

# THE RELATIONSHIP BETWEEN TRANSACTIONAL LEADERSHIP, TRANSFORMATIONAL LEADERSHIP AND PERFORMANCE OF SMEs IN NIGERIA

Abiodun Tope Samson<sup>1</sup>, Ilesanmi, Oladele Ayodeji<sup>2</sup>

<sup>1</sup>Kwararafa University wukari, Department of Business Admin, Taraba-state, Nigeria

<sup>2</sup>Department of Business Administration, Osun State University, Osogbo, Nigeria

**ABSTRACT:** This study examined the relationship between contingency reward, Management by exception, passive avoidance and performance of SMEs and provided further proof of research conclusion that transformational leadership could predict follower performance beyond the effects of transactional leadership. Having delineated hypotheses to draw these relationships, questionnaire survey was employed to collect data from owners/managers of SMEs in Nigeria. The results of the study show that there are positive significant relationships between charisma, inspirational motivation, intellectual stimulation & individualized consideration, management by exception and firm performance. While there is no significant relationship between contingency reward, passive avoidance and firm performance. Conclusion is drawn and recommendations are made.

**Keywords:** Contingency Reward, Management by Exception, Passive Avoidance, Charisma, Inspirational Motivation, Intellectual Stimulation and Individualized Consideration.

## 1. INTRODUCTION

The large numbers of psychological tests carried out on entrepreneurs over the last thirty years have overwhelmingly shown that entrepreneurs have certain common trait and characteristics that are different from those of the general population in every country of the world. These characteristics are achievement motivation, innovativeness, independence, risk taking, leadership and optimism. Leadership is ability to challenge the process, inspiring a shared vision, enable other to act, model the way and encourage the heart (Kouzes and Posner, 1987). Entrepreneurial personalities involve leadership quality. This is shown in their ability to identify, employ and manage capable individual to work towards the success of their ventures. Leadership plays a vital role for creativity to have a proper position in a firm. When a leader empowers employees, this would influence their entrepreneurial behavior in taking risks, dealing with uncertainty, and attracting innovation (Hitt *et al.*, 2011).

Three types of leadership styles have been identified in leadership literatures, namely; autocratic, democratic and laissez-faire leadership styles (Bass, 1985). Given the importance of leadership, new theories of leadership emerged in modern organization: transactional leadership theory and transformational leadership theory. Transactional leadership has been adduced to lead to expected performance, while transformational leadership has the potential to result in performance beyond expectations (Podsakoff *et al.*, 1996).

In leadership literature, the understanding of different types and levels of performance has become more precise (Klein *et al.*, 1994). Meanwhile, a growing body of research has investigated the range of potential performance implications of transformational leadership. A transformational entrepreneurial leader who exhibits the mutually reinforcing attributes of charisma, inspirational motivation intellectual stimulation, and individualized consideration would influence firm performance more than less transformational entrepreneur (Bass, 1985). Although transactional and transformational leadership have been studied extensively, the magnitude of the relationship between transformational leadership and follower performance across criterion types and levels of analysis remains unclear. Moreover, despite overwhelming findings of positive relationship between transformational leadership and firm

performance, studies like Tosi *et al.* (2004), Waldman *et al.* (2001), Agle *et al.* (2006), and Ensley *et al.* (2006) found no relationship between aspects of transformational leadership and firm performance. In addition to these challenges, In spite of the importance of SMEs' relationship with economic development, scholarly interest has neglected how an emerging firms should reinforce attributes of charisma, inspirational motivation, intellectual stimulation, and individualized consideration in leadership and improve SMEs' performance. The bulk of researches on transformational leadership focus on large established firm (Agle *et al.*, 2006), and Many of these researches focus on firms operating in western developed market and little is known about implication of transformational leadership relationship in transition economies like Nigeria.

Therefore, the objectives of this study are; first, to examine the relationship between transactional leadership's dimensions (contingency reward, Management by exception and passive avoidance) and firm performance: Second, to examine the relationship between transformational leadership's dimensions (charisma, inspirational motivation, intellectual stimulation, and individualized consideration) and firm performance: Third, to provide further proof of research conclusion that transformational leadership could predict follower performance beyond the effects of transactional leadership and fourth, to carry out this study among Nigerian SMEs where there is dearth of such study.

## **2. LITERATURE REVIEW**

### **2.1. Transactional Leadership**

Transactional and transformational leadership theory was first developed by Burns (1978). It is a transaction between leaders and followers (Bass, 1990). Transactional leaders are leaders that guides or motivate their followers in the direction of established goals by clarifying roles and task requirement. These types of leaders work within their organizational cultures following existing rules, procedures, and norms; team members agree to obey their leader totally when they take a job on, the organization pays the team members, in return for their effort and compliance, as such the leader has the right to punish the team member. Transactional leadership is characterized with contingency reward: Contacts exchange of rewards for effort, promise rewards for good performance, recognizes accomplishments and punishments for poor performance (Muenjohn and Armstrong, 2008). Management by exception: Watches and searches for deviations from rules and standards, takes corrective action (Bass, 1996). Leaders only intervene when procedures are not followed and standards are not met in the management-by-exception (passive) mode (Bass, 1990). Laissez-Faire: Abdicates responsibilities avoids making decision (Bass and Avolio, 1990;1993).

A pure transactional culture focuses on everything in terms of explicit and implicit contractual relationships. All job assignments are explicitly spelled out along with conditions of employment, disciplinary codes, and benefit structures. Stories, rites, jargon, values, assumptions, and reinforcement systems in the transactional organizational culture depend on setting a price on everything. Everyone has a price required for his/her motivation to work. There is a price on everything; commitments are short-term, and self-interests are stressed. Internally, the organization is a marketplace comprised of individuals in which each individual's reward is contingent on his or her performance. Management-by-exception is often actively practiced. Employees work as independently as possible from their colleagues. Cooperation depends on negotiations not problem solving or a common mission. Commitment is as deep as the organization's ability to reward members for successful performance. There is little identification of the employees with the organization and its mission or vision. Superiors primarily are negotiators and resource allocators. Relatively, few behaviors are determined by the norms of the organization, unless those norms reflect the transactional basis for doing business in the organization. Levels of innovation and risk taking may be severely curtailed in this type of organizational culture (Hater and Bass, 1988).

