Leadership Styles, Firm Characteristics and Business Financial Performance of Small and Medium Enterprises (SMEs) in Tanzania

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Abstract

This article investigates the relationship between leadership styles and business financial performance of Small and Medium Enterprises (SMEs) in Tanzania. Previous empirical studies mainly focused on a direct influence of a single leadership style. However, there is a possibility that the combined leadership styles moderated by firm characteristics to have more influence on business performance especially in the SMEs setting. Specifically, the article analyses the relationship between four leadership styles (i.e. transactional, transformational, combination of transactional and transformational leadership and, passive-avoidant) and Business financial performance of SMEs considering the moderating effect of firm characteristics. Cross sectional survey design was adopted to carry out the research. The article is guided by Transactional leadership theory, transformational leadership theory and Contingency theory while Mean and multiple regressions were used to analyze data elicited from one hundred and ten (110) randomly selected SMEs. The results revealed that transformational leadership style and, combined transformational and transactional leadership styles had significant positive influence on SMEs’ financial performance. On the other hand, transactional leadership style had significant negative influence on SMEs’ financial performance. Passive-avoidant leadership style was found to have insignificant influence on SMEs’ financial performance. Furthermore, the results revealed that ownership structure and firm age moderated the influence of transactional leadership style, passive-avoidant leadership style and the combination of transformational and transactional leadership styles on SMEs’ financial performance. Among others, the article recommends that SMEs’ leaders have to apply the combination of transformational and transactional leadership styles if they want to realise relatively high SMEs’ financial performance.
Keywords
Leadership Styles, Firm Characteristics, Business Financial Performance and SMEs

1. Introduction

Small and Medium Enterprises (SMEs) have a strong influence on the economies of many countries (Aminu & Sharrif, 2015; Mahmudova & Kovas, 2018). In many African countries, SMEs account for a significant share of production and employment and are therefore directly connected to poverty reduction (Wolf, 2001). In Tanzania, SMEs sector represents small enterprises which employ 5 to 49 people and medium enterprises employ 50 to 99 people (MoIT, 2012). Despite its economic importance, several empirical studies (such as Mungaya, Mbwambo, & Tripathi, 2012; Nkonoki, 2010; Majenga & Mashenene, 2014; Maziku, Mashenene, & Rumanyika, 2014) revealed that, SMEs are under-performing due to multitude of constraints such as poor business development services and inadequate business training. Other challenges include anti-entrepreneurial culture, low quality of products, bureaucratic processes, insufficient capital, fragmented and uncoordinated institutions. It is however contended that constraints that hamper performance of SMEs may be well addressed depending on the leadership styles applied by SMEs owners/operators (Saasongu, 2015). Leadership style of the management is a pre-requisite for effective accomplishment in organizations (Uchenwamgbe, 2013). Leadership is the process of facilitating individual efforts to accomplish shared objectives and getting others to understand and follow what and how should be accomplished (Robbins & Coulter, 2007; Northouse, 2007). Leadership style is also defined as the relatively consistent pattern of behavior that characterizes a leader (Arham, 2014). In this article, leadership style is defined as a consistent pattern of behavior that a leader demonstrates as a leading strategy to influence people and guides them in a desired manner to achieve the desired business goals.

According to Avolio and Bass (2004), and Aziz, Abdullah, Tajudin and Mahmood (2013), there are three leadership styles i.e. transformational, transactional and passive-avoidant leadership styles. However, this article focuses on four leadership styles i.e. transformational leadership, transactional leadership, combined transactional and transformational leadership and passive-avoidant leadership. Transformational leadership is the process whereby leaders employ the collective interest of an organization and its employees to achieve outcomes beyond ordinary performance (Bass et al., 2003). Transactional leadership style is a process whereby a leader provides direction and motivates employees by instituting goals and clarifying task requirements (Robbins & Coulter, 2005). According to Gartner and Stough (2002), passive-avoidant leadership style is considered as a “do-nothing” style of leadership.
Previous empirical studies (e.g. Asiimwe, Kavoo-Linge, & Shikalieh, 2016; Dzomonda, Fatoki, & Oni, 2017) revealed that leadership styles have an influence on business performance. For instance, Asiimwe, Kavoo-Linge and Shikalieh (2016) revealed that transactional leadership style has significant positive influence on SMEs performance. Dzomonda, Fatoki and Oni (2017) likewise argue that transformational and transactional leadership styles have significant positive influence on the entrepreneurial orientation of SMEs and ultimately SMEs performance. Asiimwe, Kavoo-Linge and Shikalieh (2016) attest that passive-avoidant leadership style has significant positive influence on business performance. However, Jony, Alam, Amin and Alam (2019) revealed that passive-avoidant leadership style has no influence on organizational outcomes.

