

# The Influence of Leadership Styles on Micro and Small Enterprises' Performance: The Case of Worabie Town, Siltie Zone

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## ABSTRACT

The main objective of the study was to examine the influence of leadership styles on the performance of MSEs in Worabie town. The focus was on three major leadership styles (Autocratic, Democratic and Laissez-faire). The research design was descriptive and analytical type; the research employed both quantitative and qualitative data, which is a mixed approach. Out of 306 total populations, 173 respondents were selected using simple random sampling for questionnaire. The primary data was collected through unstructured interviews and structured questionnaire. The data was analyzed using the descriptive statistics and the regression technique. The results of descriptive statistics showed that the practiced leadership style at the Worabie town by MSEs is mainly autocratic leadership. The result of the regression analysis indicated that democratic leadership style showed a positive and significant influence on MSEs' performance since beta coefficient value of this style is 0.371 with significant value of ( $p=0.000$ ), whereas the autocratic and laissez-fair leadership styles showed a significant and negative influence on MSEs' performance since coefficient value of these styles are -0.306, -0.143 with significant value of ( $p=0.000$  and  $0.045$ ) respectively. Concerning socio-demographic variables, beta coefficient of education is = 0.323 with significant value ( $p= 0.000$ ). Which shows high positive and significant influence on MSEs' performance; age indicated negative influence on MSEs' performance while beta coefficient value of gender is 0.126, with ( $p= 0.108$ ), which indicated that gender difference didn't show a significant effect on performance of MSEs. The research recommended that, MSE leader's need to encourage employee participation and involvement in decision making and problem solving in order to develop employees sense of ownership and belongingness through democratic leadership.

**Keywords--** Leadership, Leadership Style, Micro and Small Enterprise, Performance, Sectors

## I. INTRODUCTION

### *Background of the Study*

In today's dynamic workplace, organizations need effective leadership for optimal success (Nuhu, 2010). Leadership is simply "the art of influencing people so that they will strive willingly towards the achievement of

goals" (Igbaekemen, 2014). The formula for good management of Micro and Small Scale Enterprises (MSEs) is simple enough to develop a sound plan, design appropriate organizational structure, to implement the plans and monitoring the performance of the business (Uchenwamgbe, 2013). Shamaki (2015 cited in Abdulbasit, 2018) discussed that the success of an organization depends on the way or manner in which a leader operates to succeed; a leader has to adopt a particular leadership style or blending of styles together to achieve the aim and the objective of that organization.

Besides, the number of MSEs spring up yearly in Ethiopia are so much but, many of them fail to survive because of a lot of factors working against them; among these factors the human factor is most important and top on the human factor list is the leader. Leadership in MSEs is always identified as the missing link; cannot be much concerned (Bereket, 2015). The style of leadership adopted is considered by some researchers to be particularly important in achieving organizational goals, and in evoking performance among subordinates (Zacharatos et al., 2000).

The study conducted by Ethiopian CSA show that, the contribution of small enterprises in creating job opportunities and in the development of our economy is vital (FMSEDA, 2006). However, the performance of MSE sector in Ethiopia is poor in comparison with similar sectors in other African countries such as South Africa, Kenya, Uganda and Tanzania. Accordingly, the Ethiopian government gives emphasizes for the promotion and development of MSEs and to accelerating their performance so as to address unemployment issues, achieve economic growth and equity in the country.

According to Worabie town administration there are numbers of MSEs, which are engaging in Manufacturing sector, construction sector, Urban agriculture sector, Service micro and small scale enterprise sector and Tread micro and small scale enterprise sector. However, it has faced many problem related to MSEs, the evidence of 24/2/2018 annual report of enterprise and industry development office indicated that very small number of enterprises transferred in to the next stage for the five year interval of their business

activity. Therefore, this study examined the influence of leadership styles on performance of MSEs' effectiveness at Worabie town administration.

