



**FACULTY OF TECHNOLOGY MANAGEMENT AND  
TECHNOPRENEURSHIP**



**UTeM**

**LEADERSHIP STYLES AND  
BUSINESS PERFORMANCE EFFECTIVENESS.**

اونيورسيتي تېكنيكل مليسيا ملاك

UNIVERSITI TEKNIKAL MALAYSIA MELAKA

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BUSINESS PERFORMANCE EFFECTIVENESS.**



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## DECLARATION

I declare that this project paper 'Leadership Styles and Business Performance Effectiveness' is the result of my own research except as cited in the references. The project paper has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.



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## DEDICATION

To my beloved husband and family



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Alhamdulillah, with the grace and blessing of The Almighty ALLAH S.W.T., I manage to complete this research which could have not been accomplished without HIS willing.

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## ABSTRACT

Leadership is widely considered to be an important aspect of organizing performance and there are several reasons to suggest the type of leadership styles of particular relevance in this context. However, there is a dearth of both theoretical and empirical work on leadership styles and their subsequent effects on organization performance. The aim of this paper is to report the findings of leadership styles and business performance effectiveness, such participative, supportive and instrumental leadership style. In a study of 109 respondents, the research found participative leadership style was positively associated with business performance. Participative leadership is a style of leadership that involves all members of a team in identifying essential goals and developing procedures or strategies for reach those goals. It allows for the development of additional leaders who can serve the organization at a later date. Because leaders who favor this style encourage active involvement on the part of everyone on the team, people often are able to express their creativity and demonstrate abilities and talents that would not be made apparent otherwise. The discovery of these hidden assets help to benefit the work of the current team, but also alerts the organization to people within the team who should be provided with opportunities to further develop some skill or ability for future use.

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# CHAPTER 1: INTRODUCTION

## 1.1 BACKGROUND OF THE STUDY

In leadership, roles are the positions that are defined by a set of expectations about behavior of any job incumbent. Each role has a set of tasks and responsibilities that may or may not be spelled out. Roles have a powerful effect on behavior for several reasons, to include money being paid for the performance of the role, there is prestige attached to a role, and a sense of accomplishment or challenge. Relationships are determined by a role's tasks. While some tasks are performed alone, most are carried out in relationship with others. The tasks will determine who the role-holder is required to interact with, how often, and towards what end. Therefore, in recent years, leadership style has become an important topic of study in the management field; a good leader guides subordinates to work effectively toward organizational goals.

Organizational success in obtaining its goals and objectives depends on managers and their leadership style. By using appropriate leadership styles, managers can affect employee performance or business performance. Leadership style can be viewed as a series of managerial attitudes, behaviors, characteristics and skills based on individual and organizational values, leadership interests and reliability of employees in different situations (Mosadeghrad, 2003).

Leadership style differs from person to person according to the tasks, team and individual capabilities. Effective leadership styles take time and energy but they provide

more benefits. Leadership style model helps to achieve effective leadership styles. It includes how to involve employees in decision making and discussions with their supervisors time to time. The leadership style will have great impact on others. Therefore courses and programs are offered for leaders to set a good role model for their team members. Effective leadership style courses are suitable for middle level managers who want to enhance the team spirit and effectiveness among team members. They will learn to identify preferred management styles. The course will also help the manager to choose the appropriate leadership styles that will help in facing any situations. This will also increase the ability to motivate others. Benefits of effective leadership styles, any organization's success depends upon the leadership style. The well-chosen leadership style will bring proper accomplishment of goals and objectives. It helps to understand human behavior in wider perspective. It also helps in developing positive self-awareness.

Besides that, more than ever, the success and growth of an organization today depends on effective leadership at all levels in the organizational hierarchy. The influence of leadership on a number of organizational outcomes has been well established. Goleman (2000) observed that leadership style has an impact on organizations, departments, and teams as well as on the organizational environment. Gradually, organizations are now realizing the significance of leadership as a managerial skill and are therefore making leadership training as an important element in the soft skills training for their managers.

In fact, apart from developing the leadership skills of employees, it is also necessary for every organization to take cognizance of the inherent leadership styles of their subordinates. It is seen that the role of leadership and of leadership style varies from



industry to industry. For instance, the significance of leadership and the type of leadership required in a manufacturing company is different from the one required in a software company. Even within the same company, the type of leadership style required varies from function to function. In general, situational or contextual factors determine the desired leadership style in a manager.

