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## The Effect of Leadership Style and Organizational Culture on Performance of Small and Medium Enterprises in Jigjiga City: A Literature Review

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**Key words:** Leadership style, organization culture, performance of Small and Medium Enterprises (SMEs)

**Abstract:** The formula for good management of Small and Medium Scale Enterprises (SMEs) is simple enough to develop a sound plan, design appropriate organizational structure, to implement the plans and monitoring the performance of the business. This research study examined the relationship between, leadership styles, organizational culture and organizational performance. In other words, it looked at the effects of a leadership styles and organization's culture uses on its overall performance. Therefore, the problem of this study is to determine whether leadership styles and organizational culture affect organizational performance. The main objectives of this research are to assess whether leadership styles affect organizational performance and to assess whether organizational culture affects organizational performance. The research is a conceptual research. Explanatory research design is used in the study. And all data used in this research are obtained from secondary sources. That is, they are data from the findings of previous research works on leadership and culture on performance. The findings of this study have also shown that leadership styles have significant effects on organizational performance. While autocratic leadership style is not a good form of leadership as it decreases performance autocratic leadership style leads to high overall performance. Furthermore, the results of the research have shown that transactional leadership style and transformational leadership style also lead to high organizational performance.

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### INTRODUCTION

The formula for good management of Small and Medium scale Enterprises (SMEs) is simple enough to develop a sound plan, design appropriate organizational

structure, to implement the plans and monitoring the performance of the business. But these activities are easier said than done. According to Lawal<sup>[1]</sup>, good leadership is a pre-requisite for effective accomplishment of these tasks. However, they opined that an entrepreneur has

different leadership roles to play; he is the chief risk bearer, chief administrator and strategy implementer, crises solver, figure head, spokes person, policy maker. Stoner and Gilbert<sup>[2]</sup>, stressed that an understanding of leadership is important to Small and Medium scale Enterprises (SMEs) because leadership binds subordinates to work together and stimulate employees motivation. Also, leadership assists in management development and training, effective leadership provides the building block for organizational performance. It is absolutely essential to the survival and growth of every organization.

Baumbach<sup>[3]</sup> and Lawal<sup>[1]</sup> pointed out that sometimes, an entrepreneur in most cases who is the leader in SMEs needs to be authoritarian in style, for example takes all his decisions, issues instructions and expects others to carry them out without question or debate and sometimes, a participative style (where the entrepreneur makes decision on the basis of consensus or agreement) works best. However, leadership roles of small and medium scale enterprises (SMEs) may be highly visible and extensive, time committed while at times, the leadership roles may be less demanding and require a brief ceremonial performance with the details delegated to subordinates.

Leadership is what leaders do Robbins and Coulter<sup>[4]</sup>. Saasongu<sup>[5]</sup> defined leadership as the individual behavior to guide a group to achieve a common target. Fry explained leadership as the use of leading strategy to offer inspiring motive and to enhance staff's potential for growth and development. Leadership is the process of influencing a group to achieve goals<sup>[4]</sup>. Edoka<sup>[6]</sup> defined leadership as the process by which one person influences the thoughts, attitudes and behavior of others. There are several styles of leadership that leaders or business executives apply in the course of running their organizations. There is "Delegative or Free Reign Leadership Style." There is also "Autocratic Leadership Style." Other styles of leadership are: transactional leadership, transformational leadership, laissez-faire leadership and charismatic leadership. All these styles of leadership are explained in detail in the literature section of this study. On the other hand, organizational culture refers to shared values, principles, traditions and ways of doing things that influence the way organizational members act<sup>[4]</sup>. Tichy defined organizational culture as the "normative glue" that holds an organization together. Forehand and Gilmer suggested that organizational culture is the set of characteristics that describe an organization and distinguish it from others. Schein defined organizational culture as the shared philosophies, ideologies, beliefs, assumptions, expectations, attitudes, norms and values in organizations.

Organizational performance is the ability of an enterprise to achieve such objectives as high profit,

quality product, large market share, good financial results and survival. According to Saasongu<sup>[5]</sup> organizational performance is a term used to refer to how an enterprise is doing in terms of level of profit, market share and product quality in relation to other enterprises in the same industry. Consequently, organizational performance is a reflection of productivity of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of an organization<sup>[5]</sup>.

