

Review of Factors that Influence Leadership Styles among Top Management in Small and Medium Size Enterprises

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Abstract: Leadership styles among top management in small and medium size enterprises are important in the development of these enterprises. The focus of this study is to identify the enabling factors that will influence the leadership styles in small and medium size enterprises. Data for this study was obtained from previous literature. It was identified that four dimensions of transformational leadership and three dimensions of transactional leadership and in addition some socio-demographic factors have the potential to influence leadership styles.

Key words: SMEs, leadership styles, transformational, transactional, organization, Malaysia

INTRODUCTION

The liberalization and globalization of world economy has indeed brought dynamic changes in many organizations today. The dominant concerns of most organizations are now on efficiency, productivity and innovation which would ultimately result in overall organizational performance. To function effectively, an organization in the present competitive world requires bold and innovative decision by its leaders, one way to achieve this is to give emphasis on leadership. Leadership can be understood from different perspective and from different point of view. This makes it a bit difficult for researchers to have a definition that suite all purposes. The concept of leadership over the years has undergone rigorous redefinition, most of the new definitions found in the literatures are based on the fact that leadership is the process of leaders communicating ideas, gaining acceptance of them and motivating followers to support and implement the ideas through change (Lussier and Achua, 2010).

LEADERSHIP THEORIES

A review on the theories of leadership showed that the first theory is based on leadership connected with hereditary, known as the Great Man Theory. The early assumption on what constitute effective leadership was that great men (mostly from aristocratic families) were considered to be biologically superior to their followers in terms intellect, spirituality and critical thinking. The Great Man Theory consider natural leaders to be endowed with characteristics obtained by virtue of inheritance which

makes them distinctive (Bass, 1985). However, when researcher began to question on qualities that separated leaders from followers, Great Man Theory was found to be grossly inadequate in explaining what constitute effective leadership hence, it was replaced with Trait Theory by the 1940's.

In the Trait Theory, the general assumption was that leaders were born with certain traits which make them successful in their leadership abilities. Researchers that worked on leadership in the 1940s, all explained effective leadership in terms of trait and personality of leaders. According to Bass (1985), all successful leaders possess the following traits: self confidence, ambitious, dependable and decisive, stability, internal locus of control, sensitivity to others, integrity, energetic, dominant and persistent.

Furthermore, in continuation with the quest to find one best theory on leadership by the 1950s, there was a sudden shift to identifying type of traits that differentiates leaders from follower's, therefore leadership studies transitioned from the trait to behavioral theory. The behavioral leadership theorist attempt to explain distinctive styles used by effective leaders or to define the nature of their work (Lussier and Achua, 2010) more specifically, the focus of the behaviorist was to describe the behaviors of individuals while they acted as leaders in organizations (Brown, 2003).

According to the behaviorist, leadership effectiveness is determined by behavior not traits. The two dimensions identified are orientation to task and orientation to people (Bass and Stogdill, 1990). Tasks oriented leadership styles are conceptualized as leader focus on improving competency and performance of

followers. Leaders are engaging in this kind of behaviors generally to clarify expectation, especially when much is expected from followers in terms of goals attainment.

However by the late 1960's, it became apparent both the great man, trait and behavioral theorist were an attempt to find one best leadership styles in all situations which neither of them was able to find satisfactory answers. A new search for a perfect leadership styles began, this time around the emphases given by researchers was to identify the traits or behaviors of effective and ineffective leaders. Thus, the Contingency Theory emerged. Fiedler the developer of the theory calls it Contingency Theory of leader effectiveness (Lussier and Achua, 2010). The contingency model is used to determine if a person's leadership style is task or relationship-oriented and if the situation (leader-member relationship, task structure and position power) matches the leader's style to maximize performance (Lussier and Achua, 2010). Some of the contingency theories include Path-goal Theory, Situational Leadership Theory which emphases participative, delegating, telling and selling approach to leadership.

Furthermore by the mid 1970's, there was a sudden shift to integrative theory paradigm. Integrative Theory combined the trait, behavioral and contingency theories to explain successful, influencing leader-follower relationship.

