivity (Gupta et al., 2004; Aloulou, 2023). Firm-level outcomes may therefore depend partly on leaders' ability to translate strategic opportunities into profitable activities and sustained competitive performance. SME performance is influenced by several internal and external factors, including access to finance, competitive intensity, technological capabilities, and human capital resources (Aloulou, 2023; Alzahrani, 2021). Among the internal factors that may contribute to improved organizational performance, entrepreneurial leadership has attracted increasing attention from researchers (Gupta et al., 2004; Renko et al., 2015; Pauceanu et al., 2021).

Entrepreneurial leadership (EL) refers to a leader's capability to motivate employees to identify and exploit entrepreneurial opportunities within an organisation through innovation, proactivity, calculated risk-taking, and flexibility (Gupta et al., 2004; Renko et al., 2015). EL is particularly relevant to SMEs because these organisations typically operate under conditions of high uncertainty, resource constraints, and rapidly changing competitive environments, requiring leaders to proactively identify opportunities and respond effectively to emerging challenges (Pauceanu et al., 2021; Nguyen et al., 2021). A growing body of empirical literature indicates that entrepreneurial leadership can play an important role in organizational performance across diverse institutional and economic contexts by enabling organisations to identify and exploit emerging business opportunities more effectively (Omojokun et al., 2025). In the Saudi context, entrepreneurial leadership has also been associated with SME sustainability and development through mechanisms such as innovation and dynamic capabilities (Nguyen et al., 2021; Naushad, 2022; Alharthi, 2025).

Although previous studies have generally reported positive associations between entrepreneurial leadership and organizational performance, limited attention has been devoted to understanding the underlying psychological mechanisms that may explain this relationship (Aloulou, 2023; Alzahrani, 2021; Alharthi, 2025). In particular, insufficient empirical evidence exists regarding how entrepreneurial leadership shapes employees' psychological states and work behaviours and how these individual-level responses may subsequently translate into improved organizational performance (Renko et al.,

2015; Nguyen et al., 2021; Naushad, 2022). Psychological empowerment represents an important potential mechanism underlying the relationship between entrepreneurial leadership and organizational performance. It refers to a set of positive psychological experiences through which employees perceive their work as meaningful, feel competent in performing their roles, experience self-determination or autonomy, and perceive that their actions can influence organizational outcomes (Spreitzer, 1995).

The theoretical framework underpinning this study synthesises insights from Entrepreneurial Leadership Theory, Social Exchange Theory, and Empowerment Theory to explain the proposed relationships. Entrepreneurial Leadership Theory (Gupta et al., 2004; Renko et al., 2015) contends that entrepreneurial leaders inspire employees to identify opportunities, embrace innovation, and engage proactively in organizational activities. From the perspective of Social Exchange Theory (Cropanzano & Mitchell, 2005), supportive and empowering leadership can foster reciprocal employee behaviours characterised by greater commitment, engagement, and discretionary contributions. Complementing these perspectives, Empowerment Theory (Conger & Kanungo, 1988; Spreitzer, 1995) explains how employees' perceptions of meaning, competence, self-determination, and impact can enhance intrinsic motivation and facilitate improved performance. Therefore, by integrating these complementary theoretical perspectives, this study provides a comprehensive framework for explaining how entrepreneurial leadership may influence organizational performance through the development of psychological empowerment.

Psychological empowerment has been widely recognised as an important predictor of organizational outcomes. When employees perceive themselves as psychologically empowered, they may demonstrate greater motivation, resilience, innovation, and discretion, enabling them to sustain their performance under challenging conditions and contribute to overall organizational effectiveness (Thomas & Velthouse, 1990; Orgambidez et al., 2023; Abanumay et al., 2025). Hence, psychological empowerment represents a theoretically plausible mediator between leadership practices and organizational performance because of its potential to strengthen employees' motivation and behavioural contributions to the organisation (Spreitzer, 1995; Orgambidez et al., 2023; Muneer et al., 2025). However, important gaps remain in the literature. First, many previous studies have relied on self-reported measures of organizational outcomes, which may increase the risk of common method bias and potentially inflate observed relationships (Podsakoff et al., 2003; Chang et al., 2010).

Additionally, empirical evidence concerning the mediating role of psychological empowerment remains inconclusive, with some studies reporting mixed findings (Juyumaya, 2022; Fareed et al., 2023). Consequently, limited evidence exists regarding whether psychological empowerment mediates the relationship between entrepreneurial leadership and organizational performance among Saudi SMEs, particularly when organizational performance is assessed using objective financial measures rather than subjective perceptions. The use of objective financial data has received increasing attention because audited financial reports of publicly listed Saudi companies are publicly available and may provide a more objective assessment of firm performance than perception-based measures (Alzahrani, 2021; Aloulou, 2023).

This study addresses these gaps by examining psychological empowerment as the underlying mechanism through which entrepreneurial leadership may contribute to organizational performance among Saudi SMEs. Furthermore, it combines employee survey data with objective financial performance data obtained from independently reported financial records, thereby reducing the potential for common method bias and providing a more comprehensive

assessment of the relationships among entrepreneurial leadership, psychological empowerment, and organizational performance. Moreover, the study contributes to the entrepreneurial leadership literature by examining both the direct and indirect pathways through which entrepreneurial leadership may influence organizational performance. Specifically, by testing the mediating role of psychological empowerment, the study provides deeper insight into the mechanism linking entrepreneurial leadership with firm-level outcomes.

Accordingly, the study seeks to clarify whether entrepreneurial leadership influences organizational performance directly or primarily through employees' psychological empowerment. By providing empirical evidence from Saudi SMEs, the study responds to the need for greater understanding of employee-level mechanisms underlying leadership–performance relationships and contributes to the broader economic objectives of Saudi Vision 2030, particularly its emphasis on strengthening the SME sector as a driver of economic growth, private-sector development, and economic diversification.

2. Literature Review and Theoretical Framework

2.1 Entrepreneurial Leadership

Given that entrepreneurial leadership combines entrepreneurial principles with effective leadership practices, interest in EL within contemporary management research has continued to increase. Unlike conventional forms of leadership, entrepreneurial leadership emphasises opportunity identification and exploitation, innovation facilitation, calculated risk-taking, and the mobilisation of followers toward creating new organizational value (Ho & Chen, 2026). Therefore, EL has become an important management practice, particularly in turbulent, rapidly changing, and highly competitive environments. Conceptually, entrepreneurship and leadership exist at a nexus, positioning EL at the intersection of entrepreneurship and leadership (Gupta et al., 2004).

The characteristics of EL distinguish it from both entrepreneurial orientation (EO) and transformational leadership, although these perspectives share certain common characteristics. For instance, Gupta et al. (2004) conceptualised EL as the capability to communicate an overarching vision effectively, inspire followers to pursue new opportunities, facilitate the creation of new ventures, shape organizational contexts, and ultimately contribute to long-term organizational growth.

Renko et al. (2015) developed the Entrepreneurial Leadership Questionnaire (ELQ), which comprises four dimensions representing key behavioural facets of entrepreneurial leadership: promoting opportunity, facilitating initiative, engaging in calculated risk-taking, and establishing contextually appropriate performance expectations. In addition, Pauceanu et al. (2021) conducted a systematic review of entrepreneurial leadership, highlighting the multidimensional nature of EL and its behavioural distinctions from transformational and transactional leadership, although debates remain regarding the boundaries between these leadership styles. Most recently, the effectiveness of entrepreneurial leadership has increasingly been recognised as context-dependent, varying according to factors such as organizational size, industry, and culture (Ho & Chen, 2026).