It is however likely that the leadership style such as transformational leadership style may not have the same influence on the financial performance of different SMEs basing on their characteristics as the contingent factors. It is supported by Asiimwe et al., (2016) who argue that the influence of leadership style on business performance depends on the nature of an enterprise. Dzomonda et al., (2017) likewise argue that an appropriate leadership style for SMEs is determined by the characteristics of their operating environment and sector. Hence, from the contingency perspective, the influence of leadership style on business performance may be attributed by an ability to match between leadership style and firm characteristics such as ownership structure, firm age and business activity. Despite such possible moderation effect of firm characteristics, reviewed empirical studies on leadership style-firm performance relationship (such as Arham, 2014; Saasongu, 2015) did not consider the moderating effect of firm characteristics on the relationship between leadership style and business financial performance.

In addition, Kolzow (2014) supports the use of combined leadership style to bring good results in an enterprise. It is likely that the combined influence of transformational and transactional leadership styles to have relatively higher or lower influence on business financial performance. For instance, Dzomonda et al., (2017) found that SMEs followed transactional leadership style showed the best results in terms of performance but in SMEs setting, transformation leadership style is a useful tool because of its ability to tackle explicitly collaborators' intrinsic motivation. In this case, the authors argue that no pure leadership style followed by SMEs leaders. This implies that SMEs leaders may combine the leadership styles to ensure better performance of their businesses. Despite the mentioned possible relationships, there is scanty knowledge on the moderating influence of firm characteristics on leadership style-financial performance relationship. Furthermore, there is scanty knowledge on the combined influence of transactional and transformational leadership styles on business financial performance. Given the identified gaps, the findings may potentially promote, through knowledge creation and application on the match between leadership
2. Literature Review and Research Hypothesis

2.1. Theoretical Literature Review

The article adopted the transformational theory, transactional theory and contingency theory. The transactional theory and transformational theory were firstly introduced by James McGregor Burns (1978) in his descriptive research on political leaders. He introduced two concepts known as transforming and transactional leadership and theorized that the two leadership styles are mutually exclusive. Bernard M. Bass, in 1985, extended the work of Burns (1978) by explaining the psychological mechanisms that explain transforming and transactional leadership and converted the transforming leadership into transformational leadership. The transactional theory focuses on the exchange between the leader and the follower in the manner that rewards are provided for the subordinates in return (Burns, 1978). In this case, Bass et al. (2003) contends that the transactional leadership behaviour is determined by two components i.e. management-by-exception (active) and contingent reward which influence individual, group and organizational performance.

On the other hand, the transformational leadership theory argues focuses on the relationship between leaders and followers for the sake of enabling employee to perform beyond the expectations meanwhile addressing employees’ higher level needs (Mahdinezhad, Saundi, Silong, & Omar, 2013). The theory highlights four components which demonstrate the transformational leadership behaviour i.e. individualized consideration, intellectual stimulation, inspirational motivation and idealized influence. According to Bass et al. (2003), individualized influence refers to the extent at which the leader attends to each follower’s needs, acts as a mentor to the follower and listens to the followers’ concerns and needs. Intellectual stimulation refers to the extent at which the leader challenges assumptions, takes risks and solicits followers’ ideas while inspirational motivation explains an ability of a leader to articulate a vision that is appealing and inspiring to followers. Idealized influence focuses on ability of a leader to be a role model for high ethical behaviour, instills pride, and gains respect and trust. Hence, the transformational leadership theory was used to examine the influence of transformational leadership style on SMEs’ performance while the transactional leadership theory was used to explain the influence of transactional leadership style on SMEs performance. However, the article was developed on the foundation that transactional leadership may not have a positive influence on the SMEs financial performance because SMEs operate in the uncertain environment that demands transformational leadership more than the transactional leadership.

