

The effect of leadership style on business performance and the mediating effect on organizational culture and the moderating effect of leader's personality traits. A study of SMEs in the tourism sector in Sri Lanka

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## **DECLARATION SHEET**

This research work has not previously been accepted for any degree nor being concurrently submitted by any candidature for any degree.

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It is with great pleasure I am presenting this research on the effect of leadership style on business performance and the mediating effect on organizational culture and the moderating effect of leader's personality traits. A study of SMEs in the tourism sector in Sri Lanka. The completion of this research became a reality because of all the blessings and support I received.

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## **Abstract**

Small and Medium Enterprises (SMEs) play a vital role in any given economy and are considered as a driving force. In Sri Lanka SMEs are considered the backbone of the economy. This research explores how leadership styles affect business performance in SMEs in Sri Lanka and the mediating role of organizational culture and moderating role of leader's personality traits affect play influencing business performance. Leadership styles and business performance are well-researched domains of study. However, limited researches have been conducted on SME context and there is no unanimity on the findings of these researches. In the Sri Lankan context number of researches on this domain is minimum.

The present research study is quantitative research that uses a deductive approach based on the positivism research paradigm. 285 SMEs were selected from the tourism industry based on the Krejcie Morgan sampling formula. Primary data was collected based on a structured questionnaire which included multifactor leadership questions, big five personality trait questions, and author developed questions of organizational culture and business performance and assessed with a five-point Likert Scale. The questionnaire was sent to the leaders (owner/manager) of selected SMEs via an online format. The primary data were analyzed by using descriptive statistics, correlation analysis, and regression analysis.

Results revealed that leadership styles affect business performance in SMEs.

Transformational leadership has a considerable impact on business performance while transactional leadership has a low-level impact and passive avoidance leadership has an insignificant impact. It was revealed that leadership styles can influence business performance through organizational culture. Transformational leadership is indicated to have a significant effect on organizational culture and transactional leadership and passive avoidance leadership are indicated to have a low impact. Leaders with transformational leadership and transaction leadership are associated with extraversion, openness, agreeableness, and conscientiousness personality traits. Transactional leaders and passive-avoidance leaders score high on neuroticism.

The research has identified that the transformational leadership style to be adopted for greater business performance in SMEs in Sri Lanka. SME owners are encouraged to hire personal

with transformational style leadership and policymakers to use this information for developing training and development programs.

**Key Words: Leadership Style, SME, Business Performance, Personality Traits, Organizational Culture**

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## **List of Abbreviations**

