An Empirical Analysis of the Relationship between Leadership and Organizational Performance

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ABSTRACT

The concept and definition of leadership style may differ from one person, or situation, to the other. The word “leadership” has been used in various aspects of human endeavor such as politics, businesses, academics, social works, etc. Previous views about leadership show it as personal ability. Messick & Kramer, (2011) argued that the degree to which the individual exhibits leadership traits depends not only on his characteristics and personal abilities, but also on the characteristics of the situation and environment in which he finds himself. Among the objectives of any small enterprise are profit making and attainment of maturity and liquidity status. In the pursuit of these objectives, enterprises allocate scarce resources to competing ends. In this regard the objective of this study was to evaluate the relationship between leadership and organizational performance. For the purpose of the study, transactional and transformational leadership were the main focus. The study used 10 SMEs which include 5 small scale enterprises and 5 medium scale enterprises excluding manufacturing enterprises. It was found in the study that leadership plays a key role in organizational performance. The study revealed that though both transactional and transformational leadership plays a key role in organizational performance, transformational leadership is more effective on organizational performance than that of transactional leadership.

Keywords: Leadership, Style, Effective, Organisation, Performance, Ghana

INTRODUCTION

The concept and definition of leadership and style may differ from one person, or situation, to the other. The word “leadership” has been used in various aspects of human endeavor such as politics, businesses, academics, social works, etc. Previous views about leadership show it as personal ability. Glanz (2007) argued that the degree to which the individual exhibits leadership traits depends not only on his characteristics and personal abilities, but also on the characteristics of the situation and environment in which he finds himself. Since human beings could become members of an organization in other to achieve certain personal objectives, the extent to which they are active members depends on how they are convinced that their membership will enable them to achieve their predetermined objectives. Therefore, an individual will support an organization if he believes that through it, his personal objectives and goals could be met; if not, the person’s interest will decline. Leadership style in an organization is one of the factors that play significant role in enhancing or retarding the interest and commitment of the individuals in the organization. Thus, Glanz (2007) emphasizes the need for a manager to find his leadership style. Among the objectives of any small enterprise are profit making and attainment of maturity and
liquidity status. In the pursuit of these objectives, enterprises allocate scarce resources to competing ends. In the process they provide employment, provide goods and services, purchase goods and services and, thus, contribute to the growth of the society and economy at large. (Nutifafa, 2010) observes that in most Ghana’s small-scale settings, the effectiveness of this process is greatly determined by the availability of and access to personnel, finance, machinery, raw material and possibility of making their goods and services available to their immediate community and the nation at large.

The extent to which members of an organization contribute in harnessing the resources of the organization equally depends on how well the managers (leaders) of the organization understand and adopt appropriate leadership style in performing their roles as managers and leaders. Thus, efficiency in resources mobilization, allocation, utilization and enhancement of organizational performance depends, to a large extent, on leadership style, among other factors. (Nutifafa 2010) identifies attitude to work, leadership style and motivation as some of the factors that exert negative effect on organizational performance in Ghana.

Small and Medium Enterprise Development Agency of Ghana (SMEDAG) in 2008, reports that most small and medium scale businesses in Ghana die before their fifth anniversary. (Tandoh, 2012) notes that one of the reasons for this high failure is lack of use of market research to confirm demand and assess suitability of proposed offering as well as maintaining high level of customer patronage. Inappropriate leadership style could be one of the reasons for high failure of small enterprises.

The study aligns with the concept of leadership as explained by Hill, Taffinder et al. (2011) and, thus, considers leadership within the context of a small-scale enterprise as the action of managers of the enterprise to contribute their best to the purpose of the enterprise. A small scale enterprise is one with relatively small number of employees and low capital strength. This study considers a small scale enterprise as one that has less than fifteen employees and whose capital outlay is less than sixty thousand Ghana Cedis (₵60,000) or ($16,000).

From this consideration, this study is intended to evaluate the effect of leadership style on the performance of small enterprises, contribute to empirical studies on leadership style and business performance, proffer quantitative-based recommendations for policies and programs to reposition the small scale enterprises at integral part of the engine of economic growth and development in Ghana.

