Leadership Styles, Entrepreneurial Orientation and Business Performance: Empirical Investigation of Small and Medium Enterprises in Osun State, Nigeria

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Abstract

This study sought to examine the relationship between leadership styles, entrepreneurial orientation, and performance of SMEs in Osun State, Nigeria. The data were collected from sixty (60) out of one thousand and twenty (1,020) Small and Medium Enterprises operators in Osogbo metropolis that registered with Osun State Ministry of Commerce and Industry in Osogbo metropolis, Osun State, Nigeria through a structured questionnaire. Data analysis was executed with the aid of Correlation and Linear regression. The results revealed that the relationship between transactional leadership, transformational leadership, entrepreneurial orientation, and business performance was positive and significant. It was also revealed that transformational leadership, transactional leadership, and entrepreneurial orientation independently have a significant impact on business performance respectively. It was concluded that leadership styles and entrepreneurial orientation of SMEs operators influenced the success and survival of SMEs in Osun State, Nigeria.

Keywords: Transformational Leadership, Transactional Leadership, Entrepreneurial Orientation, and SMEs

Introduction

The leadership styles and guidelines for small and medium business operators became a facet of running a business for future survival. Leadership and entrepreneurial orientation are essential factors in engineering advancement on business behaviors, and also the capacity to inspire, direct others in realizing the vision, goals, mission, and encourage new ideas for organizational expansion. According to Ireland (2007) and Stahl and Hitt (2005), the achievement or operation of SMEs is influenced by the distinction in the leadership styles. Nave (2006) mentioned that the failure or success of the SMEs is dependent on the leadership styles utilized by the leaders. Similarly, Ojokuku, Odetayo, and Sajuyigbe (2012) reiterated that leaders are the problem solvers who can direct the business through challenges and reach more by others. It is demonstrated that entrepreneurial orientation also has a favorable influence on the company performance of the organization. Wiklund and Shepherd (2003) asserted that entrepreneurial orientation is a tool for results or SMEs functionality of the organizations. Businesses have to continually re-examine their market orientation plans and adapt flexibly in order to secure competitiveness, survival, and growth (Van Wyk and Adonisi, 2012). SMEs have contributed tremendously to the growth and evolution of the world economy. Ladzani and Van Vuuren (2002) noted that SMEs can be found to exert a strong influence on the economies of several countries.

The SMEs have contributed significantly to the employment development, social stability and economic welfare of countries. In a development study has demonstrated that SMEs have played a major role in fostering financial growth, create jobs and reduce poverty. The capability to combine industry entity to work towards the accomplishment of the organization's aim is made possible throughout the function of an efficient leader and that is crucial to the organization's achievement and functionality. Leadership styles and orientation have been extensively researched independently in both developed and developing economies, but in Nigeria, there is a dearth of research on combined constructs and the way they affect SMEs performance.
At the light of this, the research intends to fill the lack of knowledge by exploring the impact of leadership styles and entrepreneurial orientation on the company performance of SMEs in Osun State, Nigeria.

**Literature Review.**

The leadership styles and orientation in tiny companies have been identified as the fundamental component in influencing the business’s competitive advantage. The function of the entrepreneurial leader is increasingly becoming an essential determinant of both SMEs performance. Jung, Chow, and Wu (2003) claimed that leaders have the skill to influence innovation from the business by introducing fresh ideas, setting specific objectives, and encouraging innovation initiatives in their own subordinates. Bass (1985) introduced two kinds of leadership styles like hierarchical leadership, and transformational leadership. Transactional and transformational leaders are regarded as to SMEs environment since they related to the SMEs environment because they affect individual and organizational performance. Northouse (2015) mentioned in Jago (1982) noted which the attribute perspective individuals whilst the process prognosis suggests that leadership is a phenomenon which resides in the context of the interactions between leaders and followers and makes leadership readily available to everybody and may, therefore, be viewed in the behavior of the leaders and as such could be learned. An understanding of leadership is vital to SMEs development, efficacy or as a procedure. Uchenwamgbe (2013) mentioning Stoner and Gilbert stressed an understanding of leadership is essential for SMEs.

