
THE ROLE OF LEADERSHIP BEHAVIOR IN THE EFFECTIVENESS OF SMALL AND MEDIUM ENTERPRISES IN THE REGION OF POLOG

Selvije Thaci

University of Tetovo, North Macedonia, Selvije.thaci@unite.edu.mk

Arta Thaci

South East European University, North Macedonia, Thaciarta@gmail.com

Abstract: Small and medium enterprises play an important role in the economic growth and development through their active role as innovators and main agents of changes in the market. Every organization's main goal is to function effectively. The effective functioning of the organization is related to science, technology and human resources. Numerous studies have proven that the growth and development of any organization depends on effective leadership, mainly on leadership style. Therefore, it is important to understand the right leadership style that is needed according to the work environment and different situations. Our research considers the impact of transformational leadership style (idealized influence, inspirational motivation, intellectual stimulation and individual consideration) and the transactive leadership style (Management by expectation active (MBE-A), management by expectation passive (MBE-P), and Laissez Fair style (LF). A perfect leadership style ensures a good organizational climate, motivates and evaluates employees, offers opportunities for career development, ensures that employees have the necessary resources to be successful in their roles, increases their reliability by influences that the workers use their full potential and abilities to achieve a better performance, productivity, profitability and higher quality, as these are the main parameters that increase the effectiveness of the organization. The purpose of this study is to analyze the relationship between leadership behavior and effectiveness in small and medium-sized enterprises in the Polog region. For collecting the data, we did the survey of 75 employees thought the MLQ questionnaire with the main focus in evaluating the style. The SPSS program was used to process the data collected, through Cronbach Alpha test, to evaluate the reliability of variables and to minimize the eventual errors that can occur. The analysis of leadership behavior is based on the transformational and transactive style which are independent variables and the elements of effectiveness as dependent variables. The study reveals that there is a positive relationship between the transformational style of the leader and the effectiveness in the organization and a positive relationship between transactive style and the effectiveness in the organization which has impact in SME's performance.

Keywords: effectiveness in organization, effective leadership, transformational and transactional styles.

1. INTRODUCTION

The complexity and rapid pace of social, economic, political, and climatic changes, also advanced changes from crises, the hypercompetitive environment and many other factors have imposed a new period, new point of view, beliefs and new behaviors that indicates the need for business activities to focus on strengthening leadership as a very important driving force for enterprises. Leadership is necessary to move organizations forward in a competitive and changing environment by organizing, motivating, managing and leading employees to a higher level of performance. Leadership is based on scenario thinking to provide a compelling vision for the future, shows the way through strategies, empowers people, develops their competencies, provides the necessary resources and opportunities, inspires people who are engaged in achieving the vision in the organization.

Leadership includes the individual's ability to influence other people in order to strengthen cooperation and jointly contribute to the performance of strategy-related activities.

Leaders don't need to be great people, geniuses, or intellectuals to be successful, but they do need to have the 'right staff.'" (Kirkpatrick, Shellie A. and Edwin A. Locke). This means that effective leaders, even though they possess skills and knowledge, cannot be successful if the team they work with does not respect and cooperate for the best performance of tasks in the organization and the achievement of goals.

SME are considered effective if the internal operation is efficient and oriented towards the goal, if the balance is achieved between the demands of the owners, the needs of the employees and the demands of the customers. Effectiveness is a key factor in business and is the main reason for its survival. The effectiveness of the organization implies the achievement of objectives in the organization in an efficient manner, including productivity, profitability, quality assurance, development of human resources, development of strategies. To achieve better effectiveness for enterprises, the leader must lead and implement the right behaviors towards the followers by valuing their work and ideas, motivating them and providing a good work environment. In situations where the

worker feels valued and motivated, then he gives his best beyond personal interests, which has a direct impact on the achievement of objectives.

Leadership style provides an important link between the behavior of the individual in the group and the organization. The best effectiveness can be achieved when the leader uses the most appropriate style for different situations, which means that the leader should be more flexible and use more styles. Numerous studies emphasize that transformative and transactive style are styles that ensure better organization effectiveness. The transactive leader directs and motivates his followers to walk the path that leads to the realization of objectives, clarifying roles and task requirements. The transformational leader supports day-to-day relationships for the achievement of objectives, inspires his followers to overcome their self-interest for the good of the organization, and has the potential to cause a profound and extraordinary effect on them. Transformational leaders work by motivating their co-workers to perform as better as they can (Bass, Avolio 1997). Transformational leadership as a highly effective style shown to predict performance in organizations.

