

LEADERSHIP STYLES, MANAGEMENT SYSTEMS AND GROWTH: EMPIRICAL EVIDENCE FROM UK OWNER-MANAGED SMEs

YONG WANG^{*,‡} and PANIKKOS POUTZIOURIS^{†,§}

**Wolverhampton Business School
University of Wolverhampton
Wolverhampton, WV1 1AD, UK*

*†CIIM-Cyprus International Institute of Management
Akademias Avenue, P.O. Box 20378*

CY-2151 Nicosia, Cyprus

‡yong.wang@wlv.ac.uk

§poutziouris@ciim.ac.cy

Apart from starting, growing and/or sustaining a business, owner-managers in small firms have the responsibility to balance business goals and managerial priorities, with ownership control tendencies and family values (as in the case of the prolific family enterprise) in a fashion that can comfort all business stakeholders. Understanding the inter-relationship among owner-manager's leadership style, intra-organisational management systems, and business growth can enable us to develop insights into how small business leaders masterfully construct a management approach that is conducive to sustainable performance. This empirical paper draws evidence from a large-scale postal survey (5710 respondents) of small and medium sized enterprises (SMEs) in the UK and explores the association of small business managerial style and performance. Logistic regression analysis reveals that the managerial style of entrepreneurs is influenced by a series of demographic and situational factors. Moreover, owner-managed businesses characterised by delegation of authority appear to achieve higher growth in sales and operationalise in a more professional way. The paper concludes with a discussion of the implications. The role of managerial style in interpreting business's growth performance will complement the leadership literature.

Keywords: Small business; leadership style; performance; situational factor; management system.

INTRODUCTION

Entrepreneurial micro-enterprises and SMEs are credited as agents of innovation, wealth creation and employment generation. Paradoxically, evidence suggests owner-managers' immature managerial skills, coupled with deficient resources and increasingly intense market competition, often prevent this entrepreneurial sector from achieving its great potential (Storey, 2005; Berryman, 1983). It is estimated that about 55 percent of small businesses cease trading within five years since inception, and over 80 percent within ten years (Dodge and Robbins, 1992). Empirical studies are therefore required to enable us to appreciate how small businesses survive and succeed and understand what factors can influence small business strategic management and subsequent performance.

The remainder of this article includes four sections. In the literature review section, the extant studies that relate to leadership style, situational leadership theory, and management system are reviewed to form the foundation of the current study. Grounded in this review, four hypotheses are posited. Following this, the research methodology section focuses on the description of sampling and data collection. Research results arising from multinomial regression and one-way ANOVA analyses are then presented. This is followed by a discussion of practical implications and directions for further research.

LITERATURE REVIEW

Leadership Styles in Small Firms

Prior research on leadership shows that emergence and performance of leaders are a complex phenomenon (Bass, 1990; Marta, Leritz, and Mumford, 2005). Yukl (1989) indicates that 'the field of leadership is presently in a state of ferment and confusion' (p. 253) and that the knowledge and understanding of the domain, as a whole, are premature. In the literature, a number of approaches have been employed to interpret emergence and performance of leaders. These include social perception (Hall and Lord, 1995), exchange relationships (Liden and Mitchell, 1989), individualised consideration (Dansereau and Yammarino, 2000), path-goal theory (House, 1996), behaviourally based model (Fleishman, 1973) and situational demands (Podsakoff and MacKenzie, 1998) etc. Nonetheless, instead of untangling the complicated leadership knot and proffering clear understanding to the scenario, these diversified approaches cause ambiguities and confusion as to

which approach is more convincing in interpreting what governs small firms. Furthermore, researchers argue that the intrinsic nature of the leadership notion is still not well understood (Yukl, 1998). Most widely recognised theories are beset with conceptual weakness and lack robust empirical support.

The traditional trait perspective holds that leaders possess idiosyncratic attributes that set them apart from others. For example, the founding work on entrepreneurship by Schumpeter (1934) implies that entrepreneurs, often leaders of small businesses, are special people who can bring about changes or innovations to businesses through introduction of new products/services and processes. By synthesising different researchers' leadership studies, Stogdill (1974) lists about 100 traits which are claimed to be responsible for leader's success. Nonetheless among these traits, rarely does any commonality exist; sometimes they even latently conflict with each other. In fact, studies on traits have failed to produce any set of attributes that can clearly discriminate between leaders and non-leaders, or good leaders and unsuccessful leaders (Stogdill, 1974; Yukl, 1989).

Due to the limitation of the trait approach, the notion of organisational leadership commences to shift its focus to the behaviour of leaders (Wofford and Liska, 1993) and the effect of prevailing situation on leadership (Bass, 1990) (cf. Ensley, Pearce, and Hmieleski, 2006). Burns (1978) and Bass (1985) originate the behavioural style theory of leadership, which classifies leadership into transactional and transformational types. Transactional leadership has a focus on exchange relationships between leaders and their subordinates/followers (Burns, 1978). Transactional leaders 'capitalise' on the self-interests and extrinsic motives of their subordinates/followers through rewards and punishment (Ensley *et al.*, 2006). On the other hand, transformational leadership focuses on motivating subordinates/followers by appealing to their ideals and intrinsic motives (Burns, 1978). Transformational leaders inspire subordinates/followers and guide their energy toward accomplishing high level of goals, rather than simply obtaining rewards or avoiding punishments (Ensley *et al.*, 2006).

Aligning with the behavioural style approach, House (1996) claims the leadership behaviour towards subordinates can be classified by a four-fold typology as follows: directive, supportive, participative and achievement-oriented. Small enterprises, in contrast to large business organisations where ownership is often independent from management control (Birley, Ng and Godfrey, 1999), normally operate as an extension of the ethos of their owner-managers. To safeguard the ownership control and independence from outsiders, small business owner-managers often exhibit an antipathy against external interference and are sceptical about employee's participation on

decision-making. These imply that the directive leadership style may be more prevalent, where owner-managers are likely to exercise authority alone for policy determination and subordinates are only expected to follow instructions.