### **2.2. Transformational Leadership**

Transformational leaders achieve performance beyond expectations through four leadership factors: charisma, inspiration, individualized consideration and intellectual stimulation. (Yalokwu, 2006). Charisma/idealized influence: transformational leaders use charisma to provide followers with a clear vision and sense of mission of a desired future. Transformational leader instills pride, gains respect and trust (Avolio and Bass, 2004; Bass, 1990). Inspiration leader Communicates high expectations, uses symbols to focus efforts, and expresses important purposes in simple ways (Bass, 1990;1996; Muenjohn and Armstrong, 2008). Inspirational leader excites followers with idea that can achieve great things with extra effort, articulates shared goals and develops a mutual understanding of what is right and important in simple ways to employees (Avolio and Bass, 2004).

Individualized Consideration; this quality of Leadership, provides personal attention and treats each employee individually (Bass, 1990). He spends time coaching, giving advice and pay close attention to differences among the employees (Muenjohn and Armstrong, 2008). Transformational leaders demonstrate individualized consideration. That is, they pay close attention to differences among followers, serve as mentors to those who need coaching and counseling, and treat each follower as an individual worthy of respect. Such leadership quality also focuses on understanding the needs of each follower and works continuously to get them to develop their full potentials (Muenjohn and Armstrong, 2008). Intellectual Stimulation; this quality of leadership Promotes intelligence, rationality and careful problem solving. It gets followers to question the tried and true ways of solving problems, and encourages them to question the methods they use to improve upon them (Bass, 1990). Transformational leaders provide followers with intellectual stimulation by promoting new ways of looking at old problems, viewing difficulties as challenges to be met, and emphasizing creative thinking and initiative (Avolio *et al.*, 1991; Bass, 1985).

Generally speaking, the advocates of this belief describe what has been dubbed transformational leadership as consisting of two complementary roles: the mover-and –shaker and the gentle persuader. In the first, the mover –and –shakers achieves a transformation in an organization's fortunes and is, therefore, described as a transforming leader. In the second, as a gentle persuader, the transforming leader converts followers into leaders for the good of the whole, to consider long term rather than immediate needs, and to become more aware and accepting of an organization's goal (Yalokwu, 2006).

### **2.3. Small and Medium Enterprises (SMEs)**

Small and Medium Enterprises (SMEs) contribute meaningfully to economic development (Ogunsiji and Ladanu, 2010). They are in the forefront of output expansion, employment generation, income redistribution, promotion of indigenous entrepreneurship and production of primary goods to strengthen industrial linkages (Ayanda and Laraba, 2011). This sector is responsible for about 70 percent of the total industrial employment in our country and between 10-15 percent of the total manufacturing output. Nigerian economy mainly comprises of SMEs. To achieve success, competitive leadership of this sector has not realized its potential. Bad attitude toward workforce is extremely significant in a number of ways: that results to inefficiency, ineffectiveness and poor productivity of the firm. Similarly, inability to get leaders who could induce organizational change and overcome the inertial forces that impair firms from successfully adapting to a dynamic environment constitute serious problem (Waldman *et al.*, 2004). Studies have also asserted that firm performance should be enhanced as transformational owner/managers exhibit enthusiasm for innovation and show how volatility in the firm's competitive environment can be turned into a vision of opportunity (Avolio *et al.*, 2004; Howell and Higgins, 1990).

Consequently, a study carried out by Manufacturing Association of Nigeria (MAN) showed that just about 10 percent of industries run by its members are completely in operation. The vast majority of SMEs die before their first to five year of operation Abiodun and Mahmood (2015) while some disappear within sixth and tenth year of existence and the remaining ones that grow to maturity are less than five to ten percent (Onugu, 2005). About 48 percent of Nigerian population is presently unemployed while over one million students graduate from tertiary institutions annually join the army of unemployment people. The aftermath is poverty resulting from unemployment and sluggish economic growth. Nigeria presently ranks 140 out of 174 countries on the Human Development Index (HDI), the official estimates put the poverty level at 70 percent of the population.

However, when the firm is faced with a turbulent marketplace; when its products are born, live, and die within the span of a few years; and/or when its current technology can become obsolete before it is fully depreciated; then transformational leadership has been suggested as surgical tool to be fostered at all levels in the firm. In order to succeed, the firm needs to have the flexibility to forecast and meet new demands and changes as they occur —and only transformational leadership can enable the firm to do so. Problems, rapid changes, and uncertainties call for a flexible organization with determined leaders who can inspire employees to participate enthusiastically in team efforts and share in organizational goals. In short, charisma, attention to individualized development, and the ability and willingness to provide intellectual stimulation are critical in leaders whose firms are faced with demands (Bass, 1985).

### **2.4. Firm Performance**

Firm performance has been described as one of the most important dependent variable of interests for researchers concerned with specific area of management (Richard *et al.*, 2008). Similarly, (Covin and Slevin, 1991) demonstrated growth and profitability as the dimensions of a firm's economic performance.

Firm performance also encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc (Richard *et al.*, 2009).

Zou *et al.* (1998) addressed the three critical issues in determining export performance, their scale EXPERF was multidimensional and really centered on firm performance. It was built on (Avolio *et al.*, 1991) and comprises three basic dimensions that are rooted in firm performance's literatures; financial, strategic and satisfaction firm performance's measure. The nine items adapted from Zou *et al.*, (1998) are used to measure firm performance in this study because they reflect economic and non-economic factor that could easily show the performance of SMEs.