## II. EMPIRICAL LITERATURE REVIEW

Various studies have been conducted in relation to leadership and organizational performance. To begin with, a study by (Akram et al. 2012) conducted a research on How Leadership behaviors Affect Organizational Performance in Pakistan. The findings concluded that leadership behaviors are interrelated and have high positive impact with employee performance. (Nasir et al. 2014) also did a research on The Relationship of Leadership Styles and Organizational Performance among IPTA Academic Leaders in Klang Valley Area in Malaysia. From this finding the researcher suggested that leadership behaviors are interrelated and have high positive impact with organizational performance.

Raja (2015), conducted a study the effect of leadership styles on employee performance in public sector and private sector in India. This study identifies that from 43 middle-level managers and 156 subordinates, the study results clearly indicate sufficient evidence that 5% level of significance, that is a linearly shows that there is the relationship between transactional, laissez faire and autocratic leadership styles and employee performance. However, the same study found that laissez-faire leadership had a negative relationship with the employee performance. It was identified that leaders practicing laissez fare leadership styles underperform, their organizations whether public organizations or private organizations mostly fail to achieve organizational objectives (Juvenalis, 2017).

A study conducted by Obiwuru et al. (2011), autocratic leaders wants their subordinates to work according to them. Typically, autocratic leaders retain the decision -making rights with them. The autocratic leaders force their followers to execute the services and strategies according to the narrow way. Iqbal, Anwar, and Haider (2015) conducted a study to determine the impact of leadership styles on the organizational performance. The autocratic leaders are less creative and only promote one-sided conversation. This severely affects the motivation and satisfaction level of the employees. The autocratic leadership style is however, known to be effective in the short term. Accordingly, Akor, (2014) found in his study that autocratic power produces negative influence on employee performance. Igbaekemen (2014) conducted a study on the impact of leadership styles on the performance of organizations. The authors stated that an autocratic leader is the one who determines the activities,

techniques and policies to the employees and expects the employees to follow the same.

Bereket (2015) conducted a study on Evaluation of Leadership style and Organizational Performance in Small Scale Enterprise in Ethiopia. The findings showed that democratic leadership style and less of autocratic leadership approach were the dominant styles adopted in the running of the enterprise in the study areas and the democratic leadership approach was more effective in achieving higher level performance of the enterprise. Moreover, the findings showed that participative leadership and proper motivation of the staff important to enhance organizational performance. Hence, the right leadership style determines the extent to which a manager constantly and progressively leads and directs subordinates towards the achievement of organizational goals. From this finding the researcher concluded that one of the factors to higher level of performance of the enterprise is owners' leadership ability and willingness to delegate responsibility and to manage the activity of the others is the democratic kind of leadership style.

Yiheiyis (2017) conducted research on Effect of Leadership Styles on Employee Performance: In Case of Ethiopian Agricultural Investment Land Administration Agency. The finding of the study revealed that autocratic leadership style was the most commonly practiced leadership style and negatively associated with employee job performance in the organization. Whereas, democratic and transformational leadership were the least commonly used and had positive correlation with employee job performance in Ethiopia agricultural land investment agency. The result of the study revealed that employee job performance would be higher under democratic and transformational leadership and to be lowest under autocratic leadership.

I.

## III. MATERIALS AND METHODS

The study was conducted at Worabie town in Siltie zone administration in SNNPR, Ethiopia; which is found at a distance of 161 Km far from Hawassa and 173 Km from Addis Ababa to the south west of the country. In this study descriptive and analytical type of research design was employed. The research was focus on a combination of qualitative and quantitative approaches to overcome any kind of data inadequacy. To generate quantitative data for this study the researcher selected Worabie town purposively as a study area. The target population was based on the enterprises age i.e. MSEs engaged in business activities from 2017–2022. Then, the population was stratified by sub sector such as manufacturing, urban agriculture, construction, trade and service and in order to obtain representatives from each group, stratum allocation was calculated using formula.

Accordingly, participants from each stratum were then selected using simple random sampling. The sample size of this research was selected from a total of 306 MSE

leaders operate in Worabie town by using (Yamane, 1967) a simplified formula to calculate sample sizes, with a 95% confidence level.

$$n = \frac{N}{1 + N(e)^2}$$

$$= \frac{306}{1.765} = 173$$

**Where:** n is the sample size, N is the total population size and e is the level of sampling error or level of precision Thus, from the total number of 306 MSE leaders in five sectors the sample size was 173 leaders for questionnaire.

