

I have a dream:

The role of signalling in entrepreneurial leadership

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Debating points

Question 1: Do you agree that signalling theory can provide useful insights on entrepreneurial leadership?

Question 2: The model does not specify how successful reception of a signal by the receivers results in enhanced organisational performance. In the text we briefly explain how it improves motivation, legitimacy and ability. Should we somehow incorporate this into figure 1?

Question 3: How could we explore the model further and, ultimately, test it?

I have a dream: The role of signalling in entrepreneurial leadership

Abstract

We employ signalling theory to explore critical features of entrepreneurial leadership. Signalling theory emphasises the importance of transmitting a signal that is credible to the receiver. Entrepreneurial leaders must create and successfully cast a vision (the signal) to three different categories of receiver. The first category is the entrepreneurial leader him- or herself. We call this signal transmission ‘entrepreneurial self-leadership’. The second category is the team of founders and team members of the organisation. This signal transmission is ‘leading inside the organisation’. The third category is key stakeholders and the institutional context of the organisation. This signal transmission is ‘leading beyond the organisation’. A model of entrepreneurial leadership and organisational performance that incorporates the role of entrepreneurial vision is proposed. Implications of this view of entrepreneurial leadership for entrepreneurial leaders, their employees and stakeholders, and for entrepreneurship educators are discussed, and proposals are made for further research.

Introduction

“I have a dream”, the phrase at the heart of Martin Luther King’s vision of a better future, delivered in his 1963 Lincoln Memorial speech, sealed his status as the leader of a movement for racial equality in America. King had been preaching his dream for several years, and towards the end of his speech he was asked by a prominent follower in the audience to “tell them about the dream”. King spoke to them of his American Dream – that “one day this nation will rise up and

live up to its creed, ‘we hold these truths to be self-evident: that all men are created equal’.” King repeated “I have a dream” eight times in that famous closing section.

Entrepreneurs have one great challenge: to make their dreams come true. According to Canadian entrepreneur Claude Blanchet, “if you have a dream, you can turn it into reality. Society isn’t set in stone. If you use your intelligence, imagination, energy and willpower, you can make an impact...If you want something enough, you can change the world and the course of history” (Filion & Chirita 2012, p.374). In contrast to transactional leadership, which is about following “existing rules, procedures and norms” (Bass & Avolio 1993, p.112) within an organizational culture, entrepreneurial leadership is transformational (Bycio et al. 1995; Ployhart et al. 2001; Beng-Chong & Ployhart 2004; Ling et al. 2008) and involves creating a new vision and casting it to an audience in order to revise “shared assumptions, values and norms” (Bass & Avolio 1993, p.112).

This paper contributes to the literature on entrepreneurial leadership by using signalling theory to create a simple model that demonstrates the role of entrepreneurial vision in the relationship between entrepreneurial leadership and organisational performance. We thus address the question *how* entrepreneurial leadership can add value and mitigate perceived uncertainty. Despite a shift in recent leadership research from the individual to the group (Leitch et al. 2013), we know that core charismatic leadership components directly or indirectly affect attitude and performance (Kirkpatrick & Locke 1996). The entrepreneur “has to lead, perhaps even to inspire...in short, he is the Schumpeterian innovator and some more” (Baumol 1968, p.65).

Entrepreneurial leaders motivate followers to pursue their entrepreneurial goals (Renko et al. 2013). Our focus is on how they do this. We acknowledge that signalling is only one facet of ‘entrepreneurial action’ (Brettel et al. 2012; Hornsby et al. 2009; McKelvie et al. 2011; Mitchell & Shepherd 2010), but it is one that is curiously under-theorised, given the importance that experiential entrepreneurship educators place on the elevator pitch.

Our model of entrepreneurial leadership contains a signal and three categories of receiver; successful delivery of the signal to all three receiver categories enhances organisational performance. The four main elements of our model are:

- (1) The signal: the ability to create and cast a vision to oneself, to people inside the firm and to people outside the firm, reaffirming and communicating it incessantly. Research in psychology asserts that people accept biased, but potentially true information about the future to justify their decisions. We understand these illusions rather as a vision or an understanding ‘before the fact’ than as false views or interpretations of reality (Akerlof 1989).
- (2) The first receiver category: the entrepreneurial leader. Entrepreneurial activity often starts with an idea of an alternative future. While this is rarely discussed, the entrepreneur is often doubtful about the idea, and difficulties in articulating it can generate scepticism from others, causing a vicious circle of doubt. The entrepreneur therefore needs firstly to find ways to make the message credible so that he can believe in it. He or she, equipped with more faith and self-efficacy, will be more likely to transmit the message successfully to the second and the third audience (Chen et al. 2009).

