



## **THE IMPACT OF LEADERSHIP STYLES ON COMPANY PERFORMANCE: EVIDENCE FROM TANZANIA**

**Gasper Mariwa Neema**

School of Management, Jiangsu University, Xuefu Road, 301, Zhenjiang, P.R. China  
annybird28@gmail.com

**Osei-Assibey Mandella Bonsu** 

School of Finance and Economics, Jiangsu University, Xuefu Road, 301, Zhenjiang, P.R. China  
thugdibae1@gmail.com, 5102170293@stmail.ujs.edu.cn

**Adu Amankwaa Isaac**

School of Management, Jiangsu University, Xuefu Road, 301, Zhenjiang, P.R. China  
isaacadu44@gmail.com

### **Abstract**

*Business organizations are engulfing magnificent failures due to poor leadership styles. Leadership is seen as significant which influences organizational achievements or failure. We examined the effects of leadership styles on business performance using small and medium enterprise in Tanzania. The sample comprises 500 respondents from selected companies. We obtained data through questionnaires and analyzed with statistical package for social science (SPSS). We find significant positive effects of leadership styles on business performance. We find higher direct effect of transactional leadership styles on business performance. We established that, transactional leadership depending on the industry are recommended and advised to be established to ensure sustainable competitive advantage in fierce competition environment.*

*Keywords: Transactional Leadership, Transformational leadership, Business performance, Small Enterprise, Tanzania*

## INTRODUCTION

Business organizations are facing magnificent failures due to poor leadership styles. Leadership is seen as an imperative task which affects organizations achievements or its failures. An organization is a social set up, which has boundary that distinguishes it from its environment, pursues its own collective goals, and controls its performance (Huertas-Valdivia, Gallego-Burín, & Lloréns-Montes, 2019). In a formal organization, interactions are rationally coordinated and directed through time on a continuous basis. The person at the helm of affairs is usually the leader. In order to meet the needs of highly competitive markets, business organizations ought to consistently improve performance. (Daniëls, Hondeghem, & Dochy, 2019). Prior literature submits that role of leadership is censoriously significant for attaining the organizational performance (for example, Boal&Hooijberg 2000; Martorana& Owens 2003). However, the findings of literature about the role of leadership in increasing business performance are varied. For example, Martorana, & Owens 2003) in their studies suggest that the role of leadership is critically important for an organization to achieve a high level of performance. However, some other studies (Farah, Elias, De Clercy, & Rowe, 2019), suggest that role of leadership is not so important in achieving the organizational performance. In global market, leadership styles have considerable effects on business performance even if there are numerous variables effecting business performance. It is tipped that, leaders have significant effects over business policies and it is considered as a vital impact on competitive environment, and advantage. In Tanzanian, the small medium manufacturing sectors are dominated by sole-proprietors, who make business decisions, based not on extensive consultations, but rather on their personal feelings and leadership behaviors which do not aid the organizations to implement as expected, in some cases. In addition, most small medium manufacturing organizations are busily engulfed with operational problems, which prevent them from devoting adequate time to quality leadership and strategic management issues. Thus, the business owners and managers place very little value on formal planning, strategic thinking and a developing long-term vision. In the face of weak leadership and managerial abilities, greatest number of organizations does not survive after their second “anniversaries” (Collins (2001).

Our study contributes to leadership and performance literature. We examined the impact of leadership styles on business performance using the small and medium enterprise in Tanzanian. There is no empirical evidence on how leadership styles affect the performance of small and medium enterprises specifically in a developed country. However, small and medium enterprises have escalated significantly in Tanzania economy, the best adopted leadership styles to promote efficiency and productivity in its operation is overlooked. Therefore, research scholars believed that, assessing the leadership styles affecting business performance would be

significant relating to effectiveness and efficiency. We believed the results of this study will be paramount in small and medium enterprises managers, consultants, HR managers, and all stakeholders on the proof of the significant of employee's and business performance through leadership styles.

The rest of the manuscript is as follows: The next section address the Brief literature, section three talks about the methodology of the study. It follows by the results and findings, the last section addresses the summary, conclusions and gives policy recommendations.