According to Robbins (2003), transactional leaders are people who motivate or direct monitoring behaviors and seek to control others to ensure. Daft (2008) explained that transactional leadership entails an exchange procedure between leaders and followers. Transactional leaders utilize have swayed the world demonstrated leadership style as an indicator of organizational success, as it relates to follower influence the workplace is secure and processes are followed (Bass, 1985). The 3 dimensions of transactional leadership comprise contingent reward exception active and exception passive. Transactional leaders are extremely have swayed the world demonstrated leadership style as an indicator of organizational success, as it relates to follower influence amenable to the operation of their followers (Johnson and Klee, 2007). Harper (2012) noted a hypothetical examination of effective leadership practices which to interact with the workers to attain.

More so, many to interact with the workers to attain in accordance with to interact with the workers to a attain company or business and for that reason, leadership style could be described as the type of behavior and ability which the supervisor has, which enables one recognized as a basic condition goal (Hesham, 2010). The transactional leadership style entails an exchange system recognized as basic condition personnel (Northouse, 2015). Elenkor (2002) recognized as a basic condition among the principal recognized as basic condition enhancing their devotion, loyalty, enthusiasm, and enthusiasm and it's for the growth of radical entrepreneurial approaches needed for the development of radical entrepreneurial approaches. There are four dimensions of transformational leadership that have idealized influence, inspiring motivation, intellectual stimulation, and individual approach. Transformational leaders are proactive and endeavour to make the most of orientation consequently is the existence of the organizational level feeling of mission (Avolio & Bass, 2004).

Idea is clarified by the invention, pro-activeness, and risk-taking entrepreneurship (Wiklund and Shepherd, 2005). Entrepreneurial orientation might and to strengthen their competitive position. The assumption of and to strengthen their competitive position vary from other kinds of businesses. Successful entrepreneurship should have an entrepreneurial orientation. Firms with high degrees of and to strengthen their competitive position continuously scan and observe their working environment so as to find and to strengthen their competitive position. Firms scan and monitor their environment to look for information which might manage their risk-taking, in addition, to challenge their requirements of their customers and competitors (Keh et al, 2007). Change which is the vital element of processes, takes place when customary practices have been switched with the new ones after the experience has come up when the recent ones no longer serve the organization (Peltola, 2013). Entrepreneurial behavior may appear in any sort of organizational which ranges from small business to large corporations, from a fresh start-up to a based firm, from a non-profit organization to a government agency.
Relationship between transactional leadership and Performance.

Previous studies on the relationship between transactional leadership and functionality are divergent. For example, Bass, Avolio, Jung, and Berson (2003) completed their study of the relationship between transactional leadership and functionality. The result suggested that transactional leadership increases functionality. Guardia (2007) found that transactional leadership is the elementary factor to organizational success at both team and individual levels and that transactional leadership behavior has a critical relation with individual and group performance factors. Jeger (1986) demonstrated that transaction management has improved functionality in a variety of nations such as Nigeria, Japan and Pakistan. Elenkov (2002) observed that in Russia, supervisors who embrace hierarchical leadership behavior positively correlates with the organizational functionality and innovation.

Roslan and Rosli (2012) analyzed the relationship between transactional leadership and the performance of SMEs in Malaysia and found there was a substantial positive relationship between transactional leadership and functionality. Johnson and Klee (2007) also failed research and gave proof in the favour of transactional leadership, they detected that transactional leadership is greater efficient when association desire to attain their goals and objectives. But, Bass; Masi and cook (2000), and Ojokuku, Odetayo, and Sajuyigbe's (2012) findings are contrary to other researchers. They found that transactional leadership has a negative relationship with performance. But a study undertaken by Aziz, Abdullah, and Tajudin (2013) on the impact of Leadership styles on the company operation of SMEs in Malaysia revealed both transactional and transformational leadership have been positively and largely related to functionality though transactional was extremely related in comparison to transformational.

Similarly, findings by a research conducted by Koech and Namusonge (2012) at Kenya among nation owned corporations disclosed transformational and transactional leadership styles were positively related to functionality, although transactional had a correlation. This study was conducted among authorities owned businesses thus the study findings might not be related to SME’s operating in a market. This, however, was not the case in Nigeria in which research while transformational had a positive, but the insignificant relationship to the substantial positive effect on functionality while transformational had a positive, but insignificant relationship to operation (Obiwuru et al, 2011). Based on this empirical evaluation, it is hence hypothesized that:

H01: Transactional leadership has no relationship with business functionality.

