

---

# **A STUDY ON THE IMPACT OF LEADERSHIP STYLES ON THE PRODUCTIVITY AND SUSTAINABILITY OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)**

---

**K S Senthamil Selvan,**

Research Scholar, Department of Management, Himalayan University

**Dr. Prashant Madan,**

Research Guide, Department of Management, Himalayan University

---

## **ABSTRACT**

The study aimed to understand the role of leadership styles in promoting the growth and sustainability of small and medium-sized enterprises (SMEs) in India. The focus was on the impact of leadership styles on the development and execution of entrepreneurship within SMEs, particularly in the city of Pune. The research findings indicated that different leadership styles can have a significant impact on a company's productivity and overall performance. Transformational leadership, in particular, was found to be more effective in promoting business productivity compared to transactional leadership. The results also showed that transformational leadership has a positive impact on business creation and improvement in productivity and sustainability.

**Keywords:** *Leadership Styles, Transformational, Transactional, Small Medium Enterprises SME's, Productivity and Sustainability*

## **1. INTRODUCTION**

An effective leader is key to the success of any organization. They have the ability to inspire and guide their subordinates to reach their desired objectives. Different leadership styles can impact an organization's efficiency and performance. The way a leader influences their subordinates can determine the success of a small or medium-sized business.

Entrepreneurial orientation is a widely studied aspect of entrepreneurship, which refers to the entrepreneurial mindset at an organizational level. Entrepreneurs play a crucial role in economic development and contemporary enterprises. Leaders have the ability to adopt certain styles or behaviors to inspire their team to work together to drive innovation in their business. There have been various schools of thought developed over the years that link psychological attributes with leadership styles and management practices. These include the search for opportunities, the need to achieve set goals, competitiveness, risk-taking, and innovation.

The study aimed to investigate the influence of leadership styles in Small and Medium Enterprises (SMEs) located in the Pune, India on their growth, development, and entrepreneurial implementation. SMEs play a crucial role in India's economy and the study also aims to explore the impact of entrepreneurial orientation and leadership styles on the productivity of these businesses. The findings of the study could provide valuable insights into the field of leadership and entrepreneurship, particularly in the area of leadership styles in SMEs.

Today, SMEs constitute a significant portion of the global economy and have made a significant contribution to sustainable economic development. The challenges posed by the global economy and regulations imposed by the World Trade Organization (WTO) regime have pressured SMEs to enhance their product and service offerings, and compete in the global market. This research seeks to understand the role that leadership styles play in the success and competitiveness of SMEs in the current economic environment.

## **2. LEADERSHIP STYLES**

Leadership styles are the ways in which leaders interact with and motivate their followers. A leader's behavior can be categorized into one of several styles, each with its own strengths and weaknesses. There are six main leadership styles, including autocratic, bureaucratic, democratic, laissez-faire, transactional, and transformational leadership.

Autocratic leadership is characterized by a leader who makes all the decisions, often without consulting their followers. This style is best used in crisis situations when quick decisions need to be made. However, it can also be ineffective in promoting creativity, innovation, and employee engagement.

Bureaucratic leadership is a style that emphasizes rules, procedures, and formal hierarchy. This style can help to maintain order and stability, but can also limit creativity and lead to a lack of motivation.

Democratic leadership is a style that encourages participation and collaboration among followers. This style can lead to increased motivation and creativity, but can also lead to slow decision making and a lack of direction.

Laissez-faire leadership is characterized by a hands-off approach, where the leader provides minimal direction and support. This style is best used with highly skilled and self-motivated individuals, but can lead to confusion and lack of direction if not used appropriately.

Transactional leadership focuses on rewards and punishments to motivate followers. This style can be effective in achieving specific goals, but may not promote creativity or long-term motivation.

Transformational leadership is a style that inspires and motivates followers to achieve their full potential. This style can lead to high levels of motivation and creativity, but requires a high level of personal charisma and inspiration from the leader.

### **3. OBJECTIVE OF THE STUDY**

To study the styles of leadership Transformational style of leadership and Transactional style of leadership leads to higher productivity in the company.

### **4. RESEARCH METHODOLOGY**

This study uses quantitative research methods to examine the relationship between leadership styles and the productivity of small and medium enterprises (SMEs) in Pune. The sample was gathered from the managers, founders, or heads of business units of SMEs in the Pune's industrial area. These individuals were chosen as they are well-informed about the business and its operations. Data was collected through a questionnaire containing 21 items that assess the senior management's transformational and transactional leadership style on a 5-point scale.