Extensive empirical evidence has accumulated demonstrating the contribution of entrepreneurial leadership to organizational outcomes. Evidence from different countries and industries has revealed positive associations between entrepreneurial leadership and organizational performance, innovation, and employee creativity (Nguyen et al., 2021; Bilal et al., 2022; Naushad, 2022; Ramadan et al., 2024; Omojokun et al., 2025; Woo, 2025). In Saudi Arabia, the increasing emphasis on entrepreneurship and private-sector development under Saudi Vision 2030 has further strengthened interest in entrepreneurial leadership (Alharthi,

2025). Entrepreneurial leadership has been associated with improved business performance through mechanisms such as enhanced innovation capabilities, employee creativity, and organizational analytical capacity, thereby supporting organizational sustainability (Alharthi, 2025; Abanumay et al., 2025).

Similarly, studies in the Saudi context have shown that entrepreneurship-oriented and innovation-driven leadership practices are associated with SME development and organizational outcomes (Alzahrani, 2021; Naushad, 2022; Aloulou, 2023; Alharbi et al., 2026). However, methodological limitations remain, as many previous studies have relied on cross-sectional designs and self-reported measures, which may increase the risk of common method variance and limit the strength of causal inferences (Podsakoff et al., 2003; Antonakis et al., 2010; Renko et al., 2015). Therefore, this study addresses this limitation by incorporating objective financial performance measures obtained from Saudi SMEs, thereby providing a more robust assessment of organizational performance and reducing reliance on perceptual outcome measures.

2.2 Psychological Empowerment (PE)

Psychological empowerment (PE) is a well-researched construct within the organizational behaviour literature, referring to an individual's motivational state and sense of autonomy, competence, and significance at work, which can influence organizational outcomes (Spreitzer, 1995). It has been empirically investigated across various industries and cultural settings, with substantial evidence supporting its relevance to employees' behaviours and attitudes, as well as to organizational outcomes (Conger & Kanungo, 1988; Thomas & Velthouse, 1990; Spreitzer, 1995). Although early conceptions of empowerment focused primarily on organizational or structural attributes, Spreitzer (1995) conceptualised psychological empowerment as comprising four interrelated cognitive dimensions: meaning, competence, self-determination, and impact. This multidimensional conceptualisation has received empirical support across diverse organizational and cultural contexts, reinforcing the validity and relevance of the construct.

It is commonly argued that leadership behaviours are among the most important antecedents and predictors of psychological empowerment (Orgambidez et al., 2023; Kilroy et al., 2023; Liao & Batool, 2024; Vu et al., 2025). For example, Orgambidez et al. (2023) demonstrated the importance of leadership practices in fostering employees' psychological empowerment. Furthermore, Kilroy et al. (2023) demonstrated, through the lens of Social Exchange Theory, that managers' efforts to cultivate relationships characterised by trust, reciprocity, and mutual support can enhance sustained psychological empowerment among employees. In the Saudi context, some studies have shown that psychologically empowered employees can respond positively to supportive leadership behaviours by producing innovative outcomes, highlighting the strategic importance of psychological empowerment for the competitive development of SMEs (Farrukh et al., 2019; Metalloa et al., 2021). However, research specifically examining the influence of entrepreneurial leadership on psychological empowerment remains relatively limited (Renko et al., 2015; Schermuly et al., 2022; Abanumay et al., 2025).

Previous studies have increasingly examined organizational performance because it can be influenced by employee attitudes and behaviours at the individual, group, and organizational levels, including psychological empowerment (Ahmad, 2022; Juyumaya, 2022; Ochoa Pacheco et al., 2023; Orgambidez et al., 2023; Zhang et al., 2023; Muneer et al., 2025). Consequently, this study examines the role of psychological empowerment in the relationship between entrepreneurial leadership and organizational performance among SMEs in Saudi Arabia.

2.3 Organizational Performance

Organizational performance (OP) is one of the essential issues addressed in the management literature, reflecting the extent to which an organisation succeeds in achieving its strategic, operational, and financial objectives (Woo, 2025; Omojokun et al., 2025; Ramadan et al., 2024). Given the multifaceted nature of the concept, organizational performance is typically conceptualised as a multidimensional construct comprising both financial and non-financial dimensions. Financial performance reflects an organisation's effectiveness in managing its resources and is commonly assessed using profitability indicators, such as Return on Assets (ROA), Return on Equity (ROE), and profit margins. Non-financial performance encompasses broader organizational outcomes, including innovation, market share, customer satisfaction, and employee productivity (Woo, 2025; Ramadan et al., 2024; Omojokun et al., 2025). Financial and non-financial performance measures are relevant to assessing SME performance; however, considerable variation exists in how these dimensions are operationalised and measured. For instance, Omojokun et al. (2025) measured SME performance using a multi-item scale comprising market share, profit margins, and customer retention rates. Similarly, Ramadan et al. (2024) examined managers' subjective perceptions of the financial and strategic performance of SMEs in the Turkish context.

Other studies have assessed organizational performance using aggregate measures encompassing indicators such as sales growth, organizational efficiency, and innovative capability (Woo, 2025). The extant literature predominantly relies on managers' perceptions because of the relative ease of collecting perceptual data. Nevertheless, this approach raises methodological concerns, including common method variance and social desirability bias. When the same respondents provide information on leadership behaviours, psychological constructs, and organizational performance, the relationships among these variables may be artificially inflated (Podsakoff et al., 2003).

A substantial body of literature suggests that leadership practices and employees' motivational states can influence organizational performance. Empirical studies have shown that entrepreneurial leadership and employee empowerment can contribute to improved organizational performance by strengthening organizational capabilities, enhancing employee motivation, and facilitating the achievement of strategic objectives (Nguyen et al., 2021; Arif & Herawan, 2025; Muneer et al., 2025). Similarly, evidence from Saudi Arabia and other developing economies indicates a positive association between entrepreneurial leadership, entrepreneurial orientation, and SME performance (Alzahrani, 2021; Nguyen et al., 2021; Aloulou, 2023; Alharthi, 2025; Arif & Herawan, 2025). However, a considerable proportion of research on organizational performance in these contexts relies on self-reported or perceptual measures of performance. The use of objective financial performance measures, therefore, provides an opportunity to strengthen the empirical assessment of the relationships among entrepreneurial leadership, psychological empowerment, and organizational performance and to reduce concerns associated with common method bias (Podsakoff et al., 2003).

The performance of SMEs has become an important area of research and policy interest in Saudi Arabia, as the government recognises SMEs as a major mechanism for advancing economic diversification under Vision 2030 (Kingdom of Saudi Arabia, 2016; OECD, 2023). Publicly listed SMEs provide an appropriate context for examining objective financial performance because financial reporting requirements make independently reported financial information publicly accessible. While a variety of studies investigating the role of leadership and organizational performance in Saudi Arabia have been

conducted, relatively few empirical studies have incorporated objective financial measures into their analyses (Renko et al., 2015; Farrukh et al., 2019; Metallo et al., 2021).

Despite these findings, the existing evidence generally highlights the important roles of entrepreneurial leadership and psychological empowerment in promoting organizational outcomes, particularly among SMEs across diverse contexts, including Saudi Arabia (Naushad, 2022; Alharthi, 2025; Muneer et al., 2025). Collectively, these findings reinforce the strategic importance of entrepreneurial leadership and psychological empowerment in promoting organizational success across diverse sectors. Nevertheless, the limited use of objective financial indicators and the insufficient attention given to the psychological mechanisms linking entrepreneurial leadership to firm-level performance indicate the need for further empirical investigation. The present study addresses these gaps by examining psychological empowerment as a mediating mechanism between entrepreneurial leadership and organizational performance, while assessing performance using objective ROA data from Saudi SMEs.