BTS: Bartlett's Test of Sphericity

GDP: Gross Domestic Product

EBIT: Earnings before interest and taxes

KMO: Kaiser Meyer Olkin

KPI: Key Performance Indicator

LKR: Sri Lankan Rupee

LMX: leader-member exchange theory

OECD: Organization for Economic Co-operation and Development

PAVL: Passive avoidance leadership Style

SET: Social exchange theory

SLTDA: Sri Lanka Tourism Development Authority

SME: Small and Medium Enterprise

TFL: Transformational Leadership Style

TSL: Transactional Leadership Style

SET: Social exchange theory

USD: United States Dollar

VDL: Vertical Dyad Linkage

# **Chapter 01- Introduction**

## **1.1 Background of the Study**

Small and medium enterprises (SMEs) play a vital role in a given economy and are considered as a driving force. In Sri Lanka, SMEs are considered the backbone of the economy (Gamage, 2003). SMEs consist of most of the businesses in any given economy and provide job opportunities to a large portion of the workforce. SMEs contribute to economic growth, economic value creation, innovation, distribution of wealth, job creation, social stability, reduce poverty, etc. (Arinaitwe 2006; Ayyagari et al., 2005; Karides, 2005; O'Regan & Ghobadian, 2004; Audretsch, 2002). According to Wijayasiri, (2016) during the last two decades, the Sri Lankan government has expressed its interest in the SME sector as a means to promote economic growth in Sri Lanka. It has been identified that the SME sector in Sri Lanka has grown remarkably during the last three decades. In Sri Lanka SMEs account for 75% of all businesses and contribute to 45% of national employment (Wijayasiri, 2016). It has been identified that SMEs can play a vital role in driving the Sri Lankan economy to greater heights. Department of Census and Statistics (2021) contends that during the last two decades number of newly started SMEs has risen at an increasing rate. At the same time, the number of SMEs that have closed down has increased. During the last two decades, governments have paid attention to empowering SMEs as a way of promoting economic growth (Nishantha, 2018). With the end of the three-decades-long war, new opportunities are arising in industries such as tourism and exports. However, the literature indicates that adequate research into the SME sector in Sri Lanka has not been performed. Therefore, in-depth studies into the SME sector in Sri Lanka are in demand.

Since the nineteenth century, leadership has been a topic of interest among scholars. At the same time, scholars have explored business and what impacts businesses performance. Scholars have identified leadership as an element that sways business performance. As indicated by Aziz et al (2013) considerable amount of research has been conducted about leadership's impact on business performance. A considerable volume of studies has been conducted on leadership and its effect on the business performance in the SME segment of businesses. However, the number of studies narrows down with the narrow down of the topic

(Aziz et al, 2013). Such researches have been performed in diverse geographical locations. In the Sri Lankan context volume of research performed on the subject matter, appear to be a handful. Aziz et al (2013) contend that leadership styles can have a different effect on business performance in SMEs. The effect of a leadership style on business performance can be dissimilar due to a wide array of circumstances such as geographical location, cultural background, attitudes, motivation factors, etc. It has also been acknowledged that organizational culture can be a mediating factor between leadership style and business performance. At the same time leader's personality can have a moderating effect on both leadership style and business performance.

Scholars have shown interest in leadership theories such as great man theory, full-range leadership theory, trait theory, contingency theory, situational theory, behavioral theory, mount button managerial grid, etc. At the same time, scholars have studied businesses, performance, and organizational culture for a considerable period (Al-Sada, Al-Esmael, and Faisal, 2017). According to Bass and Avolio (1998), the number of factors that affect the performance of a business and leadership is considered as one of these factors. Bass and Avoli (1998) further illuminate that in the SME context leadership is still an influential factor that influences business. In fact, in SMEs leadership have rather a significant impact on business performance. Franco & Matos (2015) acknowledged that an extensive amount of research has been performed on the topic of leadership and at the same time a similar amount of research has been performed on the topic of SMEs separately. Be that may, the amount of research conducted on how leadership affects business performance in SMEs can be considered as limited. Especially, when it comes to exploring how leadership styles affect business performance in SMEs, the amount of research appears to be limited (Franco & Matos 2015). In the Sri Lankan context amount of research conducted on leadership styles and business performance in businesses is considerably limited.

As it is pointed out by Thomas (1988) a wide range of causes influence the performance of an SME and leadership is considered one of these influences. Thomas (1988) enlightens that leadership and organizational performance have a direct correlation to one another. As indicated by Van (2005) businesses require leaders who can sway their employees to take effective action and to follow its vision, mission, objectives and to be faithful to the organization. Plowman et al (2007) clarify that problem solving is one of the important qualities in an effective leader. Each of these leadership styles has its characteristics that can

be linked to personality traits that are described in the big five personality theory (Bass and Avoli, 1998).

Previously conducted researches in various other geographical locations have produced opposing results. In certain geographical locations, TSL has been acknowledged to have a grander impact on business performance in SMEs. In other cases, scholars have identified transformational leadership style (TFL) to have a larger impact on business performance in SMEs (Aziz, et al, 2013). At the same time, some research studies have recognized that the passive-avoidance leadership style grander impact on business performance in SMEs. It has been identified that factors such as culture and social background impact what employees expect from a leader (Judge, and Piccolo, 2004). At the same time leader's leadership style can have an impact on organizational culture and organizational culture and that impacts the business performance in SMEs. Therefore, it has been identified that a leader can affect the affect business performance through organizational culture (Judge, and Piccolo, 2004).