- (3) The second receiver category: Those within the organisation. Without followers, a leader is impotent. In the course of generating a credible vision, entrepreneurs become naturally more prepared for and have greater self-belief in the vision, which in turn generates passion. The literature on entrepreneurial passion suggests that it can be a powerful motivator of key actors in an organisation during times of uncertainty (Lichtenstein et al. 2007; Chen et al. 2009). One way this is done is by forging a psychological contract between employees and organisation (Suazo et al. 2011).
- (4) The third receiver category: Those outside the organisation, including current and potential stakeholders (Verbeke & Tung 2013). The phenomenon of *leading outside the firm* is also referred to as building institutional capital (Anderson 2010; Leitch et al. 2013). As with the second receiver category, the combination of preparedness and passion is more likely to attract and maintain stakeholders (Chen et al. 2009).

We focus on the signal and its receivers because a key feature of entrepreneurial leadership is leveraging capital (Stringfellow & Shaw 2009), yet how this is done is not clearly theorised. In thirty years of human capital research in entrepreneurship, we have little more than a ‘significant but small overall relationship’ between human capital and organisational performance (Unger et al. 2011). Social capital research on entrepreneurial research focuses on mapping entrepreneur’s networks of relationships, not on how information is exchanged between actors (e.g. Leitch et al. 2013). Economic theories tend to focus on overcoming information asymmetries, on the assumption that the entrepreneur has better information than the resource provider. While this may be true, the entrepreneur’s knowledge of the future and how to get there is very imperfect. It

is not, therefore, just a question of transmission of privileged information. The way the message is told may matter as well.

In the following section we introduce signalling theory in the context of entrepreneurial leadership. We start by explaining why creating and casting a vision matters, and why it must influence three different categories of receiver do deploy their capital to enhance the performance of the entrepreneur's organisation. These three categories of receiver are the lead entrepreneur (self-leadership), the team (leading *inside* the firm) and the key stakeholders (leading *outside* the firm). We then build a simple model of entrepreneurial leadership and organisational performance that specifies the effect of entrepreneurial vision. In the last section we suggest potential implications of the model and make tentative recommendations for the three categories of receiver based on the model. We conclude with suggestions for further research which include how the model might be tested.

Literature review and theory development

The relevance to entrepreneurial leadership of creating a credible vision of the future and passing this to others in an inspiring and motivating way can be explained with signalling theory (Spence 1973; Spence 2002). The key components of signalling theory are a signaller, a signal and a receiver. The signaller will want the receiver to act in a specific way on receipt of the signal. The effectiveness of the signal depends on signal strength, quality, credibility and frequency (Connelly et al. 2011). Signalling theory has been used to model individual behaviour of signallers and receivers under conditions of information asymmetry, where honesty is demonstrated through investment in signals that are costly to produce (e.g. Fearon 1997).

Signalling theory has been used in studies of finance for entrepreneurship (e.g. Downes & Heinkel 1982; Busenitz et al. 2005; Janney & Folta 2003; Kleer 2010; Leland et al. 1977), entrepreneurship and regulatory institutions (Levie & Autio 2011), and, most relevant for our purposes, reputation-building by entrepreneurs (Honig et al. 2006; Iacobucci 2004; Reuber & Fischer 2005; Reuber & Fischer 2009). We believe that signalling theory can explain why creating and casting the vision is time-consuming but essential to entrepreneurial leadership, and why it is important to understand the needs of the three categories of receiver. Signalling theory can also help entrepreneurs to avoid over-costly or faulty signals.