Contrary to Burns’ (1978) argument, a leader can also be both transactional and transformational (Mahdinezhad et al., 2013). Lowe, Kroeck and Sivasubramaniam (1996) argue that transactional and transformational leadership styles...
are not competing styles which implies that the application of one does not allow the other one to be applied. Mahdinezhad et al., (2013), in support of the aforementioned arguments, explain that both transactional and transformational leadership emphasizes on followers whereby the transactional leader provides feedback about performance while transformational leader attempts to involve followers in goal achievement. However, the decision to apply a specific type of leadership style including laissez-faire or both transactional and transformational leadership style is determined by firm characteristics. Hence, the article applied contingency theory to examine the moderating influence of firm characteristics on the relationship between leadership styles and business financial performance. For the leadership styles to influence business financial performance depends on the match among leadership styles, firm characteristics and performance goals.

2.2. Empirical Literature Review

2.2.1. Transformational Leadership Style and Business Financial Performance

Several empirical studies (Such as Bass, Avolio, Jung, & Berson, 2003; Madanchian, Hussein, Naordin, & Taherdoust, 2016) argue for the positive influence of transformational leadership style on business financial performance. For instance, Madanchian et al. (2016) contend that transformational leadership assists the organization to achieve its current objective more effectively. This implies that transformational leader is more capable of inspiring employees to enhance organizational performance including financial performance. This is supported by Waldman, Ramirez, House, & Puranam (2001) who argue that transformational behavior enhances subordinates’ effectiveness in a variety of organization setting. Likewise, Arshad, Rasli, Arshad and Zain (2016) argue that the transformational leadership style significantly and positively influence business performance of techno-based SMEs in Malaysia. Rose and Mamabolo (2019), on the same line, contend that transformational leadership style has significant influence on SMEs performance in the emerging markets. However, Den Hartog & Belschak (2012) attest that transformational leadership style only promotes improved performance in the dynamic atmosphere where as in the context of little dynamism, this type of leadership style is not appropriate. Hence the following hypothesis was developed:

\[ H_1: \text{Transformational leadership style positively influences business financial performance.} \]

2.2.2. Transactional Leadership Style and Business Financial Performance

The reviewed empirical studies attest that transactional leadership positively influences business performance. For instance, Obiwuru, Okwu, Akpa and Nwankese (2011) argue that transactional leadership style had significant positive influence on business performance and consider it to be appropriate in the small
scale enterprises. Other empirical studies (such as Asiimwe et al., 2016; Dzomonda et al., 2017) similarly argue that transactional leadership style has significant positive effect on business performance. However transactional leadership style may not have a positive influence on financial performance in the challenging business environment whereby creativity and innovation play important role. Underscoring the importance of leadership, McGrath and McMillan (2000) opine that effective leadership behavior enhances performance when organization faces new challenges. The mentioned role on leadership behavior on organizational performance may not be achieved by transactional leaders. For instance, Saowalux and Peng (2007) call transactional leadership as an ordinary leadership style which focuses on followers’ compliance and expected rewards. Furthermore, Obiwuru et al. (2011) opine that leadership style is not likely to generate enthusiasm and commitment to organizational objectives. Hence the following hypothesis was developed:

\[ H_2: \text{Transactional leadership style negatively influences business financial performance.} \]

2.2.3. Laissez Faire Leadership Style and Business Financial Performance

There are contradicting arguments on the influence of passive-avoidant leadership style on business performance. Malachy and Ahmad (2019) argue that passive-avoidant leadership style has positive significant influence on SMEs performance. Kavoo-Linge et al. (2016) had the same argument that passive-avoidant leadership style has positive significant influence on SMEs performance. However, other empirical studies (such as Girei, 2015; Asrar-ul-Hag & Kuchinke, 2016; Jony et al. 2019) have the contradicting arguments. For instance, Girei (2015) found no relationship between passive-avoidant leadership style and performance. Asrar-ul-Hag and Kuchinke (2016) found a negative relationship between passive-avoidant leadership style and performance while Jony et al. (2019) found no influence of passive-avoidant leadership style on organization outcomes.

