

## **STUDYING THE EFFECT OF LEADERSHIP STYLES ON THE BUSINESS PERFORMANCE OF SMES IN SOUTH-EASTERN REGION**

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**ABSTRACT:** *This study aims to explore the effect of leadership styles on the business performance of SMEs in South-Eastern region. The research result is a science evident for managers to improve the business performance. The researcher surveyed 250 managers of small and medium enterprises (SMEs) and answered 12 questions but 212 samples processed. The primary sources of data collected from July 2017 to November 2018 in South-Eastern region. Simple random sampling technique. The Data analyzed Cronbach's Alpha and the exploratory factor analysis (EFA), which used for multiple linear regression and using partial least squares method. Managers' responses measured through an adapted questionnaire on a 5-point Likert scale. In addition, the findings of the study have two factors affecting the business performance of SMEs in South-Eastern region with significance level 0.05.*

**KEYWORDS:** Leadership, SMEs, Business, Performance, BRVT.

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### **INTRODUCTION**

Leadership styles are one of the skills managers need to manage a good team and advance at work. However, leadership does not mean that you always apply only one style of leadership to every different employee, but you need to choose a leadership style that suits each employee's level. Many people fail to manage the team because they are not aware of this, they set too high requirements for new employees or give good employees too little space to be active and creative at work. That makes subordinates lacking confidence in the head, or still submissive but do not feel comfortable to fulfill their capabilities. Therefore, if you want to exploit the most human resources of the team or the company (ie talent, intelligence, enthusiasm... of the employees), the leader needs to understand the style. Different ways of leadership and ways to apply them in the management of employees or teams.

Besides, when the market economy has officially become a member of WTO, the economic demand as well as the capacity of organizations, companies and manufacturers. It is also very important to be able to stand firm in the competitive market. So, leadership style can be understood simply as a way of working for leaders. A good leader is a leader with a rational leadership style to meet the different needs of employees, both promote personal and collective strength in team activities or business production. Therefore, the researcher chosen topic "*Studying the effect of leadership styles on the business performance of SMEs in South-Eastern region*" as a paper. This paper helps SMEs managers who apply the research results for improving policy on the management of the enterprises better in the future.

## LITERATURE REVIEW

### **The concept of the business 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... Business performance management is contained within approaches to business process management. Business performance is a way of monitoring the methods a company uses to reach its goals and then using data to find better methods. The idea of monitoring management procedures to develop effective methods for reaching goals has been around since business first began. Even the great warriors of ancient China understood the need to monitor processes and adjust based on the results. Business performance management was developed as a way to streamline this monitoring process and develop a more efficient way of achieving corporate goals. (Dvir, T., Eden, D., Avolio, B. J. & Shamir, B., 2002).

### **The concept of the transactional leadership style**

Transactional leadership style is seen as those who guide or motivate their followers in the direction of established goals by clarifying role and tasks requirements (Arinaitwe, S. K., 2006). Transactional leadership is created based on the basis of exchange between leaders and followers. Transactional leaders tend to stimulate their followers with rewards in an exchanged based relationship. Accordingly, the leader-member exchange is dependent upon rewards. The leaders will offer the rewards based on what was discussed in the employees' formal contract. The relationship expires as stated in the terms of the contract or will be invalidated if promised rewards are delayed or not accomplished. Rewards may be seen as positive or negative and may not necessary be a financial. (Barling, J., Weber, T., & Kelloway, E.K., 1996) state that transactional leadership believed reward system is necessary between leaders and followers for the objective of advancing their personal goals. They define transactional leadership as "an exchange process in which the leader provides rewards in return for the subordinate's effort and performance". (Dvir, T., Eden, D., Avolio, B. J. & Shamir, B., 2002) finds that transactional leadership is the elementary factor to organizational success at both team and individual level and that transactional leadership behavior has vital relation with group and individual performance factors. Based on these discussions, the following hypothesis is formulated.