## **BRIEF RELATED LITERATURE REVIEW**

Leadership is a process in which a leader is engaged in numerous activities and strategies to attain any aspirations. It is the behavior or attitude of a leader to collect and direct peoples in line with any goals. Sichone, (2004), defined leadership as the most part characterized as a capacity of moving and awing follower by furnishing them with the reasons to battle for them.

As per Firestone (1996), leadership has a place with a particular position and it covers mandatory tasks and functions that organizations need to satisfy so as to live, create and be proficient. Firestone has part administration capacities into two classifications as leadership functions in normal operation and leadership functions in transformation. From these studies, leadership works in ordinary task has been assessed as aid and structure. Strategic leadership is the capacity to affect others to willingly make everyday decisions in the sense of growth in the short term and long term, as well as the survival of the company (Nejad& Rowe, 2009). Strategic leadership is a combination of the two types of leadership. The most important aspect of strategic leadership is their values and a clear vision, allowing employees to make operational decisions and leaders can focus on the company's strategic decisions. Establishes environment for employees and organizes labour in the process of normal operation.

### **Business Performance**

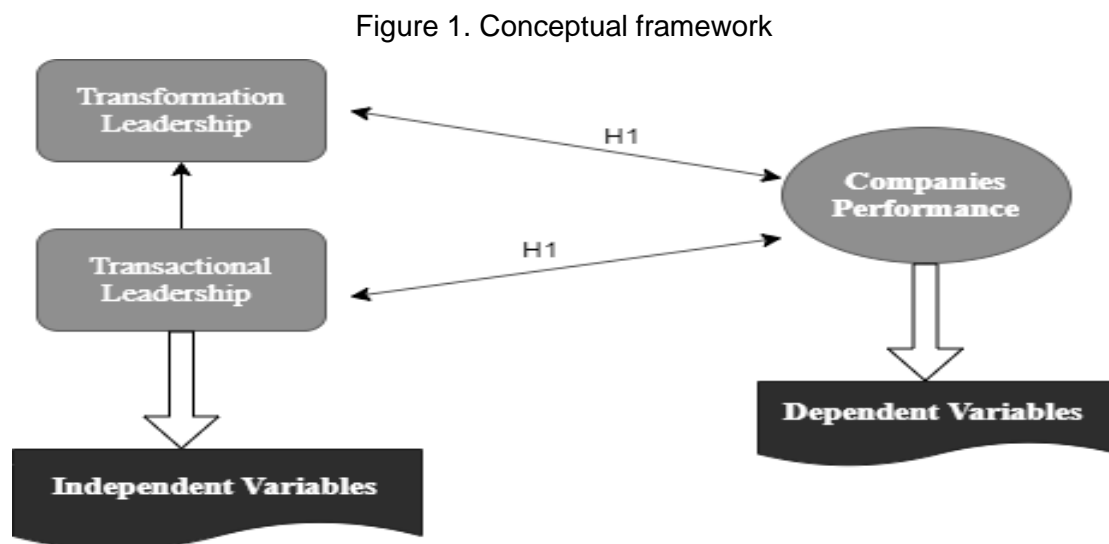
According to Koontz & Donnel (1993), organizational performance refers to the ability of a company to achieve such high profits, product quality, a large market share, financial results were good, and the continuity of the company at any given time, and to make it happen it needs relevant strategies. Organizational performance can also be used to see as the extent to which an organization is able to meet the needs of stakeholders and its own needs for survival (Griffin & Ricky, 2003). Camison & Villar-Lopez (2012) states that traditional financial performance is the index most commonly used to measure the performance of the organization by the researchers. Performance is a concept which is shown by organization's prominent employees while fulfilling their tasks. This is why establishments' success is directly proportionate to their

employees' performance (Benligiray, 2004: 141). Business performance is a description of level of fulfilled task of business's aim or target according to obtained output at the end of a business period (Yıldız, 2010, pg. 180). Business performance can be scaled only by subjective method or only by objective method. It can also be seen in the literature that both subjective and objective methods are used together to avoid short-comings of each method. It has become evident that while profitability, sales and market share are the most used criteria in subjective method. Therefore, the company's performance in this study will use sales and profitability (Li & Zhou, 2010; Wang, Jen, & Ling, 2010).