It is important to note that Passive-avoidant leadership style assigns minimum responsibility to leaders in the course of leading their organizations towards the accomplishment of business objectives and targets. Given the environment in which SMEs are operating which may require close supervision and active role of the owner or business operator, passive-avoidant leadership style negatively influence organizational performance. Hence the following hypothesis was developed:

\[ H_3: \text{Passive-avoidant leadership style negatively influences business financial performance.} \]

2.2.4. Combined Influence of Transactional and Transformational Leadership Style on Business Financial Performance

From the contingency perspective, there is no single leadership style that fit in all
context or circumstances. It is likely that different leadership styles may be applied in the same organization by SMEs leaders (Dzomonda et al., 2017). Dzomonda et al. (2017) argue that transactional leadership style ensure that best results in the SMEs through compliance to the laid-down standards while transformational leadership style enhances employees’ commitment to the performance goals. In this case, it is possible to combine transactional and transformational leadership styles in order to yield higher financial results. This is justified by Ojokuku, Odetayo and Sajuyigbe (2012) who argue that different leadership dimensions jointly influence organizational performance. Hence the following hypothesis was developed:

\[ H_4: \text{The Combined transactional and transformational leadership styles positively influence business financial performance.} \]

2.2.5. Leadership Styles, Firm Characteristics and Business Financial Performance

Firm characteristics such as ownership structure, firm age and type of business activity may also determine the organizational performance. The reviewed empirical studies (such as Carr et al., 2010; Coad, Segarra, & Teruel, 2013, Bruni, Pittiglio, & Reganati, 2014) argue for the influence of firm characteristics on organizational performance. For instance, Coad et al. (2013) argue that firm performance changes over time and hence firm age has an influence on firm performance. However, Farinas and Moreno (2000) contend that there was no clear cut between firm age and survival. Hence, the following Hypotheses were developed:

\[ H_{5a}: \text{Firm age moderates the relationship between leadership styles and business financial performance.} \]

\[ H_{5b}: \text{Ownership structure moderates the relationship between leadership styles and business financial performance.} \]

\[ H_{5c}: \text{Business activity moderates the relationship between leadership styles and business financial performance.} \]

3. Research Methods

An article applied cross sectional survey design. This design was relevant since the article examines the influence of leadership styles on financial performance whereby data were collected once from the respondents. The article focused on Dar es Salaam City and involved all three districts, namely Kinondoni, Ilala and Temeke. The Dar es Salaam City was chosen because it has relatively high business density (URT, 2012). In this article, 110 SMEs were involved and chosen by using stratified sampling technique because SMEs in Tanzania were divided into three categories i.e. the ones dealing with services, trade and manufacturing (URT, 2012). According to Hair, Black, Babin and Anderson (2010), the sample size of at least 100 is adequate to use the parametric test. Questionnaire was used to collect data that were analysed by using Mean and multiple regression technique. The article adopted the Multifactor Leadership Questionnaire (MLQ) which was developed by Avolio and Bass (2004) which was modified to include questions
regarding business financial performance. The questionnaire was modified because it does not capture information regarding business financial performance. Then, the MLQ was modified to fill in the type of information required by and theoretical base of this article.

Population of the article are SMEs because the article assesses the cause-effect relationship among leadership styles, firms’ characteristics and business financial performance. In this case, SMEs owners and operators were contacted to provide data regarding firm characteristics and business financial performance while employees were contacted to provide information regarding leadership styles of their SMEs leaders. In this fact, SMEs owners, operators and employees were the units of enquiry.

In the questionnaire, the transformational leadership style included five elements which were idealised influence, inspirational motivation, intellectual stimulation and individualised consideration. The transactional leadership style included two elements which were contingent reward and management-by-exception (active) while passive-avoidant leadership style included management-by-exception (passive) and laissez-faire. Financial performance as a dependent variable was measured in terms of sales and operating costs. Mean was used to describe the research variables while hierarchical multiple regression analysis was used to test the hypotheses. In assessing the internal consistency, Cronbach alpha coefficients of all variables were at least 0.7 and demonstrated that there was internal consistency as suggested by Nunnaly (1967).

4. Research Results

4.1. Enterprise Characteristics

Enterprise characteristics were divided into four categories. The categories include business ownership; duration of the business; location of the business and business activity. Basing on business ownership, 65% were sole proprietorship, 14% were partnership owned businesses, 11% limited companies, 6% cooperation and 4% others. In terms of location, 54% of the SMEs were coming from Kinondoni municipality, 24% were from Ilala municipality and 22% were coming from Temeke. Moreover, 46% of SMEs businesses were dealing with trade, 13% dealing with manufacturing and 32% were dealing with services and 9% were dealing with others. Some of these businesses i.e. 30% had only less than a year since establishment, 36% had 2 to 4 years since their establishment, 23% had 5 to 7 years and 11% had only 8 to 9 years. This indicates that only few businesses may operate for the longer period in the market. Table 1 presents the summarized information:

| Table 1 | presents the |

4.2. Description of Research Variables

The article concentrated on four leadership styles i.e. transactional, transformational, combination of transactional and transformational leadership styles and, laissez faire leadership style. Generally, the Mean scores indicated that most of
SMEs applied transactional leadership style (Mean score = 4.6) followed by transformational leadership (Mean score = 3.4). Laissez faire was the least applied leadership style (Mean score = 2.4). Under transactional leadership style, contingent reward and management-by-exception (active) had the Mean score of 4.7 and 4.5 respectively. Under transformational leadership style, the idealized influence (attributes), idealized influence (behaviour) and inspirational motivation had a Mean score of 4.3; 4.2 and 4.1 respectively. However, the intellectual stimulation and individualized influence had a Mean score of 1.69 and 1.71 respectively. Generally, laissez faire leadership style was not widely applied by SMEs managers and operators. This is justified by Mean scores of its factors which were not more than 2.8. In this case, management-by-exception (passive) and passive-avoidant had a Mean score of 2.8 and 2.0 respectively.

Under financial performance, relatively few SMEs performed well financially. This is justified by the relatively low Mean scores of sales (Mean = 2.82) and that of operational cost (Mean = 2.48). The results also indicated that increase in sales was widely reported than the decrease in operational costs despite the fact that there were reported by few SMEs as indicated by the Mean score. Detailed explanations are summarized in Appendix Table A1.
4.3. Hypothesis Testing

The Durbin Watson Coefficient was used to assess an independence of observation. The required coefficient ranges from 0 to 4. However, it is required to be closer to 2 in order to indicate that error terms are independent. In this case the Durbin Watson coefficient of 1.906 was acceptable because it was approximately 2. The regression results indicated that there was no problem of multicollinearity because the tolerance values of the independent and moderating variables were more than 0.1 and the value inflated factor (VIF) was less than 10% in all independent variables as suggested by William (2015). The models were first tested to see if they fit the data well and significantly predict the dependent variable. The direct model was based on the direct relationship between independent variables and dependent variables. The adjusted R-square for the direct model was 0.457 while the F-change statistic was 23.954, significant at 0.001. Generally, the model was significant at 0.001.

The regression results further indicated that the transformational leadership style and, combined transactional and transformational leadership styles had significant positive prediction on business financial performance. With this fact, H1 and H4 were supported. Basing on the regression results, H1 was supported because the β coefficient was 0.283 and significant at 0.026. H4 was supported (β = 0.852 and Sig at 0.001) which implied that combination of transactional and transformational leadership styles significantly predicted business financial performance. In addition, the combination of transactional and transformational leadership styles had strong positive prediction compared to the influence of transformational leadership style alone. The transactional leadership style was found to have significant negative prediction on business financial performance. H2 was also supported because the β coefficient was −0.230 and significantly at 0.007. H3 was rejected because laissez faire leadership style had insignificant prediction on business financial performance (β = 0.053 and Sig. at 0.221).

In this case, the direct regression model (Model 1) showed that the combination of transformational and transactional leadership styles had relatively high positive influence on business financial performance (β = 0.852) followed by the transformational leadership style (β = 0.283). But, the direct regression model revealed that the use of transactional leadership style in the SMEs setting negatively affect the business financial performance. Regarding indirect regression model (Model 2), H5 of this article focused on the moderation effect of firm characteristics on the relationship between leadership style and business financial performance. The regression results indicated that adjusted R-square increased from 0.457 to 0.687 when the moderating variables i.e. firm characteristics were introduced in the model which showed the R-Square Change of 0.23. The R-Square Change indicated that firm characteristics explained the variance of business financial performance by 23%. The F-change statistic was 26.732 and significant at 0.001 while the model significantly predicted the financial performance at 0.001.
The increase in the adjusted R-square indicated that firm characteristics moderated the relationship between leadership styles and business financial performance, hence H$_5$ was supported. Specifically, firm age and ownership structure were the only firm characteristics that moderated the relationship of combined transactional and transformational leadership styles and transactional leadership style on business financial performance. Hence, H$_{5a}$ and H$_{5b}$ were supported but H$_{5c}$ was not supported. This indicated that business activity did not moderate the relationship between leadership styles and business financial performance. Table 2 provides summarized regression results:

5. Discussion of Results

The results revealed that transformational leadership style positively influenced SMEs’ financial performance. The significant positive influence of transformational leadership style on business financial performance is attributed by the relatively high adoption of idealized influence (attributes), idealized influence (behaviour) and inspirational motivation as shown in the descriptive results. However, there was low adoption of intellectual stimulation and individualized influence by SMEs leaders as the components of transformational leadership style. The results are in line with the findings of prior empirical studies (such as Obiwuru et al., 2011; Koech & Namusonge, 2010; Ojokuku et al., 2012; Arham 2013) who found that there is a positive significant relationship between transformational leadership style and business financial performance. The findings are also supported by Dzomonda et al. (2017) who argue that transformational leadership style is crucial for business success.