In addition, since the British culture is typified by low power distance and high individualism (Hofstede, 1981), it is reasonable to infer that the majority of junior managers- subordinates in small private companies would accept the supportive and participative leadership styles of the owner-managers, who often create a caring familial climate that accommodate the needs and welfare of subordinates. The achievement-oriented leadership, where managers consciously set goals for subordinates and allow them freedom of action, may rarely be observed, given the general conservative and inward-looking culture characterising small family business entrepreneurs. Based on the abovementioned theoretical arguments the following hypotheses can be elicited:

Hypothesis 1. *The participative leadership style is the most prevalent managerial pattern in the owner-managed business, followed by the supportive, directive and achievement-oriented style.*

The Situational Approach

The ‘Population Ecology’ (PE) school of theory, as a unique organisational perspective, has been extensively elaborated in the organisation management literature and can provide effective interpretation to organisational homogeneity. PE represents a metaphorical comparison between organisations operating in an economy and biological organisms that strive for survival within a specific ecological community or environment. The distinctive feature of the PE theory is its focus on the population (Boone and Witteloostuijn, 1995).

Aldrich (1979) and Baum (1999) both argue that changes in organisational population reflect the operation of four basic processes: variation, selection, retention, and competition. In a business environment, variations arise not only as a consequence of failures of organisational control but also as a result of deliberate plan (Aldrich, 1979; Baum, 1999). Variations may spread out in an organisation population via diffusion. Over time, successful variations are retained and characterise those surviving organisations (Baum, 1999). Hannan and Freeman (1977) conclude that ‘it is the environment which optimises’ (p. 939). Overall, the PE perspective offers a conceptual interpretation why many owner-managed, privately held SMEs demonstrate homogeneous leadership patterns (e.g. the popular democratic style in the UK) and managerial structures (e.g. the flat and bureaucracy-free

system) and why their strategic orientation is tuned to survival and status-quo maintenance.

Unlike the PE theory emphasising on the homogeneity within the population, the contingency perspective proclaims that no single managerial style, organisational structure, or strategy can be effective for all organisations and the essence of successful administration lies in the 'fit' between managerial issues and organisational intrinsic nature (Donaldson, 1999). Researchers confirm that even for the same business, the leadership pattern may vary throughout the business life cycle (Greiner, 1972; Churchill and Lewis, 1983; Clarke and Pratt, 1985). For example, Greiner (1972) divides business life into five stages, varying from growth via creativity, direction, delegation, co-ordination to collaboration. Each stage has a specific leadership style corresponded and is characterised by a crisis that may be encountered (Burns and Harrison, 1996). Greiner's model implies that owner-managers in small firms must alter their leadership pattern continuously in order to safeguard their sustainable survival or prosperity.

Inspired by the contingency theory, Hersey and Blanchard (1969) develop the situational leadership theory. Similar to the contingency theory, the situational leadership theory assumes that 'effective leadership depends upon the ability of the leader to accurately diagnose situational conditions and to respond with appropriate combinations of behaviours' (Goodson, McGee and Cashman, 1989, p. 446). The situational theory concentrates on the interplay among the leader's guidance and directive behaviour, the leader's socio-emotional support, and follower readiness/maturity for performing a specific task or function (Hersey and Blanchard, 1988). Researchers recognise that a variety of individuals with differing personalities, backgrounds, and business involvements has transformed to be effective leaders. This suggests that situational factors rather than only personal or behavioural attributes determine or 'select' the leadership pattern. For instance, if followers within an organisation have not obtained sufficient ability and expertise, the leader has to consider using a directive style by offering detailed instructions, mentoring and coaching and closely monitoring subordinates' performance. On the other hand, if subordinates overall have achieved reasonable understanding of business processes but suffer from a low morale, the leader is inclined to adopt a supportive style by proffering counselling and designing incentives and inducements for followers. Representative studies of the situational perspective such as Tannenbaum and Schmidt (1973) and James and White (1983) suggest that three contextual factors are critical in determining what types of leadership are practicable and desirable. These include the nature of organisational context, the leader's personal characteristics and the

delegation of authority — power distribution features. Using these tenets as a foundation, the following hypothesis follows:

Hypothesis 2. *The leadership style in small business is dependant on the business, leader and authority distribution context.*

Effectiveness of Leadership

The small business and entrepreneurship literature suggests that a diversity of personal, organisational, and strategic factors may influence small business performance (Chandler and Jansen, 1992; Siegel, Siegel and MacMillan, 1993; Barringer and Greening, 1998). Nonetheless, rarely has any consistent view on the effect of leadership on performance been achieved. Diverse array of leadership research recognise that owner-managers in small firms are likely to exert crucial influence on firm functioning (Bass, 1990; Sorenson, 2000; Anderson, Mansi, and Reeb, 2003). They are intensively involved in business administration through supervising operations, controlling finance, and handling personnel. Their leadership style therefore becomes an essential ingredient in the mixture of factors that shape business success (Yukl, 1998; Chaganti, Cook and Smeltz, 2002).