When entrepreneurial leaders create and cast a vision of the future – a possible world – there is no guarantee that they can create this world. In order to create this future world, a necessary but not sufficient condition is to motivate both themselves and other individuals or groups to provide resources which may or may not generate future rewards. Signalling theory suggests this requires the transmission and reception of a credible and understandable signal that will generate the required behaviour. However, the entrepreneurial leader must compete with an abundance of signals out there in the “dawn chorus” of other entrepreneurs calling for resources. In order to compete, the entrepreneurial leader must hone the signal so it is simple, clear and capable of being imagined and articulated by others. This is known as signal *observability* (Connelly et al. 2011). The signal must be *distinct*, in other words the signal must be clearly attributable to the entrepreneurial leader. The message itself must be credible in the sense that assertions made can be defended so that they cannot be dismissed as fantasy. Signals that are both honest and reflect the honesty of the signaller are known as *reliable* signals (Connelly et al. 2011). Finally, the message must be crafted so that the receiver understands what is expected of them, in order to

induce the behaviour required by the signaller. Crafting a signal that has all of these qualities is time-consuming. But receivers will interpret signals that have clearly been crafted to a high standard as indicative of the underlying quality of the lead entrepreneur.

Once the signal has been crafted, it must be repeated, again and again and again. Repetition, known as signal *frequency* in signalling literature (Connelly et al. 2011) is important because it provides reinforcement of an idea that is not yet reality. Given uncertainty about the likelihood of achieving the possible future, receivers will constantly re-evaluate the proposition (Busenitz et al. 2005) and signals that are repeated are more effective (Connelly et al. 2011). Repetition also signals commitment, and commitment in turn enhances perceived reliability of the signal. However, repeated signals must be *consistent* if they are to be effective (Connelly et al. 2011). These key features of the message, derived from signalling theory, coincide perfectly with contemporary accounts of how an entrepreneur should create and cast their vision¹.

In crafting their vision and finding ways of defending their assertions, the entrepreneurial leader addresses the first audience: him- or herself. As the vision becomes more coherent, it becomes more credible. In other words, as the entrepreneur finds ways to defend their assertions, they have more faith in the vision because they are more prepared, and are more likely to transmit this belief as ‘passion’ to the other two audiences: those inside the firm and other stakeholders outside the firm (Chen et al. 2009). Passion for what they do is characteristic of great entrepreneurial leaders (Smilor 1997; Locke 2000). But passion can be costly

¹ See, for example, <http://www.garage.com/top-10-rules-elevator-pitch/>

physiologically and psychologically (Bruder 2013). Following the recommendations of signalling theory that we laid out above may help entrepreneurs to avoid over-costly signalling and develop harmonious passion rather than obsessive passion. Harmonious passion, where the individual is interested in and enjoys an activity itself rather than the consequences of the activity, has been shown to be associated with superior financial performance (Ho & Pollack 2014). This distinction between harmonious and obsessive passion suggests that we need to look again at some of the characteristics of entrepreneurship in the literature (Frese & Gielnik 2014; Kuratko 2007) as evidence of obsessive passion rather than harmonious passion. Examples include handling confrontation with risk (financial risk, career risk, family and social risk, and psychic risk), level of exposure to entrepreneurial stress (discrepancies expectations and ability to meet demands as well as discrepancies between expectations and personality, e.g. role overload), and a potential inflation of the entrepreneurial ego (e.g. a prevalence need for control, over-optimism, a scrupulous desire for success, and a trace of distrust). Signalling theory could help to focus entrepreneurs on the path to harmonious, not obsessive, passion. Using signalling theory as a lens, we address each element of our model in the following sub-sections.

The entrepreneurial vision as a signal

The Roman senator, general, historian, writer and statesman Cato the Elder was a staunch supporter of the destruction of Carthage. He finished each individual speech in the Senate with "Ceterum censeo Carthaginem esse delendam", which means "furthermore, I consider that Carthage must be destroyed". He tirelessly lobbied members of the Senate to support his vision of the final destruction of Carthage (which kept resurrecting as a power after defeat by the Romans) until it was known to everybody and finally became an accepted view of a necessary

future. In his final year of life, the Third Punic War broke out, which led to the final, complete destruction of Carthage (Matzler et al. 2014).

This vignette of visionary leadership from Roman times demonstrates how creating and repeatedly casting a clear vision can change the future. Entrepreneurial vision has been defined as “a future-oriented image of the new venture, intended to motivate both the entrepreneurs and their followers (e.g. investors, future employees) toward this desirable future” (Ruvio et al. 2010). But we hold that visioning is a general feature of entrepreneurial leadership which is not confined to new venture leadership. It applies to leadership of any organisation that needs to undergo change – even the Roman Empire.