In SMEs, the leadership behaviors of the top management can have a strong impact on the innovativeness and the performance of the firm (Matzler *et al.*, 2008). As the business becomes globally competitive, SMEs development requires a new vision and set of directions to help them become more competitive and have the ability to sustain their businesses. To achieve this, the leadership style of the owner/manager would play a major role in ensuring the directions and a clear vision to be shared among employees in their establishments.

## **2.5. Transactional Leadership and Firm Performance**

A transactional leader pursues a cost-benefit economic exchange to meet subordinates' current material and psychic needs in return for contracted services rendered by the subordinate (Bass, 1985). Transactional leaders provide direction and motivate employees by instituting goals and by clarifying task requirements (Robbins and Coulter, 2005). There exists an agreed exchange process between the leader and the followers in order to achieve the necessary standard of performance. Most transactional leaders are risk averse, and perform well in a stable and predictable environment (Bass, 1990). (Yang *et al.*, 2008) found Transactional leadership to have a small, significant positive relationship towards the performance of SMEs. Moreover, (Yang *et al.*, 2008) has found that transactional leadership was not a good predictor of the organizational performance. It has also been found that transactional leadership leads to greater performance. (Podsakoff *et al.*, 1984) contended that performance is being monitored and future rewards and punishment are contingent in the level of performance. The empirical evidence supports the relationship between contingent reward behavior and in -role in performance. (Jaworski and Kohli, 1991) also suggested empirical evidence supports the relationship between contingent reward behavior and role- in- performance. Having considered these mixed findings in empirical researches, this study hypothesizes the three basic aspects of transactional leadership for further enquiry:

- H1: There is significant relationship between contingent reward and firm performance
- H2: There is significant relationship between passive avoidance and firm performance
- H3: There is significant relationship between management by support and firm performance

## **2.6. Transformational Leadership and Firm Performance**

Bass (1985) defined transformational leadership as the process whereby leaders employ the collective interest of an organization and its employees to achieve outcomes beyond ordinary performance. Leaders exhibit transformational style more than the other (Avolio *et al.*, 1999). Transformational leader Communicates high expectations, uses symbols to focus efforts, and expresses important purposes in simple ways (Bass, 1996; Muenjohn and Armstrong, 2008). They use inspiration to excite their followers with the idea that they can achieve great things with extra effort, articulate shared goals and develop a mutual understanding of what is right and important in simple ways to their employees which raises the morale of the subordinate and improves productivity (Avolio and Bass, 2004). Leaders affect and transform organizations by increasing employees' awareness on the importance of the task, its value and elevate interest. Bass and Yammarino (1991) and Avolio *et al.* (1999) have demonstrated Significant amount of evidences to suggest that transformational leadership would positively influence organizational performance. Transformational leadership has been found to have a significant positive relationship impact on the performance of SMEs (Matzler *et al.*, 2008; Pedraja *et al.*, 2006; Yang *et al.*, 2008). Moreover, Yang *et al.* (2008) has found that only the transformational leadership contributes significantly to the prediction of firm performance and transactional leadership was not a good predictor of the organizational performance. Burns (1978) and Bass (1985) asserted that an effective leader with transformational attributes could transform his organization to greater heights and achieve greater performance Bass (1990).



Several studies have suggested there is relationship between transformational leadership and firm performance at lower levels of the managerial hierarchy, and at upper levels (Pawar and Eastman, 1997). Ability to overcome the inertial forces that impair firms from successfully adapting to a dynamic environment (Agle *et al.*, 2006) ability to induce organizational members to constantly anticipate and adapt to environmental change (Waldman *et al.*, 2004) and ability to exhibit enthusiasm for innovation (Howell & Higgins, 1990) would enhance and achieve firm performance. Empirically Waldman *et al.* (2004) found charisma positively related to firm performance. Similarly, Baum, (Baum *et al.*, 1998) found that charisma, creating an attractive vision, contributed to the venture growth of entrepreneurial firms. However, Tosi *et al.* (2004), Waldman *et al.* (2001), Agle *et al.* (2006), and Ensley *et al.* (2006) found no relationship between aspects of transformational leadership and firm performance.

Transformational leaders employed individualized consideration to move their firm to higher accomplishment (Bass and Avolio, 1997). Leaders align the goals and objective of the firm with that of an individual follower which results in better quality, productivity and subsequent competitive advantage (Bass and Avolio, 1997). Intellectual capital contributes to higher performance of SMEs (Miles *et al.*, 1978). Scholars have found significant relationship between intellectual stimulation and organizational performance. Hence, since there is mixed findings among scholars about the relationship between transformational leadership and firm performance, there is a need to carry out another study to examine this relationship. Moreover, there is dearth of study that examine the impact of leadership behavior on firm performance among Nigerian SMEs. Studies on the relationship between Transformational leadership (Charisma/ inspiration, individualized influence and intellectual stimulation) and firm performance are also very scarce. Hence, this study subscribes to the proposition:

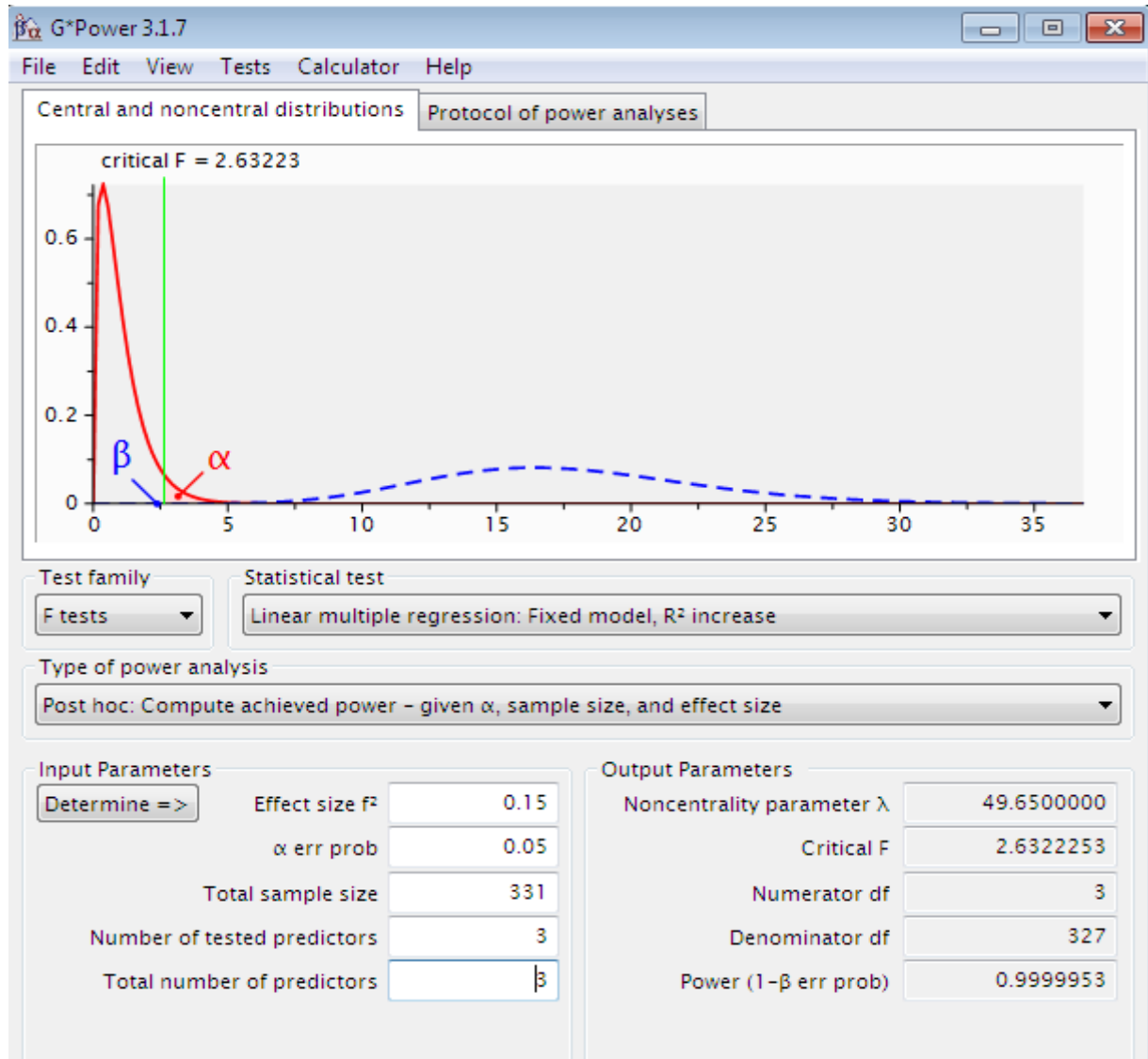
H4 There is a significant relationship between charismatic leader and firm performance

H5 There is a significant relationship between Intellectual stimulation and firm performance

H6 There is a significant relationship between idealized influence and firm performance

### 3. RESEARCH DESIGN

Research design is a master plan that specifies the method and procedures for collecting and analyzing the required data (Hair Joseph F *et al.*, 2010b; Hair F. J. *et al.*, 2010a). Quantitative questionnaire survey method has been said to be the most general and appropriate method of producing primary data in business study (Hair F. J. *et al.*, 2010a). Therefore, questionnaire survey is appropriate for this study. The sample of this study was selected from the population sampling frames; Manufacturing Association of Nigeria (MAN), from this directory, about five industrial sectors were selected. This followed the guidelines/criteria for SMEs (Storey, 1994). The directory provides the name, telephone and fax number of the executives/officers who are the owner/ managers in the firm as well as necessary information about the company, such as, the address, industry, product and services offer. Hair Jr *et al.* (2013) suggested that the required sample size should be determined by means of Power analysis. It is statistical procedure for determining an appropriate sample size for research study (Hair J. F. *et al.*, 2011). A priori power analysis was conducted using G Power 3.1 soft ware. Using post hoc: compute achieved power- given  $\alpha$ , sample size and effect size and 3 predictor variables. The minimum sample of 327 would be required. The figure 3.1 shows the output of priori power analysis (G power 3.1) used in the present study.



Krejcie Robert V and Morgan (1970b) specified sample size determination criteria was also used to determine sample size in this study for its level of confidence and precision to ensure sampling error is minimized. About 2200 firms were identified in the sampling frame of Manufacturing Association of Nigeria (MAN). By referring to the sample size table generated by (Krejcie R. V. and Morgan, 1970a) for a given population of 2200, a sample size of 327 would be required to represent the population of this study. In addition to this, the sample size of 327 was increased by 40% to further minimize low response rate from those respondents that might not cooperate (Salkind, 1997). The sum of this percentage (130) with 327 gave rise to total sample size of 457.

The sampling technique used in this study is proportional stratified sample. The population of the study is dispersed across three geographical areas (south west-Lagos, North Central- Kano, South East-Kano) hence; three distinct sub populations could be identified based on this geographical dispersion. Thus, stratification was used to decrease the variances of the sample estimates.

Five industrial sectors were selected; textiles, food and beverages, plastic, leather and chemicals which are products within the groups of labor intensive and light manufacturing (Ibeh, 2004).

**Table 3.1.** Industrial Sectors in the Sample

Products	Lagos	Kano	Aba	Total
Food	59	22	9	90
Leather/shoes	61	26	10	97
Chemical	59	22	9	90
Plastic	59	22	9	90
Beverages	59	22	9	90
Sample Size	297	114	46	457

Source: Field Survey, 2018

The [Table 3.1](#) shows the business in the sample sizes and the number of firms selected in each industrial sector and each geographical locations. Leather or shoes' firms have the highest numbers across the three geographical locations because it has larger number of firms among the industrial sectors selected.