Table 2. Regression results.

<table>
<thead>
<tr>
<th>Details</th>
<th>Business Financial Performance</th>
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<tbody>
<tr>
<td></td>
<td>Model 1</td>
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<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>Constant</td>
<td>0.188</td>
</tr>
<tr>
<td>Transformational Leadership style</td>
<td>0.283</td>
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<tr>
<td>Transactional and Transformational Leadership style</td>
<td>0.825</td>
</tr>
<tr>
<td>Laissez Faire Leadership style</td>
<td>0.053</td>
</tr>
<tr>
<td>Transactional Leadership style</td>
<td>−0.230</td>
</tr>
<tr>
<td>Ownership Structure</td>
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</tr>
<tr>
<td>Firm Age</td>
<td>N/A</td>
</tr>
<tr>
<td>Business Activity</td>
<td>N/A</td>
</tr>
<tr>
<td>Adjusted R$^2$</td>
<td>0.457</td>
</tr>
<tr>
<td>F-Value</td>
<td>23.954</td>
</tr>
<tr>
<td>F-Change (Sig)</td>
<td>0.001</td>
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<tr>
<td>P-Value (Sig)</td>
<td>0.001</td>
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Key: N/A—Not applicable.
leadership style has significant positive influence on business performance. Arshad et al. (2016) similarly argue the same on the influence of transformational leadership style on business financial performance. In this case, the results are also supported by the transformational leadership theory which argues that the transformational leadership style has an influence on individual, group and organizational performance.

Furthermore, the results of this article revealed that transactional leadership style had significant negative influence on SMEs’ financial performance. The negative influence of transactional leadership style on business financial performance is contributed by the relatively high adoption of management-by-exception (active) which encourages close supervision of employees and limit flexibility and innovation as shown in the descriptive results. The results of this article are contradictory to the results of other empirical studies (such as Obiwuru et al., 2011; Ejere & Abasalim, 2012; Koech & Namusonge, 2010). For instance, Obiwuru et al. (2011) argues that transactional leadership style has a positive correlation with organizational performance. However, the mentioned reviewed empirical studies were conducted outside Tanzania whereby the business environments are not the same and the influence of leadership style on organisation performance depends on the context in which the business is operating (Kolzow, 2014). It is also supported by Asiimwe et al. (2016) who argue that the effectiveness of transactional leadership style on influencing business performance is dependent on the nature of the enterprises. Dzomonda et al. (2017) also argue that the transactional leadership style may lead to the better results but it has limited capacity to tackle explicitly the intrinsic motivation of SMEs employees.

In this fact, the aforementioned findings of this article are supported by the theoretical and empirical argument of this article that transactional leadership does not have positive influence on SMEs financial performance because SMEs operating environment requires more the transformational leadership style. In support of such theoretical and empirical argument, Kuhnert and Lewis (1987) argue that transformational leadership basically changes the goals, values and ambitions of followers to facilitate performance as it is in line with their values and not the hope that they will receive rewards in return which is transactional leadership.

Moreover, the results of this article revealed that passive-avoidant leadership style insignificantly influenced SMEs’ financial performance. The results are in line with those by Bernard and O’Driscoll (2011) and Koech & Namusonge (2010). For instance, Koech & Namusonge (2010) argue that, passive-avoidant leadership style is not significantly correlated with organizational performance. It is also supported by studies (i.e. Girei, 2015; Jony et al., 2019) who found insignificant relationship between passive-avoidant leadership style and performance. The results are contrary to other prior empirical studies such as the study by Asrar-ul-Hag & Kuchinke (2016) who found the significant negative relationship between passive-avoidant leadership style and performance. Malachy et
al. (2019) similarly found the positive influence of passive-avoidant leadership style on performance. But the contradicting findings with the aforementioned prior empirical studies were attributed by the fact that the studies focused on employees’ performance and not on business performance. An employee may perform well but it does not necessarily mean that the business sales are increased and operating costs are reduced.

