

LEADERSHIP AND PERFORMANCE: THE CASE OF AUSTRALIAN SMEs IN THE SERVICES SECTOR

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ABSTRACT

The population of this study comprises the small and medium-sized categories of SMEs in the service sector in Australia. Services have become a driving force in the global economy representing the most dynamic sector in international commerce. In SMEs suitable leadership is important to organizational success and performance. The leadership style of the manager in large part may impact the behaviors of the followers and thus impact on organisational performance. This study aims to investigate the influence of leadership behaviours on the performance of Australian SMEs located in the services sector. 313 senior managers of services SMEs in Australia participated in the study. The results revealed that: a) there were significant relationships between leadership behaviours and growth of SMEs; b) there were insignificant relationships between leadership behaviours and profitability of SMEs, and c) transformational leadership contributed more significantly to SME growth than transactional leadership behaviour.

Keywords Transformational leadership, Transactional leadership, Organisational Performance, Services sector, SMEs, Australia.

1. INTRODUCTION

Small and Medium-sized Enterprises (SMEs) in both developing and developed countries act as a vital component in supporting economic development, innovation and promoting employment (Olughor, 2015, Malik et al., 2010). It is not surprising that SMEs are seen as the ideal way to improve sustainable growth by policymakers (Mbizi et al., 2013). In both developed and developing countries, SMEs are important for their contribution to the Gross Domestic Product(GDP) and living standards (Fouad, 2013).

Leadership in SMEs has been recognized as a key factor in affecting an organization's competitive advantage. Therefore, the role of leadership is a significant determinant of innovation and performance for SMEs (Saad et al., 2010). The role of leadership in improving organizational performance in SMEs has been supported in several studies (Uchenwamgbe, 2013, İşcan et al., 2014).

The purpose of this study is to examine the influence of leadership behaviours on the organisational performance of services SMEs in Australia. It is hoped that the results from this could provide evidence which leadership behaviour that would be most fitting to make sure better performance of the Australian SMEs. The following section will discuss the literature on the relationship between leadership behaviours and organisational performance. Based on this

discussion, hypotheses are developed and subsequently tested. The methodology and results of the research are then presented. The final section discusses the key findings.

2. Leadership and Organisational Performance

There are many factors linked with determining business performance of SMEs (Udoh and Agu, 2012) and leadership has been identified as a key factor in impacting on organizational performance (Mahdinezhad and Suandi, 2013). Leadership styles have been found to have a positive influence on team performance (Lehmann-Willenbrock et al., 2015), and organizational growth (Katou, 2015). Manager's leadership affects and guides organisational members toward obtaining organisational goals and performance (Ng et al., 2016). Different styles of leadership can affect organizational performance or efficiency in different ways (Wall et al., 2004, Ali and Ibrahim, 2014). The leader plays a key role to achieve a higher level of firm performance (Wang and Zhu, 2011). The leaders' performance is one of the significant indicators when evaluating organizational performance (Wall et al., 2004). There is a link between the profitability of SMEs and their ability to grow (Yazdanfar and Öhman, 2015). Therefore, it is important to understand how an organizational process such as leadership influence the performance and growth of SMEs (Oladele and Akeke, 2016). Existing studies show that leadership qualities (Crăciun et al., 2015) and leadership styles (İşcan et al., 2014, Franco and Matos, 2015) impact the performance of the SMEs. Leadership orientation of managers of SMEs (Chanut-Guieu and C. Guieu, 2014) is a significant success factor that influence on organizational performance among the SME firms.

The main leadership styles covered in the literature that links to performance are transformational and transactional leadership. Transformational leadership is believed to be capable to raise an organization to have a relatively higher level of performance and there is a positive relationship between transformational leadership and performance (Wang and Zhu, 2011). Ling et al. (2008) found that the relationship between transformational leadership and organizational performance is moderated by firm founder status, size, and CEO tenure. İşcan et al. (2014) found that transformational leadership had a strong impact on the performance and innovativeness of SMEs. Schaubroeck et al. (2007) and Wang et al. (2011) found similar results that there is a positive correlation between transformational leadership and performance at the team and organisation levels.