### 3.1. Measures

Measures are used to spell out how set of measured items represent a set of construct ([Hair J. F. et al., 2010b](#)). To render a variable measurable one needs to look at the behavioral proportions, aspect or properties exhibited by the construct which could be translated into observable elements so as to form a guide for the variable ([Cavana et al., 2001](#)). In this study the variables to be measured are the independent variables (transformational and transactional leadership). The measures of these constructs are adopted from six factors of [Avolio et al. \(1999\)](#). Transformational leadership has 3 dimensions and it is measured as first order construct: Charisma/Inspirational consists 12 items, leadership, it provides followers with a clear sense of purpose that is energizing, it is a role model for ethical conduct and builds identification with the leader and his or her articulated vision; second, Intellectual Stimulation consists of 4 items, it gets followers to question the tried and true ways of solving problems, and encourages them to question the methods they use to improve upon them; third, Individualized Consideration consists of 4 items, it focuses on understanding the needs of each follower and works continuously to get them to develop to their full potentials.

Transactional leadership also has 3 dimensions: Contingent Reward consists of 4 items, it clarifies what is expected from followers and what they will receive if they meet expected levels of performance; second, Active Management by-Exception also consists of 4 items, it focuses on monitoring task execution for any problems that might arise and correcting those problems to maintain current performance levels; and third, Passive-Avoidant Leadership consists of 8 items, to react only after problems have become serious to take corrective action, and often avoids making any decisions at all. ([Avolio et al., 1999](#)). Similarly, the dependent variable (firm performance) adopted from [Zou et al. \(1998\)](#). It is measured as first order construct. It has 3 dimensions: financial performance consists of 3 items, second, satisfaction consists of 3 items and strategy consists of three items.

## 4. DATA ANALYSIS

### 4.1. Factor Analysis for Intellectual Stimulation

Factor Analysis conducted for intellectual stimulation. This variable is consisting of 4 items. The KMO test for firm performance recorded .735 which is considered as good and Barlett tests with sig. value 0.000. Table 4.1 shows the KMO and Bartlett's Test for Intellectual Stimulation while Table 4.2 shows the factor loading for 4 items which are all greater than the recommended of 0.5; this shows distribution of the values is standard.

**Table 4.1.** KMO and Barlett's Test Intellectual Stimulation

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.735
Bartlett's Test of Sphericity	Approx. Chi-Square	111.474
	df	6
	Sig.	.000

Source: SPSS Result, 2018

**Table 4.2.** Component Matrix of Intellectual stimulation

Name	Items	Factors Loading	Eigen value	% variance
Intellectual Stimulation	Re- examine assumptions	.798	2.254	56.342
	Seek different views	.551		
	Suggests new ways.	.843		
	Suggests different angle	.775		

Source: SPSS Result, 2018

In Table 4.3 the KMO test for firm performance recorded .809 which is considered as good and Barlett tests with sig. value 0.000.

**Table 4.3.** KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.809
Bartlett's Test of Sphericity	Approx. Chi-Square	213.678
	df	10
	Sig.	.000

Source: SPSS Result, 2018

Table 4.4 shows the Contingent reward, the factor loading for all items are all greater than the recommended of 0.5; this shows that the distribution of the values is standard

**Table 4.4.** KMO and Barlett's Contingent Reward

Name	Items	Factors Loading	Eigen value	% variance
Contingent Reward	Clarifies reward	.832	2.922	58.447
	Assists based on effort	.835		
	Reward your achievement	.621		
	Recognize your achievement	.755		

Source: SPSS Result, 2018

## 4.2. Reliability

Reliability is a measuring instrument that measures the consistency of an instrument [Sekaran and Bougie \(2010\)](#). The reliability of the instrument used in this study was tested using the Cronbach's Alpha. Table 4.5 shows the reliability result of this study.

**Table 4.5.** Summary of Reliability of the variables of the study

Variables	No of Items	Reliability Cronbach Alpha
Firm Performance	7	.847
Charisma	7	.818
Individualized Consideration	4	.819
Intellectual Stimulation	4	.826
Contingent Reward	4	.753
Management by Exception	4	.743
Passive Avoidant	5	.805

Source: SPSS Result, 2018

The lowest limit of the value of Cronbach's Alpha is 0.70 ([Hair J. F. et al., 1998](#)). The range of 0 to 1 indicates Cronbach's Alpha coefficients of dependability of the data. Therefore, considering the above table, the value of Cronbach's Alpha ranging from 0.74 to 0.878 where the value is closer to 1. This shows that this data has higher reliability of internal consistency ([Sekaran, 2003](#)).

**Table 4.6.** Correlation Among Constructs

Variables	DV	IV1	IV2	IV3	IV4	IV5	IV6
Firm Performance	1						
Intellectual Stimulation	.397**	1					
Passive Avoidance	.356**	.262**	1				
Management by Exception	.551**	.383**	.333**	1			
Contingent Reward	.538**	.253**	.213**	.701**	1		
Charisma	.431**	-.116**	.314**	.380**	.513**	1	
Individualized Consideration	.663**	.383**	.405**	.364**	.356**	.301**	1

\*\*Correlation is significant at the level 0.01 (2-tailed)

Source: SPSS Result, 2018

In this study, the researcher uses the Pearson correlation to test the above objective. Table 4.6 summarizes the correlation between all the variables. The highest correlation coefficient is registered between individualized consideration and management by exception with the correlation coefficient of .663\*\*,  $p < 0.01$  and .551\*\*,  $p < 0.01$  respectively. The third highest is contingent reward recorded a correlation coefficient of .538\*\*,  $p < 0.01$  followed by charisma recorded correlation of .431\*\*,  $p < 0.01$ . Intellectual stimulation and passive avoidance have the lowest correlation of .395\*\*,  $p < 0.01$  and .356\*\*,  $p < 0.01$  respectively. Based on the discussion above, four independent variables, namely individualized



consideration, management by exception, contingent reward and charisma have a moderate correlation with firm performance and two independent variables, intellectual stimulation and passive avoidance have a weak correlation with firm performance.