There are several styles of leadership such as: autocratic, bureaucratic, laissez-faire, charismatic, democratic, participative, situational, transactional, and transformational leadership. Not everyone agrees that a particular style of leadership will result in the most effective form of organizational behavior. Different styles were needed for different situations and each leader needed to know when to exhibit a particular approach. No one leadership style is ideal for every situation, since a leader may have knowledge and skills to act effectively in one situation but may not emerge as effectively in a different situation (Mosadeghrad 2003).



## **1.2 PROBLEM STATEMENT**

People consider leadership style as an important variable in influencing an organization's functions. Leadership style can influence the effectiveness of employee performance or business performance. Leadership styles are identified as one of the three leadership types: participative, supportive and instrumental.

Malaysian leaders are not expected to be self-serving, in the sense of placing their own interests ahead of the group. Within Malaysian culture, status differences between individuals are clearly recognized and acknowledged. Emphasis is placed on the

correct use of titles, protocol and rank. Poon (1998) describes honorifics used to indicate social status and levels of authority, with different titles and ranking structures based on connections with royalty, religious standing, and awards for service to the state.

Contributions of Small and Medium Enterprises (SMEs) sector are widely recognized towards enhancing the nation's economic growth. It can be seen from various aspects such as in terms of business units, employment opportunities as well as economic output, (Hashim, 2005; Abdullah 1999). According to SME Corporation (2008), SMEs comprise 99.2% of the overall business establishment in Malaysia and they contribute 32 % of Gross Domestic Product (GDP) which has been growing up to 6 percent annually since 2003 and 19 % of exports. Furthermore, SMEs employ about 56% of the country's workforce and the value added products are expected to be worth RM120 billion in the manufacturing sector in 2020. Realizing the important roles of SMEs, government has allocated RM605.3 million to SME Corporation for various development programs and financial assistance.

Consequently, studies have been carried out to investigate factors that help to enhance performance of SMEs, (Kang & Lee, 2008; Sohail&Hoong, 2003 Narula, 2002) .The objective of the study is to determine the relationship of leadership style towards increasing the firms' performance. Firms' performance will be measured by their product and process innovation. Despite their importance to increase the effectiveness and productivity of firms', very few studies have attempted to examine the influences of these important factors especially for SMEs in Malaysia, (Hashim, Ahmad &Ooi, 2008).

Small business has particular problems connected to their size that large business does not have to confront. For example, Orser et al., (2000) studied a sample of small and medium-sized business and concluded that the growth of small firms is more dynamic, and not lineal, for example they do not systematically generate profits. They also found that the existence of a business plan is positively correlated with economic results, and cchjnbthat the types of problems that management has to deal with are related to the size of the organization.Mmv

Wang and Satow (1994) discuss the findings of the survey presented in a previous article in terms of leadership styles and their resulting organizational effectiveness in joint ventures in large corporations with different structural features. Four functional dimensions of leadership style are presented: expectancy, sentiment, informativeness and trustworthiness. These are particularly crucial for international joint ventures where cultural and managerial compatibility is most important in achieving organizational success.

Differences in strategic behavior that are linked to size have been identified, even within groups of small organizations. Wolff and Pett (2000) demonstrated that the larger small organizations exhibit strategic behavior that is consistent with their resources and capabilities, whereas this is not the case in very small organizations.

The differences in strategies that are linked to size have been expounded by Moen (1999), who showed that while there is no relation between firm size and results in export management, there is a difference in the basis of competitive advantage and the reasons for which companies decide to export.



Besides that, the set of studies examined confirm that a business's size will impact its economic, financial and strategic attributes, and, in particular, its decision-making process. Furthermore, from a theoretical point of view, it must be considered that small business has several features that distinguish them from large business, which determine the strength of the relationship between leadership style and effectiveness of business performance.

### 1.3 RESEARCH OBJECTIVES

- To know the relationship between leadership styles and business performance effectiveness.
- To identify what types of leadership style that will give the impact on business performance effectiveness.



### 1.4 RESEARCH QUESTIONS

- Does participative leadership style gives significant effect towards business performance?
- Does supportive leadership style gives significant effects towards business performance?
- Does instrumental leadership style gives significant effect towards business performance?