Tosi (1982) noted that transactional leadership styles focus on enhancing hierarchical structure, performing strategies, and rewarding performance of the employee and demonstrate active management by exception behaviour to correct mistakes so that they can dedicate significant contribution to enhance organizational performance (Tosi, 1982). There is a significant positive relationship between transactional leadership and business performance of SMEs (Mgeni and Nayak, 2016, Ali and Ibrahim, 2014, Aziz et al., 2013, Koech and Namusonge, 2012). On the other hand, Voon et al. (2011) found a significant negative relationship between transactional leadership and business performance (Voon et al., 2011). According to recent research, transformational leadership has a stronger impact on SME performance than transactional leadership (Mekraz and Gundala, 2016, Mgeni and Nayak, 2016).

From the literature on leadership and organisational performance, and the different processes attached to transformational and transactional leadership, the following sections set out the framework and hypotheses guiding the research.

3. Research Framework and Statement of Hypotheses

The following shows the research framework developed for this study.

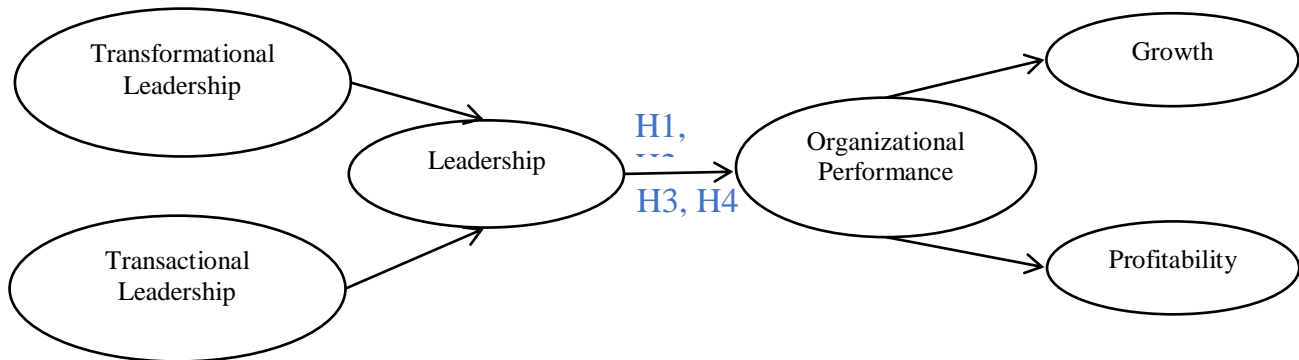


Figure 1. Statement of Hypotheses

From the literature review the following hypotheses were tested:

Hypothesis 1: Transformational leadership is significantly and positively related to growth.

Hypothesis 2: Transactional leadership is significantly and positively related to growth.

Hypothesis 3: Transformational leadership is significantly and positively related to profitability.

Hypothesis 4: Transactional leadership is significantly and positively related to profitability.

3.2 Research Methodology

A quantitative research method was employed to investigate the relationships between leadership behaviours and organisational performance of services SMEs in Australia. The quantitative data measured the extent of relationships between variables and tested proposed hypotheses. A total of 313 useable responses were received from 4300 invitations sent on LinkedIn to SMEs senior managers and the survey was conducted through Qualtrics. The leader of a SME is represented by either the top manager or the owner, who is the person familiar with the strategic direction of the firm (Keh et al., 2007, Cegarra-Leiva et al., 2012).

3.3 Research Instrument

A self-reporting instrument was developed for this study in the form of a questionnaire containing a total of 48 items in three sections: leadership behavior (32 items), Organizational organizational performance (8 items), and background of business/participant (8 items). Section 1 contains the measurements for leadership behavior that were adopted from the Multifactor Leadership Questionnaire (MLQ) by Bass and Avolio (2004). The responses are measured on a five-point Likert scale that ranged from 0 (Not at all) to 4 (Frequently, if not Always). Section 2 measures the organizational performance construct through growth and profitability. The measurement of these factors was adopted by Matzler et al. (2008) and Tan (2007). To standardize the scaling format of the research instrument, all items for organizational performance were also measured on five-point Likert scales ranged from 0 (Strongly Disagree) to 4 (Strongly Agree). Section 3 collects data on the background of the respondents.

4. Results

The results of the linear regression analysis for testing hypotheses 1, 3 and 4 are summarized in table 1.