Based on the above-mentioned factors the author has identified that there is no universally accepted opinion on what style of leadership is ideal for greater business performance in SMEs in the global context. Different researchers have come up with contrary opinions. Therefore, this research add more theoretical discovery into the body of knowledge. In Sri Lanka, limited research has been conducted to understand how leadership styles affect business performance in SMEs. Therefore, this research has attempted to understand how what style of leadership is ideal for greater business performance in SMEs in Sri Lanka and how organizational culture and leader's personality traits play a role in that. Finds of the present research are beneficial to SME owners, managers, policymakers, and academics for performance improvement, recruitments policy decisions, and future research.

### **1.1.1 Why Tourism Industry**

The SME sector in Sri Lanka consists of over fifty thousand businesses spread across that country and they operate in a wide range of industries. There is a large population to select an accurate sample. At the same time, there is a well-maintained database of SMEs in Sri Lanka. That makes it difficult to collect a quality sample for the present research. At the same time that makes it difficult to select the sample size and gives each SME a fair chance to be selected. That can create sample bias. Therefore, the author decided to select a particular

industry for the present research. After considering several industries, the tourism industry was selected, as the most appropriate industry for this research to be conducted.

The tourism industry maintains a database of SMEs operating in the industry and that database is regularly updated. Not many industries in Sri Lanka have such a well-maintained database (SLTDA, 2021). The tourism industry has a diverse range of businesses that also falls under other industries such as hotels, transport providers, ayurvedic treatment centers, medical tourism providers, agriculture tourism providers, restaurants, activity providers, other service providers, etc. At the same time, a considerable number of enterprises in the tourism industry are owned by female and young entrepreneurs, entrepreneurs of all ethnicities, and vulnerable groups. SMEs operating in the tourism industry are distributed across the country including rural areas, hill-country, and coastal areas (Sri Lanka tourism alliance, 2021). Based on the above factor the author believes that the tourism industry is the best way to get an accurate sample of the SME sector in Sri Lanka for the present research.

## **1.2 Research Problem and Justification**

### **1.2.1 Research Gap**

The effect of leadership style on business performance in SMEs is an avenue that has not been thoroughly explored. Especially, in the Sri Lankan context, such research is much in need. A condensable amount of research had been conducted on the phenomena of leaders for over a century. At the same time, a reasonable amount of research had been conducted on business performance (Fokam, 2016). Researches can be found on leadership style as a predictor of business performance. However, it has been identified that limited research has been performed to understand how leadership style influences business performance in SMEs. Studies have discovered that leadership styles impact business performance in SMEs. However, there is no mutually agreed opinion on what manner of leadership style would contribute to greater business performance. Therefore, the present study aims to shed light on this matter. This research is focused on understanding what style of leadership is ideal for greater business performance in SMEs by studying SMEs in Sri Lanka (SMEs in the tourism industry in Sri Lanka). This gap can be further elaborated in the below sections as the gap, in theory, the gap in the literature, and the gap in practice

### **1.2.1.1 Theoretical Gap**

Over a century, scholars attempted to define the phenomena of leadership. In that process, scholars have introduced several theories on leadership to define what leadership is. Nawaz and Khan, (2016) explain that theories such as Trait Theories, Behavioral Theory, Situational leadership theory, Management theory, Transformational theory, Social Exchange Theory, Leader-member exchange theory. well recognized among academia. Ayyagari, Beck, and Demirguc-Kunt, (2007) illustrate that each of these theories explains leadership in their way and there is a merit of these theories. The phenomenal relationship between leadership styles and business performance derives from these theories.