2.0 RELATED LITERATURE

2.1 Leadership Style and Performance
In the literature, leadership has been identified as an important subject in the field of organizational behavior. Leadership is one with the most dynamic effects during individual and organizational interaction. In other words, ability of management to execute “collaborated effort” depends on leadership capability. Lee and Chuang (2009), explain that the excellent leader not only inspires subordinate’s potential to enhance efficiency but also meets their requirements in the process of achieving organizational goals. Knickerbocker (2010), defined leadership as the individual behavior to guide a group to achieve the common target. (Fry, Whittington et al. 2005), explains leadership as use of leading strategy to offer inspiring motive and to enhance the staff’s potential for growth and development. Several reasons indicate that there should be a relationship between leadership style and organizational performance. The first is that today’s intensive and dynamic markets feature innovation-based competition, price/performance rivalry, decreasing returns, and the creative destruction of existing competencies (Sarros, Cooper et al. 2011). Studies have suggested that effective leadership behaviors’ can facilitate the improvement of performance when organizations face these new challenges (Teece, Pisano et al. 1997, MacGrath and MacMillan 2005). On the other hand, organizational performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action (Koontz 2010). Organizational performance can also be used to view 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, it is a reflection of productivity of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of the organization.

Understanding the effects of leadership on performance is also important because leadership is viewed by some researchers as one of the key driving forces for improving a firm’s performance. Effective leadership is seen as a potent source of management development and sustained competitive advantage for organizational performance improvement (Avolio, Walumbwa et al. 2009); (Obiwuru, Okwu et al. 2011); (Rowe and Guererro 2012). For instance, transactional leadership helps organizations achieve their current objectives more efficiently by linking job performance to valued rewards and by ensuring
that employees have the resources needed to get the job done (Zhu, Chew et al. 2010). Visionary leaders create a strategic vision of some future state, communicate that vision through framing and use of metaphor, model the vision by acting consistently, and build commitment towards the vision (Avolio, Walumbwa et al. 2009, McShane and Von Glinow 2010). Some scholars like Zhu, Chew et al. (2005), suggest that visionary leadership will result in high levels of cohesion, commitment, trust, motivation, and hence performance in the new organizational environments.

Mehta, Smith et al. (2006) argue that when some organizations seek efficient ways to enable them to outperform others; a longstanding approach is to focus on the effects of leadership. Team leaders are believed to play a pivotal role in shaping collective norms, helping teams cope with their environments, and coordinating collective action. This leader-centered perspective has provided valuable insights into the relationship between leadership and team performance (Guzzo and Dickson 1996). Some studies have explored the strategic role of leadership to investigate how to employ leadership paradigms and use leadership behavior to improve organizational performance (Yukl 1989, Purcell 2003, MacGrath and MacMillan 2005, Judge, Piccolo et al. 2010, Grant, Gino et al. 2011, Zhang, Tsui et al. 2011, Tairas and Mahlia Muis 2012). This is because intangible assets such as leadership styles, culture, skill and competence, and motivation are seen increasingly as key sources of strength in those firms that can combine people and processes and organizational performance (Purcell 2003).

Previous studies led the expectation that leadership paradigms will have direct effects on customer satisfaction, staff satisfaction, and financial performance. In general, however, the effects of leadership on organizational performance have not been well studied, according to (House and Aditya 1997), who criticized leadership studies for focusing excessively on superior-subordinate relationships to the exclusion of several other functions that leaders perform, and to the exclusion of organizational and environmental variables that are crucial to mediate the leadership-performance relationship. Another problem with existing studies on leadership is that the results depend on the level of analysis. House and Aditya (1997), distinguished between micro-level research that focuses on the leader in relation to the subordinates and immediate superiors, and macro-level research that focuses on the total organization and its environment. Other scholars have also suggested that leaders and their leadership style influence both their subordinates and organizational outcomes (Tarabishy, Solomon et al. 2005). Jing and Avery (2008), in their study of the missing links in understanding the relationship between leadership and organizational performance conclude that despite a hypothesized leadership-performance relationship suggested by some researchers, current findings are inconclusive and difficult to interpret.

From this review of related literature, it is evident that although some scholars believe that leadership enhances organizational performance while others contradict this, different concepts of leadership have been employed in different studies, making direct comparisons virtually impossible. Gaps and unanswered questions remain. Consequently, the current study is intended to re-examine the proposed leadership-performance relationship and, thus, contribute meaningfully to the body of growing literature and knowledge in this area of study.

2.2 Theories of Leadership

Among the various theories of leadership and motivation relating to effective organizational change management, some leadership theories will be looked into eg. Transformational-transactional theory, great man theory, traits theory of leadership etc. As explained in (Prasertwattanakul and Chan 2007, Burns 2016), conceptualizes two factors to differentiate “ordinary” from “extraordinary” leadership:

**Transformational Leadership**

Individuals as followers are been motivated in performance and moral grounds through different kinds of media. Leadership can be explained as an influential procedure where leaders alert their subordinates’ attention to the important things, direct and enable them recognize the opportunities and challenges in the society today from a different perspectives. People who are eager to maintain and consider the progress of an organization in their action, and encourage build individuals or group’s potentials and also reaching expectation are normally referred to as Transformational leaders. These leaders are normally proactive individuals who persuade their followers to put in their best by reaching higher levels of capacity expected and accepted moral and ethical levels.