*H1: There is a significant positive relationship between transactional leadership style and business performance of SMEs.*

### **The concept of the transformational leadership style**

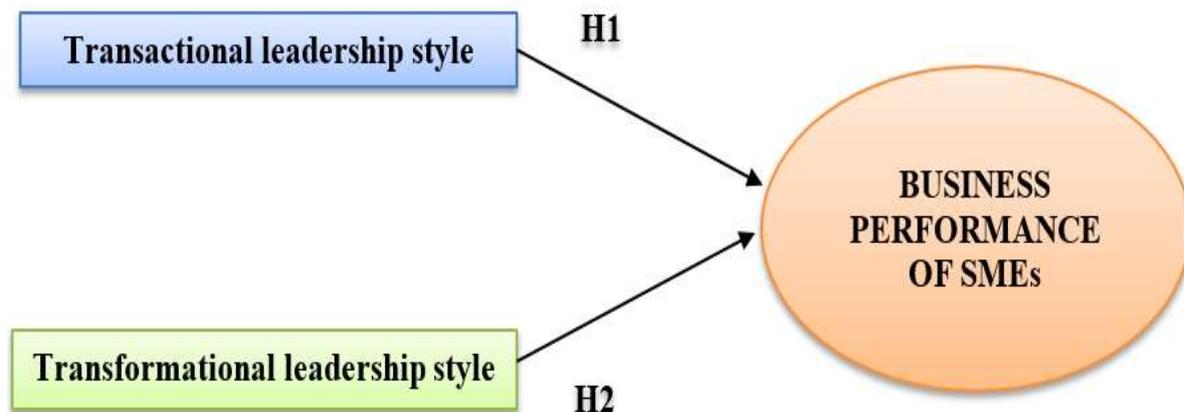
Transformational leadership style can lead to high-performing organization due to the supportive, participative, collaborative leader-follower relationship that evolves in an organization (Feinberg, J. B., Ostroff, C., & Burke, W. W., 2005). The employees are empowered and feel compelled and dedicated to assist in accomplishing the goals and objectives of the organization. (Howell, J. M., & Avolio, B. J., 1993) stated that transformational leaders promote and encourage cooperative decision making and problem solving.

Likewise, (Kwasi, D. , 2015) concur that in order for an organization to achieve the goals and objectives as well as gain the cooperation, its leaders encourage employees to grow and develop, set high goals for them, offer emotional support and direction, identify and work

individually and as a team, to develop their abilities and capabilities. (Manaf, A. H. A. & Latif, L. A. , 2014) find that the ability of transformational leaders to communicate, support, appreciate and develop followers helps promote the trusting relationship between the members of the organization. Studies by previous researchers have shown that, there is strong correlation between transformational leadership with organizational performance. This strong correlation has been proven by (Oncer, A. Z., 2013) with numerous different measures. Such researches have correlated the transformational leadership with supervisory assessments of managerial performance that are able to show that followers achieved better results under transformational leaders than other types of leadership styles after measuring the effect of transformational leadership. A positive and moderate correlation was also found between transformational leadership and the job satisfaction agreed and support that transformational leadership positively influenced job satisfaction. Following the analysis of the relationship between leadership and physical distance unit performance, (Manaf, A. H. A. & Latif, L. A. , 2014) find that transformational leadership positively predicted unit performance. Transformational leadership was positively linked to organizational performances and the chief executive officers hold a vital role in the firm's success. Based on these discussions, the following hypothesis is formulated:

*H2: There is significant positive relationship between transformational leadership style and business performance of SMEs.*

**The briefly demonstrates proposed model used in this study, following:**



(Source: The researcher proposed)