No	Micro and small scale enterprise sectors	Total popul	Proportionate Sample Size size
1	Manufacturing MSEs Sector Leaders	109	62
2	Construction MSEs Sector Leaders	32	18
3	Urban agriculture MSEs Sector Leaders	31	18
4	Service Micro and Small Scale Enterprise Sector Leaders	89	50
5	Trade Micro and Small Scale Enterprise Sector Leaders	45	25
<b>Total Sample Size</b>		<b>306</b>	<b>173</b>

Source: Werabe town trade and industry bureau, 2022

**1) Model Specifications**

In order to establish the influence of leadership styles & socio-demographic variables on MSEs’ performance, the following multiple regression model was used;

$$Y = \beta_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + B_6X_6 + E$$

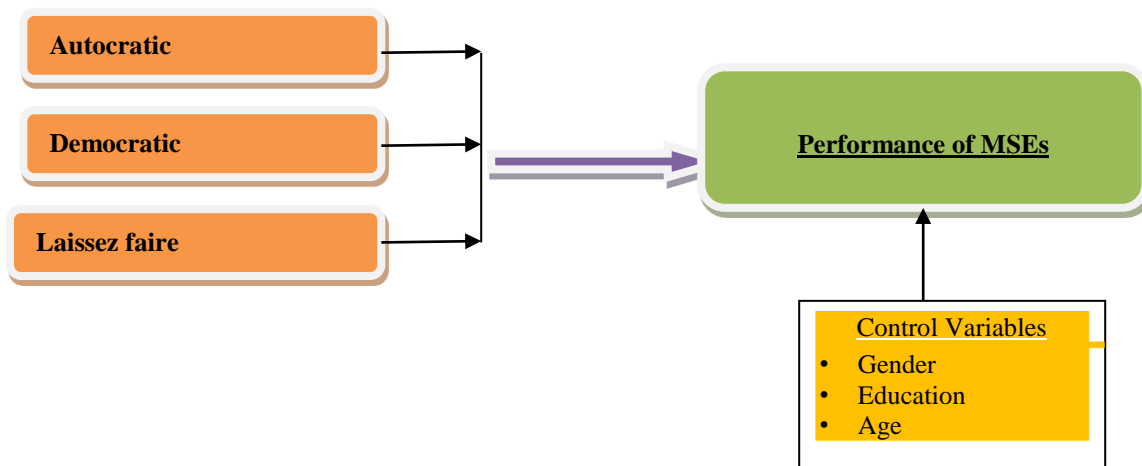
**Where:**

Y= MSEs’ performance,  $\beta_0$  = Regression constant, **B1-B6** = coefficient of independent variables(X1-X6), **X1**= Autocratic leadership style, **X2**= Democratic leadership

style, **X3**= Laissez-faire leadership style, **X4**= Age of the respondent, **X5**= Gender of the respondent, **X6**= Education level of the respondent and **E**= error term of the regression.

**2) Conceptual Framework**

The following Conceptual framework was developed after review of existing literature to investigate the research questions at hand. The conceptual framework for this study examined the influence of leadership styles on MSEs’ performance in Worabie town. In addition to the independent variables, the conceptual framework also included the three socio-demographic variables as controls.



**Figure 1:** Conceptual Framework of the Study (Source; Own literature review, 2022)

#### IV. RESULTS AND DISCUSSIONS

##### 1) Description of Leadership Styles Practiced in MSEs at Worabie Town

To identify the dominant leadership style practiced in MSE' in the study area, mean score measurement can be used. Each leadership style had six

(6) items and the scale used in the statements was 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, 5-strongly agree. Consequently, the descriptive statistics was used as a way to examine the mean and standard deviation to determine the dominant leadership style in MSEs of the study area.