LEADERSHIP AND MANAGEMENT

Leadership and management are important issues in organizational studies. From the early 1990's to present time there has been a new renew interest on the two concepts. The focus of the researchers has been to distinguish and perhaps, to show relationship between them. The major argument is that the present day working environment has been characterized by many challenges, hence managers should be able to lead their organizations through building confidence, sacrifice and motivating followers to achieve organizational objectives.

By default a manager works within a system to achieve organizational objectives. Managers use both people and equipment to meet specific target. On the other hand, leaders set direction for the projects bring vision to reality by gaining the commitment of the employees. In reality, successful organizations need both leaders and manager to be able to achieve their objectives. Management activities are critical to any business, in carrying out organizational functions managers usually provide what need to be done in daily operation. To complement manager's efforts, leaders provide how those management functions are accomplished. In

order to get optimum result an organizations need both the what and how to achieve their objectives.

In this regard contemporary studies on leadership is focusing on transactional and transformational leadership where the emphases is to distinguish between leadership (relationship oriented) and management (tasks oriented) and how the two concepts are related to organizational performance (Sarros and Santora, 2001; Bryant, 2003; Avolio *et al.*, 2004). The findings from researches revealed both transactional and transformational leadership styles are strong factors that contribute to organizational success (Lok and Crawford, 2001).

Furthermore, some scholars refer to transactional leaders as managers and transformational leaders as leaders (Yukl, 1989; Bass and Stogdill, 1990; Avolio *et al.*, 1999; Sarros and Santora, 2001). These scholars hold the view that leadership and management are not interchangeable. The argument is that leadership is about developing and communicating a vision while manager's role is to plan, organize and implement the leader's vision. Managers it is argued, serve as the means to achieve the leaders end's, leaders rated as transformational are described as influential, inspirational and charismatic whereas leaders rated as transactional are described as task and reward-oriented, structured and passive (Bohn, 2002; Bryant, 2003; Moore, 2007).

In addition transformational leaders serve by articulating to followers the problems in the current system and a compelling vision of what a new organization would be. On the other hand, transactional leadership is conceptually similar to the cultural maintenance form of leadership which seeks to clarify or strengthen existing tasks, work standards and dimensions-contingent reward, management by exception and passive leadership. Depending on a leader's personality trait, each dimension represents an option that can be employed to shape strategies and structures (Bryant, 2003).

Transactional leadership tends to be transitory in that once a transaction is completed the relationship between the parties may end or be redefined. Transformational leadership is more enduring, especially when the change process is well designed and implemented. Transactional leaders promote stability while transformational leaders create significant change in both followers and organizations.

In addition, research examining the degree to which cultural values and norms influence follower receptivity to different leadership styles found that transformational leaders inspire by emphasizing the importance of group values and focusing on collective interests while transactional leaders tend to focus more on defining roles

and task requirements and offering rewards that are contingent on task fulfillment (Liao and Chuang, 2007).

SMALL AND MEDIUM SIZE ENTERPRISES

Recently the importance of the Small and Medium size Enterprises (SMEs) to a nation economy has received tremendous attention from researchers (Majocchi *et al.*, 2005; Jenkins, 2006; Hoq *et al.*, 2009). However, it has been a difficulty to researchers to come up with a globally acceptable definition of the SMEs (Bassanini *et al.*, 2001). However, the general consensus reached among researchers is that definition of SMEs should revolved around firm's size (usually small) number of full time employees and should be independent firms owned by private individuals (Majocchi *et al.*, 2005).

The importance of the medium size firm to a nation economy is enormous given the rate of employment opportunities it creates for the teeming population of unemployed youth. The SMEs provide employment opportunities for women and less privileged in society, reduce poverty and has been the major source of entrepreneurship among minority immigrant in developed countries (Majocchi *et al.*, 2005). Giving the importance of this to member country's development. In 1970 United Nation organization through the International Labor Organization (ILO) started to advocate the promotion of SMEs in both the developed and developing countries to reduce the problem of unemployment and poverty. The major argument is that the modern sophisticated capital intensive industries is unable to generate much needed employment in both the developed and developing countries (Taymaz, 1997).

A review on the factors affecting profitability and growth of the SMEs across different countries identified lack of leadership skills among the top management as one of the critical factors militating against their success (Reuber and Fischer, 1997; Hashim and Wafa, 2002). Top management leadership skills in SMEs are important given the fact that most of the customers are always in contact with top management of the SMEs. Hence, their leadership styles would indicate skills and disposition in managerial abilities which has an effect on their growth and sustainability.