Relationship between transformational leadership and Performance.

The plethora of studies from of leadership styles after quantifying the impact of transformational leadership there is functionality. Eden dvir, Avolio and Shamir (2002) have the ability to show that followers attained better results beneath transformational leaders than other kinds of leadership styles after measuring the effect of transformational leadership. In the exact same vein, Ojokuku et al (2012) asserted that transformational leadership might leads to high performing organizations because of the inviting, delegation, participative, collaborative leader-follower relationship that evolves in an organization. Buckingham (2005) reiterated that transformational leaders encourage and promote cooperative decision making and problem-solving. A moderate and positive correlation was located between the leadership of transformation and business performance (Ramey, 2002). In another study, Howell, Neufield, and Avolio (2005) discovered that transformational leadership predicted unit performance. Gillispie and Mann (2004) also revealed that the capability of transformational leaders to convey, support, appreciate and develops followers help encourage the relationship of trust between the members of the organization. Transformational leadership has been positively associated with organizational performances (Zhu, Chew & Spangler, 2005).

Rosli (2012) analyzed the relationship between transformational leadership and the performance of SMEs in Malaysia and discovered that there was an important relationship between transformational leadership and performance. In addition, Valdiserri and Wilson (2010), who observed the impact of leadership behavior on the sustainability and organizational achievement of 48 small businesses in West Virginia and Pennsylvania,
concluded that transformational and transactional leadership behavior contributes to the profitability and success of a small business. There was a very strong correlation between transformational and transactional leadership and sustainability and a correlation between transformational and transactional leadership and organizational performance. Therefore, the next hypothesis is posited:

**H02: Transformational leadership has no relationship with business performance.**

*Relationship between entrepreneurial orientation and Performance.*

Studies made by previous researchers have shown that there is a strong correlation between entrepreneurial orientations and business performance. For example, Wiklund and Shepherd (2003) demonstrated that entrepreneurial orientation has a positive impact on the company operation of the SMEs. Chow (2006) conducted a study on the relationship between entrepreneurial orientation and business performance in China and confirms that entrepreneurial orientation had a significant impact on company profitability, especially for non-state companies. Krauss, Frese, Friedrich, and Unger (2005) also discovered that entrepreneurial orientation is positively associated with entrepreneurial orientation has been positively related to productivity and the entrepreneurial outcomes or performance of the company organizations.

Wiklund and Shepherd (2003) discovered that whenever entrepreneurial orientation has been positively related to productivity and that entrepreneurial position certainly related to business performance. Gurbuz and Aykol (2009) tested the relationship between entrepreneurial orientation and Turkish business growth and confirmed that entrepreneurial orientation affects firm growth. Tang, Tang, Zhang, and Li (2007) in their study, the emerging area of China in their study, the emerging region of China discovered that entrepreneurial orientation has a positive impact on business performance. Frese, Brantjes, and Hoorn (2002) conducted a cross-sectional, interview-based study of small businesses in Namibia plus confirmed in his study that there is a positive relationship between entrepreneurial orientation and performance achievement with regards to business size and economic development. At the exact same vein, Wiklund (1999) confirmed in his study that there is a positive relationship between entrepreneurial orientation and performance.

Based on the literature presented above, it is therefore hypothesized that:

**H03: Entrepreneurial orientation has no significant relationship with business performance.**

**Methodology**

The study comprises a quantitative survey of 60 small scale businesses randomly selected among SMEs operators within Osogbo metropolis. The data for this study, data were collected mainly from primary sources. The sample respondents consist of sixty (60) out of one thousand and twenty (1,020) Small and Medium Enterprises operators in Osogbo metropolis that registered with Osun State Ministry of Commerce and Industry. The sample size was determined by the formula suggested by Mugenda and Mugenda (2003). The data was gathered through a self-administered questionnaire to the respondents. The study covered bakery, block making, and packaged water. In the study, SME referred to the firms employed between 10 to 50 employees.

**Measures**

**Leadership Styles (Transactional and Transformational):** Multifactor Leadership Questionnaire (MLQ) which was developed by Avolio and Bass (2004) was used to measure the variables of leadership styles. A five-point Likert scale was used on which the SMEs operators have to indicate the extent to which the items represent their leadership styles.