**Table 1:** Descriptive statistics of Leadership Styles

VARIABLES	MEAN	STD. DEVIATION	N
Autocratic	4.1607	.46354	168
Democratic	3.8532	.47380	168
Laissez-faire	3.1855	.59338	168
Performance	3.5603	.69639	168

Source: Research Data, 2022

Based on the above table, autocratic leadership style scores the highest mean value and dominates the other eldership styles of Micro and Small Enterprise in Worabie town. Democratic leadership style is the second practiced leadership style in study area. However, laissez-faire leadership style is poorly practiced leadership style when it compared with autocratic and democratic. According to Akmaliah (2009), mean score of autocratic and democratic leadership styles are fall in high range while mean score of laissez-faire Leadership style is included in low range. Therefore, from the results of the analysis of leadership styles, it can be concluded autocratic leadership style is the most exhibited leadership style

followed by democratic leadership style whereas, laissez-faire is the least exhibited leadership style by the leaders of MSEs in Worabie town.

##### 2) The Relationship between Independent Variables and MSEs' Performance

Correlation shows how the strength or the magnitude and direction of the variable relationship with each other. The linear relationship between variables can be measured by correlation coefficient (r), which is commonly called as Pearson product moment correlation. Therefore, the following result shows that correlation between predicting variables and MSEs' performance in Worabie town administration of Siltie zone.

**Table 2:** correlation matrix between preceding variables and performance

		Correlations						
S.No		1	2	3	4	5	6	7
1	Autocratic Leadership Style	1						
2	Democratic Leadership Style	-.492**	1					
3	Laissez-faire Leadership Style	.292**	-.577**	1				
4	Age	.214**	-.480**	.284**	1			
5	Gender	-.437**	.317**	-.178*	-.173*	1		
6	Education	-.606**	.701**	-.636**	-.407**	.423**	1	
7	MSE Performance	-.633**	.718**	-.612**	-.454**	.431**	.702**	1

\*\* , \* Correlation is significant at the 0.01, and 0.05 levels, respectively (2-tailed).

Source: Research Data, 2022

As shown in the above table, democratic leadership style, gender and education have positive significant correlation with performance while autocratic leadership style, laissez-faire leadership style and age have a negative significant correlation with performance. Moreover, the above table clearly indicated that the correlation index for autocratic leadership style, democratic leadership style and laissez-faire leadership style with MSE Performance is -.633, .718 and -.612,  $p < 0.05$  respectively. And regarding to socio-demographic factor, correlation index for age, gender and education with MSE Performance is -.454, .431 and .702,  $p < 0.05$  respectively. Based on Weiliang et al. (2011), magnitude level of correlation, autocratic leadership style, democratic leadership style, laissez-faire leadership style and education have strong significant relationship with

performance while age and gender have moderate significant relationship with performance.

**3) Influence of Leadership Styles and Socio - Demographic Variables on MSEs' Performance**

Leadership styles and demographic variables were expected to influence MSEs' performance either positively or negatively. Due to the existence of significant correlations between leadership styles (autocratic, democratic & laissez-fair) and socio-demographic variables (age, gender & education) on MSEs' Performance, it is necessary to establish the strength of the predictive relationships between the variables. Multiple regression analysis is used to establish the strengths of relationship between dependent variable (performance of MSEs') and the predicting or independent variables; (leadership styles & socio-demographic variables).

**Table 3:** Results showing coefficient of regression analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	2.824	.777		3.633	.000
	Autocratic Leadership Style	-.306	.078	-.203	-3.924	.000
	Democratic Leadership Style	.371	.085	.252	4.342	.000
	Laissez faire Leadership Style	-.143	.071	-.122	-2.021	.045
	Age	-.086	.040	-.096	-2.179	.031
	Gender	.126	.078	.071	1.615	.108
	Education	.323	.071	.361	4.555	.000

Source: Research Data, 2022

Autocratic leadership style beta coefficient value is **-0.306** with significant value ( $p=0.000$ ) which is lower than alpha value of (**0.05**), hence autocratic leadership is found to have a negative significant impact on organizational performance. This indicates that autocratic power produces negative influence on performance of MSEs. This finding is similar to (Iqbal, et al., 2015) where they found autocratic power produces negative influence on employee performance.