According to House's leadership continuum, the people-oriented leadership pattern (i.e. supportive, participative and achievement-oriented leadership styles) is often featured by power delegation and interaction with subordinates (House, 1996). Leaders of these styles tend to empower followers, consult with them in advance, seek their feedbacks and recommendations, and criticise the work rather than the employees if any mistakes occur (Chaganti *et al.*, 2002). Researchers claim that the people-oriented approach is likely to provoke effective group and individual performance since subordinates are apt to be motivated by empowerment and hence be more participative in the decision-making process (Tack 1984; Mullins, 2002), whilst strategies outlined by a collective intelligence are more likely to capture market needs and trends accurately. On the other hand, the leader-centred task-oriented style (i.e. the directive style in House's (1996) typology) emphasises on clear definitions of tasks and close monitoring activities on subordinates' performance. This leader may set up standards for performance and demand adherence to the standards (Chaganti *et al.*, 2002). Occasionally, this type of leadership style is productive, as subordinates sometimes prefer a more directive, task-oriented approach, especially when they have not obtained sufficient knowledge and expertise on jobs. In the literature, studies rarely show any consistency on the performance implication of a leader's managerial

behaviour. For the explorative purpose, an initial proposition is therefore posited as follows:

Hypothesis 3. *Business performance is associated with leadership patterns.*

Management System

Krech, Crutchfield and Ballachey (1962) summarise a range of business functions associated with the roles played by leaders, such as leader as a planner, a controller, a mediator, and a purveyor of rewards and punishment etc. Researchers find that strategic planning (Bracker and Pearson, 1986; Ward, 1988), management control system (Sauers, 1983; Boag, 1987), reward system (Lee, Lucius and McNeil, 1999; Besser, 1995), and usage of IT (Garsombke and Garsombke, 1989) are all essential elements of modern management activities.

The establishment of management system is dependent on available resources. Due to scarcity of resources, management structure in small enterprises is relatively flat, with owner-managers heavily involved in most aspects of business management and holding the position as the central decision-maker (Goffee and Scase, 1985; Poza, Alfred and Maheshwari, 1997). This autocratic role (i.e. low degree of delegation) often creates a situation that leaders have to resort to emergent strategies to direct firms to enable businesses to quickly respond to changes in marketplace. The emergent decisions made upon the limited market research and inadequate collective intelligence tend to be pragmatic and judgemental, involving an element of improvisation (Casson, 2005). On the other hand, the people-oriented style (i.e. high degree of delegation) is likely to consider more stakeholders' benefits and the coordination among stakeholders. This management approach will lead to the development of more managerial tiers in the management structure between owner-managers and subordinates, and among employees, customers and suppliers. Therefore management practices are more likely to be formalised. Based on the abovementioned theoretical debate, the following hypothesis is proposed:

Hypothesis 4. *The formality of the business management system is associated with the leadership patterns.*

METHODOLOGY

Sample and Data

The principal purpose of this study is to explore the determinants of managerial styles and examine the impact of leadership on business performance and

management system in the small business context. In our investigation into small business management practices, sponsored by the UK-Department of Trade and Industry, a questionnaire with a cover letter was posted to thirty thousands businesses which were randomly selected from members of the Forum of Private Business (FPB), the Federation of Small Businesses (FSB) and the Rural Development Commission (RDC). In addition, an extra thousand ISO 9000 registered small businesses were randomly chosen. Usable responses were received from 5,710 firms, yielding an 18.4 percent response rate. Given the fact that the response rate between 10 ~ 19 percent is often reported in the small business literature (McDougall and Robinson, 1990; Welsch, 1993; Cook, Chaganti and Haksever, 1998), the rate obtained in the current study via a single wave of posts with no blanket following up due to the cost concern is considered as satisfactory.

To assess the possible non-response bias, a telephone survey was conducted by randomly selecting businesses from those non-respondents. Six questions on business demographic information, such as legal form, sector distribution, business age, number of business ownership, gender and industrial tenure of the managing director(s), were included in a simple questionnaire and enquired through phone calls. Two hundred and thirty-seven companies completed the questionnaire in this round. Data from these firms were further compared with those of respondents in the first wave of the survey. Results indicate that there was no evidence of statistically significant differences between the two groups of businesses. This suggests that the respondents (i.e. 5,710 firms) can be representative of the thirty thousands sampled firms and the findings arising from the respondents (i.e. 5,710 firms) will be generalisable to those in the sample frame (Wallace and Mellor, 1988).

Variables Included in the Analysis

The dependent variable of the multinomial logistic regression model utilised in this study has a categorical nature, categorising managerial leadership into four types: directive, supportive, participative and achievement-oriented leadership. Definitions and descriptions of these leadership styles based on House (1996) were rendered in the postal survey questionnaire. Businesses, by referring to these descriptions, were invited to specify their managerial styles by selecting one of the descriptions that mostly matches their leadership experience.

The independent variables selected for the multinomial logistic regression model are encapsulated into three clusters, as follows: the nature of

owner-managers, the nature of the business, and the characteristic of authority distribution. In particular, the nature of owner-managers is reflected by the gender of owner-managers, their industrial-managerial tenure, and multi-venture ownership. The nature of the business is mirrored by demographic variables, such as business age, size of operation, sector, legal form, customer base and sophistication of the production line, while the feature in relation to authority distribution is described by layers of authority.

Business performance in the current study is indexed by the percentage growth of sales over the past year before the survey (ex-ante) and perceived growth in the following year (ex-post). The business economic and performance management literature suggests that business performance can be evaluated through an objective financial approach (Venkatraman and Ramanujam, 1987; Brush and Van der Werf, 1992; Murphy, Trailer and Hill, 1996). Murphy *et al.* (1996) find that growth, profitability and efficiency are the most commonly employed performance dimensions in entrepreneurship studies. Similarly, Covin and Slevin (1991) delineate that a firm's economic performance has primarily two dimensions: growth and profitability. In the current paper, the sales growth was employed because the macro level contribution of small ventures has often been indexed by sales turnover. Furthermore, the increase in sales performance can effectively reflect the business capabilities in coping with marketplace.

The availability of management systems were examined in four fields, respectively strategic planning system (i.e. formal strategic objective setting, financial planning, and sales forecasting), control system (i.e. accounting management, production control, and stock management), reward system, and computerisation. The availability of a specific management system was assessed by a binary variable, where 1 = functional system in place and 0 = no functional system in operation.