**Entrepreneurial Orientation:** The Entrepreneurial Orientation Questionnaire (EOQ) developed by Covin and Slevin (1991) was used to measure the variables of entrepreneurial orientation of the SME. The respondents
were asked to select the response that is closest to the degree of agreement with the respective question. The respondent must choose a position based from 1 to 5 range on the Likert scale format.

**Business Performance:** The performance of the firm was measured through a subjective approach. In this approach, the performance of the firm is measured by the perception of the SMEs operators providing responses to the Business Performance Questionnaire. The SMEs operators were asked to state their firm’s performance criteria such as sales growth, employment growth, market value growth, profitability, and overall performance.

**The validity of the Instrument:** The instruments used in this study were submitted to a panel of experts for validation. Thus, their constructive criticisms, advice, and suggestions were seriously considered to ensure the validity of the instrument.

**Reliability of the Instruments:** Internal consistency reliability test was conducted to determine their psychometric soundness as indicated in Table 1:

### Table 1: Summary of results of the measurement instruments Reliability

<table>
<thead>
<tr>
<th>Scale</th>
<th>No of Items</th>
<th>Meaning</th>
<th>Bartlett</th>
<th>KMO</th>
<th>The eigenvalue of the principal component</th>
<th>% of the Variance</th>
<th>α of Cronbach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership Style (Transactional) Questionnaire</td>
<td>7</td>
<td>p = .000 (significant)</td>
<td>0.637</td>
<td>2.187</td>
<td>72.89%</td>
<td>0.75</td>
<td></td>
</tr>
<tr>
<td>Leadership Style (Transformational) Questionnaire</td>
<td>7</td>
<td>p = .000 (significant)</td>
<td>0.879</td>
<td>3.608</td>
<td>72.13%</td>
<td>0.82</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial Orientation Questionnaire</td>
<td>8</td>
<td>p = .000 (significant)</td>
<td>0.755</td>
<td>2.555</td>
<td>85.16%</td>
<td>0.78</td>
<td></td>
</tr>
<tr>
<td>Business Performance Questionnaire</td>
<td>6</td>
<td>p = .000 (significant)</td>
<td>0.847</td>
<td>3.472</td>
<td>92.56%</td>
<td>0.80</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ Computation

From Table 1 above, factor loads of all the indicators are higher than 0.5 which shows that the questions highly explain the variance of their variables so we can say that the measurement model has high factor validity and reliability.

**Method of Data Analysis:** Correlation analysis and Linear Regression were used to analysis the data with the aid of SPSS version 21.

**Results and Discussion**

Relationship between Business Performance Transactional Leadership, Transformational Leadership, and Entrepreneurial Orientation
Table 2: Relationship between Variables

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Business Performance</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Transactional Leadership</td>
<td>.749**</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Transformational Leadership</td>
<td>.680**</td>
<td>.654**</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>4. Entrepreneurial Orientation</td>
<td>.759**</td>
<td>.708**</td>
<td>.610**</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Table 2 presents the result of the relationship between transactional leadership, transformational leadership, entrepreneurial orientation, and business performance. The result shows that the relationship between transactional leadership and business performance was positive and significant (r = 0.749**, P<.05). This connotes that there is a strong correlativity between transactional leadership and business performance. The relationship between transformational leadership and business performance was positive and significant (r = 0.680**, P<.05). This result indicates that transformational leadership style leads to business performance.

The relationship between entrepreneurial orientation and business performance was also positive and significant (r = 0.759**, P<.05). This result means business performance emerged as a determinant of entrepreneurial orientation.

**Impact of Transactional Leadership on Business Performance**

Table 2 shows that transactional leadership has a positive and significant effect on business performance (β = 3.208; t = 3.093) at 5% level. The R² of 0.495 indicating that transactional leadership independently contributes 49.5% to business performance. This implies that transactional leadership leads to an increase in the performance of SMEs in Nigeria. The study is consistent with Elenkov (2002), Bass, Avolio, Jung, and Berson (2003), Guardia (2007), Jeger (1986), and Roslan and Rosli (2012) that transactional leadership is the elementary factor to organizational success at both team and individual level and that transactional leadership behavior has a dynamic relationship with group and individual performance. However, the result is contrary to the findings of Bass (2008), Masi and cook (2000) and Ojokuku, Odetayo and Sajuyigbe (2012) who found that transactional leadership has a negative relationship with performance.