2.4 Theoretical Framework and Hypotheses Development

The objective of this study is to test the mediating role of psychological empowerment in the relationship between entrepreneurial leadership and organizational performance in Saudi SMEs. To achieve this objective, the conceptual framework, as shown in **Figure 1**, was developed based on three complementary theoretical perspectives: Entrepreneurial Leadership Theory (Gupta et al., 2004; Renko et al., 2015), Social Exchange Theory (Blau, 1964; Cropanzano & Mitchell, 2005), and Empowerment Theory (Conger & Kanungo, 1988; Spreitzer, 1995). Together, these theories provide a theoretical basis for proposing that entrepreneurial leadership influences organizational performance through psychological empowerment.

Entrepreneurial Leadership Theory describes how leaders can help their organisations identify opportunities, act on entrepreneurial initiatives, and manage calculated risks in dynamic environments (Gupta et al., 2004; Renko et al., 2015). Within this perspective, entrepreneurial leadership can shape employees' perceptions, attitudes, and motivations, encouraging them to take initiative, assume responsibility, and engage in innovative activities within the organisation. The supportive aspect of entrepreneurial leadership is further explained by Social Exchange Theory, which postulates that leaders invest in employees by creating conditions that promote trust, reciprocity, autonomy, and supportive relationships. In response, employees may reciprocate through greater loyalty, commitment, and motivation to contribute to organizational goals (Blau, 1964; Cropanzano & Mitchell, 2005). Finally, Empowerment Theory focuses on employees' psychological experiences as key determinants of motivation and productivity. In particular, psychological empowerment encompasses employees' perceptions of meaning, competence, self-determination, and impact, which can strengthen intrinsic motivation and encourage employees to invest greater effort in achieving organizational objectives (Conger & Kanungo, 1988; Spreitzer, 1995).

The integration of these three theoretical perspectives provides a coherent explanation of the proposed mediation mechanism. Entrepreneurial Leadership Theory explains how entrepreneurial leaders create opportunities and encourage proactive and innovative behaviours; Social Exchange Theory explains how supportive leadership practices foster reciprocal employee responses; and Empowerment Theory explains how these leadership practices can strengthen employees' psychological empowerment, which subsequently contributes to improved organizational performance.

2.4.1 Entrepreneurial Leadership and Psychological Empowerment

The significance of psychological empowerment lies in the fact that it serves as a mechanism through which leadership behaviours influence employees' motivation and attitudes towards the workplace. For instance, in the entrepreneurial leadership literature, entrepreneurial leaders are expected to encourage employees to identify entrepreneurial opportunities, embrace innovation, and actively participate in organizational growth initiatives (Renko et al., 2015; Iqbal et al., 2022). These leaders promote this orientation by communicating an attractive vision, encouraging calculated risk-taking, and leveraging employees' knowledge and experience to achieve organizational goals (Rastogi, 2003). Because leadership behaviour frequently involves collaborative practices within management teams, leaders' values and behaviours can influence followers' attitudes and behaviours and, ultimately, organizational performance (Carpenter et al., 2004).

Entrepreneurial leaders create a work environment in which employees develop a sense of meaning in their work, confidence in their abilities, autonomy, and an appreciation of the importance of their contributions. These conditions provide a basis for the positive effect of entrepreneurial leadership on psychological empowerment reported across several business contexts (Miao et al., 2018; Bilal et al., 2022; Orgambidez et al., 2023; Liao & Batool, 2024; Vu et al., 2025; Abanumay et al., 2025; Alharbi et al., 2026). Consequently, entrepreneurial leaders tend to foster employees' willingness to pursue opportunities by communicating a clear and appealing vision rather than relying primarily on extrinsic rewards (Renko et al., 2015). A clear and appealing vision can enhance followers' confidence and, consequently, strengthen their autonomy or self-determination in the workplace (Quinn & Spreitzer, 1997).

Previous studies have provided evidence from the Saudi context showing that entrepreneurial leadership has a positive and significant effect on psychological empowerment (Ahmad et al., 2023; Abanumay et al., 2025), particularly among SMEs (Liao & Batool, 2024; Alharbi et al., 2026). Furthermore, Kilroy et al. (2023) indicated that employees' psychological empowerment depends not only on the extent to which leaders demonstrate supportive behaviours but also on the consistency and authenticity of those behaviours. Such a relationship is consistent with the principles of Social Exchange Theory (Blau, 1964; Cropanzano & Mitchell, 2005), which posits that positive leader behaviours can elicit positive attitudes and behaviours from employees in return. From this perspective, entrepreneurial leaders who provide valuable resources, support, and opportunities to employees facilitate reciprocal exchanges that can strengthen employees' psychological engagement with their work and organisation. Such reciprocal relationships can foster employees' perceptions of meaning, competence, autonomy, and impact. Therefore, the following hypothesis is proposed:

H1: Entrepreneurial leadership positively influences psychological empowerment in Saudi SMEs.

2.4.2 Psychological Empowerment and Organizational Performance

Psychological empowerment is well documented as playing an instrumental role in organizational performance by fostering employees' sense of ownership, confidence, and intrinsic motivation towards their work (Afram et al., 2022). When employees believe that their work is meaningful, possess the competence and autonomy to make decisions, and perceive that their efforts positively influence the organisation, they tend to demonstrate stronger commitment, greater engagement, and more active participation in their work, which can ultimately contribute to improved financial and organizational performance

(Rodríguez-Sánchez et al., 2020; Safari et al., 2020; Nasir et al., 2022). Accordingly, psychological empowerment has been widely established as an important predictor of organizational performance across diverse industries, countries, and organizational settings (Spreitzer, 1995).

Previous research has demonstrated that psychological empowerment can positively influence both individual and organizational performance. Employees who experience greater meaning, competence, self-determination, and impact are more likely to demonstrate initiative, creativity, discretionary effort, and persistence in their work (Spreitzer, 1995; Ahmad, 2022; Juyumaya, 2022; Fareed et al., 2023; Ochoa Pacheco et al., 2023; Orgambidez et al., 2023; Zhang et al., 2023; Sahadev et al., 2024; Chompukum & Vanichbuncha, 2025; Duffour & Asante, 2025; Sari & Suwanto, 2025). Similarly, studies conducted in the Saudi context have reported a significant positive effect of psychological empowerment on organizational performance (Ahmad, 2022; Muneer et al., 2025). This finding is supported by Empowerment Theory (Conger & Kanungo, 1988; Spreitzer, 1995), which views psychological empowerment as a motivational orientation that stimulates intrinsic task engagement and encourages employees to invest greater effort in their work. However, some studies have demonstrated that the positive effects of psychological empowerment may be weakened or contingent upon specific organizational and psychological conditions (Hasanein & Elrayah, 2025).

Although extensive empirical research on the effect of psychological empowerment on organizational performance has accumulated (e.g., Morrell et al., 2007; Laschinger et al., 2008), limited empirical evidence exists regarding the role of psychological empowerment as an intrinsic motivational mechanism linking leadership styles to objectively measured organizational performance, particularly among Saudi SMEs. Psychologically empowered employees may also be better equipped to cope with workplace stressors and may exhibit higher levels of job satisfaction and organizational commitment, which can contribute to positive outcomes such as improved job performance (Garay-Rondero et al., 2020; Jaman et al., 2022). Consequently, this study proposes the following hypothesis:

H2: Psychological empowerment positively influences organizational performance in Saudi SMEs.

