

EFFECT OF LEADERSHIP STYLE ON THE PERFORMANCE OF SMALL AND MEDIUM-SCALE ENTERPRISES (SMES) IN FEDERAL CAPITAL TERRITORY (FCT) ABUJA

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Abstract

The performance of Small and Medium-Scale Enterprises (SMEs) has been a subject of continual interest to both researchers and practitioners. This study examined the relationship between leadership styles and Small and Medium-Scale Enterprises (SMEs) performance. Leadership is a key factor for improving the performance of any organization. The objectives of the study are to: examine the effect of autocratic leadership style on SMEs performance; examine the impact of transformational leadership style on SMEs performance; examine the impact of democratic leadership style on SMEs performance and to examine the impact of transactional leadership style on SMEs performance. A survey research was adopted for the study. Questionnaire was the major instrument of data collection. Pearson Moment Product Correlation Coefficient and Regression analysis were utilized. The finding shows that transactional leadership style does have a significant impact on the SMEs performance and autocratic leadership style has a negative impact on SMEs performance. In conclusion, democratic leadership style has a significant positive impact on SMEs performance. It was recommended that the right leaders with high capability be identified at all levels of SMEs, especially in Abuja.

Keywords: Leadership Style, Organizational Performance, SMEs

INTRODUCTION

The challenges of coping with today's uncertain business environment have put many organizations on their toes to struggle for survival in the heat of competition. The driver of such strategic move towards surviving the competition is the leadership provided by managers who are expected to influence others in achieving organizational goals and boost employees' performance. Shafie et al. (2013) explains the importance of leadership in an organization and especially on human resources who are apparently the asset in any firm. It is very paramount to provide workers with direction and psychological satisfaction to get the best from them, this direction can only come from leaders. In fact, leadership is very critical for all organizations in realizing their set objectives. Since leadership is a key factor for improving the performance of many if not all organizations and the success or failure of an organization depends on the effectiveness of leadership at all levels.

Leadership is exercised virtually in every sphere of life including business, public service, religion institution, military, educational institutions and even private organizations. Leadership is an important aspect of management. Leadership is about people, that is, the aspect of getting a job done by inspiring, motivating, directing and gaining commitment of people to organization goals, management is a broad concept that involves planning, staffing, coordinating and controlling.

SMEs are organizations which can best be described through their capital, scope and cost of projects, annual turnover, financial strength and number of employees amongst other things. The aim of this study is to look at the leadership style; the organization should adopt to attain better performance. The work will also try to examine the philosophy of leadership and its functional relationship with workers' performance. Therefore, to discover more means of finding a lasting solution to the numerous problems facing leadership style on workers' performance.

The aim of this research is to examine effect of leadership style on the performance of small and medium-scale enterprises (SMES) in federal capital territory (FCT) Abuja. This principal aim will be achieved through the following specific objectives: To examine the effect of autocratic leadership style on SMEs performance, to examine the impact of transformational leadership styles on SMEs performance, to examine the impact of democratic leadership styles on SMEs performance and to examine the impact of transactional leadership on SMEs performance.

LITERATURE REVIEW

The importance of leadership in an organization cannot be overemphasized as different scholars have given various definitions due to its complexity and importance. Leadership has been viewed as a transaction between a leader and his subordinates. It had also been defined as a process of influencing people towards a objective or goal. Whichever leadership style that is exhibited by a person is a combination of traits, characteristics, skills and behaviors. The situation also matters and will call for a totally different style.

Small and Medium Scale Enterprises Performance

Business performance is a set of performance management and analytic processes that enables the management of an organization's performance to achieve one or more pre-selected goals. The performance of an SME is defined by using the value added by the SME, as a percent of the total value added by the employees in the enterprise. The main goal of any organization is to enhance the job performance of its employees so that it could survive in its highly competitive environment. Performance is a multidimensional construct and an extremely vital criterion that determines organizational successes or failures. Prasetya and Kato (2011) define performance as the attained outcomes of actions with skills of employees who perform in some situation. According to Pattanayak (2015), the performance of an employee is his/her resultant behavior on a task which can be observed and evaluated. To Pattanayak, employee performance is the contribution made by an individual in the accomplishment of organizational goals.

Here, employee performance is simply the result of patterns of action carried out to satisfy an objective according to some standards. This means that employee performance is a behavior which consists of directly observable actions of an employee, and mental actions or products such as answers or decisions, which result in organizational outcomes in the form of attainment of goals. Ibrahim (2004) defined job performance as an important activity that provides both the goals and methods to achieve the organizational goals and provide the achievement level in term of out-put. El-Saghier (2012) considered it as an effort of an employee to achieve some specific goal, the researcher will adopt this definition.