Understanding the effects of organizational culture and leadership style on organizational performance is important because organizational culture and leadership style are considered as the key driving forces for improving performance in organizations. Organizational culture and leadership style are seen as potent sources of management development and they help sustain competitive advantage in organizations. Visionary business leaders develop excellent organizational cultures and styles of leadership, communicate those cultures and leadership styles to their subordinates and build commitment towards the cultures and leadership styles they have developed. Zhu, etc., stated that excellent leadership styles and strong organizational cultures result in high levels performance in organizations. Mehra, etc., argue that when organizations seek efficient ways to enable them outperform others; a long standing approach is to develop excellent leadership styles and cultures.

From this consideration, this study is intended to evaluate the effect of leadership styles and organizational culture on the performance of small and medium enterprises, contribute to observed studies on leadership style and organizational culture on business performance, proffer recommendations for policies and programmers to reposition the small scale enterprises as integral part of the engine of economic growth and development in Jigjiga City.

**Statement of the problem:** Many organizations in Jigjiga SMEs die or close down after few years of their establishments due to use of inappropriate style of leadership and inability to create and manage strong organizational culture, norms and values. In 2008, the small and medium enterprises development agency of Somalia regional state reported that most businesses in Jigjiga SMEs die before their fifth anniversary due a number of reasons. Inappropriate leadership style and poor organizational culture could be one of the reasons for high failure of organizations in the country. Leadership and organizational culture are the backbone of every organization. They assist in enhancing overall organizational performance, effectiveness and productivity. The style of leadership adopted in an organization is a pre-requisite for effective accomplishment in such an organization. The leadership

style applied in an organization determines the level of subordinate participation in decision making in the organization and the way the organization is run administratively. Organizations which are low in efficiency tend to have leaders who are highly bossy. Decision making is centered on them alone. The problem with most organizations in Jigjiga SMEs is that their leaders are not democratic in their relationship with subordinates. In fact, leaders in most Jigjiga SMEs organizations are usually authoritarian in style. They dictate the tune and have the administration of their organizations centered on them. Another problem of leadership style in Jigjiga SMEs organizations is the incompetence of leaders appointed in organizations. In most organizations in Jigjiga SMEs leaders or executives are not appointed based on merit. They are mostly appointed based on how well-connected they are. As a result such organizations end up having incompetent leaders who lack the ability to use the appropriate leadership styles to lead organizational members and attain set goals and objectives. Moreover, most organizations in Jigjiga SMEs lack leaders who can create and manage strong organizational culture. As Ahmed and Shafiq<sup>[7]</sup> stated that “the only thing of real importance that business leaders do is to create and manage culture. If you do not manage culture, it manages you and you may not even be aware of the extent to which this is happening.” So, based on the discussion above, the problem of this research is to determine whether organizational culture and leadership style affect performance in order to know that how an organization’s culture and its style of leadership assist in enhancing the productivity or the performance of the organization. Therefore, the purpose of this study is focus on effect and leadership styles and organizational culture on the performance of Small and Medium Enterprises by taking as a case study in Jigjiga City.

**Objectives of the Study:** As the General objective of this research was effect of the organizational culture and leadership styles on the performance of SMEs in Somali regional state in Jigjiga City. Based on the general objective, the specific objectives was:

- To assess the effect of leadership styles on performance of small and medium enterprise
- To assess the effect of the organizational culture on performance of small and medium enterprise

**Research questions:**

- What are the effects of leadership style on performance of small and medium enterprise?
- What are the effects of organizational culture on performance of small and medium enterprise?

**Research hypothesis:**

- H<sub>1</sub>: leadership style affects performance of small and medium enterprise
- H<sub>0</sub>: leadership style does not affect performance of small and medium enterprise
- H<sub>1</sub>: Organizational culture affects performance of small and medium enterprise
- H<sub>0</sub>: organizational culture does not affect performance of small and medium enterprise