## 1.5 SCOPE OF THE STUDY

The scope of these studies will focus on Small Medium Entrepreneurs (SME's) in Melaka where the survey's questionnaires were distributed to them. The total numbers of respondents involved in this survey 170 people. According to Uma Sekaran,(2003) to get 95% confident interval of this research the sample size should be 162 of the total respondent.

## 1.6 SIGNIFICANCE OF THE STUDY

Managers all over the world recognize the essential role that effective leadership plays in organizational performance. Effective leadership is an imperceptible quality for many. Leaders are capable not only to differentiate the results of their companies, where they also can differentiate the satisfaction levels of the people working within these companies.

According to previous research, getting along with the boss is the number one factor that influences job happiness (Blanchard 2004). It is important for people working in organizations to think about their own experiences with managers to understand how essential the relationship of the leader-follower for organizational well-being, as well as how irreplaceable a good leader for satisfaction of a follower.

As a style, leadership is intended to make things happen in organizations. Thus, leadership is important in organizations because leaders are the people who can make

thing happen. It means that without leaders it will be difficult for an organization to achieve their goals.

## **1.7 LIMITATION OF STUDY**

### **1.7.1 Time Constraint**

The time frame given to finish up this research is quite limited as the researcher only has more or less than three months. At the same time, the researcher also working at a private company. Because of that time to find all the data is limited and need to manage the time wisely.

### **1.7.2 Cost Incurred**

In completing this research, the researcher needs to bear all cost such as photocopy, transportation, prints and material used in the research report.

## **1.8 SUMMARY**

This chapter has explained a few important issues to discuss in this study. It includes leadership styles issues and research background. This chapter also contains the objective of the problem statement, research question, the objective of the study and the conceptual of the study. It also discussed concerning study problem and importance of research.

## CHAPTER 2: LITERATURE REVIEW

A literature review is a body of text that aims to review the critical points of current knowledge and or methodological approaches on a particular topic. Literature reviews are secondary sources, and as such, do not report any new or original experimental work. A well-structured literature review is characterized by a logical flow of ideas; current and relevant references with consistent, appropriate referencing style; proper use of terminology; and an unbiased and comprehensive view of the previous research on the topic. (From Wikipedia, the free encyclopedia).

### 2.1 LEADERSHIP

Leadership is important aspect of any organization. For decades, the issues on leadership have been undertaken in various studies and related discussions. In fact the study on leadership dates back in 1921 (Hughes, Ginnett&Curphy, 1992 P.8). Leadership comprises the attitude and ability to inspire and influence the thinking, attitudes and behavior of other people (Adler,1991; Bass;1998; bass and Stogill, 1989: BennisNanus, 1985; Kotter,1998). Leadership is a process of social influences in which one person is able to enlist the aid and support of other individuals in the achievement of a common task (Chemes, 1997). The major points of these definitions are that leadership is a group activity, is based on social influence and revolves around a common task. Although this specification seems relatively simple, the reality of leadership is very complex.



Intrapersonal factors such as ideas and emotions, interact with interpersonal processes (i.e. Attraction, communication, influence) to have effects on a dynamic external environment.

Among the many definition of leadership, the most relevant definitions were given by Yuki (2002) and Schein (1992). Yuki (2002) defined leadership as the process of inspiring other people to comprehend and agree on what needs to be done and how to accomplish them effectively. In addition, leadership is also defined as the process of facilities collective and individual efforts to fulfill shared objectives.

Alternatively, Schein (1992) stated the creation of culture is the main essence of leadership and that both culture and leadership are two sides of a single coin. Relating leadership to management Schein believed that leaders tend to establish and change culture, while administrators and managers live within the culture. While both related definitions differ from one another, both speak of the essential role leaders have to play in corporate culture.

According to Bohn (2002), leaders have the ability to view the future. They are equipped with compelling abilities to visualize where things will naturally end or lead to. Unlike other people, individuals with leadership abilities see things that are not noticeable or obvious to others. In addition, leaders have to ability to build and establish confidence to others. Hence, in order to be a good leader, a person needs to have a personal sense of efficacy and confidence (Bohn, 2002).

Leadership is persuasion, not domination. Persons who can require others to do their bidding because of their power are not leaders. Leadership only occurs when others

willingly adopt, for a period of time, the goals of a group as their own. Thus, leadership concerns building cohesive and goal-oriented teams; there is a causal and definitional link between leadership and team performance. Leadership involves persuading other people to set aside for a period of time their individual concerns and to pursue a common goal that is important for the responsibilities and welfare of a group.