RESULTS

Demographic Characteristics

Table 1 describes the profile of the responding companies, which is characterised as follows:

- Multi-venture ownership: the majority of owner-managers (80.9 percent) of the sample firms own and operate one small firm;
- Legal form of businesses: the limited company represents the main stream (43.5 percent) of the sample firms. The other two types (i.e. sole proprietorship and joint proprietorship) feature the rest of the sample;

Table 1. Profile of Sampled Small Companies (N = 5, 710).

Demographic variables	Percent
<i>Multi-Venturing</i>	
1 business	80.9
2+ business unit	19.1
<i>Legal Form</i>	
Sole-trader	26.9
Partnerships	29.5
Limited companies	43.5
<i>Sectoral Distribution</i>	
Construction/Mining	7.2
Manufacturing	29.3
Transport/Distribution	2.9
Retail and Wholesale	20.6
Agriculture/Forestry/Fishing	2.8
Services	26.0
Other	11.2
<i>Gender of Owner-Managers</i>	
Male	56.9
Female	5.7
Mixed	37.5
<i>Industrial Tenure of Owner-Managers</i>	
<10	33.3
10–19	32.2
20–29	20.1
30+ years	14.4
<i>Business Age</i>	
<5	15.6
5–9	21.0
10–19	29.3
20–29	15.1
30+ years	19.1

- Sectoral distribution: the sample firms are more prolific in traditional manufacturing, service, and retailing and wholesaling activities and less prolific in agriculture/forestry/fishing and transport/distribution;
- Gender of owner-managers: male owner-managers mainly characterise the top management in the sample (56.9 percent). Interestingly, a large number of businesses are managed by ‘copreneurs’ (37.5 percent),

indicating that marital entrepreneurial partnerships can share workloads and responsibilities on the basis of trust;

- Industrial tenure of owner-managers: evidence suggests that the industrial tenure of owner-managers tend to vary, and most of them have a short-to-medium term of tenure (33.3 percent have less than 10-year experience and 32.2 percent between 10 and 19 years);
- Business maturity: the majority of the sample firms do not have a long business history (36.6 percent are less than 10-year old and 29.3 percent between 10 and 19 years) which confirms the conventional viewpoint that small businesses are constrained by deficiency of resources and challenged by the intense market competition which leaves their long-term survival in jeopardy.

In summary, the responding firms are typified as male-dominated, young, and incorporated businesses. Most of them are involved in the traditional sectors and their owner-managers tend to have short to medium term's industrial tenure.

Leadership Typology

As Table 2 demonstrates, the most prevalent form of leadership is the participative style where leaders are inclined to provide their advice, evaluation and suggestions to their subordinates, while empowered shop-floor employees and line managers are more involved in the day-to-day business management activities. The prevalence of the participative style is in line with the British culture, which is featured by the low power distance and high level of individualism. The next popular managerial pattern is the supportive style where managers take on a friendly and approachable manner and accommodate the needs and welfare of subordinates. In the third place is the directive style, where managers attempt to guide and inform subordinates exactly what is expected. Rules and regulations are designed for subordinates to follow. Finally, as expected, less prolific is the achievement-oriented

Table 2. Leadership Pattern in Small Firms.

	Observations (%)	Chi-square test
Directive	21.6	χ^2 : 1816.95
Supportive	27.3	Df: 3
Participative	46.5	Significance: 0.000
Achievement-oriented	4.5	

leadership which rarely is adopted by small business owner-managers, given their general conservative attitude and minimum trust on others.

To explore whether small businesses equally adopt the four types of leadership, a nonparametric Chi-square test was conducted. The significant result indicates that the leadership configuration is not well balanced with a high proportion of businesses adopts open and democratic approach to orchestrate their strategic management and development. Thus, hypothesis H1 is confirmed.

Situational Impact on Leadership

The multinomial logistic regression was executed with a set of independent variables. To assess the overall fit of the model, chi-square (χ^2) value and pseudo R^2 were examined. The chi-square test can be used to identify the change in the log likelihood (-2LL) value from the base model (intercept only) to the proposed model (with intercept and independent variables). Results indicate that the chi-square difference is significant at 0.000 level. Therefore it is reasonable to reject the null hypothesis of H2 that the independent variables are not associated with the dependent variable. Pseudo R^2 is another indicator displaying the overall fit of the multinomial logistic regression model. Multinomial logistic regression provides two R^2 measures, respectively the Cox and Snell R^2 and the Nagelkerke R^2 . Usually the Nagelkerke R^2 is preferred since it can maximise the R^2 value. The Nagelkerke R^2 value in the current study is 0.382, indicating that the whole model can explain 38.2 percent of the variance of the dependent variable. Multi-collinearity was further checked among independent variables because of the regression nature. This can be diagnosed by the standard errors of Beta coefficients in the regression model (Hong and Zhu, 2006). In this study, none of the standard errors is larger than 2.0, implying that multi-collinearity can be ignored in the current study.

The results of the logistic regression are presented in Table 3. In general, the chi-square value suggests a significant relationship between the leadership style and independent variables. Thus, the regression model can be accepted and the hypothesis H2 is confirmed. More specifically, results identify that five out of ten independent variables offer an explanatory power (at least at the 0.05 significance level). They are business size, business sector, legal form, business's product line, and the levels of authority — delegation characteristic. Furthermore, the achievement-oriented style was utilised as the base group to examine the predicting power of the independent variables in differentiating the other three groups from the base group. The results of

Table 3. Multinomial Logistic Regression Analysis on Managerial Styles.