### 4.3. Regression

Multiple regressions were carried out to identify the independent variables as well as the Contribution of these dimensions; charisma, intellectual stimulation, individualized consideration, management by exception, contingent reward and passive avoidance in predicting firm performance. The finding of the multiple regressions based on statistical assessment is shown below. The six (6) independent variables explained 59.7% ( $R^2 = .597$ ) of total variance in firm performance.

All the variables have significant values and explain firm performance. They have the highest beta values as follows; individualized consideration ( $\beta = .443$ ,  $p < 0.01$ ), charisma ( $\beta = .188$ ,  $p < 0.05$ ), management by exception ( $\beta = .175$ ,  $p < 0.05$ ), and intellectual stimulation ( $\beta = .153$ ,  $p < 0.05$ ). Only two independent variables namely; passive avoidance and contingent reward were found not to have a significant value with firm performance a  $\beta$  of  $-0.07$  and  $.124$  respectively.

**Table 4.7.** Regression Analysis

Independent variables	Beta ( $\beta$ )	T	Sig.	Std. Deviation
Intellectual Stimulation	.153*	2.083	.039	.833
Passive Avoidance	-.007	-.105	.917	.523
Management by exception	.175**	1.962	.052	.686
Contingent Reward	.124	1.353	.179	.658
Charisma	.188***	2.405	.018	.570
Individualized Consideration	.443***	6.178	.000	.527

\* $p < 0.1$ , \*\* $p < 0.05$  \*\*\* $p < 0.01$

Source: SPSS Result, 2018

**Table 4.8.** Summary of Hypotheses Results

	Hypothesis	Result
H1	There is negative influence of contingent reward towards firm performance	Rejected
H2	There is negative influence of passive avoidance towards firm performance	Rejected
H3	There is positive influence of management by exception towards firm performance	Accepted
H4	There is positive influence of intellectual stimulation towards firm performance	Accepted
H5	There is positive influence of charisma towards firm performance	Accepted
H6	There is positive influence of individualized consideration towards firm performance	Accepted

Source: SPSS Result, 2018

## 5. DISCUSSION

Researches on impact of transactional and transformational leadership on performance have previously focused on large organizational Contexts, this study proposed the context of SMEs as a better litmus test of this relationship. Transactional leaders are leaders that guides or motivate their followers in the direction of established goals by clarifying roles and task requirement. Podsakoff *et al.* (1984) contended that performance is being monitored and future rewards and punishment are contingent in the level of performance. Contrary to this view, the result of statistical analysis carried out on data collected from owners/managers of SMEs showed that passive avoidance as an aspect of transactional leadership has negative impact on firm performance ( $\beta = -.007$ ,  $t = -.105$ ,  $p = .917$ ). Similarly, contingent reward also have no significant impact on firm performance ( $\beta = .124$ ,  $t = 1.353$ ,  $p = .179$ ). This result is consistent with the prior studies. For instance Pedraja *et al.* (2006) found a negative and significant relationship between transactional leadership and organizational performance. Moreover, Yang *et al.* (2008) has found that transactional leadership was not a good predictor of the organizational performance. However, management by support as an aspect of transactional leadership was found to have impact on firm performance ( $\beta = .175$ ,  $t = 1.962$ ,  $p = .052$ ). This is in conformity with the study of Yang *et al.* (2008) that found some aspects of transactional leadership to be significantly related to firm performance. The finding is also in line with the view that transactional leaders provide direction and motivate employees by instituting goals and by clarifying task requirements which consequently achieve the necessary standard of performance (Robbins and Coulter, 2005).

The results of the relationship between transformational leadership and firm performance; Contrary to researchers that have found transformational leadership to have a null influence on organizational

Performance in large firms (Agle *et al.*, 2006; Tosi *et al.*, 2004). The result of SPSS regression model's estimate in this study showed ( $\beta=.153$ ,  $t=2.083$ ,  $p=.039$ ) support for the relationship between intellectual stimulation and firm performance. This is in consonant with the previous researches that Intellectual capital contributes to higher performance of SMEs (Miles *et al.*, 1978). Similarly, hypothesis 5, on the relationship between charismatic leadership and firm performance, the outcome of statistical analysis showed  $\beta=.188$ ,  $t=2.405$ ,  $p=.018$ , which depicts positive statistical and significant relationship and also in conformity with the prior studies (Baum *et al.*, 1998; Waldman *et al.* (2004)) Moreover, hypothesis 6 in this study, on the relationship between Individualized Consideration and firm performance, the result of the study showed  $\beta=.443$ ,  $t=6.178$ ,  $p=.000$ , which revealed that there is significant relationship between individualized consideration and firm performance and also agree with prior studies' view (Bass and Avolio, 1997). More importantly, the result of this study conforms to the results of Matzler *et al.* (2008), and Yang *et al.* (2008) on the relationship between transformational leadership and firm performance.

## 5.2. Managerial Implication

Even though, transactional leader is said to be a leader that guides or motivate his followers in the direction of established goals by clarifying roles and task requirement and that transactional leadership by itself is effective at raising task performance, On the contrary, the findings of this study on the aspects of transactional leadership (passive avoidance and contingent reward) suggests that, transactional leadership in SMEs might not give rise to increase in firm performance. Significant relationship between management by support aspect of transactional leadership and firm performance connotes there may be some settings in which transactional styles of leadership are most desired, particularly when jobs involve little interdependence or collaboration in SMEs.

However, the findings of this study clearly indicate that transformational leadership tends to be a robust predictor of desirable performance outcomes across situations, consequently, SMEs' owners/managers should focus on selecting and promoting individuals on such traits for upper-level managerial positions as such individuals are more likely to become transformational leaders. It makes sense to encourage such training. Indeed, by involving all managers in such training, a firm can begin to develop future senior leadership and, at the same time, provide greater understanding of what will be expected from them.