Leadership refers to the capacity and ability of a person or a group of people to guide and direct others. Not all people who are in charge have the same qualities and traits. Some are strong and able to influence, control and manage people effectively. Heads of departments and managers with insufficient skills and capabilities don't make good superiors.

Effective leaders generate higher productivity, lower costs, and more opportunities than ineffective leaders. Effective leaders create results, attain goal, realize vision and other objectives more quickly and at a higher level of quality than ineffective leaders.

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Nowadays, leaders, especially in successful organizations, realize that internal changes must be made in order to cope with the external changes happening in the external environment. Leading change is one of the components of leadership effectiveness. It is the leaders' responsibility to lead change in the organizations. However, not all managers in organizations are leaders where leaders play a main role to bring about change and provide the motivation and communication to keep change efforts moving forward.

Leadership effectiveness could be due to the personality of the manager. It could be due to the leadership style of the manager or it could be due to other factors such as age, gender, experience, and educational background. This is true as managers are not alike; they do not enjoy the same personality traits and they do not use the same leadership style.

## **2.2 LEADERSHIP STYLES**

### **2.2.1 Participative Style**

Participative leadership is a style of leadership that involves all members of a team in identifying essential goals and developing procedures or strategies for reach those goals. From this perspective, participative leadership can be seen as a leadership style that relies heavily on the leader functioning as a facilitator rather than simply issuing orders or making assignments. This type of involved leadership style can be utilized in business settings, volunteer organizations and even in the function of the home. (Obgonna and Harris, 2000).

One of the main benefits of participative leadership is that the process allows for the development of additional leaders who can serve the organization at a later date. Because leaders who favor this style encourage active involvement on the part of everyone on the team, people often are able to express their creativity and demonstrate abilities and talents that would not be made apparent otherwise. The discovery of these hidden assets help to benefit the work of the current team, but also alerts the organization



to people within the team who should be provided with opportunities to further develop some skill or ability for future use.(From Ogbonna and Harris, 2000).

Participative leadership also expands the range of possibilities for the team. When leadership styles that essentially leave all the direction and decision making in the hands of one individual, it is much more difficult to see a given approach from several different angles. When the leadership style encourages others to be involved in the decision making process, a given course of action can be approached from a variety of perceptions. This can often point out strengths or weaknesses to the approach that would have gone unobserved and thus unresolved without this type of participatory brainstorming and decision making.

One potential disadvantage of participate leadership is the time factor. This leadership style does often involve the need for more time before action is taken. This is only natural, since the very nature of participative leadership means allowing input from every member of the team. However, the extra time necessary for this process often leads to decisions that ultimately benefit everyone to a greater degree than faster decisions that are more limited in scope.

Effective participative leadership allows the talents and skills of all the team members to be utilized in arriving at decisions and taking courses of action. While the team leader is usually still responsible for making the final decision, this sharing of functions within the team provide the perfect environment for everyone to provide input that has the potential to make that final decision better-rounded and ultimately profitable for the company as a whole.

The participative leadership style is an approach that is being practiced in different forms such as the democratic style (Lewin, 1938), people-oriented or relationship style as indicated by the Ohio (Hemphill & Coons, 1957; Halpin & Winer, 1957; Flieshman, 1953) and Michigan (Likert, 1961) studies, team leadership style as mentioned by Blake & Mouton (1961), team leadership (DuBrin, 1998; Northouse, 1997), empowering others as mentioned by Burn (1978) in his transformational leadership style and Greenleaf (1997) in his servant leadership. In the situational leadership theories House (1971) and Hersey & Blanchard also emphasized on participative leadership styles.

### 2.2.2 Supportive Style

The supportive leadership theory is founded on the premise that leaders can positively influence and motivate followers to support a common goal. This style does not believe in subjecting followers to a series of directives. Rather, supportive leaders want to build relationships with their followers, create a trusting and authentic bond and make followers feel like they are appreciated and valued. According to the supportive leadership theory, by sustaining positive relationships, followers will want to continue supporting the leader. In turn, their support will accomplish the leader's goal. (From Obgonna and Harris, 2000).

Supportive leadership helps to build and maintain effective interpersonal relationships. A manager who is considerate and friendly toward people is more likely to win their friendship and loyalty. The emotional ties that are formed make it easier to gain