FACTORS INFLUENCING LEADERSHIP STYLES AMONG TOP MANAGEMENT IN SMES

Leadership is probably one of the most researched topics within social and behavioural science (Walumbwa *et al.*, 2005). However, there has been endless research into the topic.

Factors influencing SMEs top management leadership styles are not different from what is obtainable in big size organizations, though with a little variation. The argument is that notwithstanding the type of business or size, an organization that achieve above average performance share common characteristic including leadership styles.

Previous research on leadership has identified transformational and transactional leaderships as a factor that influences leadership behavior in organizations (Brown, 2003; Avolio *et al.*, 2004; Dionne *et al.*, 2004). So far there has not been adequate research to justify if top managements in SMEs are as well transformational or transactional leaders. However, the aim of this study is to review the factors that influence leadership styles among top management in organizations, especially that of the SMEs.

Dimensions of transformational leadership styles: A leadership questionnaire developed by Bass and Avolio called Multifactor Leadership Questionnaire (MLQ) is widely used to measure leadership styles. The MLQ has identified four items that influence transformational leader behavior in organization. Studies into MLQ have provided an important inside into the nature of effective leadership across organizations. Findings from the studies using MLQ indicated transformational leaders inspire their subordinate to achieve organizational objectives (Kent and Chelladurai, 2001; Sarros and Santora, 2001; Brown, 2003; Bryant, 2003)

The MLQ questionnaire on transformational leadership consists of idealized influence, individualized consideration, intellectual stimulation and inspirational motivation.

Idealized influence is often associated with charismatic leadership (Judeh, 2010; Sarros and Santora, 2001). The general of assumption of charismatic leaders associated with idealized influence is that people generally follow who they like especially in terms of goals attainment. Charismatic leaders who have idealized influence are thought to be sensitive to members need, vision articulation, personal risk taking and performing unconventional behavior. According to Sarros and Santora (2001), leaders who display this kind of leadership styles give consideration to their followers by encouraging and coaching them to develop appropriate working behavior. Furthermore, since leaders' behavior in workplace is very important to employees, they are expected to trust and have faith in the leader's decisions and actions (Sarros and Santora, 2001).

Meanwhile, individualized consideration refers to transformation leadership behavior that emphasizes

individuals as important factor in organizational success (Bass, 1985; Sarros and Santora 2001; Judeh, 2010). Avolio and Bass (1995) in their research on individualized consideration indicated that individualized consideration consists of three multi-level constructs (organizational, team and individual level). Organizational level individual consideration refers to respect and trust that is core to organizational values. Individuals are considered as building block for organizational success. Team level individual consideration focus on raising the ability of the team. Specifically individual differences are recognized by team members as they provide advice for each other development. While the Individualized consideration level plays emphasis on each individual need, interest and capabilities into consideration in the organization (Avolio and Bass, 1995).

Besides, intellectual stimulation refers to transformational leadership behavior that encourages innovation, critical thinking, reframing problem and diagnosing old problems in new ways (Judeh, 2010; Sarros and Santora, 2001). Intellectual stimulation builds character, organizational skills as well as on the job learning. As such, organizational leader who intellectually stimulate followers will go a long way in boosting their morale and creativity hence accept challenges as part of their job

Inspirational motivation, on the other hand is transformational leadership behavior that emphasis leaders to continually motivate their followers inspirationally. The key element in inspirational motivation is motivating followers by raising their consciousness on organizational mission and vision. Leaders that are rated high on inspirational motivation communicate the vision of the organization in gesture and symbols usually followers react by willing to double their effort to achieve the organizational vision.

Dimensions of transactional leadership styles: According to Avolio and Bass (1995), transactional leadership is where leader-follower relationship is based on series of exchanges or bargains between leaders and followers. The main focus of this leadership style is on setting goals, clarifying the link between performance and rewards and providing constructive feedback to keep followers on task. Avolio and Bass (1995) further mentioned that transactional leadership consists of three dimensions; contingent reward, management by exception (passive) and management by exception (active).

According to Sarros and Santora (2001) contingent reward transactional leadership behavior is where the leaders reward followers for achieving and yielding specific performance of task. Generally, contingent reward

oriented leaders take note of the fact that people appreciate tangible reward for their effort, as such leaders tried to clarify what is expected from subordinate which must be achieve through using reward in exchange for good performance (Voon *et al.*, 2011).

