Assessing the Impact of Leadership Styles on Organisational Performance.

“The Case of Saudi Private SME’s”

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Abstract:

The small and medium enterprises (SME) industry in Saudi Arabia accounts for the highest number of businesses compared to other industries established in the country. However, its contribution to economic development has been relatively low. This study investigates the impacts of leadership on the performance of SMEs. Particularly, the study seeks to determine whether the leadership styles used in the various SMEs have any significant impact on their performance. In carrying out the research, transactional, transitional, and passive-avoidance leadership techniques were put into consideration. The study incorporated both exploratory and descriptive research designs in interpreting the aforementioned leadership styles. The use of the above research designs is crucial in ensuring the data analysed objectively addresses the variables in the research work. On the other side, methodology applied in conducting the research involved administering Multi-factor Leadership Questionnaires (MLQ), which, essentially, looked into the relationship between the leadership behaviors of each style and the influence they had on the performance of the enterprises. Additionally, a regression model was defined and evaluated. This model is of importance in testing for the significance levels of the variables under analysis.

Keywords: Leadership style, Organisational studies, Performance, SME’s, Saudi Private Sector.

Introduction

Small and medium enterprises (SMEs) contribute greatly to economic progress in many countries throughout the world. They work towards meeting the unique needs of people in different industries. In Saudi Arabia, the SME sector accounts for an average of 32 percent of the country’s gross domestic product (GDP) (Achoui 2011, p. 37). Moreover, according to Al-hafi (2010), over 90 percent of the businesses established in this country are owned and run by families and fall under the category of SMEs. Going by the employment figures, this sector alone absorbs 75 percent of the total workforce in Saudi Arabia (Lonial & Carter 2013, p. 96).

However, it is surprising that even with such a high dominance in the kingdom’s business world, the input of this sector to the GDP remains comparatively low. If SMEs are to thrive in Saudi Arabia, then sound leadership approaches need to be adopted. Therefore, analysing
leadership styles of SMEs in Saudi Arabia are a key subject to evaluate and discuss since in absence of proper leadership, SMEs cannot perform well and continue to flourish in the market.

**Literature Review**

It has often been said that the performance of an organisation is highly dependent on the leader. Therefore, for decades, the subject of leadership has generated a lot of interest of social and political theorists. However, with over 300 definitions of the word “leadership”, there is, indeed, no universally accepted interpretation and understanding of this term. One definition that captures the fundamental elements of the concept is that by Clinebell (2013). He argues that leadership is principally a relationship of influence between a leader and his or her followers with a commitment to a joint purpose (Clinebell 2013). In the contemporary business world, many entrepreneurs are also considered as leaders. Thus, Abujarad (2011) espouses in his research that effective entrepreneurship is, to a great extent, effective leadership. From Abujarad’s perspective, leadership encompasses the ability of an individual with a specific set of skills to influence actions in others that result in the common good of each member.

Organisational performance, on the other hand, has been explored, though not quite so extensively as the former term. Arham (2014) defines organisational performance as the ability of an enterprise to achieve certain objectives such as creating a large market share, achieving high profits, and generating good financial results among other goals, which are related to the success of an organisation. Comparatively, Obiwuru et al. (2011) define organisation performance as the day-to-day progress made by an organisation in pursuing the set organisational targets. It is obvious that Obiwuru et al.’s view limits organisation performance to the expectation of the company. However, Couto (2007), in his definition, offers a broader frame of reference by elaborating organisation performance as a measure of the financial and managerial efficiency of a firm relative to the industry.

Most leadership scholars have maintained that there exists a strong link between leadership and organisational performance. There exists a modern intensive and dynamic market with innovation-based competition and price-performance rivalry that has led to compromising existing competencies and decreasing returns. The understanding of this effect of leadership on organisational behavior is important. Some researchers view leadership as the key driving force of improving the organisational performance (Salah 2012, p. 76). Moreover, effective leaders inspire their followers to perform better, thus, foster changes within the organisation. Above all, they possess a well-defined vision that allows them to focus on priorities.