2.4.3 Entrepreneurial Leadership and Organizational Performance

Given the operating conditions under which many SMEs operate, characterised by uncertainty and resource constraints, entrepreneurial leadership has emerged as an important predictor of organizational performance (Muchiri & McMurray, 2015). From the perspective of Entrepreneurial Leadership Theory (Gupta et al., 2004; Renko et al., 2015), organisations can foster innovation and value creation when leaders promote an opportunity-oriented mindset, encourage proactivity, and engage in calculated risk-taking. These leadership behaviours can shape employees' attitudes and motivation while strengthening organizational adaptability and strategic goal attainment, ultimately contributing to organizational performance. Meanwhile, Social Exchange Theory indicates that leaders who demonstrate high levels of social investment in subordinates through trust, support, and cooperation can establish stronger relationships between leaders and followers, thereby fostering collective loyalty and contributions toward organizational goals (Cropanzano & Mitchell, 2005).

A substantial body of empirical research has reported a positive association between entrepreneurial leadership and organizational performance across various countries and sectors (Nguyen et al., 2021; Naushad, 2022; Ramadan et al., 2024; Alharthi, 2025; Arif & Herawan, 2025; Woo, 2025). Particularly, Alharthi (2025) found that entrepreneurial leadership was positively associated with firm performance among manufacturing SMEs in Saudi Arabia. Similarly,

Naushad (2022) found that entrepreneurial leadership contributed to organizational innovativeness, which, in turn, was positively associated with firm performance among SMEs.

Despite evidence indicating a positive effect of entrepreneurial leadership on firm performance, other studies, such as Fareed et al. (2023) and Abanumay et al. (2025), reported a non-significant direct relationship between entrepreneurial leadership and organizational performance. These mixed findings suggest that the direct effect of entrepreneurial leadership on organizational performance remains inconclusive and warrants further empirical investigation, particularly in the Saudi SME context. Accordingly, the following hypothesis is proposed:

H3: Entrepreneurial leadership positively influences organizational performance in Saudi SMEs.

2.4.4 The Mediating Role of Psychological Empowerment in the Relationship Between Entrepreneurial Leadership and Organizational Performance

Psychological empowerment is characterised by an employee's sense of intrinsic motivation and perceived control over their work, reflected in autonomy, competence, and impact. Empowered employees tend to demonstrate more positive attitudes towards their jobs and engage in behaviours that contribute to organizational effectiveness (Afram et al., 2022). Within Empowerment Theory (Conger & Kanungo, 1988; Spreitzer, 1995), employees who perceive their work as meaningful and valuable to their team or organisation, believe in their ability to perform their tasks effectively, exercise control over how their work is conducted, and perceive that their actions can influence organizational outcomes are more likely to respond with positive work-related outcomes.

Meanwhile, Social Exchange Theory suggests that when leaders demonstrate trust, care, and developmental support towards employees, employees may reciprocate through greater psychological involvement in their work, increased effort, and stronger performance (Blau, 1964; Cropanzano & Mitchell, 2005). Consequently, employees may be more willing to exert considerable effort towards achieving organizational outcomes because of intrinsic motivation rather than reliance on externally imposed rewards. This perspective is consistent with Parry and Proctor-Thomson (2002), who argued that delegation of authority, recognition, and displays of trust can foster employees' intrinsic motivation. The strengthening of autonomy and self-determination can subsequently enhance individual productivity and job performance (Jauhari et al., 2017; Jung et al., 2003).

A related explanation based on Social Exchange Theory (Blau, 1964; Cropanzano & Mitchell, 2005) suggests that employees reciprocate supportive leadership behaviours through positive attitudes and greater work engagement. Leader inputs to followers, such as granting employees discretion, providing learning opportunities, and offering organizational support, can therefore elicit corresponding outcomes, including stronger job commitment and work engagement (Li et al., 2022).

Entrepreneurial leaders foster the organizational conditions necessary to facilitate action-taking, opportunity identification, and employee engagement (Renko et al., 2015). As these leadership behaviours are perceived and internalised by employees as psychological empowerment, they may positively influence employee effort, proactive behaviour, and contributions toward organizational goals, thereby translating employees' psychological responses into broader organizational outcomes (Ochoa Pacheco et al., 2023; Orgambidez et al., 2023; Muneer et al., 2025).

Entrepreneurial leaders tend to emphasise employee involvement rather than relying exclusively on top-down control. They can create supportive

psychosocial work environments, communicate compelling visions, and encourage employees to take initiative, exercise independence, and pursue opportunities (Miao et al., 2015; Renko et al., 2015). Such practices can strengthen employees' perceptions of competence, control over their work, and the broader value of their contributions by connecting individual responsibilities with departmental and organizational objectives. These conditions correspond closely to the four dimensions of psychological empowerment: meaning, competence, self-determination, and impact (Miao et al., 2015). Therefore, psychologically empowered employees tend to be more confident, motivated, and proactive in generating innovative ideas and addressing organizational challenges, potentially enhancing job performance, employee satisfaction, and organizational effectiveness (Liu et al., 2023).

There is extensive evidence demonstrating that psychological empowerment is a critical mediating mechanism linking leadership to individual attitudes, behaviours, and organizational outcomes (Schermuly et al., 2013; Ahmad & Gao, 2018; Miao et al., 2018; Farrukh et al., 2019; Fareed et al., 2023; Ochoa Pacheco et al., 2023; Liao & Batool, 2024; Abanumay et al., 2025; Muneer et al., 2025).

Although several studies have reported a significant relationship between entrepreneurial leadership and organizational performance, other studies, including Fareed et al. (2023) and Abanumay et al. (2025), have found a non-significant direct relationship between entrepreneurial leadership and organizational performance. Thus, these mixed findings suggest that the effect of entrepreneurial leadership on firm performance may depend on psychological and behavioural mechanisms through which leadership behaviours are translated into employee contributions. This indicates that the mediating mechanisms linking entrepreneurial leadership to organizational performance may vary according to contextual conditions, leadership characteristics, and performance outcomes.

Accordingly, this study examines whether entrepreneurial leadership influences organizational performance among Saudi SMEs through the mediating role of psychological empowerment. Based on the preceding theoretical arguments and empirical evidence, the following hypothesis is proposed:

H4: Psychological empowerment mediates the relationship between entrepreneurial leadership and organizational performance in Saudi SMEs.

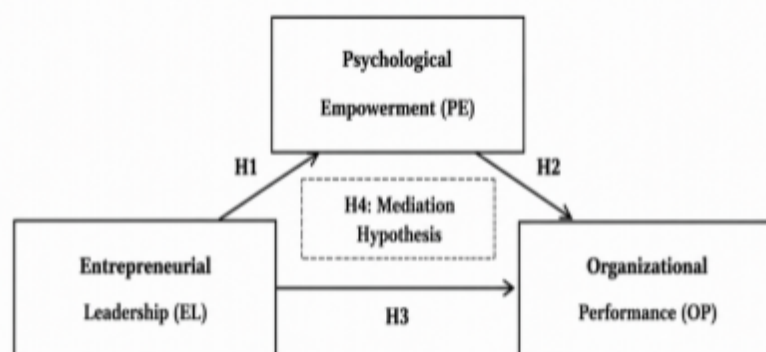


Figure 1. Conceptual model

3. Research Methods

3.1 Research Design

A quantitative research design was employed to integrate measures obtained at both the employee and firm levels. Entrepreneurial leadership and psychological empowerment were measured using responses from 431 employees

nested within 48 SMEs. Because the dependent variable, organizational performance, was measured at the firm level using Return on Assets (ROA), employee-level responses were aggregated to the SME level before conducting the hypothesis tests and mediation analysis. Thus, the unit of analysis for the main analyses was the SME rather than the individual employee.