This type of leader changes the way how his followers think and feel, by making old problems seen in a new way, he is able to inspire, encourage followers to try harder to achieve common objectives. Therefore, in this study we treat the analysis of the significance between leadership and effectiveness in terms of transformative and transactive styles.

2. MATERIALS AND METHODS

This study addresses the effectiveness of the organization in terms of effective leadership, behavior and the leadership styles. Leadership is the creation of a clear vision of the future situation that will benefit all members of the organization. Several studies also suggested that leaders and their leadership style influence both their subordinates and organizational outcomes (Tarabishy, Solomon, Fernald, and Sashkin, 2005). Russell and Stone, (2002) states that leadership is an increasingly popular concept in the repertoire of leadership styles. It is systematically defined and supported by empirical research.

Leadership in the organization is presented in different forms, depending on the personality of the leader, characteristics, climate, culture, gender, surroundings, etc. An effective leader possesses skills and abilities that distinguish him from ineffective leaders. An effective leader has a cooperative attitude with followers, motivates, inspires, encourages and gains their credibility and together they achieve the objectives in the organization. Theoretical and empirical studies have argued that leadership is a very important field in the field of organizational behavior. Leadership has a very dynamic effect during individual and organizational interaction. Leadership must possess special skills to design strategies, make difficult decisions and to understand how organizational policy works to achieve the effectiveness. Understanding the effects of leadership on effectiveness is also important as leadership is considered as the main power for improving effectiveness, as a powerful source of management development and as a strength of the organization. As Madanchian and Taherdoost (2019) mentioned that effective leadership can authorize small businesses to have a performance that sometimes goes beyond expectations and the performance is considered good and effective because entrepreneurial leadership is essential in directing and achieving business goals. The effectiveness of the organization is the dominant management concept and is very critical for the success of any economy. Organizational effectiveness refers to the degree to which an organization fulfills its purpose or mission. The concept of effectiveness in business, leadership can be analyzed based on three approaches, the approach of achieving the goal, the approach of controlling resources and the approach of multiple constituencies (Bishwas, S. K., & Sushil, 2020). The effectiveness of the organization is a multidimensional issue and cannot be addressed in a single way, so it is necessary to understand which leadership styles are more successful. Leadership style represents the way a manager chooses to act towards subordinates and how the manager performs the leadership function (Karacsony Peter, 2021). The survival of SMEs in an unpredictable environment depends on the entrepreneurial and leadership competence of their owners/managers, as a combination of their talent, skills and energy, (Demartini & Beretta, 2020). Transformational leaders work for the benefit of the organization's group members and are role models for followers. These leaders have the power to motivate and inspire their followers to achieve more than planned, (Linda Lin 2021). Transformational leadership is the leadership approach that contributes to the presentation of a clear and justified organizational vision and mission by motivating workers to work towards the idea through the development of association with employees, take into account the demands of employees and help them exercise their potential positively, participating in positive outcomes for an enterprise, (Hira Khan 2020). The components of transformative style are: (a) Idealized Influences (attributed), (b) Idealized Influences (Behaviour), (c) Inspirational Motivation, (d) Intellectual stimulation and (e) Individualized consideration, (Dinh Cong Thanh, 2022). Transactive leadership, especially leadership based on rewards and management of exceptions, does not work well in all cases and tends to have negative impacts, especially in small and medium-sized enterprises. The differences between the styles happen to have different impacts on the

effectiveness of the organization. Leaders who use the right style in business have higher chances to achieve their goals. Each style used by leaders represents a special behavior based on which the leader determines the way he chooses to act towards followers and workers. Which way of behavior the leader will choose depends on several factors, the characteristics of the individuals in the team, the personality of the leader, the nature of the tasks, the type of organization. Therefore, we cannot argue which of the styles is better, since a style that is successful in one situation may not be successful in another situation due to different conditions and circumstances. Effective leadership is flexible and adaptable to anticipate changes and has the ability and dexterity to choose the right style for the situation. Each leader based on personality and individual characteristics has dominant style, but the same style may not be effective for every situation. And effective leader is more flexible and has the ability to change the behavior (style) depending on the situation. The effectiveness of the organization is a multidimensional issue and cannot be addressed in a single way, so it is necessary to understand which leadership styles are more successful. Contemporary leadership theories are focused on transformative and transactive leadership. Researchers provide a variety of arguments for selecting an effective style and mainly focused on the analysis of transformative and transactive style as more effective styles.