From the definitions provided above in this section, it becomes clear that organisational performance is quite a subjective concept; thus, it will invariably be dependent on other variables for it to be evaluated. Therefore, for the purposes of this research work, organisational performance will be dependent on the type of leadership exercised in an organisation.

**Leadership in Saudi SME’s**

The extent to which members of an organisation are able to contribute to providing resources to an organisation depends on the effectiveness of the leader. Moreover, employee contribution is determined by the ability of the leader to manage, understand, and adopt leadership styles that are appropriate. Further, employees should be seen to be performing their level best in every given task. This means that the efficiency of resource mobilisation, allocation, utilisation, and organisation performance enhancement depend on the leader. According to statistics, the total number of employees in the government of Saudi Arabia is at
least 783,300, while in the private sector it is 5.4 million (Bolden 2012). This shows that the majority of the population is employed in the private sector, mostly in small and medium enterprises. SMEs in Saudi Arabia have one of the highest percentages of human labour in the world. However, their contribution to the economy is considerably low (Bolden 2012, p. 67). This is an effect of the leadership styles used by managers in that region.

In line with this, the small and medium enterprises are gradually disappearing from the market and are not able to compete with the already mature enterprises because of their limited growth. The basic problem, which exists in these SMEs, is the lack of strategy and the right plans to develop (Salah 2012). The total number of Saudi SMEs, according to the Saudi Arabian Monetary Agency (SAMA), has reached 621,400, whereby family companies constitute 95% of the total number of companies. While the majority of these companies are considered to be small and medium enterprises, 45 of the 100 largest companies are family business. SMEs account for 23.7% of the overall employment in Saudi Arabian labor market (Achoui 2011, p. 52).

**Leadership & Organisation Approaches in SMEs**

**Transactional Leadership**

Transformational leadership is a leadership style that inspires positive changes in the followers. To be a transformational leader, one should be energetic, enthusiastic, and passionate about what one does. Such leaders are not only involved in the process but also assist their followers in achieving success. Transformational leadership was introduced by James MacGregor Burns who was of the opinion that leadership can be realized when there is a relationship between leaders and their followers, which enables them to advance each other to a higher level of ethics and motivation. It is through the strength of their personality and vision that leaders motivate groups to change prospects, perceptions, and motivation to work (Cherry 2010, p. 48).

The major component of transformational leadership is intellectual stimulation, which means that leaders challenge the status quo and encourage creativity among their followers. This implies that they inspire the followers into novel methods of undertaking things and new opportunities. Individualised consideration is another component of this leadership style, which, basically, means that transformational leaders offer support and encouragement to their followers in order to enhance relationships. In addition to this, transformational leaders have idealised influence. This means that they serve as role models to their followers, mainly because of respect and trust they get from them. Transformational leaders are also accepted by the people because of the reforms that they come up with, which prove to be worthwhile. A good example of a transformational leader is the Prime Minister of India, Honorable Narendra Modi, who has transformed the country and enabled the economy to improve. Based on this, he is referred to as the transformational leader of the 21st century (Arham 2014). Reaching his seat meant that people saw potential in him and in how he led the country.

In transformational leadership, there are four behavioral components involved. These include charisma, intellectual stimulation, motivation, and individual consideration. Charisma, or idealised influence, is understood as a characteristic of having a clear vision, sense of mission, instilling of pride, and gaining respect amongst a group. Charismatic behavior also influences people within a group into believing that what they are doing will work and promotes confidence in their ideas. It also goes beyond the self-interest in the job. Moreover, effective transformational leadership deals with inspirational motivation, which, essentially, is concerned with a leader setting higher performance standards for his or her followers. Intellectual stimulation, on the other hand, provides the followers with challenging new ideas.
that help them to deviate from the old ways of thinking. As an example, the growth of the Saudi Arabian economy escalated when its businesses started paying attention to the human resource and the private sector development. Moreover, there was a change to transformational leadership even in family businesses that had traditionally engaged in transactional leadership.