## Relationship between Leadership and Business Performance

### *Conceptual Framework*

We examine the relationship between leadership and performance of small and medium enterprises in Tanzania. Therefore, the conceptualization of our study with relevant variables is developed to answer study questions: company performance (profitability, sales, and market share,), and leadership. Leadership styles (Transactional and transformational leadership styles) adopted by management affects a company's performance. They are captured below;



### Hypothesis Development

#### *Relationship between Leadership and Performance*

Leadership is known as the most imperative role affecting organizations employees and business performance. Several studies have been conducted on the effect of leadership on business performance. Avolio and Bass (1995) examined sectors from each other, and they find leadership styles have positive effect on wage earners performance, and organizational

performance. Noruzy et al. (2013) have found out that transformational leadership has a positive effect on business performance when conducted studies on manufacturing firms.

In a study conducted in logistics companies in Malaysia, Samad (2012) has concluded that transformational leadership has a positive effect on business performance. In a study conducted in small scale enterprises in Nigeria, Obiwuru (2011) has found out that transactional leadership has a meaningful and positive effect on business performance. Accordingly, Obiwuru (2011) stated that transactional leadership is the most suitable leadership style in small scale enterprises. In a study conducted in public corporations in Kenya by Koech and Namusonge (2012), while relationships between “transformational leadership factors” and “business performance” are extensive and positively meaningful, relationships between “transactional leadership factors” and “business performance” are narrow and positively meaningful. And in this study, meaningful relationship between “Laissez-faire leadership style” and business performance is not observed. Ojokuku et al. (2012), founded that “transformational leadership” and “democratic leadership” have positive and meaningful effect on business performance on their study conducted in banks in Nigeria. It can be comprehended that, leadership styles of leaders in an organization determines the performance of business. We therefore established positive effect of leadership styles (Transactional and Transformational) affects business performance.

***H1: Leadership styles (transformational and transactional) positively affect business performance***

## **RESEARCH METHODS**

### **Research Design and Sampling**

The study adopted descriptive survey design. We then conduct surveys for employees on transactional and transformational leadership styles impacting company's performance. We examined the effects of leadership styles on business performance of small medium enterprises in Tanzanian. The sample comprises of 50 companies of which (500) respondents were randomly selected as the research scope. These respondents are active employees with more than three years working experience.

### **Questionnaires**

Questionnaires were used to gather primary data from respondent of the selected companies on how their leadership styles affect company's performance. For readability and validity, the questionnaires were tested before it was distributed to respondents. Therefore, experts assessed them to improve the degree of content cogency and for the measurement of the study

purposes. The questionnaires were made up of three sections. The first section consists of the profile of the respondent. The remaining sections addresses how the transactional and transformational leadership styles adopted in the organizational affects companies .The sections of the questionnaires were anchored using the Likert type of scale from five (5) Strongly Agree to one (1) strongly disagree. This helped to prevent biased responses. We included a cover letter stating the objectives of the study, defining of companies performance, the assuring the confidentiality of the responses in order to improve the response rate. We processed the data obtained and analyzed using a statistical package for social science (SPSS).

### Model Specification

In order to ascertain the effects on transformational and transactional leadership on companies performance. We examined the relationship between variables using the regression model below. Below is the model;

$$CP = \beta_0 + \beta_1 TRNSACT_1 + \beta_2 TRANSFM_2 + \varepsilon_t$$

Where TRNSACT is transactional leadership, TRANSFM is transformational leadership,  $\beta_0$  indicates the constant parameter of the regression model. ( $\beta_1 - \beta_5$ ) , represent the coefficients of the independent variables on the dependent variable and  $\varepsilon_{it}$  is the stochastic or error term. In order to measure business performance which is dependent variable in our study, participants are required to compare their existing company's present situation with their competitors' depending on profitability, sales, and market share.