**Literature review**

**Conceptual framework:** Organizational culture has been defined in various ways by so many people. DuBrin<sup>[8]</sup> defined organizational culture as the system of shared values and beliefs that actively influence the behavior of organizational members. DuBrin<sup>[8]</sup> further stated that the term “shared” in the definition implies that many people are guided by the same values and that they interpret them in the same way. Organizational culture represents the dominant culture that affects the stakeholders of the organization as it affects the way things are conducted in the organization<sup>[9]</sup>. Leadership has been defined in various ways by many scholars. DuBrin<sup>[8]</sup> said that Leadership is the ability to inspire confidence and support among the people who are needed to achieve organizational goals. Anyango<sup>[10]</sup> defined Leadership as the process by which employees are directed, guided and persuaded towards achieving both their personal and organizational goals and objectives. There are several styles of leadership and they discussed as following; democratic leadership style; democratic leadership style is also called “Participative Leadership Style”<sup>[6]</sup>. This style involves the leader including employees in the decision making process (determining what to do and how to do it)<sup>[6]</sup>. Delegative or free reign leadership style; in delegate or free reign leadership style as Edoka<sup>[6]</sup> puts it, the leader allows the employees to make all decisions. However, the leader is still responsible for the decisions that are made<sup>[6]</sup>. Autocratic leadership style; According to DuBrin<sup>[8]</sup>, autocratic leadership style is a style of leadership in which a leader retains most of the authority for himself or herself and he/she is not generally concerned with employee’s attitudes toward decisions. This style is used when leaders tell their employees what they want done and how they want it accomplished without getting the advice of their followers<sup>[6]</sup>. Transactional leadership style; Robbins and Coulter<sup>[4]</sup> defined transactional leadership style as a style of leadership in which a leader leads primarily by using social exchanges or transactions. To Anyango<sup>[10]</sup>, transactional leadership style is a style of leadership that emphasizes transactions between leaders and subordinates. Transformational leadership style; transformational leadership style involves stimulating, inspiring and transforming organizational members or employees to achieve extraordinary outcomes<sup>[4]</sup>.

Laissez-Faire Leadership style; this is a style of leadership whereby a leader gives followers complete freedom to make decisions and carry out tasks in whatever way they saw fit<sup>[4]</sup>. Visionary leadership style; visionary leadership involves a leader creating and articulating a realistic, credible and attractive vision of the future that improves upon the current situation<sup>[4]</sup>. Charismatic leadership style; this style of leadership involves leading or influencing others based on personal charm, magnetism, inspiration and emotion<sup>[8]</sup>. Organizational performance on the other hand, may be defined as the accumulated end results of all the work activities of an organization<sup>[4]</sup>. Baum and Blackwell defined organizational performance as the actual output or results of an organization as measured against its intended outputs or goals and objectives.

**Theoretical framework:** This research falls within the framework of culture, leadership styles and performance. Therefore, the researcher identified Trice and Beyer's Dynamic Capabilities Theory and Hersey and Blanchard's Situational Leadership Theory to support this study. The Dynamic Capabilities Theory developed by Trice and Beyer states that for an organization to gain competitive advantage, improve its overall performance and survive in the dynamic and complex business environment, it needs to have the capability or the ability to acquire, build and utilize resources efficiently. On the other hand, Hersey and Blanchard's Situational Leadership Theory states that successful leadership in an organization is achieved by selecting the right style of leadership which is contingent on the level of organizational members' readiness. The theory focuses on organizational member's or employee's readiness. "Employees' Readiness," according to Hersey and Blanchard refers to the extent to which employees have the ability and willingness to accomplish tasks in an organization. This research study, as stated above, is supported by the "Dynamic Capabilities Theory" and the "Situational Leadership Theory."

## **MATERIALS AND METHODS**

In this study, the research design adopted is explanatory research design. Explanatory research design was adopted because it involves the analysis of the relationships between variables in this case between organizational culture, leadership style and performance. Moreover, secondary data is used throughout the study. All secondary data was collected from reviewing existing textbooks, journals, previous researches, newspaper articles, etc. The target population of this study includes all the findings of previous research studies conducted on the effects of leadership style and organizational culture on performance of small and medium enterprises. In this

study, simple random sampling technique is used to determine the sample size for the research. Simple Random Sampling is a sampling technique in which all units in the population have the same chance (or probability) of being included. After applying this technique, the researcher determined the sample size of the research to be 20 research reports conducted on the effects of leadership style and organizational culture on performance of small and medium enterprises.