The SIX PLAN, an initiative of the Saudi Arabian government, was started in 1995 and called for the development of technical skills of the citizens (Al-hafi 2010, p. 64). This was an example of transformational leadership that implied the involvement of people in their own success. The people were trained to equip themselves with the skills that would enable them to work in the SMEs, which improved the overall performance and the economy of Saudi Arabia at large. The plan highlighted the importance of taking government loans and ensured provision of support facilities to the private firms. The implementation was referred to as “Saudinization”. Following the implementation of this plan, the government committed itself to improving the private sector and encouraged the growth of SMEs through subsidies and trade incentives. This showed the application of transformational leadership in Saudi Arabia.

Transactional Leadership

In 1947, Max Weber first defined transactional leadership (being followed by Bernard Bass in 1981) as the leadership style with a focus on the management process, control, organisation, and temporary planning. The basic assumption of transactional leadership is that people perform their best when the order of command is clear and definite. More so, workers are motivated by the availability of rewards and punishments. Therefore, obedience to the leader in command is the primary goal of the followers. Further, subordinates need to be monitored in order to ensure that expectations are met. According to Ingram (2011), transactional leadership is concerned with maintaining the flow of operations in an organisation (p. 96). Simply put, transactional leaders have the role of making sure that everything flows in a smooth way. It is also important to note that such leaders are highly directive and action-oriented. The relationship between them and their subordinates tends to be short-lived and is not based on emotions. The only transaction derived from the followers is the enumeration, which they receive for their complacency and effort.

Transactional leadership was well demonstrated in a business case in Saudi Arabia in 2006 (Bolden 2012). This particular case involved a family business, whereby its owners were also involved in the management of the enterprises. Moreover, like most Saudi Arabian SMEs, it was still managed by the first generation of the family, and family members occupied all managerial posts. Only laborers were outsiders. Consequently, the leadership was transactional since the employees were not directly involved in the management of the organisation. The remuneration employees were getting was little, and since there was little opportunity for growth, they were not in a position to bargain for an increase in salaries or benefits. Leadership was direct and action-oriented. Workers, in this case, were motivated by punishment and rewards and were never consulted on new ways to improve business. This led to managerial problems in the business with high employee turnover and stagnant profits. This provides a practical illustration of the impact of transactional leadership on the performance of SMEs.

A good example of such leadership style was where a family-led business in Saudi Arabia had gained a reputation of ignoring any contributions put forward by its employees as it had a monopoly as a supplier to a government institution. It had done this through political patronage for two generations. This led to complacency and lack of employee engagement.
When the contract was withdrawn, the business had to close down as it was neither competitive nor were the employees willing to put more effort.

**Understanding Leadership in SMEs**

Understanding the effects of leadership is important to the success of SMEs in Saudi Arabia. Effective management is seen as the principal source of organizational improvement. For instance, transactional leadership is seen to help organisations achieve their objectives through the linking of job performance to the rewards. This ensures that employees have the resources required for the job to be done. Visionary leaders create an environment whereby they are able to form strategic methods which can be used to achieve an organisation’s objectives (Oladele et al. 2013). This is made possible through stating the objectives, communicating them to the followers, and acting consistently to their achievement. Visionary leadership, in this case, helps in achievement of high levels of commitment, trust, and motivation. Some of the leaders of small and medium enterprises seek the most efficient ways to outperform others. This is done through creating a competitive advantage, which exists where the organization performs its activities in a different way as compared to the other organizations or uses cost as a mechanism to survive in the competition (Clinebell 2013, p. 5). Competition involving prices is usually centered on reducing the cost of products, thus, capturing more customers. This is referred to as cost focus. In other instances, team leaders contribute to the success of the SMEs by playing a pivotal role in the shaping of collective norms, helping the people they lead to carry out their duties, and coordinating collective union to achieve the set objectives (Obiwuru et al. 2011, p. 7).

The types of leadership that exist in SMEs have a direct impact on the customer satisfaction, staff satisfaction, and financial performance of any organisation. Transformational leadership is thought to be the best kind of leadership when it comes to involving followers. This is because transformational leaders engage all members in decision-making. Although transactional leadership is equally successful, it does not promote customer relations since it is based only on rewards (Sakiru et al. 2013).