Hypothesis: 1 Transformational style of leadership and Transactional style of leadership leads to higher productivity in the company.

### **5. DATA ANALYSIS**

A study was conducted to examine the accuracy and reliability of data collected from 154 managers and owners of small and medium-sized enterprises (SMEs) in the industry area of Pune. The data was collected using convenient sampling and direct interviews. The study focused on three variables: transformational leadership, transactional leadership, and business productivity.

A total of 170 questionnaires were distributed, but 6 were rejected due to improper completion. The collected data was analyzed using SPSS software. The Cronbach's alpha, which measures the reliability of the data, was found to be 0.79 for the overall study and 0.91 for business productivity. These coefficients exceeded the recommended minimum level of 0.7 and were deemed to be of high reliability.

The results were consistent with previous research studies that used similar instruments, such as questionnaires on leadership styles and entrepreneurship. The demographic profiles of the respondents were also collected by the researcher.

The data collected in this study was deemed to be of high reliability and validity, and the results were consistent with previous research findings. The findings of this study can provide valuable insights into the impact of transformational and transactional leadership on business productivity in the SME sector in Pune.

Demographic Profile of the Respondents			
Particulars		Number of Respondents	Percentage
Gender	Male	154	100
	Female	0	0
Age	20-30	35	22.72
	30-40	53	34.41
	40-50	41	26.62
	50-60	25	16.23
Educational Qualification	Metric	12	7.79
	Intermediate	24	15.58
	Graduate	72	46.75
	Post-Graduate	46	29.87
Experience in Years	0-10	41	26.62
	10-20	67	43.5
	20-30	33	21.42
	30 and Above	13	8.4

The data collected in this study relates to the demographic profile of the 154 respondents. The results show that all of the participants were male, with no female participants. In terms of age, the majority of the participants (35 individuals or 22.72%) were between 20 and 30 years old, followed by those between 30 and 40 years old (53 individuals or 34.41%). There were 41 individuals (26.62%) who were between 40 and 50 years old and 25 individuals (16.23%) who were between 50 and 60 years old.

Regarding educational qualification, the majority of the participants were graduates (72 individuals or 46.75%), followed by those with post-graduate degrees (46 individuals or 29.87%). A smaller number of participants had completed their intermediate education (24 individuals or 15.58%) and only 12 individuals (7.79%) had completed their metric education.

In terms of experience, the largest group of participants had between 0 and 10 years of experience (41 individuals or 26.62%), followed by those with between 10 and 20 years of experience (67 individuals or 43.5%). There were 33 individuals (21.42%) who had between 20 and 30 years of experience and 13 individuals (8.4%) who had 30 or more years of experience.

In conclusion, the demographic profile of the participants in this study consisted mainly of male individuals between the ages of 20 and 40 who had a graduate or post-graduate degree and between 0 and 20 years of experience.

Variables	Lower Productivity in business		Higher Productivity in business	
	Mean	S.D	Mean	S.D
Transformational Leadership Style	2.76	0.55	3.2	0.48
Transactional Leadership Style	2.23	0.42	2.154	0.42

The Table 2 exhibit that the higher productivity in business of SME's had higher transformational leadership styles scores i.e. (Mean = 3.20, S.D = .48) than transactional leadership style scores (Mean = 2.154, S.D = .42). Small and medium-sized businesses (SMEs) with lower productivity often receive higher scores on the forms of transformational leadership style (Mean = 2.76, S.D = .55) comparing with transactional leadership styles (Mean = 2.23, S.D = .42).

Table 3

The Relationship between Leadership styles and business productivity

Measure	Transformational Leadership Style	Transactional Leadership Style
Business Productivity	0.24**	0.14**
* p < .05, ** p < .01. *** p < .001		

Transformational Leadership has been highly correlated to the overall business productivity ( $r = .24, p < .001$ ). The study found a weak, positive correlation between productivity and leadership in transformational style. Transactional leadership correlated considerably with overall business productivity ( $r = .14, p = .005$ ). There was a low positive correlation with the overall productivity of the company ( $r = .14, p = .005$ ). Transactional leadership and business success also had a low, positive correlation. As indicated in table 3, transformational leadership is closely related to business productivity than transactional styles leadership, with both positive and slight correlations.