**Figure 1: Research model for factors affecting the business performance of SMEs**

**Table 1: Coding of the observed variables**

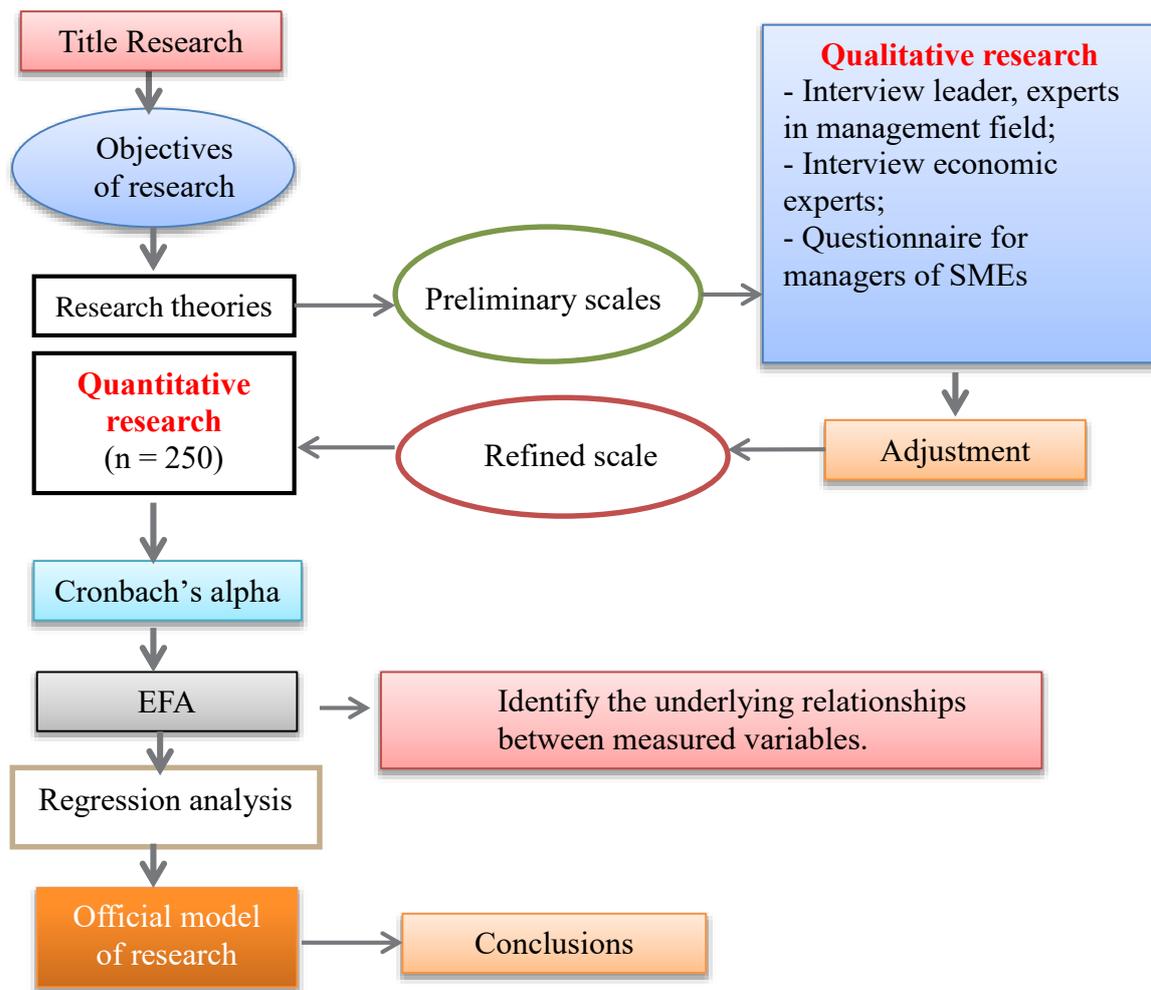
<b>Code</b>	<b>Transactional leadership style (TL)</b>
TL1	Managers clearly tell my employees what is expected of them to get a reward
TL2	In my organization, we reward employees when they meet the set goals solving techniques
TL3	Managers clearly state the rewards associated with a certain output beforehand
TL4	It pleases manager when my employees meet the set goals and targets
TL5	Managers clarify the job specifications so that employees know the standards they have to meet them standards they have to meet questioned before
<b>Code</b>	<b>Transformational leadership style (TRL)</b>
TRL1	Employees enjoy for working the company
TRL2	Managers challenge the employees to develop new problem-solving techniques
TRL3	Managers express with a few simple words what we could and should do
TRL4	Managers train the employees to be creative to improve the way they view things around them
<b>Code</b>	<b>The business performance of SMEs (BP)</b>
BP1	Transactional leadership style (TL) affecting the business performance of SMEs (BP)
BP2	Transformational leadership style (TRL) affecting the business performance of SMEs (BP)
BP3	The business performance of SMEs will improve in the future

*(Source: The researcher' collecting from literature reviews and related studies)*

Table 1 showed that there are three components in in this study following. Component 1: Transactional leadership style (TL); Component 2: Transformational leadership style (TRL) and Component 3: The business performance of SMEs (BP). Table 1 showed that there are 12 items.

## **METHODS OF RESEARCH**

In this study, the researcher applied both qualitative and quantitative methods that are in practice the business performance of SMEs into the research process. Besides, the researcher discuss the stepping of the research process and the different considerations which apply in different phases (Hoang Trong and Chu Nguyen Mong Ngoc, 2008). The research process for factors affecting the business performance of SMEs conducted in many steps following (Figure 2).



**Figure 2: Research process for factors affecting the business performance of SMEs**

Figure 2 showed that this study conducted in many steps following:

Step 1: The researcher is to find the research problem and literature reviews.

Step 2: The researcher is to find search the related studies and give the informal questionnaire. Customers' responses measured through an adapted questionnaire on a 5-point Likert scale (Conventions: 1: Completely disagree, 2: Disagree, 3: Normal; 4: Agree; 5: completely agree).

Step 3: Quality research: the researcher applied the expert methodology and based on more than 30 experts' consultation and based group discussions that are to improve the scale and design of the questionnaire (Hoang Trong and Chu Nguyen Mong Ngoc, 2008).