**Understanding Organisation Performance in SMEs**

Inasmuch as there are varied approaches to leadership, it is undeniable that the effectiveness of any leadership approach will be based on the ability to improve or maintain consistently stellar performance in the organisation. This suggests that the major objective of having in place effective leadership is to improve organisation performance. For a large majority of SMEs, including those in Saudi Arabia, the stiff competition necessitates the use of an aggressive leadership approach if an enterprise is to maintain profitability (Bolden 2012).

There are several components that define great organisation performance. As Oladele et al. (2011) mention, just like larger corporations, SMEs perform best when there is constant evaluation of performance by employees. The major difference, however, is that while larger corporations are invariably in a position to hire new talents whenever they deem fit, SMEs have limited options. The relatively small revenues often mean that SMEs have to put concerted efforts in maintaining their employees. Therefore, leaders have the responsibility for ensuring that they keep their employees motivated in a bid to maintain great organisational performance. Interestingly, most of SMEs in Saudi Arabia have not been keen enough to retain their employees. This has been the case especially in family-run enterprises where concentration on maximizing profits clearly overrides the long-term benefits of creating a conducive business environment (Salah 2012).

Of important note is the fact that to promote better organisation performance, SMEs need to actively engage employees in team building and interactive decision-making processes.
Further, maintaining amicable relations between the business and its customers is necessary so as to retain customers. Since SMEs are very competitive in both pricing and marketing their products, an organization is required to provide excellent customer services to differentiate itself from competitors (Uchenwambe 2013, p. 4).

**Empirical Studies on Leadership and Organisation Performance**

Kaplan and Norton (2001) researched on organisational performance and formulated the balanced scorecard as a concept through which organisations could measure performance. From the research carried out by the two authors, one understands that if a particular aspect affecting the productivity of an organisation could not be measured, then there is no certainty that it could be improved. Therefore, the balanced scorecard provided a quantitative measure for assessing and improving organisation performance.

The structure of the balanced scorecard aligned an organisation’s vision and strategy with four measurable perspectives. The first was the financial perspective, which stated that organisational performance could be measured by the extent to which a company appealed to their shareholders. Secondly, Kaplan and Norton found that the customer was an important consideration fostering organisation performance and, thus, defined a quantifiable technique stating that the way the organisation can appeal to their customers was necessary. Thirdly, internal business processes had to be evaluated and were quantifiable based on what businesses an organisation would engage in so as to appeal to its customers and shareholders. Lastly, the scorecard investigated the ability of the organization to learn, grow, and change with the business environment. Kaplan and Norton’s scorecard is used widely in management assisting organisation leaders in setting standards for their followers as well as assessing the overall performance of the organisation.

In their study of leadership, Bass and Avolio (2004) designed a multifactor leadership questionnaire (MLQ) that could aid a leader in measuring perception with regards to their individual leadership characteristics. From this research, Bass and Avolio found out that certain factors determined the effectiveness of a leader and the effectiveness of the organisation. The researchers incorporated assessment scales to validate the leadership traits. These scales comprised three leadership behaviors in which each leader falls under passive, transformational, or transactional leadership. They concluded that the MLQ would be pivotal in providing leaders with a great insight into how their behavior links to the leadership styles that they exemplify.

**Methodology**

In order to achieve this aim, objectives as well as to answer research questions and to test the relationship among research variables, the research will conduct quantitative, positivist and deductive and uses survey method by self-administered questionnaire which seems to be suitable in this case (Bryman and Bell, 2011).

**Research Instruments**

The Multifactor Leadership Questionnaire (MLQ form 5X) developed by Avolio and Bass (2004) will be used to measure the full range leadership styles (independent variable) in SME’s manufacturing sector. In fact the full range leadership styles developed by Avolio and Bass were derived from Burns’ study (1978) on the transformational and transactional leadership. Saudi SME’s performance as the dependent variable of this study will be measured based on the concept of a Balanced Score Card developed by Kaplan and Norton (1996). Finally, last section of the questionnaire will focus on descriptive related to the Demographic of the sample respondents.
Research Model
The research model shows the relationship between organisational performance and the different leadership styles that can be used in an organisation. By having a well-defined model, the researcher is able to illustrate the key independent variables that affect the dependent variable (Information Resources Management Association, 2015). Moreover, it can also be used as a decision-making component to assist scholars in understanding the association between leadership and organisational performance (Shields & Rangarajan, 2013, p. 73). On the other hand, Conceptual framework shown below present’s organisational performance as a variable dependent on transactional, transformational, and passive – avoidance leadership styles (see fig. 1).