A cross-sectional survey design was used to collect data from 431 employees at different organizational levels across 48 SMEs over the period from January to March 2026. Firm-level information was obtained from Bloomberg. Organizational performance was measured using objective financial data obtained from the financial reports of 48 SMEs listed on the Saudi Exchange Market over the period 2022–2025. Firms with incomplete financial disclosures for the entire 2022–2025 period were excluded from the analysis, resulting in a final sample of 48 firms.

In addition, the four-year period was selected to provide a more stable and representative measure of firm-level financial performance and to reduce the potential influence of short-term fluctuations in profitability arising from temporary market conditions or firm-specific shocks. Averaging ROA across multiple years also provides a broader representation of organizational performance than relying on a single-year observation.

The hypothesised model was tested using Partial Least Squares Structural Equation Modelling (PLS-SEM). PLS-SEM is generally considered appropriate for predictive research involving complex relationships and enables the simultaneous assessment of both the measurement models and the causal relationships between constructs within a single analytical framework (Hair et al., 2019).

3.2 Construct Measurements

The study's variables were measured using established and validated psychometric scales adopted from prior literature. Psychological empowerment was measured using a 12-item scale developed by Spreitzer (1995), comprising four dimensions: meaning, competence, self-determination, and impact. Entrepreneurial leadership (EL) was measured using the eight-item scale developed by Renko et al. (2015), which assesses entrepreneurial leader behaviours related to opportunity seeking, calculated risk-taking, communicating a compelling vision to followers, and facilitating follower engagement under conditions of uncertainty.

Items measuring EL and PE were rated using a five-point Likert-type scale ranging from 1 (strongly disagree) to 5 (strongly agree). Organizational performance was measured using Return on Assets (ROA), with values averaged over the 2022–2025 period. The ROA data were obtained from publicly disclosed financial statements of the sampled SMEs listed on the Saudi Exchange Market. Using a four-year average was intended to minimise the influence of short-term fluctuations in firm performance and provide a more stable measure of organizational performance.

3.3 Data Aggregation

Since entrepreneurial leadership (EL) and psychological empowerment (PE) were measured at the individual level but theorised as firm-level constructs, the statistical appropriateness of aggregating individual responses to the firm level was established before conducting the structural analysis. Three criteria were assessed in accordance with established multilevel guidelines (James et al., 1984; Bliese, 2000; LeBreton & Senter, 2008). Within-group agreement, assessed using r_{wg} , yielded values of 0.734 for EL and 0.742 for PE, both of which exceeded the recommended threshold of 0.70, indicating adequate within-firm consensus. The ICC(1) values of 0.217 for EL and 0.234 for PE were above the recommended

minimum of 0.05, indicating meaningful between-firm variance. Similarly, the ICC(2) values of 0.711 for EL and 0.727 for PE exceeded the recommended threshold of 0.50, indicating satisfactory reliability of the firm-level group-mean estimates. As all three aggregation criteria were satisfied for both constructs (**Table 1**), the aggregation of individual responses into firm-level mean scores was statistically justified.

Table 1. Data Aggregation

Construct	Mean rwg	Status	ICC(1)	Status	ICC(2)	Status
Entrepreneurial Leadership (EL)	0.734	> 0.70	0.217	> 0.05	0.711	> 0.50
Psychological Empowerment (PE)	0.742	> 0.70	0.234	> 0.05	0.727	> 0.50

Note. Thresholds: $rwg > 0.70$ (James et al., 1984); $ICC(1) > 0.05$; $ICC(2) > 0.50$ (Bliese, 2000). $N = 48$ firms.

3.4 Common Method Bias

In order to control for common method bias (CMB), variance inflation factor (VIF) analysis was conducted for the inner model (Kock, 2015). The VIF scores reported in **Table 2** were all below the threshold of 3.3, indicating that common method bias was unlikely to pose a serious concern in the structural model (Kock, 2015). In addition, organizational performance was conceptualized and measured using objective financial data rather than self-reported perceptions. This procedural approach further reduced the potential for common method bias because the predictor and mediator variables were obtained from employee responses, whereas organizational performance was derived from independently reported financial data (Chang et al., 2010).

Table 2. Inner Model Variance Inflation Factor (VIF), Multi-collinearity Assessment

Construct	VIF
Entrepreneurial Leadership (EL)	1.4
Psychological Empowerment (PE)	1.5

Note. VIF threshold < 3.3 indicates absence of common method bias (Kock, 2015)

3.5 Measurement Model

The measurement model was evaluated using the PLS-SEM approach by examining indicator reliability, construct reliability, and convergent validity. As reported in **Table 3**, all 20 measurement items exhibited standardized outer loadings ranging from 0.810 to 0.921, exceeding the recommended threshold of 0.70 (Hair et al., 2019). These results indicate that all indicators demonstrate satisfactory reliability and adequately represent their respective latent constructs.

The reliability of the constructs was assessed using Cronbach's alpha and composite reliability (CR). Entrepreneurial leadership achieved a Cronbach's alpha of 0.953 and a CR of 0.961, while psychological empowerment recorded values of 0.973 and 0.976, respectively. Since all reliability coefficients were substantially higher than the recommended minimum value of 0.70, the constructs demonstrated high internal consistency reliability (Hair et al., 2019).

Convergent validity was evaluated using the Average Variance Extracted (AVE). The AVE values of 0.756 for entrepreneurial leadership and 0.771 for psychological empowerment both exceeded the recommended benchmark of 0.50, indicating that each construct explained more than half of the variance in its respective indicators. Overall, these findings provide strong evidence that the measurement model meets the established criteria for indicator reliability, internal consistency reliability, and convergent validity (Hair et al., 2019).

4. Results

The study examined the effect of entrepreneurial leadership on SMEs' performance, with the mediating role of psychological empowerment. Data were collected from 431 employees across small and medium-sized enterprises (SMEs) listed on the Saudi Exchange Market, while organizational performance data were obtained from the financial reports of the sampled SMEs through Bloomberg.

Table 3 presents the results of the measurement model evaluation for entrepreneurial leadership (EL) and psychological empowerment (PE). In addition, the table reports the results of the reliability and validity assessments of the measurement scales.

Table 3. Outer Loadings & Reliability

Construct / Item	Loading (λ)	Cronbach's α	CR	AVE
Entrepreneurial Leadership (EL)		0.953	0.961	0.756
EL1. My leader encourages me to look for new opportunities.	0.912			
EL2. My leader uses the resources available to carry out new ideas.	0.867			
EL3. My leader motivates me to do more than what is expected.	0.818			
EL4. My leader challenges me to creatively approach my work.	0.904			
EL5. My leader finds new ways to get work done.	0.859			
EL6. My leader is persistent in the pursuit of goals.	0.856			
EL7. My leader communicates a vision of what we need to do in the future.	0.921			
EL8. My leader motivates me to accomplish exceptional results.	0.810			
Psychological Empowerment (PE)		0.973	0.976	0.771
PE1. The work I do is very important to me.	0.900			
PE2. My job activities are personally meaningful to me.	0.899			
PE3. The work I perform is meaningful to me.	0.838			
PE4. I am confident about my ability to do my job.	0.874			
PE5. I am self-assured about my capabilities to perform my work activities.	0.870			
PE6. I have mastered the skills necessary for my job.	0.868			
PE7. I have significant autonomy in determining how I do my job.	0.918			
PE8. I can decide on my own how to go about doing my work.	0.872			
PE9. I have considerable opportunity for independence and freedom in how I do my job.	0.854			
PE10. My impact on what happens in my department is large.	0.891			
PE11. I have a great deal of control over what happens in my department.	0.851			
PE12. I have significant influence over what happens in my department.	0.898			

*Note. Thresholds: $\lambda \geq 0.70$; $\alpha > 0.70$; $CR > 0.70$; $AVE > 0.50$ (Hair et al., 2019).