Step 4: The researcher edits the scale.

Step 5: The researcher forms the questionnaire.

Step 6: The researcher has formal quantitative research.

Step 7: The researcher has the analysis of the Cronbach Alpha.

- Testing of Cronbach alpha  $< 0.6$  (Cronbach's Alpha if Item deleted).

- Testing of Corrected Item-Total Correlation.

Any observational variables with a total correlation coefficient greater than 0.3 and Cronbach's Alpha coefficient greater than 0.6 would ensure reliability of the scale.

Step 8: The researcher has the analysis of EFA.

- Testing of KMO and Bartlett's test.

- Testing of % of Variance.

The researcher has to test scale reliability with Cronbach's alpha coefficient and exploratory factor analyses (EFA) were performed. The criteria required in the EFA include: (1) Eigenvalue  $\geq 1$ ; (2) total variance explained  $\geq 50\%$ ; (3) KMO  $\geq 0.5$ ; (4) Significance (Sig.) coefficient of the KMO test  $\leq 0.05$ ; (5) factor loadings of all observed variables are  $\geq 0.5$ ; and (6) weight difference between the loadings of two factors  $> 0.3$  (Hair, J.F., Jr.; Black, W.C.; Babin, B.J.; Anderson, R.E, 2014).

Step 9: The researcher has the analysis of multiple linear regression.

- Testing of model hypothesis.

- Testing of Model based control variables.

Finally, step 10: The researcher has the managerial implications.

## RESEARCH RESULTS

**Table 1: Descriptive statistics for factors affecting the business performance of SMEs**

Code	N	Minimum	Maximum	Mean	Std. Deviation
TL1	212	1	5	2.83	.940
TL2	212	1	5	2.92	.894
TL3	212	1	5	2.84	.876
TL4	212	1	5	2.86	.923
TL5	212	1	5	2.84	.839
TRL1	212	1	5	2.71	1.317
TRL2	212	1	5	2.70	1.292
TRL3	212	1	5	2.86	1.327
TRL4	212	1	5	2.82	1.333
BP1	212	2	5	3.27	.585
BP2	212	2	5	3.24	.755
BP3	212	2	5	3.38	.682
Valid N (listwise)	212				

(Source: The researcher's collecting data and SPSS 20.0)

Table 1 showed that the mean of items and Std. Deviation are around 3.0 and 1.0. The value of minimum is 1.0 and maximum is 5.0.

### The scale reliability tests for factors affecting the business performance of SMEs

**Table 2: The scale reliability tests for factors affecting the business performance of SMEs**

Items	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
TL1	11.47	10.468	.868	.936
TL2	11.37	10.755	.866	.936
TL3	11.45	10.514	.943	.922
TL4	11.43	10.910	.799	.948
TL5	11.45	11.263	.829	.942
<b>Cronbach's Alpha for transactional leadership style</b>				<b>0.949</b>
TRL1	8.38	12.474	.693	.874
TRL2	8.39	12.248	.745	.854
TRL3	8.23	11.307	.849	.813
TRL4	8.27	12.216	.714	.866
<b>Cronbach's Alpha for transformational leadership style</b>				<b>0.885</b>
BP1	6.62	1.517	.442	.636
BP2	6.66	1.137	.490	.581
BP3	6.51	1.218	.540	.503
<b>Cronbach's Alpha for the business performance of SMEs</b>				<b>0.673</b>

(Source: The researcher' processing SPSS 20.0)

Table 2 showed that all of variables surveyed Corrected Item-Total Correlation greater than 0.3 and Cronbach's Alpha if Item deleted greater than 0.6 and Cronbach's Alpha is very reliability. Such observations make it eligible for the survey variables after testing scale. This showed that data was suitable and reliability for researching.

Table 2 showed there are 250 managers of SMEs surveyed by hard copy distributed among more than 30.000 SMEs in South-Eastern region. All data collected from the questionnaire are coded, processed by SPSS 20.0. Any observational variables with a total correlation coefficient greater than 0.3 and Cronbach's Alpha coefficient greater than 0.6 would ensure reliability of the scale. The next step for KMO and Bartlett's test for factors following:

**Table 3: KMO and Bartlett's test**

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.801	
Bartlett's Test of Sphericity	Approx. Chi-Square	1789.809
	df	36
	Sig.	.000

(Source: The researcher' processing SPSS 20.0)

Table 3 showed that KMO is an index used to examine the appropriateness of factor analysis. KMO value significantly larger factor analysis is appropriate. KMO coefficient is 0.801; Sig is 0.000.