Entrepreneurship research addresses the issues of discovery and exploitation of opportunities (Shane & Venkataraman 2000). Within this context, entrepreneurial leadership builds on opportunity perception by espousing and casting a vision of successful opportunity exploitation, building trust and mobilizing followers who will enact the vision and create growth and value in entrepreneurial ventures (Gupta et al. 2004; Venkataraman & Van de Ven 1998; Schwartz 2013; Shane & Venkataraman 2000). Lead entrepreneurs need to be ready to make visionary statements at any time to attract and motivate followers, equity and customers. It is this, and the self-confidence that comes with the crafting of a credible vision, that sets lead entrepreneurs apart from the rest of an entrepreneurial team (Ensley et al. 2000). There are numerous examples of legendary business founders who demonstrated great leadership in this respect (Fiore 2012). Howard Schultz of Starbucks who outlined his dream of a national brand, Ray Kroc’s vision of a thousand MacDonald’s restaurants, or Fred Smith of FedEx who was an innovative visionary and

even in hardest times and close to bankruptcy in 1976 aggressively advertised "FedEx-when it absolutely, positively has to be there overnight" (Anon 2008).

Several empirical studies have found direct and indirect causal relationships between communicated vision and firm performance in terms of growth (Baum & Locke 2004; Baum et al. 1998). In the next sections, we go beyond existing research on entrepreneurial vision and consider how entrepreneurial vision may affect the way three different categories of receiver deploy their capital (whether human, social, economic or symbolic) to enhance the performance of the entrepreneur's organisation.

Receiver category 1: the entrepreneurial leader

Gupta et al. (2004) suggest that entrepreneurial leaders face two challenges: (1) creating a new scenario that can revolutionize the current transaction set (creating the vision) and (2) convincing potential followers and stakeholders to enact the new scenario (casting the vision). They build on the elements of 'scenario enactment' (framing the challenge, absorbing uncertainty, and path clearing) and 'cast enactment' (building commitment and specifying limits) and mainly address the dimensions of leading within and outside the firm. We build on this work by suggesting that the notion of self-leadership is a primary challenge of most entrepreneurs and should be added to the dimensions of leading within and outside the firm.

Leading a new or changing organisation requires a high level of self-direction and self-motivation. While self-management which primarily concentrates on the reduction of discrepancies from externally set standards, self-leadership is the primary source of "standards

that govern his or her behaviour” (Neck et al. 1999, p.479; Neck & Houghton 2013). The concept of ‘thought self-leadership’ involves “self-influence through cognitive strategies that focus on self-dialogue, mental imagery, beliefs and assumptions” (Neck et al. 1999, p.477), which shape the thought patterns of entrepreneurs. The self-dialogue includes perceiving challenging situations as opportunities rather than as obstacles, believing in one’s ability to execute target behaviour and actually realizing the intended behaviour by using a specific self-confidence set. Opportunity thinking is inherent to entrepreneurial leaders and has been shown to be significantly linked to entrepreneurial performance (Baum 1995).

Positive self-talk, self-feedback and mental imagery as particular forms of self-dialogue are best known from sports psychology, where for example mental imagery is viewed as a method of rehearsal of a physical task in the absence of observable related movements (Chelladurai 2007). But this technique has also been found to positively affect performance in a range of individuals, from handicapped children to writers (Neck et al. 1999).

We therefore propose that an entrepreneurial vision can positively moderate the impact of the lead entrepreneur’s capital by harnessing and directing that capital (whether human, social, economic or symbolic) in a clear direction, thus increasing the effectiveness of the capital the entrepreneur possesses. The vision is the compass, while the capital provides the power to move in the desired direction. The degree to which it positively moderates depends on the observability, distinctiveness, reliability, frequency, and consistency of the vision as a signal.

Proposition 1

The quality of the lead entrepreneur's entrepreneurial vision moderates the impact of the lead entrepreneur's capital on his or her organisation's performance.