Management by exception (passive) is a transactional leadership behavior that emphasizes leader intervention only when problems exist in organization. Leaders who apply management-by-exception styles have implicit believe and trust their subordinate in doing their tasks to a satisfactorily level of standard and avoid breaking the boat but they do not inspire their subordinates to achieve beyond and outstanding outcomes (Sarros and Santora, 2001).

Meanwhile, transactional leaders who engage in active management-by-exception styles usually involve in actively taking action when irregularities happen in organizations. Transactional leaders using active styles are characterized by high energy level and are optimistic on organizational success.

Influence of socio-demographic factors on leadership styles: Researchers investigating the proposed linkages between leadership styles and social demographic factors have found support for some proposed correlations and not for others. For example, transformational leadership has been found to be positively related to gender (Brown, 2003).

One of the social demographic factor that influence leadership styles is gender. The study of gender and leadership over the years has grown tremendously (Berdahl, 1996). A study conducted by Acker (1992) has found significant difference between male and female leaders in tasks accomplishment and interpersonal styles. According to the findings, males are found to be more in tasks oriented leadership styles whereas female a more into relationship-oriented leadership styles. More interesting in the finding is that experienced women holding leadership positions show no difference in their leadership abilities from their male counterpart (Acker, 1992).

Furthermore, Powell and Butterfield (2003) have found significant difference between male and female decision making skills. The research found women to be more democratic while men are somehow autocratic and directive in their approach. The implication of this has raised a lot of concern on the need for male managers to adopt a more cooperative and collaborative approach and servant leadership style.

Age is one of the factors that correlate with leadership styles even though very little research has been conducted in this area. Oshagbemi (2004) after

reviewing the literature on age's influence on leadership styles and behavior of managers asked respondents to rate their managers based on perceived leadership styles taking age of managers to draw a conclusion. In order to gather the data for age differences in leadership styles the questionnaire asked respondents to indicate their age. The result of the study indicated that older managers are found to be more consultative in decision making than younger managers. The differences in their consultative approach or behavior are statistically different at 95% confidence interval (Oshagbemi, 2004).

This finding supported earlier research conducted by Sessa *et al.* (2007) which also indicated that younger manager are more willing to take risks and take new approach in terms of decision making than the older managers. However, on participative leadership younger manager and older managers are consider to be statistically different as the result of the study indicated the former are more into participative leadership than the later. The test result showed a statistically significant rating at 95% confident interval. Participative leadership was explained in the questionnaire as the extent to which managers share decision making process with their subordinate to achieve their objectives (Oshagbemi, 2004).

Race is also another important factor that influences leadership styles. The importance of race in organizational settings cannot be over emphasizing. Globalization has created many challenges including that of culturally diverse employees. The challenge of many organizations is how to identify and select appropriate leaders that can manage these diverse employees.

Furthermore, many studies have addressed the theme of race and leadership. However, much research is needed in this area, especially in organizational settings as previous researches have concentrated mainly on political and social settings. One of the studies that tried to look at this phenomenon on organizational settings is the research of Ospina and Foldy (2009). The review started by asking fundamental question on leadership and race. The question was that how has leadership literature treated race right from inception? According to the review the field of leadership has increasingly find itself as the dynamic relationship between both leaders and followers emphasizing the collective dimension of both race and ethnicity (Ospina and Foldy, 2009).

The review showed that leaders prefer to work with employees that are more cooperative while the employees prefer to work with someone from the same race. More research is needed in this area to find out motivation of employees working based on racial segregation.

CONCLUSION

The current study reviewed several factors that influence leadership among top management in SMEs. These factors were classified into three: transformational, transactional and social demographic factors. Based on the review of literature on leadership styles across organizations, this study has found that the key elements that contribute to a successful leadership styles include inspirational motivation (Avolio and Bass, 1995), individualized consideration (Sarros and Santora, 2001) and management by exception-active (Tucker and Russell, 2004).

Transformational and transactional leadership research across organizations has consistently revealed the same pattern of result in the past 10 years. These ideas could be used by future researchers in further exploring on the issue of leadership styles among top management in small and medium size enterprises.

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