Table 1. Study Variables

Variable	Models	Item	References	Cronbach Alpha
Leadership Styles	Survey	Transactional Leadership	Mooney (2009),	0.77
		Transformational Leadership	Nadeem, (2013);	0.757
Performance	Companies	Profitability	Thompson (2005),	0.812
	Performance	Sales	Armstrong (2006)	
		Market Shares		

We used Cronbach Alpha to test the reliability of study variables. From the table above, Cronbach's Alpha internal consistency coefficients calculated for reliability shows that, they are valid and reliable (Nunnally, 1978).

## ANALYSIS AND FINDINGS

### Demographic Profile

Table 2. Demographic Profile

Description		Percentages	Frequency
Gender	Male	60	300
	Female	40	200
Age Group	< 30 years	30	150
	31-40years	39	195
	41 and above years	31	155
Occupation	High school	9	45
	Higher National Diploma	15	75
	Bachelor's degree	56	280
	Postgraduate	20	100

From 500 research respondents, 40% (200 participants) are women and 60% (300 participants) are men. 30% (150 people) are at the age of 30 and under, 39% (195 participants) are between the age of 31-40, 31 % (155 people) are at the age of 41 and over 43, 9 % (45 participants) are high-school graduate and under, 15 % (75 people) are HND, 56 % (280 people) are bachelor's degree, 20 % (100 participants) are at postgraduate degree education level.

### Correlation Analysis

Table 3. Correlation Coefficient

	Mean	Std. Dev.	1	2	3
<b>Transactional</b>	4.16	0.66	(0.66)*		
<b>Transformation</b>	3.88	0.73	0.541**	(0.77)*	
<b>Performance</b>	3.92	0.58	.244**	0.321**	5.72**

We performed person correlation to show the relationship between study variables. The findings evidently show that, there is positive relationship between companies leadership styles and companies performance. The signs are generally consistent with our hypothesis. We set the correlation at 0.01 significance level. The highest relationship occurred at (5.72) between the leadership styles and business performance. Empirically, the findings shows that, all the

discussed leadership styles affects companies performance at Tanzanian small and medium companies implying that, it influences performance in an organization.

## Regression Analysis

Table 4. Regression Analysis

Companies Performance	Std. Err.	t-Value	P Value	R <sup>2</sup>
<b>Transformational</b>	0.122	8.678	0.0000*	0.284
	0.441			
<b>Transactional Leadership</b>	0.233	3.863	0.0000*	
	0.200			

\*, \*\* indicates 1%, and 5% significance respectively

From the regression model shown on the above table (II), leadership styles statically and significantly affect performance in an organization. In effect, they are positively related to business performance, but it is imperative to note that, the positive effect of both transactional and transformational leadership is consistent with prior studies Noruzy et al. (2013), Samad (2012), Koech and Namusonge (2012), Obiwuru (2011) and Ojokuku et al. (2012). The results of analyzing show that the hypothesis is supported and there is positive relation between variables.

It is worthy to note from the findings that, transactional leadership effect on business performance was higher comparing with transformational leadership. (0.233, P<0.000). This is an innovative finding since it is not consistent with previous studies. SebahattinYıldız et al. (2014) found higher positive effects of transformational leadership on companies business.

## CONCLUSION AND POLICY RECOMMENDATIONS

We examined the effects of leadership styles on company's performance of small and medium enterprises in Tanzanian. The findings reveal that, transactional and transformational leadership have positive effect on business performance. It is found that, transformational leadership and transactional leadership have more effect on business performance, respectively. The results are consistent with those of Noruzy et al. (2013), Samad (2012), Koech and Namusonge (2012), and Obiwuru (2011) and Ojokuku et al. (2012). Based on the findings, our study would recommend that, transactional leadership as results on the industry are recommended and advised to be established to ensure sustainable competitive advantage in fierce competition environment. The role of leadership is known to increase business performance. Martorana &



Owen (2003) advised that, the role of leadership is a panacea and very significant for an organization to achieve a high level of performance. Our study has potential caveat that needs replication. First, our study is confined in a developing country, Tanzania, so generalization cannot be applied to other countries. Therefore, further studies could explore by using comparing two economies with qualitative research. In addition, we call for furthers to explore how differentiation strategy could serves a moderating variable for leadership and innovation.

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