Receiver category 2: Employees

Faced by the challenge of changing markets, new possibilities of e-commerce, and business model innovations, organisations have to continually adapt by redefining their markets, optimizing their operations, and exploring new business models (Kuratko 2007). But employees often perceive these necessary adaptations as threats. In such situations, authoritarian decree or micromanagement usually work poorly, whilst inspiring and empowering employees through creating and casting an entrepreneurial vision is recognised as a central component of "all great leadership" (Kotter 1997). For example, consider this statement by entrepreneur Claude Blanchet: "If you're to be a good leader, it's vital that people know where you're going. It's not necessary for the leader to implement the vision; that can be done by a team. In my opinion, it's better that way because your multipliers are much greater, especially if they're people with whom you're used to working and you know they're capable of delivering." (Filion & Chirita 2012, p.380).

Institutional theory (DiMaggio & Powell 1983; Scott 1987) proposes that individuals tend to seek consent, to be vulnerable to social influences, as well as to be influenced by tradition and social expectations. This can generate barriers to change. However, a credible vision of a different, more positive future, delivered with passion may strengthen the psychological contract between an employee and the organisation. Suazo et al. (2011) distinguish between weak and

strong signals in HRM practices. Weak signals are equivocal and open to interpretation, while strong signals are unequivocal. According to Suazo et al., weak signals may generate psychological contracts with employees, while strong signals may generate legal contracts. In this context, an entrepreneurial leader's vision is a weak signal, because it is an attractive word picture of a possible future that requires a degree of faith in the signaller; it is not an obligation to deliver a specific benefit. Weak signals like entrepreneurial visions delivered with passion may also help create psychological contracts with potential employees, since research suggests that "the perception of organizational signals on the part of the [job] applicant is highly perceptual and subjective in nature" (Suazo et al. 2011, p.191).

The prosperity of successful organisations is often solely linked with their lead entrepreneur and his or her unique entrepreneurial skills, particularly in superficial media portrayals. However, critics suggest that there is a fundamental attribution error (Ross 1977) to a lead entrepreneur because many lead entrepreneurs of legendary businesses did not expect the success experienced by the organisation. For example, Ray Kroc may not have fully believed in his vision of 1,000 restaurants, and does not appear to have had the ability himself to implement this vision. But his vision helped him to attract domain-specific experts in franchising and operations who could (Ross 1977).

We therefore propose that, as with the lead entrepreneur, an entrepreneurial vision can positively moderate the impact of employees' capital on organisational performance by harnessing and directing that capital (whether human, social, economic or symbolic) in a clear direction, thus increasing the effectiveness of the capital the employees possess. The degree to

which the vision positively moderates depends on the observability, distinctiveness, reliability, frequency, and consistency of the vision as a signal.

Proposition 2

The quality of the lead entrepreneur's entrepreneurial vision moderates the impact of their employees' capital on their organisation's performance.

Receiver category 3: External stakeholders (current and potential)

Leadership of stakeholders is vital for new organisations and those undergoing significant change. In the earliest stages of an organisation's existence, a credible vision conveys legitimacy to the nascent organisation, offsetting the liability of newness which stakeholders, including suppliers and customers, might interpret as highly risky. Thus, effective resource acquisition in early stage ventures is mainly done through leadership of potential and then actual stakeholders. Gaining legitimacy through signalling has been described as impression management, i.e. cultivating an impression that the firm and its actions are acceptable, worthwhile, value adding and achievable (Suchman 1995; Carter 2006). While casting an entrepreneurial vision can and should do this, it is much more than impression management.

As stakeholders become more familiar with the new organisation and legitimacy becomes less of an issue, stakeholder leadership may transform into more conventional stakeholder management (Verbeke & Tung 2013). If the organisation undergoes radical change, however, entrepreneurial leadership may be required again, to help stakeholders see the advantages to them of a new future and to "neutralize the rumor mill" (Denning 2005, p.11).

Evolution in recent leadership literature from personal characteristics to a leadership role model and from single dimensional traits, behaviours and actions to a more organizational and collective understanding of leadership, assigning more importance to the social construction of the organization (Pearce et al. 2007; Ensley et al. 2006; Pearce & Sims 1996), has led to a social capital theory of leadership development (Leitch et al. 2013; Locke 2008). But this theory focuses on building relationships, not on the leadership role of the lead entrepreneur in signalling an attractive and different future. We contribute this missing part.