Figure 1. Proposed conceptual Framework.

Results and Discussion

Description of the Sample Respondents
A total of 162 respondents turned in their filled out questionnaires. The age distribution of the respondents was not a key consideration in this research; however, the proportion of respondents in each gender was maintained at a relative equality. In fact, The study relied heavily on the responses from owners and employees in SMEs. The information obtained was categorized in the form of gender of the respondents as well as the region from which they came from. The table detailing the demographic structure of the respondents is included in the Appendix section of the dissertation.

Reliability Analysis
To determine the reliability of the sample used in the data collection, a Cronbach’s alpha reliability test was carried out. This test measures the internal consistency of a data set as an indicator of the scale reliability (Verma 37). Out of the 86 filled out questionnaires on leadership, there were 76 valid cases as the case-processing summary showed. Further, in regard to the 36 sampled questions on leadership, the alpha coefficient stood at 0.939,
intimating that the samples had a high internal consistency and, consequently, was reliable. Ideally, a coefficient of reliability above 0.7 is taken to be acceptable in statistical analysis of data (Brandimarte 45).

Table 1. Reliability statistics

<table>
<thead>
<tr>
<th>Reliability Statistics</th>
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<tbody>
<tr>
<td>Cronbach's Alpha</td>
</tr>
<tr>
<td>N of Items</td>
</tr>
<tr>
<td>.939</td>
</tr>
<tr>
<td>36</td>
</tr>
</tbody>
</table>

Reliability Analysis

An analysis of the item total statistics shows that the corrected item-total correlation for all items input was above 0.2. This suggests that all items in the data correlated well with the total score from the sample size, and, therefore, the scale was reliable.

Descriptive Statistics

The table below shows the comparison of the means from the results on the various leadership styles used in the SMEs. The individual mean for each leadership trait is computed; then, the overall mean is calculated with explanations being provided after the table. The means were tabulated from the 36 questionnaires on leadership based on the Likert scale.

Table 2. Comparison of Means

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idealized</td>
<td>3.39</td>
</tr>
<tr>
<td>Inspirational</td>
<td>3.58</td>
</tr>
<tr>
<td>Intellectual</td>
<td>3.49</td>
</tr>
<tr>
<td>Individualized</td>
<td>3.52</td>
</tr>
</tbody>
</table>

Source: Authors.

Hypothesis Testing and Discussion

The main purpose of hypothesis testing is to ascertain the level of significance of data during analysis (S. Arun Kumar and T. Arun Kumar 229). In order to obtain reliable results, the initial null hypothesis had to be sub-categorized to some well-defined sub-null hypotheses. Sub-categorizing data is usually crucial in order to retain its accuracy (Bolden 103). The major null hypotheses for this study were broken down into six categories, which were then analyzed to test for significance, correlation, and regression. Consistent with the rule of hypothesis testing, all the null hypotheses that are significant to the variables under consideration in the data analysis are to be rejected (Jebna and Baharudin 8). For this study, the analysis of organizational performance was classified into the financial performance and customer satisfaction. Consequently, the sub-null hypotheses for the study were the following:

1. There is no relationship between financial performance and transformational leadership with regards to individualized consideration, intellectual stimulation, inspirational motivation, and idealized influence (variables of transformational leadership).
2. There is no relationship between consumer satisfaction and the variables of transformational leadership. The same categorization was conducted on transactional leadership whereby associated sub-null hypothesis were:

3. There is no relationship between financial performance and transactional leadership with respect to contingent reward.
4. There is no relationship between consumer satisfaction and variables of transactional leadership.

Similarly, the passive-avoidance relationship was also sub-categorized to make the following hypotheses:

5. There is no relationship between financial performance and passive-avoidance leadership with regards to active, passive, and laissez-faire variables
6. There is no relationship between consumer satisfaction and passive-avoidance leadership variables.