Independent variables	Overall model		Directive vs. achievement-oriented		Supportive vs. achievement-oriented		Participative vs. achievement-oriented	
	d.f.	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.
<i>The Nature of OMDs</i>								
Gender Feature of OMDs	6	.070						
Male			-.155	.486	-.209	.321	-.369	.059
Female			.525	.423	-.142	.828	-.090	.887
Mixed				Baseline		Baseline		Baseline
Industrial Tenure of OMDs	3	.087	.022	.035*	.013	.208	.010	.293
Multi-venturing	3	.517	-.202	.203	-.155	.289	-.066	.597
<i>The Nature of Business</i>								
Business Age	3	.370	.004	.484	.007	.197	.006	.229
Business Size	3	.000***	-.021	.004**	-.040	.000***	.000	.605
Business Sector	18	.000***						
Construction/Mining			.237	.632	.302	.540	.009	.984
Manufacturing			.252	.468	.628	.067	.131	.679
Transport/Distribution			-.668	.317	-.002	.998	-.110	.852
Wholesale/Retail			-.464	.232	-.007	.985	-.269	.450
Agriculture/Forestry/Fishing			-.428	.556	.278	.689	.156	.814
Service			-1.060	.002**	-.384	.251	-.581	.060
Other				Baseline		Baseline		Baseline

Table 3. (Continued)

Independent variables	Overall model		Directive vs. achievement-oriented		Supportive vs. achievement-oriented		Participative vs. achievement-oriented	
	d.f.	Sig.	Beta	Sig.	Beta	Sig.	Beta	Sig.
Legal Form	6	.000***						
Sole Proprietorship			1.576	.000***	1.162	.000***	.665	.039*
Partnership			.462	.061	.559	.017*	-.052	.814
Limited				Baseline		Baseline		Baseline
Customer Base	3	.256	.000	.170	.000	.488	.000	.090
Product Line	3	.000***						
Single Product Line			1.060	.000***	.796	.002**	.614	.013*
Multi-product Line				Baseline		Baseline		Baseline
<i>The Nature of Authority Distribution</i>								
Level of Authority	3	.000***	-1.547	.000***	-.819	.000***	.103	.266
Cox and Snell R ² = .345								
Nagelkerke R ² = .382								
χ^2 : 1218.220 Sig. = .000								

Note: * $p < .05$; ** $p < .01$; *** $p < .001$

the first separate regression demonstrates that the set of significant variables in the overall model can generally differentiate the directive style adopters from the achievement-oriented style adopters, suggesting that smaller sized (negative Beta) service firms, sole traders, firms with single product line and flat structures (negative Beta) are more likely to employ the hand-on directive approach. In addition, small business owner-managers with longer industrial tenure (positive Beta) are inclined to demonstrate their directive preference.

In the second separate regression model, the significant predictors in differentiating the supportive style adopters from the achievement-oriented style followers are almost the same as those indicated in the first model. Nevertheless, most of the Beta values (except the Beta for the level of authority) are smaller than those in the first model, which suggests that the difference between supportive and achievement-oriented style adopters is smaller than that between directive and achievement-oriented style adopters. In the third separate regression model, only legal form and business product line feature are recognised as significant predictors, which exemplifies that the participative style is closer to the achievement-oriented style compared to the other two styles.

Interestingly, a number of selected independent variables do not contribute to the explanation of the relationship between management style configuration and situational factors, such as owner-managers' gender and multi-venture ownership profile, business maturity, and business's customer base. Overall, the situational factors in relation to the business and authority distribution demonstrate more effectiveness in interpreting the leadership pattern than the owner-managers' individual characteristics.

Impact of Leadership on Business Growth

Sales growth in this study was assessed on a 6-point scale, where 1 = decline by more than 5 percent and 6 = grow by more than 20 percent. One-way ANOVA tests were executed to compare sales growth performance among businesses adopting different leadership styles for administration in the year before and after (i.e. the expected performance) the survey was conducted. Results of the tests show that significant differences exist among different leadership groups of firms. This indicates that the more power small business owner-managers delegate to their subordinates, the better sales growth performance could or would be achieved. Additionally, to explore whether the relationship between authority delegation and growth performance can be moderated by business size, one-way ANOVA tests were conducted in

Table 4. Business Sales Growth versus Leadership Patterns.

	Directive	Supportive	Participative	Achievement-oriented
Growth Over the Past Year				
Growth Mean (all firms)	2.990	3.041	3.443	3.928
ANOVA F=41.599	Sig.=.000			
Growth Mean (firms with employees < 10)	2.992	3.032	3.362	3.818
Growth Mean (firms with employees 10 ~ 49)	3.119	3.327	3.533	4.197
Growth mean (firms with employees 50+)	2.222	3.363	3.518	3.787
Growth Assumed for the Next Year				
Growth Mean (all firms)	3.361	3.433	3.696	4.106
ANOVA F=39.829	Sig.=.000			
Growth Mean (firms with employees < 10)	3.368	3.428	3.689	4.136
Growth Mean (firms with employees 10 ~ 49)	3.412	3.510	3.718	4.202
Growth mean (firms with employees 50+)	3.111	3.603	3.800	3.941

Notes: Sales turnover growth is measured on a 6-point scale where 1 = decline by more than 5%; 2 = decline by 5 – 0%; 3 = grow by 0–5%; 4 = grow by 6–10%; 5 = grow by 11–20%; and 6 = grow by more than 20%.

three business groups clustered according to the business size. Results unanimously demonstrate that business growth performance is associated with the degree of authority delegation, but is not influenced by scale of operation. Thus, proposition H3 is affirmed.

Availability of Management System in Small Firms

A linkage has been envisaged between the leadership pattern and the formality of business management system in the current study, therefore a one-way ANOVA test was executed. The availability of the management system in this study was assessed by a binary variable. Results of the exploration reveal significant disparity of availability of the management system among firms governed by different types of leaders. Overall, the finding is consistent with the posited proposition, suggesting that the more people-oriented

Table 5. Management Systems versus Leadership Patterns.