Democratic leadership style beta coefficient value is **0.371** with significant value ( $p=0.000$ ) which is lower than (**0.05**), hence democratic leadership is found to have a positive significant impact on organizational performance. This finding is similar to a study conducted by (Akpapere et al., 2019) and (Bhargavi & Yaseen, 2016) where they found that democratic leadership style has had positive significant impact, on the organization's performance.

Laissez-faire leadership style beta coefficient value is **-0.143** with significant value ( $p=0.045$ ) which is lower than **0.05**, hence laissez-faire leadership is found to have a negative significant impact on MSE performance. This finding is in line with (Juvenalis, 2017), who identified that leaders practicing laissez-faire leadership style underperform their organizations whether public or private mostly fail to achieve organizational objectives.

The beta coefficient of age is, **-0.086** with significant value ( $p=0.031$ ) which is lower than alpha value of (**0.05**). This indicates that it has a negative relationship with MSEs' performance and that the older the managers are, the lower the performance of MSE could be. This finding is similar with (Flanigan et al., 2017) who found that age is negatively associated with unit sales and profit margin performance.

However, the beta coefficient of gender is **0.126**, where ( $p=0.108$ ) which is greater than alpha value of **0.05**. This represent that gender is not significant to predict MSEs' performance. The last, but the most powerful predictor among socio-demographic variables is level of education beta coefficient = **0.323** with significant value ( $p=0.000$ ) which is lower than alpha value of (**0.05**). This indicates that education level of the respondent has a positive relationship with MSEs' Performance. This finding is similar with (Zumitzavan and Udchachone, 2014) who revealed that higher education level helps the business owners to have better knowledge and skills which contribute to the success of their venture.

In brief, the multiple regression coefficients (Table 4.3) indicated that when the two factors were considered together, democratic leadership style ( $\beta = 0.371$ ,  $p<0.05$ ) and education ( $\beta = 0.323$ ,  $p<0.05$ ) were positive and significant predictors of MSE performance while the three factors autocratic leadership style ( $\beta = -0.306$ ,  $p<0.05$ ), laissez faire leadership style ( $\beta = -0.143$ ,  $p<0.05$ ) and age ( $\beta = -0.086$ ,  $p<0.05$ ) have negative effects on MSEs' performance. However, gender has insignificant effect on MSEs' performance ( $\beta = 0.126$ ,  $p>0.05$ ). This may mean that difference across gender among the leaders of MSEs does not have a significant influence on the performance. The negative significant influence of age to performance indicates that the higher the age of a leader, the lower is the performance of MSEs. The higher the education level of a leader in MSE, the higher is their performance. Gender isn't taken into account while the other five factors are considered in a multiple variable setting.

## V. CONSLUSION, FINDINGS AND RECOMMENDATION

Autocratic leadership style and less of democratic leadership approach were the dominant styles adopted in the running of the enterprise in the Study areas. Even though autocratic leadership style negatively influenced performance of MSE, leaders of MSE prefer and are most known to lead through this leadership style. In the view of globalization, autocratic leadership style may no longer be accepted by employees who are now becoming more knowledgeable, independent and competent. The mean score of MSEs' performance is 3.5567, which indicated that the MSEs' performance level in Worabie town is moderate.

Democratic leadership style has a significant positive impact on MSEs' performance. This indicates that when democratic approach is applied, performance of MSEs would increase. Therefore, MSEs' leaders are encouraged to adopt democratic leadership style and involve team members in the decision making process

since it is confirmed that performance of MSE is the best under this style of leadership. Autocratic and laissez-faire leadership style, however, show a significant negative impact on MSE performance. This indicates that performance of MSE would decrease when autocratic and laissez-faire approach is applied.

Among the socio demographic variables, level of education has highest positive impact on MSE performance. Leader's level of education is the most important factor to higher level of MSE's performance. From the finding gender difference doesn't have significant impact on MSEs' performance. Whereas age has negative impact on MSE performance. From this we can conclude that the younger managers are, the greater the performance of MSE could be and the older managers perform less.

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