## 6. CONCLUSION

The results of the study showed a comparison of the mean between the two styles of leadership: transformational leadership and transactional leadership. The findings showed that the mean of transformational leadership was higher than the mean of transactional leadership, aligning with the results of a previous study by Avolio & Bass (2004). The study also evaluated the proportion of entrepreneurial orientation, which revealed that the mean of creativity was higher than the mean of risk-taking. The results indicated that higher levels of total entrepreneurial orientation positively impacted business productivity.

The analysis of the two dimensions of entrepreneurship suggested that higher levels of creativity and risk-taking have a positive impact on business profitability. The study found that risk-taking was positively correlated with business productivity and transformational leadership was more associated with business productivity than transactional leadership. The study found that transformational leadership was the best predictor of business productivity.

The findings of the study showed that there was a correlation between transformational and transactional leadership styles. Transformational leadership styles included individual impact, inspiring motivation, companionship, and holistic recognition. The results showed that the managers and owners of SMEs in the

industrial area were strategic leaders and followed the transformational leadership style, which is more dynamic and successful in the small scale industry.

The implications of the results suggest that managers follow leadership strategies to secure a strategic advantage, company competitiveness, and long-term viability for their businesses. Entrepreneurs follow unique leadership styles, such as strategic experience, ability to empower and motivate, communication, customer relationship building, HRM resilience and agility, creative, technological and practical skills, and self-awareness.

The implementation of effective leadership styles in SMEs can increase the survival rate of the businesses, creating economic prospects such as job opportunities in communities. Incorporating leadership styles to boost productivity in the organizations can strengthen their operations and sustainability, leading to improved revenue generation and employment prospects for individuals and communities in SMEs.

## REFERENCES

- Covin, J.G., & Slevin, D.P. (2017). Strategic management of small firms in hostile and benign environments. *Strategic Management Journal*, 10(1), 75–87.
- Chukwusa, J. (2018). Autocratic leadership style: Obstacle to success in academic libraries. *Library Philosophy and Practice*, 1.
- Ali, M.A., & Malik, A. (2012). Corporate social responsibility: An indian perspective. *Paripex Indian Journal of Research*, 1(9).
- Avolio, B.J., & Bass, B.M. (2013). Individual consideration viewed at multiple levels of analysis: A multi-level framework for examining the diffusion of transformational leadership. *The leadership quarterly*, 6(2), 199- 218.
- Avolio, B.J., & Bass, B.M. (2014). Multifactor leadership questionnaire (MLQ). *Mind Garden*, 29.
- Bhatti, N., Maitlo, G.M., Shaikh, N., Hashmi, M.A., & Shaikh, F.M. (2012). The impact of autocratic and democratic leadership style on job satisfaction. *International business research*, 5(2), 192.
- Casson, M. (2015). Entrepreneurship and the theory of the firm. *Journal of Economic Behavior & Organization*, 58(2), 327-348.
- Chaudhry, A.Q., & Javed, H. (2012). Impact of transactional and laissez faire leadership style on motivation. *International Journal of Business and Social Science*, 3(7).
- Cunningham, J.B., & J. Lischeron (1991). Defining Entrepreneurship. *Journal of Small Business Management*, 29(1), 45-62.

- Dennis, R.S., Kinzler-Norheim, L., & Bocarnea, M. (2010). Servant leadership theory. In Servant leadership (pp. 169-179).
- Palgrave Macmillan, London. Dvir, T.D., Eden, B.J. Avolio, & Shamir, B. (2002). Impact of transformational leadership on follower development and performance: A field experiment. *Academy of Management Journal*, 45(4), 735–154.
- Faisal, S., & Sulphay M.M. (2018) A study to identify the human resource problems as perceived by employees of small and medium enterprises sector in India. *Journal of Advanced Research in Dynamical and control System*, 10(special issue), 7-14
- Gardner, L., & Stough, C. (2002). Examining the relationship between leadership and emotional intelligence in senior level managers. *Leadership and Organization Development Journal* 23(2), 68-78.
- Goleman, D. (2000). Leadership that gets results. *Harvard business review*, 78(2), 4-17. Hodgetts, R.M., & Kuratko, D.F. (2001). *Entrepreneurship: A contemporary approach*. South-Western/Thomson Learning. Ireland, R.D., Hitt, M.A., & Sirmon, D.G. (2003). A model of strategic entrepreneurship: The construct and its dimensions. *Journal of Management*, 29(6), 963– 989