Autocratic Leadership and SMEs Performance

Autocratic leaders are classic “do as I say” types. Typically, these leaders are inexperienced with leadership thrust upon them in the form of a new position or assignment that involves

people management. Autocratic leaders retain for themselves the decision-making rights. They can damage an organization irreparably as they force their ‘followers’ to execute strategies and services in a very narrow way, based upon a subjective idea of what success looks like. There is no shared vision and little motivation beyond coercion. Commitment, creativity and innovation are typically eliminated by autocratic leadership. In fact, most followers of autocratic leaders can be described as biding their time, waiting for the inevitable failure this leadership produces and the removal of the leader that follows Michael (2010).

Transformational Leadership and SMEs Performance

This seeks to transform vision into reality. It becomes collective vision where subordinates work to realize the vision. In other words, transformational process can be seen through several transformational leadership behaviors as: attributed charisma, idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration Bass and Avolio, (2013). Yulk (2017) states that application of transformational leadership style can improve performance because transformational leadership style wants to develop knowledge and employees’ potential. A leader with transformational leadership provides opportunity and confidence to his subordinates to carry out duties in accordance with his mindset to achieve organizational goals. Butler (1999) states that a transformational leader encourages subordinates to have vision, mission and organization goals, encouraging and motivating maximum performance, stimulates subordinates to act critically to solve problems in new ways and treat employees individually. Suharto (2015) suggests that more frequent transformational leadership behaviors implemented will bring significant positive effect to improve psychological empowerment quality of subordinates. Transformational leader that gives attention to individuals will be capable to direct vision and mission of organization, providing motivational support, and creating new ways to work effectively.

Democratic Leadership and SMEs Performance

Lewin et al. (1939) describes this leader as very much about the group and encourages group discussion and offers advice and alternatives, the employee does have freedom and is informed, which instils trust. There is a good relationship between this leader and the employees (Lewin et al. 1939). These are some of the key traits identified as attributes a millennial would look for in a leader. Furthermore, Bhatti et al. (2012) adds to this by explaining that there is more

interaction within the group as there is more focus on people which is very different to the autocratic leadership approach. The democratic leader is more part of the group themselves. As previously cited, Carter and Walker (2018), outlined that the millennial wants, not only to be part of, but to be essential to the team. Smolovic-Jones et al. (2016) describes the democratic leadership style as based on the assumption that people are trustworthy and motivated and like responsibility which in turn creates teamwork and high performance and job satisfaction. This being the opposite of the autocratic leader. According to a study based on the workplace requirements of millennials, by Singh et al. (2012) encouraging innovation and idea generation scored the highest, this is a trait that would be representative of a democratic leader. There appears to be key traits of this leadership style that the millennial would appreciate and thrive from.

Transactional Leadership and SMEs Performance

Transactional leadership is a leadership style that emphasizes to transactions between leaders and subordinates. Bass and Avolio (2013) suggest that characteristics of transactional leadership consist of two aspects, namely contingent reward and exception management. Contingent reward is where leaders make agreement about what must subordinate do and promising reward obtained when goal is achieved, while exception management is where leaders monitor deviations from established standards and take corrective action to achieve organizational goals. Yulk (2017) asserts that transactional leadership style is one leadership style that emphasizes on transaction between leaders and subordinates. Transactional leadership motivates and influencing subordinates by exchanging reward with a performance. In a transaction, the subordinate is promised to be given rewards when they can complete their duties in accordance with agreements. In other words, he encourages subordinates to work. Transactional leadership styles can affect positively or negatively on performance. It depends on employee assessment. Positive effect can occur when employees assess transactional leadership positively and a negative effect can occur if employee considers that transactional leadership styles cannot be trusted because they do not keep their promises, dishonest or not transparent.

METHODOLOGY

This study adopted a survey research design. It is appropriate since it gathered data from a pool of participants with varied characteristics and demographics known as variables. Collection,

measurement, age, gender, income, education, position, business ideas and are all examples of variables. The population of the research comprised staff and management of the selected SMEs in the Federal Capital Territory (FCT), Abuja. The researcher employed random sampling method.