Under this type of leadership approach, individuals normally feel belongingness and sense of purpose. Both the leaders and subordinates have interdependence and share common interest and believes among themselves. They exceed their personal interest and anticipate in return compliments of the firm and group. Involvement of norms values and believes of transformation into the teaching of
leaders and followers in same culture are due to the personal requirement to assist new individuals understand and fit into their customs.

1) Transactional Leadership
An ideal transactional approach is centered on everything in terms of obvious details and certainty of formal binding relationships. Every duty assigned is clearly stated beside terms of employment, disciplinary codes, and extra employee compensation settings. Placing of one's own interest and desires above others, are Self-interested are tensed. In many cases the followers execute their duty independently as separate from others in the group. Therefore collaboration among group member depends on dialogue in reaching a consensus when dealing with crisis or attaining related target. Hence, the firm has a slight recognition of the employees, its mission or vision. Superiors are basically responsible for making an agreement through discussions and compromise, and as such allocating resources. However, transactional leadership is centered greatly on "exchanges" as the subordinates is been appreciated with compliments for attaining certain targets or accomplishing a task which is between the leader and follower.

2) Laissez-Faire Leadership
This can be describes as a non-authoritarian leadership approach which uses less obvious means to successfully complete tasks in reaching a control and offer the least assistant to its followers. Transactional and transformational leaders are referred to as leaders who enthusiastically intercede and make an effort to avoid problems, even though the two styles are different. Studying these two dynamic fields of leadership, it can be deduced that there are often difference with the third approach of leadership referred as laissez-faire. Laissez-faire leader as an intense reflexive leader who is unwilling to persuade followers’ broad freedom, to the extent of giving responsibilities he has to undertake. From this explanation, this tremendous reflexive style of leadership illustrates situations when leadership is not present.

In a way, laissez-faire leadership approach impacts negatively on subordinates and relates contrary to what is anticipated by the leader. Laissez-faire has characteristics of behaviors that indicates a “do nothing” or “hands-off” style. Behaviors comprising keeping distance from followers, avoiding supervisory duties and being "inactive, rather than reactive or proactive”

It has been recorded by researchers several times that laissez-faire leadership is the least fulfilling and least effective approach of leadership approaches. Issues of less sense of collective unity, little sense of achievement, less transparency and as such subordinates do not have a lot of respect for their supervisors due to Laissez-faire leadership behaviors.

2.3 The Relationship between Leadership Approach and Employee Dedication
There are several researches which emphasized a great deal of interest to the relationship between leadership behavior and employee dedication. It has been revealed that superiors who encourage their subordinates in taking part in decision making turns out to have a high level of dedication in saving the company.

They have shown that organizational dedication is greater for employees whose leaders encourage their participation in decision making, who treat them with consideration (Brockner and James 2008) and Lumley, Coetzee et al. (2011)) and are supportive of the. Furthermore, as stated by some researchers, supervision is a key determinant in promoting and influencing workers dedication in firm.

Studies on leadership approach and employee dedication gave a detail understanding between the relationship between them within the organizational context and literature. Leadership approaches are very vital scope of a collective group in an institution since it impact greatly on follower’s dedication in several forms for development and progress. Similarly,(Ponnu and Tennakoon 2009) point out that ethical leadership behavior has a positive impact on employee work dedication and employee trust in their superiors.

Aside, findings on the relationship between leadership approach and employee dedication universities’ libraries on by Rafiq Awan and Mahmood (2010) reveals that the approach used by leaders, either transformational or laissez-faire has no impact on the follower’s dedication to work. Rather, many of the workers gave the impression to be positively dedicated to the institution. Likewise, Lok and Crawford (1999) gave accounts on leadership approach variables, a bureaucratic environment, at times and ends up in less dedication performance by the followers.
The figure above illustrates a situational leadership style, which display the level of supportive and directive from both leaders and employee. It clearly shows the level and result of competence and commitment. It can be deduced that, there is a high competence and high commitment, when more supportive and directives are initiated in the organization. But there is low competence and low commitment, when low supportive and low directives are involved. A leader may make a decision just to instruct and direct the followers, however sometimes he or she may be supportive. By so doing the subordinate takes and makes right decision. Key factors are how the directives or supportive approach are being carried out by the style. The diagram above explains the various situations a leader may be and level of employee commitment and competence. Mostly some superiors apply the same approach with all employees which they are unable to succeed in motivating them all.

3.0 METHODOLOGY

This study follows a quantitative and qualitative approach to data collection and analysis to scrutinize the rapport between leadership style and organizational performance among selected SMEs in Ghana. Both primary data by way of interview and questionnaire in addition with time series data was collected between the periods of 2012 to 2017. The time series data that was collected included questions with respect to sales, profit (before and after tax) and the size of employees for the aforementioned periods so as to determine the relationship that exist between leadership style and organizational performance with the selected SMEs.