We therefore propose that, as with the organisation's employees, an entrepreneurial vision can positively moderate the impact of external stakeholders' capital on organisational performance by harnessing and directing their capital (whether human, social, economic or symbolic) in a clear direction, thus increasing the effectiveness of stakeholders' capital in a manner advantageous to the organisation. The degree to which the vision positively moderates depends on the observability, distinctiveness, reliability, frequency, and consistency of the vision as a signal.

Proposition 3

The quality of the lead entrepreneur's entrepreneurial vision moderates the impact of the organisation's external stakeholders' capital on their organisation's performance.

This family of propositions build to a model of entrepreneurial leadership and organisational performance in which transmitting a signal (the lead entrepreneur's vision) to three different

categories of receiver moderates the impact of the receivers on organisational performance (see Figure 1). Successful transmission to oneself may facilitate transmission to others, and vice versa. Thus, there may be important feedback loops (Connelly et al. 2011) in the process which the model does not show.

INSERT FIGURE 1 ABOUT HERE

We recognise at least three mechanisms by which receipt of the message is transformed into greater organisational performance. The first is motivation to achieve the vision. While there is risk attached to pursuing an entrepreneurial vision, those who set ambitious but credible targets are more likely to achieve them than those who do not set ambitious targets. The second is legitimacy. Legitimate organisations are more likely to acquire the resources they require from stakeholders. The third is ability. As the example of MacDonald's illustrates, an ambitious vision can attract talented domain experts who perhaps could not have come up with the vision in the first place, but who are excited by it and know how to implement specific parts of it. Autio (2012) in a review of the literature on barriers to growth of entrepreneurial ventures, identified motivation, legitimacy and ability as three of six key bottlenecks. Entrepreneurial leadership through creating and casting a vision can alleviate these bottlenecks.

Conclusion and implications

While it is too early to give prescriptions to entrepreneurs, employees or stakeholders since our model has not been tested, there are theoretical implications from our application of signalling theory. For lead entrepreneurs, signalling theory suggests that they work on developing a clear simple vision of their organisation's possible future having regard for the desired response from their audience, then repeatedly deliver it to get through the noise of competing signals and the need for their audience to constantly reassess their signal. Employees and stakeholders should critically assess the entrepreneur's vision for clarity, consistency and credibility. What evidence does the entrepreneur provide for their assertions, and are they consistent in their vision? If there are inconsistencies, are there good reasons for this, for example new information that clarifies elements of the vision?

For entrepreneurship educators, signalling theory provides a sound theoretical reason why successful pitching is so important to entrepreneurs. It legitimises a common feature of entrepreneurship curricula which more often than not is introduced in a theoretical fashion. It provides a clear set of criteria (clarity, consistency, credibility) for judging the pitches of entrepreneurs, explains why repetition of the signal is necessary, and distinguishes between weak signals that generate psychological contracts and strong signals that generate legal contracts. It also links to the literature on passion, and acts as a guide for educators on how they can teach harmonious passion rather than obsessive passion.

While Baum and Locke (2004) have demonstrated through a quantitative longitudinal study direct and indirect effects of communicated vision on venture growth, our theoretical contribution is to suggest that communicated vision has a moderating effect on how three different categories of receiver impact organisational performance. Future research could investigate the set of propositions in our model further, perhaps by longitudinal studies of leadership of new or changing organisations. Signalling theory has been criticised as difficult to test in practice. But innovative ways of tracking the signals of entrepreneurial leaders and coding the quality of transmission of the signal could be developed. For example, coders could rate the entrepreneurial vision of a sample of lead entrepreneurs for clarity, consistency and credibility where these are recorded, such as speeches, in the media or on websites, in documents aimed at stakeholders such as different versions of a business plan or emails. Vision quality could be compared using motive coding (Kirkpatrick et al. 2002). A sample of entrepreneurial leaders could be shadowed for a set period, and instances of casting of their vision to different receivers could be recorded. Categories of receiver and repetition of the vision could be measured. In particular, it would be interesting to see if changes in the quality and frequency of the entrepreneurial vision induce changes in motivation, legitimacy and ability at the organisational level. Funding, strategic partnership and staff and customer recruitment events could be used as markers of changes in motivation, legitimacy and ability. If the model can be tested and found to hold, the next stage could be to design training interventions for entrepreneurial leaders, with assessment (including control groups) built in to the training intervention design.

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Figure 1: A signalling model of entrepreneurial leadership