## **RESULTS AND DISCUSSION**

### **Findings**

**Discussion of findings on how leadership styles affect performance of SMEs:** The first objective of this research, as stated in the objectives section of this study, is to find out whether leadership style has any effect on an organization's overall performance. After reviewing the sample researches selected from the huge population of research reports on leadership styles and performance, the researcher observed that leadership styles affect organizational performance in the following ways: effective leadership style is one of the key driving forces for improving organizational performance. Effective leadership style is an indispensable tool for organizational performance improvement<sup>[6]</sup>. Transactional leadership style improves organizational performance by helping organizations to achieve their objectives more efficiently through the linking of employee job performance to valued rewards. The style of leadership used by a leader in an organization has a considerable effect on the performance or productivity of the organization. The success of every organization is attributed to leadership efficiency. Leadership style has a significantly positive correlation with organizational performance<sup>[11]</sup>. Howell, etc., also observed that there is a positive relationship between the leadership style of an organization's leader and overall organizational performance. Transformational leadership style has a positive correlation with organizational performance. Rush found out that democratic leadership style improves an organization's overall performance. Autocratic leadership style decreases organizational performance because it causes employee grievances and frustration. Leadership styles have significant and substantial effects on the performances of both small and large organizations.

**Discussion of findings on how organizational culture affects performance of SMEs:** As stated in the second section of this paper, one of the objectives of this study is to determine whether organizational culture affects organizational performance. After going through the sample of research studies on organizational culture and performance selected randomly from the huge population of studies conducted previously, the researcher observed

that organizational culture greatly affects organizational performance in the following ways: organizational culture enhances organizational performance by making employees become committed to the philosophy and values of their organizations. If an organization has an excellent culture, its overall performance will improve because the excellent culture that it has will serve as a control mechanism to channel the behaviors of its employees from undesired behaviors toward desired behaviors through the use of the norms and values stated in the culture. Organizational culture increases an organization's overall performance by facilitating communication and decision making and by creating cooperation among organizational members. A positive organizational culture supports adaptation and enhances employees' job performance by motivating them toward the attainment of corporate objectives. This will eventually improve organizational performance. A high degree of organizational performance is related to an organization which has a strong culture with well integrated and effective set of values, beliefs and behaviors. Strong culture in an organization is very helpful to enhance the performance of the employees thereby leading to achievement set goals and increase in the overall performance of the organization. The norms and values of an organization may be invisible. Yet, they have a great impact on the organization's performance and profitability. Good organizational culture is what distinguishes truly high-performing organizations from the rest. Organizations with excellent cultures have greater revenue increases, larger workforce expansions, larger increases in share prices, larger improvements in net income and higher overall performances than those with weak cultures. Corporate culture has a significant effect on an organization's performance<sup>[9]</sup>.

### **CONCLUSION**

This research study mainly discussed the relationship between organizational culture, leadership styles and organizational performance. In other words, the study looked at how an organization's culture and style of leadership affect its performance. The results or findings of the research showed that organizational culture and leadership styles can have both positive and negative effects on performance. The existence of a good and strong culture in an organization can improve performance by making the organization's workers become so committed to the philosophy, values and norms stated in the culture. Another way that organizational culture can affect organizational performance is that an excellent culture creates cooperation among organizational members and it facilitates communication and decision making. When there is cooperation among employees, their performances

will increase and such increase in employees' individual performances leads to higher overall organizational performance. Similarly, when there is ease of communication and decision-making, information can be transferred very fast from top management to lower-level employees and decisions will be made very fast. This will eventually result in improved organizational performance. The findings of this study have also shown that leadership styles have significant effects on organizational performance. While autocratic leadership style is not a good form of leadership as it decreases performance autocratic leadership style leads to high overall performance. Furthermore, the results of the research have shown that transactional leadership style and transformational leadership style also lead to high organizational performance.

### **RECOMMENDATIONS**

In view of the results of this research, the following recommendations would be helpful to organizations operating in Jigjiga city, SMEs, especially in helping them overcome some of the leadership and culture management challenges that they are facing.

First, Jigjiga City, SMEs, organizations should try to create, manage and sustain strong cultures. Since, this research study has shown that an excellent and strong organizational culture will enable an organization to gain competitive advantage and survive in today's complex and dynamic business environment, it is strongly recommended that organizations in this country (both small and large) review their cultures, norms and values and make them stronger.

Second, on leadership styles, it is strongly recommended that leaders of SMEs Jigjiga City, use democratic leadership style or transformational leadership style or transactional leadership style. But not autocratic leadership style. This is because the results of this research have shown that democratic, transformational and transactional styles of leadership all have positive effects on organizational performance while autocratic or Authoritarian style has a negative effect on performance.

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