	Directive	Supportive	Participative	Achievement oriented	ANOVA F value (df)	Sig.
Availability of Strategic Planning						
Strategic visioning	.4837	.4872	.6572	.9065	75.36 (3)	.000
Financial planning	.7177	.7943	.9086	.9531	75.30 (3)	.000
Sales forecasting	.4154	.4991	.6713	.8719	91.34 (3)	.000
Availability of Process Control System						
Accounting management	.7245	.7827	.8995	.9617	67.03 (3)	.000
Production control	.5096	.5378	.6737	.6868	31.77 (3)	.000
Stock control	.6560	.6828	.7333	.7663	15.79 (3)	.000
Availability of Reward System	.1233	.1790	.3218	.5365	78.64 (3)	.000
Availability of Computerised Management System	.4820	.6383	.8149	.8358	126.98 (3)	.000

Notes: the formality of business management system is measured by a binary variable, where 1 = yes (i.e. the business has a specific functional system) and 0 = no (i.e. the business is not equipped with the specific functional system).

the owner-managers are, the more formal managerial system the business is likely to possess. Thus, proposition H4 is affirmed.

DISCUSSION

Business management is about co-ordinating people's behaviour and activities within the firm and directing their efforts towards the goals and objectives of the organisation. In this process, a bespoke leadership with emphasis on communication, negotiation and empowerment can function effectively and guide businesses towards success. High performing leaders are often found diplomatic, intelligent and able to motivate followers to contribute for the collective good of the business, while subjugating their own interests.

This explorative research paper examined issues in relation to leadership in the SME context, which comprise leadership configuration, antecedents

that determine leadership configuration, impacts of leadership on business growth and the association between leadership and business management system. Empirical data render supporting evidence to the assumption of the leadership configuration that participative style is the most preferable form of administration, followed by supportive, directive and achievement-oriented styles. This finding is in harmony with the UK socio-cultural milieu, where individualism is regarded and people are enthusiastic to have opportunities to participate in managerial activities. Research on large businesses suggests that a dominant leadership style often exists throughout the sector although disparate styles are observed (Yukl, 1998). The result surfacing from the current study seems to proffer support to this viewpoint and also implies that the dominance of a leadership pattern may not only be legitimate in the large business terrain, but also in their small counterpart domain.

A combination of individual and organisational situational factors is recognised to be associated with the leadership configuration. Surprisingly, owner-managers' profile is not as influential as anticipated, specifically the gender characteristics and their firm ownership portfolio. This suggests that the leadership pattern is primarily 'determined' by the business nature rather than personal attributes. The finding further lends support to the contingency theory that the 'recipe' of successful managerial administration is 'fit' (Donaldson, 1999). No single managerial style and management structure will be a panacea for the entire organisation cohort. Leaders aiming to lead firms towards success should therefore understand the business contexts comprehensively, and on this basis work out a 'fit' orchestrating scheme and strategy to match organisational intrinsic and extrinsic nature.

The fact that business maturity does not exert any significant influence on leadership suggests that mature businesses do not differentiate from young newly established counterparts in mastering managerial art. This seems to be contrary to Greiner's (1972) finding that the leadership pattern evolves/synchronises with business development/growth. One potential explanation to this paradox is that small sized companies often operate as an extension of the ethos of their owner-managers (Birley *et al.*, 1999). Their intention of operating a business is not only to generate wealth and job opportunities for the family but also to cherish autonomy and sustain an enviable lifestyle. Thus, they often chart business survival and growth strategies to safeguard their multi-dimensional personal and familial objectives which are often contrary to breaking out, i.e. to open up the human and financial capital base to outsiders central to the provision of support that can fuel rapid growth. This conceptual antithesis to growth can restrain business's

entrepreneurial development (Ket de Vries, 1985; 2000) and also uphold a stable leadership configuration over a long term.

The performance comparison result arising from the current study indicates that owner-managers of those small-scaled fast growing firms tend to adopt people-oriented style to administrate. The representative of this approach, achievement-oriented style, does relate to superior sales growth, though it is the least popular pattern of administration. Furthermore, businesses upholding this style usually are operated under the most formalised management regime. They would use formalised working capital management mechanisms and long-range financial planning. In fact, although the 'try everything' logic seems to prevail in all aspects of small business management and these firms attempt to adopt disparate leadership patterns and try a variety of formal and informal managerial systems to execute operations, the virtues of utilising formal management schemes are palpable. This evidence achieved through the current study may incentivise leaders to consider allocating more resources to design and construct management system and operate the business with formalised procedures and processes.

LIMITATIONS

This empirical study can be regarded as an explorative attempt investigating antecedents and consequences of leadership. The study's cross-sectional nature means that it only provides a snapshot of the situation. Given that the effects of leadership usually occur over a long run, longitudinal research should be taken into account in the future to scrutinise whether the influence of leadership on business management changes over time, and, if so, what are the features of these changes. Further, the employment of additional performance indicators beyond sales growth, such as profitability and efficiency ratios, may provide a more comprehensive scenario on business performance. This will unveil the impact of leadership on firm organisation, administration and operation to a more thorough extent.

SUGGESTIONS TO OWNER-MANAGERS OF SMES

Notwithstanding the fact that in the literature rarely are studies on leadership executed along the SME trajectory, it is rational to encourage leaders of SMEs, based on the findings arising from the current study, to adopt people-oriented style rather than task-oriented approach to orchestrate firms. In practice, to facilitate this adoption process, businesses are recommended to

draft a 'leadership training charter' addressing the following issues: identification of strengths and weaknesses of leaders; clarification of the firm long-term strategic vision; identification of opportunities and threats of the business; definition of leadership training vision and objectives; recognition of leadership training needs; development of training implementation programme; institution of periodic and irregular appraisal of leadership training performance.

Training programmes on leadership and entrepreneurial business administration could be offered by local government and development agencies aiming to support the advancement of small business. Nonetheless, programmes should be tailored to meet aspirations of leaders, addressing variety of strategic problems confronted by managers. Specifically, the contingency model suggests that heterogeneous leadership patterns may co-exist in the micro-economic business sector and the adopted leadership pattern for an organisation is dependent on contingency factors. Thus training programmes can be articulated with an emphasis on leader flexibility and adaptability. Goodson *et al.* (1989) suggest that facilitating leaders to develop adaptive skills is more crucial than coaching leaders to adopt one particular style. In addition, training providers also need to be aware that small business management is frequently characterised by a central power exercised by the proprietors. In these businesses, even young generation people respect and comply with the senior figure. How to address the balance between traditional autocratic managerial culture and open professional leadership art is a subject worthy of significant concern.