For the purpose of this study, organizational performance is measured by focusing on number of employees, profit before and after tax and well as sales. Transactional and transformational leadership styles were the measures used to determine their influences on performance.

The total sample size for this study consist of all SMEs located in the Capital town of Ghana that is Accra, excluding all SMEs engaging in manufacturing business. Out of the total number of SMEs which are not into manufacturing business, 10 were selected constituting 5 small scale and 5 medium scale. From each of the SMEs, 6 workers were carefully randomly selected to respond to the questionnaires and interviews.

Multiple regression analysis models and paired sampled t-tests were used to test and analyze the hypotheses regarding the relationship between leadership styles and organizational performance by means of SPSS.

3.1 Model Specification

The equation models for the regression were specified as:

\[ \text{OP} = f(L_s = T_{rs}, T_{rf}) \]

Where, \( \text{OP} \) = organizational performance; \( L_s \) = Leadership style, \( T_{rs} \) = Transactional leadership style, \( T_{rf} \) = Transformational leadership style.

In general the model is therefore specified as:

\[ \text{OP} = \alpha_0 + \alpha_1 L_s + \mu \]

where \( \alpha_0 \) is a constant, denoting the performance of small scale enterprises that is independent of the respective leadership styles, \( \alpha_1 \) is the model coefficient denoting the effect of the leadership behaviours on organizational performance, and \( \mu \) is a random variable introduced to accommodate effect of other factors that affect organizational performance within or outside the leadership behaviors which are not included in the model.

4.0 FINDINGS AND DISCUSSIONS

Table 1: Leadership Style Regression Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R-Value</th>
<th>R-Square</th>
<th>Adjusted R-Square</th>
<th>Std. error of the estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.590</td>
<td>0.359</td>
<td>0.348</td>
<td>1.219</td>
</tr>
</tbody>
</table>

*Predictors: (constant), leadership.

From the table above which shows the relationship between organizational performance as the dependent variable and leadership style as the independent variable, it can be deduced that, the R-square which is the goodness for fit indicates that leadership style contributes about 36%+ variations in organizational performance thus R²=359. This is to say by interpretation that, leadership style has a clear and complete influence on organizational performance since it can contribute significantly to the performance of SMEs in Ghana.
Table 2: Analysis of variance between organizational performance and leadership style

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of squares</th>
<th>DF</th>
<th>Mean square</th>
<th>F</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>48.173</td>
<td>1</td>
<td>48.173</td>
<td>32.429</td>
<td>0.000*</td>
</tr>
<tr>
<td>Residual</td>
<td>86.160</td>
<td>58</td>
<td>1.486</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>134.333</td>
<td>59</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Dependent variable: organizational performance; *Predictors: (constant), leadership

The table above shows the significance level of the relationship between organizational performance and leadership style, which clearly shows that it, is statistically significant at a level of 0.01. Table 3: Pearson correlation between organizational performance and leadership style.

<table>
<thead>
<tr>
<th>Correlation</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational performance and leadership style</td>
<td>0.599</td>
</tr>
</tbody>
</table>

The pearson correlation between organizational performance and leadership style is positive which is 0.599 and the correlation is also at a significant level of 0.01. It can be concluded that leadership style affect organizational performance.

Table 4: Coefficients of transformational and transactional leadership style

<table>
<thead>
<tr>
<th>unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Standard error</td>
</tr>
<tr>
<td>(constant)</td>
<td>2.438</td>
</tr>
<tr>
<td>Transformational</td>
<td>0.843</td>
</tr>
<tr>
<td>Transactional</td>
<td>0.068</td>
</tr>
</tbody>
</table>

*Dependent variable: organizational performance.

The table above shows that transformational leadership style statistically and significantly influences organizational performance (p = 0.000 < 0.001), whereas transactional leadership was not statistically significant (p = 0.214) which is greater than 0.05. These findings confirm similar result by (Barnes et al, 2015) who found that transformational leadership has a stronger relationship with organizational performance than transactional leadership, but it contradicts recent studies by (Tyler, 2013) whose results indicated that performance is highly positively influenced by transactional leadership behavior, and therefore recommended transactional leadership style for small scale enterprises.

5.0 CONCLUSIONS

This study has examined the effect of leadership styles on organizational performance in small scale enterprises for non-manufacturing businesses of Ghana. The analysis has shown that leadership style play a key role in influencing organizational performance of the SMEs. However, whereas transformational leadership style has a significantly positive effect on organizational performance, transactional leadership style does not conclusively have a direct influence on organizational performance.