To complete the study, we will make statistical analysis based on which we will provide the purpose of the research. Bass and Avolio (1992) developed the multifactor Leadership Questionnaire (MLQ) - Multifactor Leadership Questionnaire and based on MLQ questionnaire we evaluated the leadership styles and effectiveness in the organization. For analyzing the collected data, first we test the reliability of the variables and then with “Paired Samples Statistics”, “Paired Samples Test” we test the significance between the variables.

3. RESULTS

Reliability of variables

The purpose of testing the reliability of variables is to minimize eventual errors that may occur during the realization of the survey and to be more confident that we will achieve representative results. The Cronbach Alpha coefficient varies between 0 and 1, the satisfactory value is when the reliability level is greater than 0.6.

The model of transformative style consists of four components, where each component represents a particular leader style. The reliability of the transformative style components is on the satisfactory level, since the value of Cronbach’s Alpha coefficient is 0.787 and meets the condition ($\alpha > 0.6$).

Table 1. Reliability of transformative style

Reliability Statistics	
Cronbach's Alpha	N of Items
0.787	4

Source: Author’s calculation

The model of transactive style consist of three components, where each component represents the particular style of the leader. The reliability of the transactive style components is on the satisfactory level, since the value of Cronbach’s Alpha coefficient is 0.797 and meets the condition ($\alpha > 0.6$).

Table 2. Reliability of transactive style

Reliability Statistics	Column1
Cronbach's Alpha	N of Items
0.797	3

Source: Author’s calculation

Table 3 shows that the 9 questions based on which we analyze the effectiveness, have a very high level of reliability (0.920).

Table 3. Reliability of effectiveness

Reliability Statistics	Column1
Cronbach's Alpha	N of Items
0.92	9

Source: Author's calculation

Hypothesis Testing

H1. There is a positive significant between styles and effectiveness.

H1 a. There is a positive significant between the transformative style and effectiveness.

H1 b. There is a positive significant between the transactive style and effectiveness.

Significance between styles and effectiveness

In the below table, the obtained results show that there is no big difference between average in style and effectiveness (Mean 3.9834 & 3.6448)

**Table 4. Statistical analysis between effectiveness variables and transformative style
Paired Samples Statist**

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	EFFECT	3.9834	75	0.7944	0.04549
	TRANSF	3.6448	75	0.52731	0.03019

Source: Author's calculation

We see that the significance value between the variables is 0.000, which is less than the value (p- value < 0.05). So, the hypothesis is verified that there is a positive significance between transformative style and effectiveness.

**Table 5. The correlation between transformative style and effectiveness
Paired Samples Correlations**

		N	Correlation	Sig.
Pair 1	EFFECT& TRANSF	75	0.688	0.000

Source: Author's calculation

In the below table, the obtained results show that there is no big difference between average in style and effectiveness (Mean 3.9834 & 3.5994), and that there is a positive significance between the variables.

Table 6. Statistical analysis between effectiveness variables and transformative style

Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Me
Pair 1	EFFECT	3.9834	75	0.7944	0.04549
	TRANSF	3.5994	75	0.53441	0.0306

Source: Author's calculation

Based on the obtained results in the table 7 and table 8, we see that the significance value between the variables is 0.000, which is less than the value (p- value < 0.05). So, the hypothesis is verified that there is a positive significance between transactive style and effectiveness. The correlation coefficient of 0.639 between the variables is acceptable and that there is positive significance since the coefficient of 0.000 is smaller than p-value<0.05.