Furthermore, dialogues established among small firms across different industrial backgrounds and organisational cultures can ensure the design of business development and serve the needs of growth inspired small firms. The development of a Small Business Bureau may enhance inter-business co-operations and offer business the opportunities for cross-fertilisation of entrepreneurialism through the provision of managerial positions in counterpart companies. Leaders under this exchange scheme may appreciate different managerial scenarios and enrich their understandings on small business administration.

CONCLUSION

Research on leadership in the small business domain remains immature, although there is a growing demand to understand what genuine benefits firms can attain through effective management. Motivated by the belief that

the art and technique of leadership are rarely inspected in the SME milieu and that the systematic approach may result in advanced understanding, this paper reviews the literature on leadership and four hypotheses are posited. One of the key contributions of this study is the confirmation of leadership antecedents, which enables the differentiation of disparate leadership patterns. In addition, the influence of leadership on business performance and management system articulation has been confirmed. Overall, the findings have rendered deeper insights into the leadership art in the SME territory. Nevertheless, more work needs to be conducted in the field before one can hope to develop domain-specific theories concerning the leadership context.

REFERENCES

- Aldrich, H. E. (1979). *Organizations and Environments*. Englewood Cliffs, NJ: Prentice Hall.
- Anderson, R., Mansi, S. A. and Reeb, D. (2003). Founding family ownership and the agency cost of debt. *Journal of Financial Economics* 68:263–285.
- Barringer, B. R. and Greening, D. W. (1998). Small business growth through geographic expansion: A comparative case study. *Journal of Business Venturing* 13(6):467–492.
- Bass, B. M. (1985). *Leadership and Performance Beyond Expectation*. New York, NY: Free Press.
- Bass, B. M. (1990). *Handbook of Leadership: A Survey of Theory and Research*. New York, NY: Free Press.
- Baum, J. A. C. (1999). Organisational ecology. in Clegg, S. R. and Hardy, C. (eds.), *Studying Organisation: Theory and Method*. London: Sage.
- Berryman, J. (1983). Small business failure and bankruptcy: A survey of the literature. *International Small Business Journal* 1(4):47–59.
- Besser, T. L. (1995). Rewards and organisational goal achievement: A case study of Toyota motor manufacturing in Kentucky. *The Journal of Management Study* 32(3): 383–399.
- Birley, S., Ng, D. and Godfrey, A. (1999). The family and the business. *Long-range Planning* 32(6):598–608.
- Boag, D. A. (1987). Marketing control and performance in early-growth companies. *Journal of Business Venturing* 2(4):365–379.
- Boone, C. and Witteloostuijn, A. van (1995). Industrial organisation and organisational ecology: The potential for cross-fertilisation. *Organisation Studies* 16(2):265–298.
- Bracker, J. S. and Pearson, J. N. (1986). Planning and financial performance in small mature firms. *Strategic Management Journal* 7:503–522.
- Brush, C. G. and Van der Werf, P. (1992). A comparison of methods and sources for obtaining estimates of new venture performance. *Journal of Business Venturing* 7(2):157–170.
- Burns, J. M. (1978). *Leadership*. New York, NY: Harper & Row.
- Burns, P. and Harrison, J. (1996). Growth. in Burns, P. and Dewhurst, J. (eds.), *Small Business and Entrepreneurship*. London: MacMillan Business.

- Casson, M. (2005). Entrepreneurship and the theory of the firm. *Journal of Economic Behaviour & Organisation* 58(2):327–348.
- Chaganti, R., Cook, R. G. and Smeltz, W. J. (2002). Effects of styles, strategies, and systems on the growth of small businesses. *Journal of Development Entrepreneurship* 7(2):175–192.
- Chandler, G. N. and Jansen, E. (1992). The founders' self-assessed competence and venture performance. *Journal of Business Venturing* 7(3):223–236.
- Churchill, N. and Lewis, V. (1983). The five stages of small business growth. *Harvard Business Review*, May–June:30–50.
- Clarke, C. and Pratt, S. (1985). Leadership's four-part progress. *Management Today*, March:84–86.
- Cook, R. G., Chaganti, R. and Haksever, C. (1998). Improving profitability of very small and small firms: The impact of quality practices in the human resources area. *Journal of Small Business Strategy* 9(2):44–56.
- Covin, J. G. and Slevin, D. P. (1991). A conceptual model of entrepreneurship as firm behaviour. *Entrepreneurship Theory and Practice*, Fall:7–25.
- Dansereau, F. and Yammarino, F. J. (2000). Motivation and followership: The case of individualised leadership. *The Leadership Quarterly* 11:313–340.
- Dodge, H. R. and Robbins, J. E. (1992). An empirical investigation of the organisational life cycle model for small business development and survival. *Journal of Small Business Management* 30(1):27–37.
- Donaldson, L. (1999). The normal science of structural contingency theory. in Clegg, S. R. and Hardy C. (eds.), *Studying Organisation: Theory and Method*. London: Sage.
- Ensley, M. D., Pearce, C. L. and Hmieleski, K. M. (2006). The moderating effect of environmental dynamism on the relationship between entrepreneur leadership behaviour and new venture performance. *Journal of Business Venturing* 21:243–263.
- Fleishman, E. A. (1973). Twenty years of consideration and structure. in Fleishman, E. A. and Hunt, J. G. (eds.), *Current Developments in the Study of Leadership*. Carbondale, IL: Southern Illinois University Press.
- Garsombke, T. W. and Garsombke, D. J. (1989). Strategic implications facing small manufacturers: The linkage between robotisation, computerisation, automation and performance. *Journal of Small Business Management* 27(4):34–44.
- Goffee, R. and Scase, R. (1985). Proprietorial control in family firms: Some functions of 'Quasi-Organic' management systems. *Journal of Management Studies* 22(1):53–68.
- Goodson, J. R., McGee, G. W. and Cashman, J. F. (1989). Situational leadership theory: A test of leadership prescriptions. *Group and Organisation Studies* 14(4):446–461.
- Greiner, L. E. (1972). Evolution and revolution as organisations grow. *Harvard Business Review* July/August.
- Hall, R. J. and Lord, R. G. (1995). Multi-level information-processing explanations of follower's leadership perception. *The Leadership Quarterly* 6:265–287.
- Hannan, M. T. and Freeman, J. H. (1989). *Organisational Ecology*. Cambridge, MA: Harvard University Press.
- Hersey, P. and Blanchard, K. H. (1969). Life cycle theory of leadership. *Training and Development Journal* 23(2):26–34.
- Hersey, P. and Blanchard, K. H. (1988). *Management of Organisational Behaviour: Utilising Human Resources* (5th edn.). Englewood Cliffs, NJ: Prentice-Hall.