In addition, the results revealed that the combination of transformation and transactional leadership styles had significant positive influence on SMEs’ financial performance. Further, it was revealed that the combined positive influence of transformation and transactional leadership styles on SMEs’ financial performance was relatively higher than the individual influence of transformation leadership style. This implies that given the business environment in Tanzania, the combination of transformation and transactional leadership styles resulted to higher SMEs’ financial performance than the influence of an individual leadership style. Hence, the results are supported by Kolzow (2014) who, using contingency approach, attests that there is no single leadership style to enhance organisational performance because it depends on the context in which the firm operates. The results justify an argument put forward by Dzomonda et al. (2017) who argue that transformational and transactional leadership styles play different roles in the business with regard to its performance. They are also supported by the contingency theory which explains that there is no the best leadership style but the choice of leadership style depends on the prevailing situation.

The article also examined the moderating effect of firm characteristics on the relationship between leadership styles and business financial performance. The results of this article revealed that firm age and ownership structure as firm characteristics moderated the influence of combined transactional and transformational leadership styles and, transactional leadership style on business financial performance. However, it was revealed that firm characteristics do not moderate the relationship between passive-avoidant leadership style and business financial performance. In this case, the results revealed that firm characteristics have different moderating effect on the relationship between leadership styles and business performance. Meanwhile, firm characteristics were found to have no moderating effect on passive-avoidant leadership style and business performance, firm age and ownership structure moderate the relationship between transformational leadership style and business financial performance. Likewise, firm age and ownership structure moderate the relationship between the combined transactional and transformational leadership styles, and business financial performance. Generally, the findings are supported by the Contingency Theory of Leadership which states that a leader must adjust the behaviour based on the rational understanding of the context and assume the leadership style that is appropriate for such occasion (Vidal, Campdesuner, Rodriguez, & Vivar, 2017). On the contrary, the category of business activity was found to have no moderating effect.
the relationship between leadership styles and business financial performance.

6. Conclusion

The article intended to assess the influence of leadership styles on SMEs’ financial performance. The results indicated that transformational leadership style and, the combination of both transformational and transactional leadership styles had significant positive influence on SMEs’ financial performance. The results also revealed that transactional leadership style had significant negative influence on SMEs’ financial performance. In addition, it was found that firm age and ownership structure had moderating effect on the influence of transactional leadership style and, the combination of transformational and transactional leadership styles on SMEs’ financial performance. But, the combination of transformational and transactional leadership styles was found to have relatively higher positive influence on business financial performance than the transformational leadership style alone or transactional leadership alone. Hence, the results reveals that a firm may financially perform higher when its leaders combines both transformational and transactional leadership styles than when they opt for a single leadership style.

7. Recommendations

This research results imply that SMEs’ leaders have to apply the combination of transformational and transactional leadership styles if they want to realise relatively high SMEs’ financial performance. In addition, an emphasis on the compliance to standards and procedures act as a barrier to innovation and creativity among employees which significantly and negatively affect SMEs’ financial performance. In this case, SMEs’ leaders may promote flexibility by reducing emphasis on the compliance to standards and procedures. Rather, as part of transactional leadership style, they may attach contingent rewards with performance in order to promote innovation and creativity among employees which ultimately improve SMEs’ financial performance. SMEs’ leaders should also consider firm age and ownership structure when they make a choice on the application of transactional leadership style, transformational leadership style or the combination of transformational and transactional leadership styles.

8. Limitations

It was difficult to collect in-depth information on why business activity category do not have a moderating effect on the relationship between leadership styles and business financial performance due to the limitations of quantitative research methods. In addition, the leadership styles may have a different influence on business financial performance dimensions i.e. business sales and operating costs. However, the aforementioned limitations may not change the results rather provide more information on the presented results.
9. Areas for Further Research

It is important to conduct a qualitative study to explore the influence of leadership styles on business financial performance across SMEs categories i.e. trade, services and manufacturing. In addition, there is a need of conducting the quantitative study to examine the influence of leadership style on SMEs business performance dimensions i.e. business sales and operating costs because it is likely that leadership styles may have different influence on SMEs financial performance across their categories.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

References


Appendix

Table A1. Descriptive statistics.

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<tr>
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<tr>
<td>Individualized influence</td>
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