Table 3 presents the results of the measurement model evaluation for entrepreneurial leadership (EL) and psychological empowerment (PE). All 20 indicators demonstrated satisfactory indicator reliability, with standardized factor loadings for both EL and PE exceeding the commonly recommended threshold of 0.70 (Hair et al., 2019). For EL, the factor loadings ranged from 0.810 (EL8) to 0.921 (EL7), whereas those for PE ranged from 0.838 (PE3) to 0.918 (PE7).

Table 3 also reports the results of the reliability analysis. EL and PE demonstrated satisfactory internal consistency, with Cronbach's alpha values of 0.953 and 0.973, respectively. The composite reliability (CR) values were 0.961 for EL and 0.976 for PE, while the average variance extracted (AVE) values were 0.756 and 0.771, respectively. Since the Cronbach's alpha and composite reliability values for both constructs exceeded 0.70, and the AVE values exceeded 0.50, the measurement model demonstrated acceptable internal consistency and convergent validity (Hair et al., 2019).

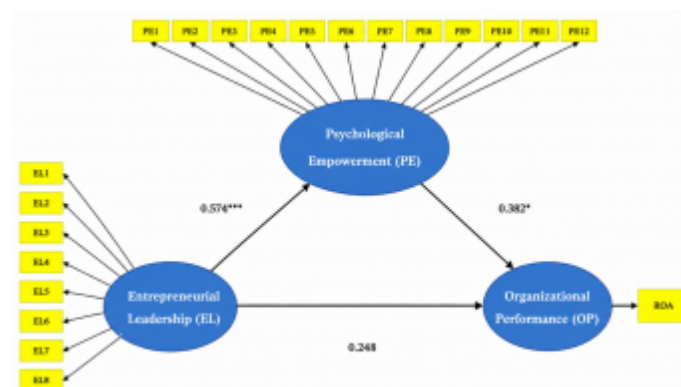


Figure 2. Structural relationships between variables

Structural relationships between variables are shown in **Figure 2**. In terms of discriminant validity, the results presented in **Table 4** show that the heterotrait–monotrait (HTMT) ratio of 0.595 is well below the recommended threshold of 0.85 (Henseler et al., 2015), confirming that entrepreneurial leadership (EL) and psychological empowerment (PE) are empirically distinct constructs. Therefore, the measurement model satisfies the recommended criteria for discriminant validity.

Table 4. Discriminant Validity: HTMT Ratio

ConstructPair	HTMT	Threshold
EL —PE	0.595	< 0.85

Note. Threshold: HTMT < 0.85 (Henseler et al., 2015).

Table 5. Respondents' characteristics

Variable	Category	Frequency	%
Gender	Male	271	62.9
	Female	160	37.1
Age	18–24	68	15.8
	25–34	139	32.3
	35–44	146	33.9
	45–54	58	13.5
	55+	20	4.6

Continued table:

Variable	Category	Frequency	%
Education	High school or below	21	4.9
	Diploma	55	12.8
	Bachelor	249	57.8
	Master	94	21.8
	PhD	12	2.8
Job Position	Employee	156	36.2
	Supervisor	107	24.8
	Team Leader	105	24.4
	Head of Department	42	9.7
	General Manager	21	4.9
Experience	< 3 years	54	12.5
	3–5 years	108	25.1
	6–10 years	120	27.8
	11–15 years	91	21.1
	> 15 years	58	13.5

Table 5 presents the respondents' characteristics. Of the respondents, 62.9% were male and 37.1% were female. The highest proportion of respondents fell within the 25–44-year age group (66.2%), followed by those aged 18–24 years (15.8%), 45–54 years (13.5%), and 55 years and above (4.6%). This distribution indicates that the majority of respondents were within their prime working years.

In terms of educational attainment, a bachelor's degree was the most common qualification, accounting for 57.8% of the respondents. A further 21.8% held a master's degree, indicating that the sample comprised a relatively well-educated workforce.

Regarding organizational position, the vast majority of respondents were employed in operational and middle-management positions. Employees accounted for 36.2% of the sample, followed by supervisors (24.8%) and team leaders (24.4%). Combined, these operational and middle-management personnel represented 85.4% of the sample, with department heads and general managers accounting for the remaining respondents.

With respect to organizational tenure, 87.5% of the respondents had worked in their respective organisations for more than three years. This suggests that most respondents had sufficient organizational experience and familiarity with workplace practices and leadership processes to provide informed responses regarding entrepreneurial leadership and psychological empowerment.

Table 6. Descriptive Statistics

Construct	Mean	SD	Min	Max
Entrepreneurial Leadership (EL)	3.793	0.617	1.50	5.00
Psychological Empowerment (PE)	3.867	0.592	1.50	5.00
Organizational Performance (OP)	8.91	7.83	7.00	25.38

The descriptive statistics for the study variables are presented in **Table 6**. Entrepreneurial leadership (EL) recorded a mean score of 3.793 (SD = 0.617), while psychological empowerment (PE) recorded a mean score of

3.867 (SD = 0.592). These results indicate that respondents generally reported favourable perceptions of entrepreneurial leadership practices and psychological empowerment. The relatively low standard deviations for EL and PE further suggest a reasonable degree of consistency in respondents' perceptions.

Organizational performance (OP), as measured by Return on Assets (ROA), recorded a mean of 8.91% (SD = 7.83%), with values ranging from 7.00% to 25.38%. The relatively large standard deviation and broad range indicate substantial variation in financial performance across the sampled SMEs, providing sufficient variability for examining the relationship between organizational performance and the explanatory variables.

Table 7. Hypotheses Testing

Hypothesis	Path	β	SE	t	p	95% BCa CI
H1	EL → PE	0.574	0.092	6.273	< .001***	[0.373, 0.733]
H2	PE → OP	0.382	0.158	2.413	.016*	[0.072, 0.687]
H3	EL → OP	0.248	0.170	1.457	.145	[-0.090, 0.581]

Note.: * $p < .05$, *** $p < .001$

Table 7 summarizes the results of the structural model testing. Entrepreneurial leadership exerted a significant positive effect on psychological empowerment (H1: $\beta = 0.574$, $t = 6.273$, $p < 0.001$, 95% CI [0.373, 0.733]), indicating that higher levels of entrepreneurial leadership are associated with greater psychological empowerment among employees. H1 was therefore supported.

Psychological empowerment also exerted a significant positive effect on organizational performance (H2: $\beta = 0.382$, $t = 2.413$, $p = 0.016$, 95% CI [0.072, 0.687]). This finding indicates that SMEs with more psychologically empowered employees tend to achieve better organizational performance. H2 was therefore supported.

Conversely, the direct relationship between entrepreneurial leadership and organizational performance was not statistically significant (H3: $\beta = 0.248$, $t = 1.457$, $p = 0.145$, 95% CI [-0.090, 0.581]). The confidence interval included zero; therefore, the direct effect was not supported. This finding indicates that the direct effect of entrepreneurial leadership on organizational performance was not statistically significant when psychological empowerment was included in the model.

The structural model explained 31.6% of the variance in organizational performance ($R^2 = 0.316$), indicating a moderate level of explanatory power for organizational performance.

Table 8. Mediation Analysis

Effect	Path	β	95%BCaCI	MediationType
Indirect	EL→PE→OP	0.219	[0.037, 0.449]	Significant
Direct	EL→OP	0.248	[-0.090, 0.581]	Not significant
Total	EL→OP	0.467	—	—

Table 8 presents the results of the mediation analysis explaining the role of psychological empowerment as mediator in the relationship between entrepreneurial leadership and organizational performance among Saudi SMEs. The analysis revealed entrepreneurial leadership has a positive indirect effect

on organizational performance through psychological empowerment ($\beta = 0.219$, 95% BCa CI [0.037, 0.449]). The bias-corrected bootstrap confidence interval excluded zero, the indirect effect was confirmed to be statistically significant, providing empirical support for the mediating role of psychological empowerment (Preacher & Hayes, 2008). Therefore, H4 was supported.