Table 1: Regression Test Results for Hypotheses 1&3

| | Growth | Profitability |
|---------------------------------|----------|---------------|
| Independent Variables | | |
| H1: Transformational Leadership | 0.29*** | |
| H3: Transformational Leadership | | 0.27 |
| Model Indices | | |
| R ² | 0.08 | 0.072 |
| Adjusted R ² | 0.8 | 0.069 |
| F | 28.04*** | 24.21 |
| N | 313 | 313 |

*** $p \leq 0.001$, ** $p \leq 0.01$, * $p \leq 0.05$

As shown in table 1, the relationship between transformational leadership and growth were statistically significant and positive [$F = 28.04$, $p = < 0.001$, $R^2 = 0.08$], and the result of testing [$b = 0.29$, $t = 5.29$, $p = < 0.001$], indicated support for Hypothesis 1. Results also revealed that there was a statistically insignificant positive relationship between transformational leadership and profitability [$F = 24.21$, $p > 0.05$, $R^2 = 0.07$]. Hence, the result of testing [$b = 0.27$, $t = 4.92$, $p > 0.05$], indicated that this does not support Hypothesis 3.

Table 2: Regression Test Results for Hypotheses 2&4

| | Growth | Profitability |
|------------------------------|--------|---------------|
| Independent Variables | | |
| H2: Transactional Leadership | -0.10* | |
| H4: Transactional Leadership | | -0.07 |
| Model Indices | | |
| R ² | 0.01 | 0.005 |
| Adjusted R ² | 0.007 | 0.002 |
| F | 3.20* | 1.65 |
| N | 313 | 313 |

*** $p \leq 0.001$, ** $p \leq 0.01$, * $p \leq 0.05$

As shown in table 2, transactional leadership and growth were also statistically significant [$F = 3.20$, $p = < 0.05$, $R^2 = 0.01$], confirming Hypothesis 2. Results also revealed that there was a statistically insignificant negative relationship between transactional leadership and profitability [$F = 1.65$, $p > 0.05$, $R^2 = 0.005$]. Hence, this does not support Hypothesis 4.

5. Discussion and Implication

The first and second hypotheses suggest that transformational and transactional leadership exert positive significant influences on growth. The third and fourth hypotheses suggest that

transformational and transactional leadership exert insignificant influences on profitability. The relationships are outlined in figure 2.

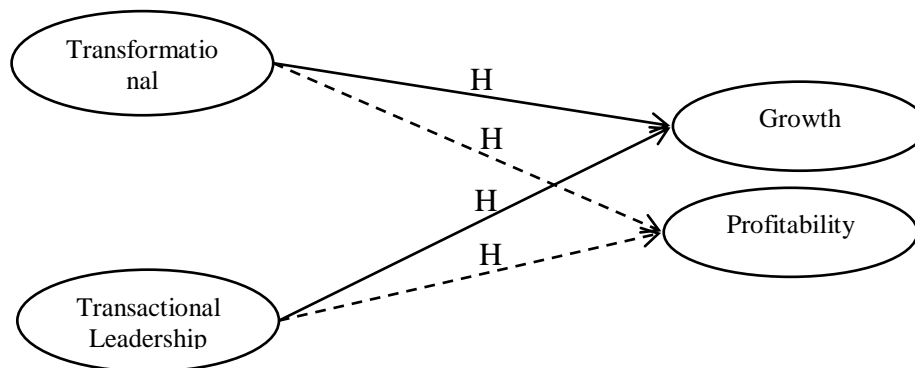


Figure 2: The Results of the Hypotheses Tests

These results show that the managers of Australian SMEs recognize organizational growth as a more desirable goal than the profitability of the organization. Possibly, managers of SMEs because of the small size of their organizations observed the most significant organizational outcomes include enhancing the economies of scale, making stable their operations, and expanding their market share. They believe that profits will appear once all of these are obtained. The importance of growth as a performance measure is on the basic belief that growth is a prior condition to the achievement of sustainable competitive advantage and profitability (Markman and Gartner, 2002).

The significant role of growth over profitability has been acknowledged by researchers in the past (Davidsson et al., 2006, Wiklund, 1999, Fitzsimmons et al., 2005). Wiklund (1999) indicated that the most significant performance measure for small firms is growth and is a greater indicator than indicators of financial performance.

Further research could examine longitudinal tests of the relationship between leadership, growth, and profitability in SMEs. There is also scope for policy discussion around how to effectively support leadership development in the context of Australian SMEs.

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