**Table 4: Initial Eigenvalues testing for factors of affecting the business performance of SMEs**

Com.	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings <sup>a</sup>
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	4.484	49.823	49.823	4.484	49.823	49.823	4.289
2	2.701	30.011	79.834	2.701	30.011	79.834	3.152
...	...	...	...				
8	.110	1.219	99.369				
9	.057	.631	100.000				

**Structure Matrix**

Code	Component	
	1	2
TL3	.967	
TL1	.919	
TL2	.915	
TL5	.891	
TL4	.868	
TRL3		.927
TRL2		.859
TRL4		.838
TRL1		.823

(Source: The researcher' processing SPSS 20.0)

Table 4 showed that KMO is an index used to examine the appropriateness of factor analysis. KMO value significantly larger factor analysis is appropriate. KMO coefficient is 0.801 and the level of significance (Sig) is 0.000; cumulative % is 79.834. There were two components following: (1) transactional leadership style and (2) transformational leadership style.

**Table 5: Coefficients from the multiple linear regression**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	2.487	.160		15.554	.000		
Transactional leadership style	.094	.041	.145	2.263	.025	.962	1.039
Transformational leadership style	.196	.030	.422	6.596	.000	.962	1.039

**a. Dependent Variable: the business performance of SMEs**

(Source: The researcher's collecting data and SPSS)

Table 5 showed that column "Sig" < 0.05 with significance level 0.05 and Sig. column "Conclusion" H1: supported; H2: supported. This showed that two factors affecting the business performance of SMEs with significance level 0.05. Two components following: (1) transactional leadership style and (2) transformational leadership style.

**CONCLUSIONS AND MANAGERIAL IMPLICATIONS****Conclusions**

This study found that two factors two factors affecting the business performance of SMEs with significance level 0.05. Two components following: (1) transactional leadership style ( $\beta = 0.145$ ) and (2) transformational leadership style ( $\beta = 0.422$ ).

This study is to find out the transformational leadership style ( $\beta = 0.422$ ) affected stronger than transactional leadership style ( $\beta = 0.145$ ) with significance level 0.05. The researcher surveyed 250 managers of SMEs (212 samples processed) and answered 12 items. Data collected from July 2017 to November 2018 in South-Eastern region. The Cronbach's Alpha had been analyzed, KMO test and the result of KMO analysis which used for multiple linear regression. Managers' responses measured through an adapted questionnaire on a 5-point Likert scale (Conventions: 1: Completely disagree, 2: Disagree, 3: Normal; 4: Agree; 5: completely agree). The researcher had managerial implications policymaker of SMEs continued to improve the business performance.

**Managerial implications****Managerial implications for the transformational leadership style**

With this style, managers are people who should be all the power and make decisions. They often assign jobs and show their employees how to perform those tasks and should listen to staff comments. There are many ideas that dictate/dictate leadership style limits work efficiency and creates a stressful atmosphere for the team. However, this style does not mean that you often scold and wrongly tell employees, and if the right circumstances apply, this style promotes its effectiveness. This style can be applied well in the following cases: (1) The first phase of forming a team: At this stage, the team members still do not understand each other

well, the task and direction are not clear so leaders need to use authoritarian style to create unity about the goals, ways of working and decisions of the team. (2) For new employees, immature working experience: These employees often feel awkward with the new working environment, not fully understand how to work in the company. Therefore, with this situation, managers must act as job handlers and instruct employees in a specific and detailed way, helping employees better integrate with the working environment and other employees. (3) Short-term decision-making situations: In these situations, with pressure to make decisions and time constraints, this leadership style is needed to solve the problem.

### **Managerial implications for transactional leadership style**

This style manager is able to divide his management power, enlist subordinate opinions and allow them to participate in discussions to make decisions. However, the main decision maker is still the leader. This leadership style is considered the style that brings the highest efficiency. However, to apply this style best when meeting the following conditions: (1) The manager is the one who understands the problem but needs more comments and information from the subordinates to handle the problem. (2) Teams must be relatively stable in order and personnel, team members must be those who have a clear understanding of the work, tasks and ways to conduct work.

In fact, each leader often has his own ways of managing his employees. However, each of the leadership styles mentioned above has advantages and disadvantages, so it is necessary to know how to coordinate to lead reasonably in each stage, each case. When choosing which style of leadership, managers need to consider based on many factors at the same time, such as time allowed, type of task, level of work pressure, staff level, term relationships in the team, who knows the information... However, good leaders are those who coordinate and flexibly use all two of these leadership styles in specific cases.

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