The result indicates that the direct effect of entrepreneurial leadership on organizational performance was not statistically significant ($\beta = 0.248$, $p = 0.145$), whereas the indirect effect through psychological empowerment was significant. Therefore, entrepreneurial leadership is associated with organizational performance through psychological empowerment. This suggests that entrepreneurial leadership may enhance organizational performance by fostering employees' psychological empowerment, which subsequently contributes to improved firm-level outcomes. The total effect of entrepreneurial leadership on organizational performance was positive ($\beta = 0.467$). Thus, the findings highlight the importance of psychological empowerment as a mechanism through which entrepreneurial leadership translates into improved organizational performance among Saudi SMEs.

5. Discussion

The findings demonstrate that entrepreneurial leadership has a significant positive effect on employee psychological empowerment. This suggests that entrepreneurial leaders can strengthen employees' perceptions of meaning, competence, self-determination, and impact. Specifically, entrepreneurial leaders who cultivate opportunity-seeking behaviours, support opportunity identification, encourage employee initiative, and tolerate calculated risks can create an enabling work environment in which employees feel competent and autonomous in performing their responsibilities and contributing to organizational outcomes. These enhanced perceptions may strengthen employees' intrinsic motivation, encourage greater involvement in organizational activities, and create a supportive psychological climate conducive to improved organizational performance. These results are in line with prior research that has reported a positive relationship between entrepreneurial leadership and psychological empowerment (Bilal et al., 2022; Orgambidez et al., 2023; Liao & Batool, 2024; Vu et al., 2025; Abanumay et al., 2025).

The study findings can also be justified using the theoretical lenses of both Entrepreneurial Leadership Theory and Social Exchange Theory. Entrepreneurial Leadership Theory posits that entrepreneurial opportunities and an entrepreneurial leadership style characterised by proactive and empowering leader behaviours can positively influence employees' psychological states by enhancing engagement and creating opportunities for employees to take initiative (Gupta et al., 2004; Renko et al., 2015). Meanwhile, Social Exchange Theory provides an additional explanation, suggesting that when leaders demonstrate trust, care, and developmental support towards employees, employees may reciprocate by becoming more psychologically engaged and involved in their work (Cropanzano & Mitchell, 2005). Such reciprocal exchanges can reinforce the four key components of psychological empowerment, namely meaning, competence, autonomy, and impact (Spreitzer, 1995).

This finding carries particular relevance for the Saudi context because SMEs are expected to play an important role in Saudi Arabia's economic diversification and private-sector development under Saudi Vision 2030. In dynamic and competitive markets, entrepreneurial leaders who convey a sense of purpose, encourage innovation, and provide employees with autonomy can foster a competent and motivated workforce. Such leadership practices may enhance employees' psychological empowerment while simultaneously strengthening

firms' resilience and capacity to compete in dynamic markets (Abanumay et al., 2025; Alharthi, 2025).

The findings indicate that non-significant direct effect of entrepreneurial leadership on organizational performance reported in the structural model. The result therefore suggests that the indirect effect of entrepreneurial leadership on organizational performance through psychological mechanisms which is psychological empowerment. Entrepreneurial leaders may contribute to SMEs performance by identifying new business opportunities, encouraging innovation, accepting calculated risks, and responding proactively to changes in the business environment.

The non-significant direct effect contrasts with studies that have reported a the association between entrepreneurial leadership and organizational performance from the perspective of Entrepreneurial Leadership Theory (Gupta et al., 2004; Renko et al., 2015), while also differing from empirical findings reported by Nguyen et al. (2021), Naushad (2022), Ramadan et al. (2024), Alharthi (2025), Arif and Herawan (2025), and Woo (2025). This divergence may reflect differences in research contexts, levels of analysis, measurement of organizational performance, or the presence of intervening mechanisms across studies.

Additionally, the results show that psychological empowerment has a significant positive impact on SME performance. This finding indicates that SMEs may perform better when employees perceive their work as meaningful, believe that they possess the skills and capabilities required to perform their jobs effectively, experience autonomy in determining how their duties are performed, and perceive that their actions can influence organizational outcomes. These perceptions are likely to encourage stronger commitment, greater work engagement, and improved performance. Such results corroborate the logic underlying Empowerment Theory (Conger & Kanungo, 1988; Spreitzer, 1995), which suggests that psychological empowerment can enhance employees' intrinsic motivation, active work involvement, and innovative work behaviour. When employees perceive their work as meaningful, feel competent, exercise autonomy, and believe that they can influence organizational outcomes, they are more likely to invest greater effort in achieving organizational goals.

This result is consistent with prior studies that found psychological empowerment can contribute to task performance, employee creativity, and broader organizational outcomes (Ahmad, 2022; Juyumaya, 2022; Ochoa Pacheco et al., 2023; Zhang et al., 2023; Chompukum & Vanichbuncha, 2025; Duffour & Asante, 2025; Hasanein & Elrayah, 2025; Muneer et al., 2025).

The mediation analysis further indicates that the relationship between entrepreneurial leadership and organizational performance operates through the indirect effect of psychological empowerment. The mediation results highlight the critical role of psychological empowerment in explaining the relationship between entrepreneurial leadership and organizational performance. This finding is supported by previous literature suggesting that leadership can influence firm-level performance both directly and indirectly through employee-related mechanisms (Fareed et al., 2023; Vu et al., 2025; Abanumay et al., 2025). Moreover, the findings suggest that the performance implications of entrepreneurial leadership may depend on intervening employee-related mechanisms that transform leadership practices into changes in employees' psychological states and behaviours, enabling them to contribute more effectively to organizational goals.

The findings suggest that the influence of entrepreneurial leadership practices on organizational performance depends not only on strategic and opportunity-seeking behaviours but also on the extent to which such

behaviours foster employees' psychological empowerment and enable them to perform effectively. This finding is consistent with several previous studies conducted in Saudi Arabia, which indicate that psychological empowerment represents an important intervening mechanism linking leadership practices, particularly entrepreneurship-oriented leadership behaviours, with innovative and entrepreneurial outcomes (Abanumay et al., 2025; Fareed et al., 2023; Muneer et al., 2025). Together, these results highlight the view that sustainable organizational outcomes can emerge from leadership practices that foster motivated and psychologically empowered employees. In the present study, the non-significant direct effect, combined with the significant indirect pathway, suggests that entrepreneurial leadership is associated with improved organizational performance primarily through its capacity to strengthen psychological empowerment.

In particular, the mediating result extends the existing understanding of entrepreneurial leadership as an antecedent of SMEs' performance by demonstrating the importance of an employee-centred psychological mechanism in this relationship. In addition, the results demonstrate the relevance of psychological empowerment in explaining how entrepreneurial leadership behaviours are translated into organizational outcomes. Therefore, the findings provide empirical evidence that psychological empowerment should be considered when examining the relationship between entrepreneurial leadership and SMEs' performance. Thus, employees' perceptions of meaning, competence, autonomy, and impact may strengthen their commitment and motivation to perform, which, in turn, can contribute to improved firm-level performance.