A total of 200 small and medium-scale enterprise operators was randomly selected for the study. The researcher determined the sample size using the Taro Yamane's formula as cited by Alugbuo (2012). The formula is stated below:

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size and 1 is the number of items in the population. The square of maximum allowance for sampling error or level of significance is 5%. It is represented by e. Therefore, n can be determined thus,

$$\begin{aligned} n &= \frac{200}{1 + 200(0.05)^2} \\ n &= \frac{200}{1 + 200(0.0025)} \\ n &= \frac{200}{1.5} \\ n &= 133.333 \end{aligned}$$

In order to achieve the objective of this study and proffer solutions, the questionnaire was designed to obtain data from the respondents. The design included multiple-choice questions. The questions were clearly simplified and structured in a manner void of ambiguity and technical details. Thus, most of the questions simply required the respondents to tick (x) against the appropriate response. The questionnaire was drawn to elicit information/data on research and development and general information on the case study.

The researcher utilized both primary and secondary data with more emphasis on secondary data which consist of information that already exist somewhere having been collected for another purpose. A questionnaire was developed to provide a framework for a series of response from the personnel, the data collected centered mainly on the research problem. Interview was also conducted, and other secondary sources employed are in form of textbooks and other published materials. The questionnaire was designed in a way that all the questions will be structured: that is using close-ended questions. The questionnaire was divided into two (2) sections (A & B). Section A elicited information on the demographic data of the respondents while section B obtained

information on the subject matter under investigation. The response rate was scaled in a five (5) points Likert's scales ranging from (1) Strongly Disagree, (2) Disagree (3) Neutral, (4) Agree and (4) Strongly Agree.

Data collected for any research work are useless unless they are given statistical treatment. For this purpose, some statistical analytical tools were used to present the data collected in the study and test the formulated hypothesis.

Statistical techniques such as Pearson Moment Product Correlation Coefficient and Regression analysis were used to test the hypotheses. Tables, frequency and percentage were employed to analyze the qualitative data.

DATA ANALYSIS

Correlation Analysis

In order to evaluate the SMEs performance, a measure of association between the four most important leadership styles and SMEs performance is made as follows. The measurement that is applied here is the Pearson correlation coefficient with its associated sig. values (p-values).

Table 1: Correlations Matrix

		Autocratic	Transformational	Democratic	Transactional	Performance
Autocratic	Pearson Correlation	1	-.146	-.168	.098	.139
	Sig. (2-tailed)		.147	.094	.331	.169
	N	100	100	100	100	100
Transformational	Pearson Correlation	.146	1	.664**	.593**	.386**
	Sig. (2-tailed)		.147	.000	.000	.000
	N	100	100	100	100	100
Democratic	Pearson Correlation	-.168	.664**	1	.563**	.347**
	Sig. (2-tailed)		.094	.000	.000	.000
	N	100	100	100	100	100
Transactional	Pearson Correlation	.098	.593**	.563**	1	.460**
	Sig. (2-tailed)		.331	.000	.000	.000
	N	100	100	100	100	100
Performance	Pearson Correlation	.139	.386**	.347**	.460**	1
	Sig. (2-tailed)		.169	.000	.000	.000
	N	100	100	100	100	100

** . Correlation is significant at the 0.01 level (2-tailed).

As the above correlation matrix shows, all the leadership styles show a positive relationship with the SMEs performance except the autocratic leadership style which shows that the relationship is almost negative. This implies that the prevalence of autocratic type of leadership adversely affected the performance of SMEs. Among all the variables included, the correlation result that shows a highly significant at 1% level of significance is the correlation between transactional style of leadership and that of SMEs performance and transformational style of leadership and SMEs performance. Moreover, the Pearson correlation coefficients indicate a strong correlation for the two variables: i.e. 0.460 for the transactional and 0.386 for the transformational. Also, the correlation between autocratic style of leadership and SMEs performance is found almost negative which is insignificant at 1% level of significance. This result show that for some reason, leadership style has a relationship with the SMEs performance of a given organization. In this study, the major style that is found to be pessimistically correlated with the performance is the autocratic style where the correlation is less and approximately negative.

Transformational leadership style also has positive relationship with the SMEs performance. As the transformational leader helps followers develop beyond their potential and satisfy their higher order needs, he/she is likely to gain their followers' commitment to the organization.

Regression Analysis

Linear regression is a method of estimating or predicting a value on some dependent variable given the values of one or more independent variables. Like correlations, statistical regression examines the association or relationship between variables.

Therefore, the equation of regressions on this study is generally built around two sets of variables, namely dependent variable and independent variables. The basic objective of using multiple regression equation on this study is to make the study more effective at describing, understanding and predicting the stated variables. That is, it is primarily used to identify the major determinant style of leadership that affects SMEs performance in the study area.