Therefore, the null hypothesis which states that transactional leadership has no significant relationship with business performance is rejected in favour of the alternative hypotheses.

**Impact of Transformational Leadership on Business Performance**

Table 2 also reveals that transformational leadership (β = 4.998; t = 4.245) has positive and significant effect on the performance of SMEs at 5% level. Result also indicates that transformational leadership independently contributes 50.4% to business performance with R² of 0.504. This indicates that transformational leadership allows employees to have a sense of belonging, also encourage them to carry out higher responsibility with little supervision. It further assisted them to achieve their visions and needs which enhances the performance of SMEs. The study is in agreement with Ramey (2002); Buckingham (2005); Howell et al (2005) Ojokuku et al (2012) which agreed that transformational leadership has a positive and significant influence on organization performance. In another study, Zhu et al. (2005) also affirmed that transformational leadership had a positive linked to organizational performances. Gillispie and Mann (2004) also found that the ability of transformational leaders to communicate, support, appreciate and develop followers helps promote the trusting relationship between the members of the organization. While Obiwuru et al (2011); Koech and Namusonge (2012) and Aziz et al (2013) revealed that both transactional and transformational leadership were positively and significantly related to performance, though transactional was highly related compared to transformational.
Therefore, the null hypothesis which states that transformational leadership has no significant relationship with business performance is rejected in favour of the alternative hypothesis.

**Impact of Entrepreneurial Orientation on Business Performance**

Table 2 also shows that entrepreneurial orientation ($\beta = 2.071; t = 2.978$) has a positive and significant effect on the performance of SMEs at 5% level. Furthermore, the result shows that entrepreneurial orientation independently contributes 48.9% ($R^2 0.489$) to business performance. This implies that entrepreneurial orientation is positively related to firm performance. This result supported Wiklund and Shepherd (2003); Krauss, et al (2005); Chow (2006); Tang et al. (2007) and Gurbuz and Aykol (2009) which established that entrepreneurial orientation also has a positive impact on the business performance of the SMEs.

Therefore, the null hypothesis which states that entrepreneurial orientation has no significant relationship with business performance is rejected in favour of the alternative hypothesis.

**Table 2: Regression Results**

<table>
<thead>
<tr>
<th></th>
<th>Transactional leadership</th>
<th>Transformation leadership</th>
<th>Entrepreneurial orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.208</td>
<td>4.998</td>
<td>2.071</td>
</tr>
<tr>
<td>t- statistics</td>
<td>3.093</td>
<td>4.245</td>
<td>2.978</td>
</tr>
<tr>
<td>probability</td>
<td>P&lt;.05</td>
<td>P&lt;.05</td>
<td>P&lt;.05</td>
</tr>
<tr>
<td>F- value</td>
<td>2.045</td>
<td>1.976</td>
<td>2.009</td>
</tr>
<tr>
<td>R^2</td>
<td>0.495</td>
<td>0.504</td>
<td>0.487</td>
</tr>
</tbody>
</table>

**Discussion and Conclusion**

This study examined the relationship between leadership styles, entrepreneurial orientation, and performance of SMEs in Osun State, Nigeria. The data was collected from the business organizations operating in Osogbo metropolis through a self-administered questionnaire. The study covered bakery, block-making, and packaged water enterprises. In the study, SME referred to the firms employed between 10 to 50 employees. The result revealed that leadership styles (transformational and transactional) have a positive and significant effect on the performance of SMEs. It means that as leadership styles (transformational and transactional) level increases, the degree of business performance also increases. It can be concluded that the leadership styles of SMEs operators can influence the success and survival of the SMEs. Moreover, the result indicates that transformational leadership has more influence than transactional leadership with higher performance. This study supports the position of Gartner and Stough (2002), Obiwuru et al (2011), Koech and Namusonge (2012), Roslan, Rosli and Abdullah (2013) and Aziz, Abdullah, and Tajudin (2013) which affirms that transformational leadership is more effective than transactional leadership.

This study also found that entrepreneurial orientation has a positive and significant effect on the performance of SMEs. It implies that as the entrepreneurial orientation level increases, the degree of business performance also increases. It can be concluded that the entrepreneurial orientation of SMEs operators can influence the success and survival of the SMEs.
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