6. Implications

6.1 Theoretical Implication

The results provide important theoretical implications for the literature on entrepreneurial leadership, psychological empowerment, and organizational performance. The results are consistent with the predictions of Entrepreneurial Leadership Theory, Social Exchange Theory, and Empowerment Theory, which collectively suggest that entrepreneurial leadership can influence organizational performance through employees' psychological empowerment. Specifically, entrepreneurial leaders can establish an enabling and supportive work environment in which employees may reciprocate through greater initiative, commitment, and dedication, thereby contributing to improved organizational performance. Moreover, this study extends the application of Empowerment Theory by demonstrating how psychological empowerment can function as a mechanism through which entrepreneurial leadership is translated into organizational performance. Whilst previous studies have reported positive relationships between leadership, empowerment, and performance, the present findings provide further insight into the mechanism underlying these relationships within the context of Saudi SMEs. In particular, the findings demonstrate that employees' perceptions of meaning, competence, self-determination, and impact can play an important role in translating entrepreneurial leadership behaviours into improved organizational outcomes.

Additionally, this study contributes to the entrepreneurial leadership literature by helping to explain the inconsistent findings regarding the relationship between entrepreneurial leadership and organizational performance. The results indicate that entrepreneurial leadership may influence organizational performance indirectly through employees' psychological empowerment, as the direct effect of entrepreneurial leadership on organizational performance was not statistically significant when the mediating mechanism was considered. This finding may help explain why previous research has produced mixed evidence regarding the

direct effect of entrepreneurial leadership on organizational performance and highlights the importance of considering employees' psychological processes when examining the consequences of entrepreneurial leadership.

Finally, from a methodological perspective, this study's use of multisource data, combining employee survey responses with objectively measured financial performance data, minimises the potential risk of common method bias. Specifically, organizational performance was measured using Return on Assets (ROA) obtained from publicly disclosed financial reports rather than solely relying on subjective, self-reported performance measures. This approach strengthens the methodological rigour of the study and increases confidence in the reported relationships. Moreover, the current findings provide additional empirical support for Spreitzer's (1995) conceptualisation of psychological empowerment as a multidimensional construct comprising meaning, competence, self-determination, and impact within the context of Saudi Arabian SMEs.

6.2 Practical Implications

This finding can be considered particularly relevant in the Saudi context, given the strategic role of SMEs within the Saudi Vision 2030 framework. With SMEs serving as important drivers of economic diversification, innovation, and private-sector-led growth in the Kingdom, leadership behaviours that enhance employee capability and engagement are increasingly important. The findings suggest that entrepreneurial leadership contributes to organizational performance not solely through strategic decision-making, but also by fostering employees' psychological empowerment.

Therefore, SME leaders and managers should strive to adopt leadership behaviours that empower employees. In particular, leaders should provide employees with greater autonomy in decision-making, delegate appropriate levels of authority, encourage initiative, and create opportunities for employees to participate in organizational activities. Improving employees' perceptions of meaningful work, competence, self-determination, and impact may strengthen their motivation and innovative work behaviours, thereby contributing to improved employee and organizational performance.

Leadership development programmes that emphasise empowerment-oriented practices could help SMEs build a more competent, motivated, and engaged workforce. Accordingly, SME owners and managers should consider investing in leadership development programmes that equip managers with the skills required to practise empowering forms of entrepreneurial leadership. Such initiatives may strengthen employees' psychological empowerment and, in turn, support the sustainable development, competitiveness, and long-term success of SMEs in Saudi Arabia.

7. Limitations and Future research

This study provides theoretical and practical implications; however, several limitations should be acknowledged. First, the study was conducted exclusively among SMEs in Saudi Arabia, which may limit the generalisability of the findings to larger organisations, SMEs in other countries, and different national settings where economic, institutional, and sociocultural conditions may vary considerably. Therefore, future research could extend the proposed model across other countries, industries, and organizational contexts to assess the robustness of the proposed model under different institutional and cultural conditions. A comparative analysis of Saudi Arabia and other GCC countries could provide further insights into the extent to which the observed relationships vary across national contexts.

Moreover, psychological empowerment was examined as a potential mediating mechanism between entrepreneurial leadership and organizational performance. Although the findings highlight the importance of psychological

empowerment, entrepreneurial leadership may influence organizational performance through several other psychological and organizational processes. Therefore, future studies could examine other potential mediators, such as organizational commitment, innovative work behaviour, dynamic capabilities, and organizational learning, as well as moderators that may strengthen or weaken the relationships between these variables and organizational performance across different organizational contexts.

Finally, the cross-sectional nature of this research limits the ability to draw definitive conclusions regarding the causal ordering of the relationships examined. The temporal ordering of the variables should be interpreted with caution because the ROA period preceded the 2026 survey measurement. Although the study incorporated objective financial measures of organizational performance, longitudinal research that follows the sampled organisations over time could provide stronger evidence regarding the temporal and potentially causal relationships among entrepreneurial leadership, employee psychological empowerment, and organizational performance.

8. Conclusion

This research explored the influence of entrepreneurial leadership on organizational performance, with particular emphasis on the mediating role of employees' psychological empowerment. The findings revealed that entrepreneurial leadership has a significant positive effect on employees' psychological empowerment, indicating that leaders who provide opportunities, grant autonomy, encourage discretion, and support innovative behaviour can strengthen employees' perceptions of meaning, competence, self-determination, and impact. Psychological empowerment also has a significant positive effect on organizational performance, while entrepreneurial leadership does not have a statistically significant direct effect on organizational performance.

In terms of theoretical contributions, this study offers further insight into entrepreneurial leadership research by clarifying the mechanism through which entrepreneurial leadership may contribute to organizational performance. Specifically, the findings demonstrate that psychological empowerment serves as an important mediating mechanism in this relationship. This finding helps address inconsistencies in previous research concerning the effects of entrepreneurial leadership on organizational performance by highlighting the importance of employee-level psychological processes. In addition, the study provides empirical insights into the Saudi Arabian context, where empirical research on entrepreneurial leadership among SMEs remains relatively limited. Furthermore, the combined use of employee survey data and objective financial performance measures strengthens the assessment of the relationships among entrepreneurial leadership, psychological empowerment, and organizational performance.

Overall, this research indicates that psychological empowerment represents an important organizational resource through which entrepreneurial leadership can contribute to organizational outcomes. Particularly in the Saudi context, organisations seeking to achieve sustainable performance and strengthen their competitiveness may benefit from leadership practices that empower employees by fostering autonomy, competence, meaningfulness, and participation in decision-making. Such practices can enhance employees' capacity and motivation to contribute to organizational objectives and, more broadly, support the achievement of the economic diversification and human-capital development objectives of Saudi Vision 2030.

Author contributions: Conceptualization, F.A. B and W.Y.B.; methodology, F.A. B and W.Y.B.; software, W.Y.B.; validation, F.A. B and W.Y.B.; formal analysis, W.Y.B.; investigation, F.A. B and W.Y.B.; resources, F.A. B.; data curation, F.A. B and W.Y.B.; writing—original draft preparation, T F.A. B and W.Y.B.; writing—review and editing, F.A. B and W.Y.B.; visualization, F.A. B and W.Y.B.; supervision, F.A. B.; project administration, F.A. B.; funding acquisition, F.A. B. All authors have read and agreed to the published version of the manuscript.

Funding: This research was funded by the Arab Open University through, KSA research fund No. (AOUKSA-524008).

Acknowledgement: The authors extend their appreciation to the Arab Open University for funding this work through AOU research fund No. (AOUKSA-524008).

Conflicts of Interest: The authors declare no conflicts of interest.

Abbreviations: The following abbreviations are used in this manuscript:

Abbreviation	Definition
EL	Entrepreneurial Leadership
PE	Psychological Empowerment
OP	Organizational Performance
ROA	Return on Assets
SMEs	Small and Medium Enterprises

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