**Correlation and Regression Analysis**

In order to critically analyze the existing relationships between independent and dependent variables, regression and correlation techniques are essential statistical tools to use (Lim and Ting 85). Basically, correlation and regression analysis seeks to determine the relationships that exist among variables (Karadağ 92). In this context, this analysis measured the relationship between the leadership styles and performance of the SMEs. Pearson correlation analysis and linear regression were adopted for this study. Consequently, it was possible to determine the values R and R².

**Table 3. Financial performance and consumer satisfaction against transformational leadership**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient (R)</th>
<th>Correlation</th>
<th>R-squared</th>
</tr>
</thead>
<tbody>
<tr>
<td>FM</td>
<td>0.456</td>
<td>0.459</td>
<td>0.208</td>
</tr>
<tr>
<td>CS</td>
<td>Inspirational motivation</td>
<td>0.317</td>
<td>0.427</td>
</tr>
<tr>
<td>FM</td>
<td>Intellectual stimulation</td>
<td>0.407</td>
<td>0.434</td>
</tr>
<tr>
<td>CS</td>
<td>Individualized Consideration</td>
<td>0.403</td>
<td>0.479</td>
</tr>
</tbody>
</table>

*Source: Authors*

From the above table, it is observable that the correlation coefficients of financial performance range between 0.3 and 0.4. This is indicative of a relationship between transformational leadership and financial performance, whereby there is a relatively weak but positive correlation. Further, for the variance R², the values for the variables in percentage form are in the order 20.8 percent, 10%, 16.6%, and 16.2%. Since these values are above the 5% p-value, they are significant. Therefore, we reject the null hypothesis, meaning that there
exists a relationship between the transformational leadership and the aforementioned variables.

**Result of Analyzing and testing dissertation hypothesis**

Based on the above correlation, regression, and hypotheses testing, there are several deductions that could be made regarding the impact of leadership on organizational performance in Saudi Arabia. To begin with, all null hypotheses on transformational leadership were rejected as they showed that a positive correlation existed between this leadership style and financial performance and customer satisfaction. Additionally, the null hypothesis on transactional leadership was also rejected. However, unlike the former leadership style, transactional leadership presented a strong positive relationship with the variables under consideration. Unlike the other two styles of leadership, the hypothesis test on passive-avoidance leadership was not rejected. This is because there was found a weak relationship with very low average values of the variance. The findings on passive-avoidance leadership were quite accurate as this leadership style is not commonly used in most organizations (Couto, 2007)

Overall, the data intimated that SMEs in Saudi Arabia were in most places under transactional leadership management. This was vindicated by the variable readings for transactional leadership on the Likert scale which averaged at 3.5. However, transactional leadership was following closely, and judging from the high variances in the tests of hypothesis, it seemed likely to be the most suitable leadership style in Saudi Arabia.

**Conclusion**

From an analytical perspective, this has been one of the most thorough studies carried out to analyze the impacts of transactional, transformational, and passive-avoidance leadership styles on organizational performance in Saudi Arabia. The study extensively evaluated the three leadership styles against organizational performance. To facilitate a better understanding of the underlying concepts in relation to leadership and performance of organizations, a literature review was written elaborating on both the theories and the empirical studies carried out in this field. Based on this study, transactional leadership stood out as the best suited leadership style for effective performance in small and medium enterprises. Moreover, the results showed that there existed a positive correlation between transactional leadership and employees’ willingness to put extra effort as well as attainment of better job satisfaction and improvement of effectiveness in the employees. Similarly, data taken from the analysis of transformational leadership showed a strong and positive correlation between this type of leadership and the characteristics of the leader to inspire, stimulate, and influence positive behavior in the organization. The results further indicated that effectiveness and motivation of employees to increase efforts were considerably enhanced under transactional leadership. Finally, the results that were obtained from this study were in line with previous inferences that intimated small and medium enterprises were likely to thrive under transactional leadership. However, there were also indications that these enterprises were governed either through transactional or transformational leaderships. The cases to exemplify successful passive-avoidance leadership style were quite few, and the style had insignificant impact on improving effectiveness and satisfaction of employees based on the correlation analysis results.
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