**Table 7. The correlation between transformative style and effectiveness
Paired Samples Correlations**

		N	Correlation	Sig.
Pair 1	EFFECT& TRANSAC	75	0.639	0.000

Source: Author's calculation

Table 8. The significance between transactive style and effectiveness

Paired Samples Test		Paired Differences					T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	EFFECT TRANSAC	0.38395	0.61184	0.03503	0.31501	0.45289	10.959	304	0

Source: Author's calculation

4. DISCUSSIONS

The transactive and transformative style is significantly related to the effectiveness of small and medium-sized enterprises in the region of Polog, since the coefficient of significance states that there is a positive correlation between the variables. Transformational leadership affects the increase in effectiveness in the organization by increasing the motivation and commitment of the workers to the assigned task, while the transactive leader achieves an increase in effectiveness by defining the roles and task requirements for the workers. Based on Bass's model The full range of leadership, where a wide spectrum of transformational and transactive style interactions are treated based on a hierarchy that starts with transactive styles which in certain situations can provide less effectiveness and continue with transformative styles where there is a significant increase in effectiveness. So, we can say that the two styles affect the effectiveness of the enterprise, but we must know which style to use in which situation, based on the characteristics and personality of the workers.

5. CONCLUSIONS

The main objective of this study is to determine the relationship between different leadership styles, such as the transformative style, which contains four types of styles, and the transactive style, which contains three types of styles. Based on the tested hypotheses, the results confirm that there is a significant relationship between styles and effectiveness in business. Leadership is essential in all organizations and institutions, as the chances of being successful in a complex environment are in a higher level. The leader provides a clear and convincing vision for the future, exploits opportunities, inspires group member to achieve vision, are open with the followers, trustworthy, with a good reputation and high integrity. Leadership is more flexible and easily anticipates changes in the environment.

Based on the analysis obtained from this paper, we came to conclusion that there is a high level of a relationship between leadership style (independent variable) and effectiveness (dependent variable) in the organization. This significance indicates that both styles have a positive impact on the effectiveness of the organization.

REFERENCES

- Bass, B. M., & Avolio, B. J. (1997). Full range leadership development: Manual for the Multifactor Leadership Questionnaire. Palo Alto, CA: Mind Garden.
- Bass, B. M., & Steidlmeier, P. (1999). Ethics, character, and authentic transformational leadership behavior. *The leadership quarterly*, 10(2), 181-217.
- Bass, B. M., & Avolio, B. J. (Eds.). (1994). *Improving organizational effectiveness through transformational leadership*. sage.
- Bishwas, S. K., & Sushil. (2020). Environmental uncertainty, leadership and organization culture as predictors of strategic knowledge management and flexibility. *International Journal of Knowledge Management Studies*, 11(4), 393-407.
- Demartini, M. C., & Beretta, V. (2020). Intellectual capital and SMEs' performance: A structured literature review. *Journal of Small Business Management*, 58(2), 288-332.
- Karacsony, P. (2021). Relationship between the leadership style and organizational performance in Hungary. *Економічний часопис-XXI*, 190(5-6 (2)), 128-135.
- Khan, H., Rehmat, M., Butt, T. H., Farooqi, S., & Asim, J. (2020). Impact of transformational leadership on work performance, burnout and social loafing: a mediation model. *Future Business Journal*, 6(1), 40.
- Lin, L. L. C., Irawan, A. P., Anggarina, P. T., & Kumar, S. (2022, May). Transformational Leadership Impact on Organizational Effectiveness. In *Tenth International Conference on Entrepreneurship and Business Management 2021 (ICEBM 2021)* (pp. 511-518). Atlantis Press.

- Madanchian, M., & Taherdoost, H. (2019). Assessment of leadership effectiveness dimensions in small & medium enterprises (SMEs). *Procedia manufacturing*, 32, 1035-1042.
- Russell, R. F., & Stone, A. G. (2002). A review of servant leadership attributes: Developing a practical model. *Leadership & organization development journal*, 23(3), 145-157.
- Tarabishy, A., Solomon, G., Fernald Jr, L. W., & Sashkin, M. (2005). The entrepreneurial leader's impact on the organization's performance in dynamic markets. *The Journal of private equity*, 20-29.
- Thanh, D., Nhung, P. L., Nghiem, L., & Phat, L. T. (2022). Study on the impact of transformation leadership on performance of small and medium enterprises in Can Tho City, Vietnam. *Science & Technology Development Journal: Economics- Law & Management*, 6(2), 2357-2372.