- Hofstede, G. (1981). *Culture's Consequences: International Differences in Work-Related Values*. Beverly Hills, CA: Sage Publications.
- Hong, W. and Zhu, K. (2006). Migrating to internet-based eCommerce: Factors affecting eCommerce adoption and migration at the firm level. *Information & Management* 43(2):204–221.
- House, R. J. (1996). Path-goal theory of leadership: Lessons, legacy, and a reformulated theory. *The Leadership Quarterly* 7:323–352.
- James, L. R. and White, J. F. (1983). Cross situational specificity in manager's perceptions of subordinate performance, attributions, and leader behaviours. *Personnel Psychology* 36:809–856.
- Kets de Vries, M. F. R. (1985). The dark-side of entrepreneurship. *Harvard Business Review* November–December:161–167.
- Kets de Vries, M. F. R. (2000). Creative rebels with a cause. in Birley, S. and Muzyka, D. (eds.), *FT-Mastering Entrepreneurship*. London: FT- Prentice Hall.
- Krech, D., Crutchfield, R. S. and Ballachey, E. L. (1962). *Individual in Society*. New York, NY: McGraw-Hill.
- Lee, J., Lucius, H. W. and McNeil, S. A. (1999). Entrepreneurial rewards and economic performance: An empirical study of the best small companies. *International Journal of Technology Management* 17(7):728–743.
- Liden, R. C. and Mitchell, T. R. (1989). Integration in the development of leader-member exchanges. in Giacalone, R. A. and Rosenfeld, P. (eds.), *Impression Management in the Organisation*. Hillsdale, NJ: Erlbaum.
- Marta, S., Leritz, L. E. and Mumford, M. D. (2005). Leadership skills and the group performance: Situational demands, behavioural requirements, and planning. *The Leadership Quarterly* 16:97–120.
- McDougall, P. and Robinson, R. (1990). New venture strategies: An empirical identification of eight archetypes of competitive strategies for entry. *Strategic Management Journal* 11(6):537–554.
- Mullins, L. J. (2002). *Management and Organisational Behaviour* (6th edn.). London: FT.
- Murphy, G. B., Trailer, J. W. and Hill, R. C. (1996). Measuring performance in entrepreneurship research. *Journal of Business Research* 36:15–23.
- Podsakoff, P. M. and MacKenzie, S. B. (1998). An examination of substitutes for leadership within a levels-of-analysis framework. In Dansereau, F. and Yammarino, F. J. (eds.), *Leadership: The multi-level Approaches* Stamford, CT: JAI Press.
- Poza, E. J., Alfred, T. and Maheshwari, A. (1997). Stakeholder perceptions of culture and management practices in family and family firms — a preliminary report. *Family Business Review* 10(2): 135–155.
- Sauers, D. G. (1983). Using statistics to improve competitive position of a small business. *Entrepreneurship Theory and Practice* 8(1):52–57.
- Schumpeter, J. A. (1934). *The Theory of Economic Development*. Cambridge, MA: Harvard University Press.
- Siegel, R., Siegel, E. and MacMillan, I. C. (1993). Characteristics distinguishing high-growth ventures. *Journal of Business Venturing* 8(2):169–180.
- Sorenson, R. L. (2000). The contribution of leadership style and practices to family and business success. *Family Business Review* 13(3):183–200.
- Stogdill, R. M. (1974). *Handbook of Leadership*. New York, NY: Free Press.

- Storey, D. J. (2005). *Understanding the Small Business Sector*. London: Thomson Learning.
- Tannenbaum, R. and Schmidt, W. H. (1973). How to choose a leadership pattern. *Harvard Business Review*, May-June:162–180.
- Tack, A. (1984). *Motivational Leadership*. Gower.
- Venkatraman, N. and Ramanujam, V. (1987). Measurement of business economic performance: An examination of method convergence. *Journal of Management* 13(1):109–122.
- Wallace, R. S. O. and Mellor, C. J. (1988). Non-response bias in mail accounting surveys: A pedagogical note. *British Accounting Review* 20:131–139.
- Ward, J. L. (1988). The special role of strategic planning for family businesses. *Family Business Review* 1(2):105–117.
- Welsch, J. (1993). The impact of family ownership and involvement on the process of management succession. *Family Business Review* 6(1):31–54.
- Wofford, J. C. and Liska, L. J. (1993). Path-goal theories of leadership: A meta analysis. *Journal of Management* 19:858–876.
- Yukl, G. A. (1989). Managerial leadership: A review of theory and research. *Journal of Management* 15(2):251–289.
- Yukl, G. A. (1998). *Leadership in Organisations* (4th edn.). Englewood Cliffs, NJ: Prentice-Hall.

Copyright of Journal of Enterprising Culture is the property of World Scientific Publishing Company and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.