Having realized that charisma, intellectual stimulation and individualized consideration (transformational leadership) influenced firm performance, this study recommends that owner/managers of SMEs should provide followers with a clear vision and sense of mission of a desired future, instill pride, and gain respect and trust as such would lead to increase in firm performance. They should Communicates high expectations; use symbols to focus efforts, and expresses important purposes in simple ways. Owner/manager of SMEs should use inspiration to excite their followers with the idea that they can achieve great things with extra effort *and* articulate shared goals and develop a mutual understanding of what is right and important in simple ways to their employees. Give personal attention, treat each employee individually, coaches and advises. SMEs' Leaders should provide personal attention and treat each employee individually. They should spend time coaching and giving advice and pay close attention to differences among the employees. As for SMEs looking to recruit a new CEO, ideally individuals should be sought who have demonstrated the qualities of a transformational leader.

Building on prior studies, this study has further demonstrated that, transformational leadership may motivate followers to work harder, exerting more effort than would be expected from transactional leadership and resulting in higher levels of task performance. Transformational leadership motivates followers to go beyond the minimum requirements of their job descriptions, resulting in higher levels of firm performance

## REFERENCES

- Abiodun, S. T. and Mahmood, R. (2015). Fostering export performance in SMEs: The roles of export market orientation and learning orientation in turbulent environment. *International Journal of Economic Perspectives*, 9(2): 28-48.
- Agle, B. R., Nagarajan, N. J., Sonnenfeld, J. A. and Srinivasan, D. (2006). Does CEO charisma matter? An empirical analysis of the relationships among organizational performance, environmental uncertainty, and top management team perceptions of CEO charisma. *Academy of Management Journal*, 49(1): 161-74.
- Avolio, B. J. and Bass, B. M. (2004). Multifactor leadership questionnaire (MLQ). Mind Garden.

- Avolio, B. J., Bass, B. M. and Jung, D. I. (1999). Re-examining the components of transformational and transactional leadership using the multifactor leadership. *Journal of Occupational and Organizational Psychology*, 72(4): 441-62.
- Avolio, B. J., Zhu, W., Koh, W. and Bhatia, P. (2004). Transformational leadership an organizational commitment: Mediating role of psychological empowerment and moderating role of structural distance *Journal of Organizational Behavior*. *The International Journal of Industrial, Occupational and Organizational Psychology and Behavior*, 25(8): 951-96.
- Avolio, B. J., David, A., Waldman, J. and Yammarino, F. J. (1991). The four i's of transformational leadership. *Journal of European Industrial Training*, 15(4): 9-16.
- Ayanda, A. M. and Laraba, A. S. (2011). Small and medium scale enterprises as a survival strategy for employment generation in Nigeria. *Journal of Sustainable Development*, 4(1): 200-206.
- Bass, B. M. (1985). Leadership and performance beyond expectations. New York: Free Press.
- Bass, B. M. (1990). *Bass & Stogdill's handbook of leadership (3rd ed.)*. New York: Free Press.
- Bass, B. M. (1996). Is there universality in the full range model of leadership? *International Journal of Public Administration*, 19(6): 731-61.
- Bass, B. M. and Avolio, B. J. (1990). *The implications of transactional and transformational leadership for individual, team, and organizational development*. In R. W. Woodman & W. A. Pasmore (Eds.), *Research in organizational change and development*. Greenwich, CT: JAI Press. 4: 231-72.
- Bass, B. M. and Yammarino, F. J. (1991). Congruence of self and others' leadership ratings of naval officers for understanding successful performance. *Applied Psychology: An International Review*, 40(4): 437-54.
- Bass, B. M. and Avolio, B. J. (1993). *Transformational leadership: A response to critiques*. In M. M. Chemers & R. Ayman (Eds.), *Leadership theory and research: Perspectives and directions*. San Diego, CA: Academic Press. 49-80.
- Bass, B. M. and Avolio, B. J. (1997). Concepts of leadership. *Leadership: Understanding the dynamics of power and influence in organizations*. 3-22.
- Baum, J. R., Locke, E. A. and Kirkpatrick, S. A. (1998). A longitudinal study of the relation of vision and vision communication to venture growth in entrepreneurial firms. *Journal of applied psychology*, 83(1): 43-54.
- Burns, J. M. (1978). Leadership. New York, NY: Harper & Row.
- Cavana, R. Y., Delahaye, B. L. and Sekaran, U. (2001). Applied business research. *Qualitative and Quantitative Methods*:
- Covin, J. G. and Slevin, D. P. (1991). A conceptual model of entrepreneurship as firm behavior.
- Ensley, M. D., Hmieleski, K. M. and Pearce, C. L. (2006). The importance of vertical and shared leadership within new venture top management teams: Implications for the performance of startups *The leadership quarterly*. 17(3): 217-31.
- Hair, J. F., Black, W. C., Babin, B. J. and Anderson, R. E. (2010a). *Multivariate Data Analysis*.
- Hair, J. F., Ringle, C. M. and Sarstedt, M. (2011). PLS-SEM: Indeed a silver bullet. *Journal of Marketing theory and Practice*, 19(2): 139-52.
- Hair, J. F., Anderson, R. E., Tatham, R. L. and Black, W. C. (1998). *Multivariate Data Analysis*, Prentice Hall. Upper Saddle River, NJ, 730.
- Hair, J. F., Wolfinbarger, M. F., Ortinau, D. J. and Bush, R. P. (2010b). *Essentials of marketing research*. McGraw-Hill/Irwin.
- Hair, J. F., Wolfinbarger, M. F., Ortinau, D. J. and Bush, R. P. (2010b). *Essentials of Marketing Research*: New York: McGraw-Hill/Irwin.
- Hair Jr, J. F., Hult, G. T. M., Ringle, C. and Sarstedt, M. (2013). *A primer on partial least squares structural equation modeling (PLS-SEM)*. SAGE Publications, Incorporated.
- Hater, J. J. and Bass, B. M. (1988). Superiors' evaluations and subordinates' perceptions of transformational and transactional leadership. *Journal of Applied psychology*, 73(4): 695-702.
- Hitt, M. A., Ireland, R. D., Sirmon, D. G. and Trahms, C. A. (2011). Strategic Entrepreneurship: Creating Value for Individuals, Organizations, And Society, *Academy Of Management Perspectives*. 25(2): 57-75.
- Howell, J. M. and Higgins, C. A. (1990). Champions of technological innovation. *Administrative Science Quarterly*, . 317-41.