Table 2: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	4.821	1.533		3.145	.002

1	Autocratic	.145	.090	.152	1.621	.108
	Transformational	.124	.091	.174	1.357	.178
	Democratic	.069	.092	.095	.755	.452
	Transactional	.243	.100	.289	2.423	.017

a. Dependent Variable: Performance

Source: Field Survey, 2021

From the above regression result, it is possible to infer that autocratic style of leadership has some effect on SMEs performance, but it is less and the practice of this type of leadership adversely retarded the performance of the workers. This is because this style of leadership breeds hostile attitude, conflicts, distorts communication, high turnover, absenteeism, low productivity, and affects work quality. The style also breeds yes-men who lack creativity and innovation.

As it can be seen from the regression table, the t-values for the coefficients of the autocratic and transactional leadership are close to or greater than 2 where as a rule of thumb it is an indication that the coefficients of these two styles of leadership are statistically significant and hence affect the SMEs performance.

Hypotheses Testing

Hypothesis 1 (Ho₁): Autocratic leadership style does not statistically influence SMEs performance.

There is significant relationship between autocratic leadership style and SMEs performance. As the table shows, the value of significance for this variable is 0.108 which is greater than significant at 1% level of significance. Also, the value of the coefficient is higher, and the result is still significant and hence the null hypotheses can be rejected. So, it can be concluded that autocratic leadership style has a negative impact on SMEs performance.

Hypothesis 2 (Ho₂): There is no significant relationship between transformational leadership style and SMEs performance.

There is significant relationship between transformational leadership style and SMEs performance. The sig. value of this variable is greater than alpha (0.178>.01) therefore the result is significant and alternative hypothesis is accepted. For that reason, from the regression results, it can be concluded that the practice of transformational leadership style has a positive and significant impact on SMEs performance.

Hypothesis 3 (H₀₃): There is no significant relationship between Democratic leadership style and SMEs performance.

There is high significant relationship between democratic leadership style and SMEs performance. The sig. value of this variable is greater than alpha ($0.452 > .01$) therefore the result is significant and alternative hypothesis is accepted. Therefore, from the regression results it can be concluded that the application of democratic leadership style has a constructive and significant impact on SMEs performance.

Hypothesis 4 (H₀₄): Transactional leadership style does not statistically influence SMEs performance.

There is considerable relationship between transactional leadership style and SMEs performance. Since the sig. value is greater than 0.017 it is possible to reject the null hypothesis and hence it can be concluded that transactional leadership style does have a significant impact on the SMEs performance.

CONCLUSION AND RECOMMENDATIONS

Based on the results, democratic leadership style has a significant positive impact on SMEs performance in the study area. This indicates that when democratic style of leadership is applied, performance of SMEs would increase. Therefore, leaders are encouraged to adopt democratic leadership style and involve team members in the decision-making process since it is confirmed that SMEs performance is best under this style of leadership. Leaders should encourage innovation, teamwork and creativity that lead to job satisfaction, increased productivity and subsequently increased performance.

Autocratic leadership style shows a significant negative impact on employee performance. This indicates that performance of SMEs would not increase when autocratic approach is applied. Even though leaders prefer and are most known to lead through autocratic leadership style, in the view of globalization, autocratic leadership style may no longer be accepted by employees who are now becoming more knowledgeable, independent and competent.

Furthermore, despite a positive relationship between transactional leadership and SMEs performance, there exist no meaningful cause and effect relationship between these variables. In other words, transactional leadership does not have a meaningful effect on SMEs performance.

On the other hand, as expected, transformational leadership does have a very meaningful effect on SMEs performance. These findings are consistent with the literature on leadership and SMEs performance. Although there are many studies examining several positive effects of transformational and transactional leadership or positive effects of general leadership behaviour on perceived organizational performance and innovation (Keegan and Den Hartog, 2004; Yang et al., 2010; Furher, et al., 2011; Love et al., 1996; Waldman et al., 2011), there are not many studies concentrating on positive effects of transformational and transactional leadership on SMEs performance. This differentiates this study from others. It is also a very interesting finding that contrary to many other studies, this study found that transactional leadership has no meaningful effect on SMEs performance. based on the findings the following recommendations were made

- i. In order to stay in the competitive business environment, it is recommended that the right leaders with high capability be identified at all levels of SMEs, especially in FCT, Abuja.
- ii. SMEs should make use of the recommendations to adopt democratic leadership instead of autocratic leadership style. It should be known that employees are the most important asset in the organization and SMEs performance highly depends on leadership style.
- iii. SMEs with good leadership capability will further improve on their performance. Therefore, serious attention should be given to make leadership style a higher priority.

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