- Ibeh, K. I. (2004). Furthering export participation in less performing developing countries: The effects of entrepreneurial orientation and managerial capacity factors. *International Journal of Social Economics*, 31(2): 94-110.
- Jaworski, B. J. and Kohli, A. K. (1991). Supervisory feedback: Alternative types and their impact on salespeople's performance and satisfaction. *Journal of Marketing Research*, 28(2): 190-201.
- Klein, K. J., Dansereau, F. and Hall, R. J. (1994). Levels issues in theory development, data collection, and analysis. *Academy of Management Review*, 19(2): 195-229.
- Kouzes, J. M. and Posner, B. Z. (1987). *The Leadership Challenge: How to Get Extraordinary Things Done in Organisations*, Jossey-Bass, San Francisco, CA.
- Krejcie, R. V. and Morgan, D. W. (1970a). Determining sample size for research activities. *Educational and Psychological Measurement*, 30(3): 607-10.
- Krejcie, R. V. and Morgan, D. W. (1970b). Determining sample size for research activities. *Educ Psychol Meas*:
- Matzler, K., Erich, S. E., Deutinger, N. and Harms, R. (2008). The relationship between transformational leadership, product innovation and performance in SMEs. *Journal of Small Business and Entrepreneurship*, 21(2): 139-151.
- Miles, R. E., Snow, C. C., Meyer, A. D. and Coleman, J. H. J. (1978). Organizational strategy, structure, and process. *Academy of Management Review*, 3(3): 546-62.
- Muenjohn, N. and Armstrong, A. (2008). Evaluating the Structural Validity of the Multifactor Leadership Questionnaire (MLQ), Capturing the Leadership Factors of Transformational-Transactional Leadership Contemporary Management Research. 4(1): 3-14.
- Ogunsiji, A. S. and Ladanu, W. K. (2010). Entrepreneurial orientation as a panacea for the ebbing productivity in Nigerian small and medium enterprises: A theoretical perspective. *International Business Research*, 3(4): 192-99.
- Onugu, B. A. N. (2005). Small and medium enterprises (SMEs) in Nigeria: Problems and prospects. St. Clements University, Nigeria (Unpublished Dissertation for a Doctor of Philosophy in Management Award.
- Pawar, B. S. and Eastman, K. K. (1997). The nature and implications of contextual influences on transformational leadership: A conceptual examination. *Academy of Management Review*, 22(1): 80-109.
- Pedraja, R. L., Emilio, R. P., Delgado, A. M. and Juan, R. P. (2006). Transformational and transactional leadership: A study of their influence in small companies. *Ingeniare-Revista Chilena De Ingenieria*, 14(2): 159-66.
- Podsakoff, P. M., MacKenzie, S. B. and Bommer, W. H. (1996). Transformational leader behaviors and substitutes for leadership as determinants of employee satisfaction, commitment, trust, and organizational citizenship behaviors. *Journal of Management*, 22(2): 259-98.
- Podsakoff, P. M., Todor, W. D., Grover, R. A. and Huber, V. L. (1984). Situational moderators of leader reward and punishment behaviors: fact or fiction? *Organizational Behavior and Human Performance*, 34(1): 21-63.
- Richard, P. J., Devinney, T. M., Yip, G. S. and Johnson, G. (2008). Measuring organizational performance as a dependent variable: Towards methodological best practice. *Journal of Management*, 35(3): 718-804.
- Richard, P. J., Devinney, T. M., Yip, G. S. and Johnson, G. (2009). Measuring organizational performance: Towards methodological best practice. *Journal of Management*, 35(3): 718-804.
- Robbins, S. P. and Coulter, M. (2005). *Management. 8th Edn., Upper Saddle River: NJ: Prentice Hall.*
- Salkind, N. J. (1997). Exploring research (3 rd.). Bartlett, JE, Kotrlik, JW, and Higgins, CC (2001). "Organizational Research: Determining Appropriate sample Size in Survey Research". *Information Technology, Learning, and Performance Journal*, 19(1): 43-50.
- Sekaran, U. (2003). *Research Methods For Business, A Skill Building Approach*, John Willey & Sons. Inc. New York.
- Sekaran, U. and Bougie, R. (2010). Theoretical framework in theoretical framework and hypothesis development. *Research methods for business: A skill building approach.*
- Storey, D. J. (1994). Understanding the small business sector. *University of Illinois at Urbana-Champaign's Academy for Entrepreneurial Leadership Historical Research Reference in Entrepreneurship:*
- Tosi, H. L., Misangyi, V. F., Fanelli, A., Wadman, D. A. and Yamarino, F. J. (2004). CEO charisma, compensation, and firm performance. *The Leadership Quarterly*, 15(3): 405-20.

- Waldman, D. A., Javidan, M. and Varella, P. (2004). Charismatic leadership at the strategic level: A new application of upper echelons theory. *The Leadership Quarterly*, 15(3): 355-80.
- Waldman, D. A., Ramirez, G. G., House, R. J. and Puranam, P. (2001). Does leadership matter? CEO leadership attributes and profitability under conditions of perceived environmental uncertainty. *Academy of Management Journal*, 44(1): 134-43.
- Yalokwu, P. O. (2006). *Fundamentals of Management*. Lagos: African Centre for Management and Education.
- Yang, J. X., Zhang, Z. X. and Tsui, A. (2008). Middle manager leadership and frontline employee performance: Bypass, cascading and contingent effects. Paper presented at the 68th annual meeting of the Academy of Management, Anaheim, CA.
- Zou, S., Taylor, C. R. and Osland, G. E. (1998). The EXPERF scale: a cross-national generalized export performance measure. *Journal of International Marketing*, 6(3): 37-58.