#### **a. Trait Theory**

The trait theory which is also known as the great man theory is one of the leadership theories that are developed in the nineteenth century. This theory explains that leaders are born with traits of leadership. This opinion was challenged by theories that were developed later. According to the theory, individuals such as Mahatma Gandhi, Alexander the Great, Julius Caesar, Winston Churchill, Catherine the Great, etc. are recognized as archetypes recognized in this leadership theory (Labich,1988). Since this specifically states that leaders are borne not made, it does not allow the room to develop leadership or leadership styles in people. This opinion was challenged by theories that were developed later. Even certain aspects of leadership are covered in this theory but, this theory fails to give a proper solution to the research problem.

#### **b. Theory**

Behavioral theories discuss an opinion that is opposed to trait theory. These theorists work on the assumption that leaders are made, not borne. They believe that people can learn these traits and become leaders and people can adopt different styles of leadership based on the situation (Neto *et al.*,2019). The majority of the better-known theories characterize the leader based on one or two character dimensions and put them in a two-dimensional matrix. These dimensions include authority and flexibility, team members' involvement in decision making. Blake & Mouton, (1978) has placed their parameters to concern for people against concern for production. Even though behavioral theory covers some aspects of leadership, it does not completely cover multi-dimensions of modern-day organizations' circumstances. Therefore, this theory fails to give a proper solution to the research problem.



### c. Situational Leadership

Yukl, (2002), contends that there is no universally appropriate style of leadership and the effectiveness of a leadership style can vary based on the situation. One leadership style can be effective in a certain situation but, it could fail in another situation. Fiedler, (1964) explains that there are three aspects to situational leadership and they are, the leader-member relations, the position power, and the task structure. He further contends that the efficiency of the leadership style depends on the situation. Fiedler, (1964) describes that the person-oriented leader is more effective in favorable conditions, and in unfavorable conditions, the task-oriented leader is more effective. House, (1971) illustrates that the path-goal theory explains that the leader's ability to positively motivate the follower in situations is based on the effectiveness of the leader. Astein, (2016) points out that these findings are inconsistent. This theory is somewhat applicable for this but, , Therefore, this theory cannot be fully applicable to this research study. The situational theory is partially applicable for this research because these theories provide a somewhat understanding of what leadership is characteristics of a leader but, do not paint the full picture. Therefore, a gap in these theories can be identified.

### d. Transformational Theory

The transformational theory was introduced in 1978 by James MacGregor Burns. Burns (1978), points out that “one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality” as transformational leadership. According to Bass (1985), transformational leadership can be described as a set of 's behaviors derived from a set of beliefs and values system of an individual. Transformational leaders display four specific behaviors and are Idealized influence, Inspirational motivation, Intellectual Stimulation, and Individualized consideration. Ismail et al., (2009) point out that transformational leaders motivate their followers and boost their morale. They promote their follower's self-development and uplift their value system. Developing the skill set of their followers is important to them. Bass (1989) transformational leaders encourage followers to see issues from new vantage points, offer help and comfort to convey a vision, lift their moods, etc. The transformational theory is directly linked with this research. However, this theory does not answer what style of leadership is better for greater business performance. That creates a gap in theory that this research intends to be addressed.

### **e. Transactional Theory**

Max Weber introduced the transactional theory in 1947. This theory was further developed by Bernard Bass (Bass, 1981). The characteristic of this leadership is it is a transaction or exchange between the leader and the follower. These leaders and followers agree on tasks and rewards for accomplishing the task and punishment for not accomplishing the task.

Transactional leaders display two key behaviors, Contingent reward, and Management by Exception. Contingent reward behavior describes those followers who can count on the leader that the reward will be there once the task is completed. Management by Exception behavior describes that leader will only involve when it is necessary. When the leader has no choice but to intervene because this will go wrong otherwise. It has been noted that maintaining the status quo is a key attribute in transactional leadership. Transformational leadership is considered effective heavily task-oriented situations and situations where creativity and thinking are less involved.

### **f. Social Exchange theory**

Social exchange theory (SET) dates back to 1960. It is a social-psychological theory be used to provide a theoretical explanation for organizational citizenship behavior (Emerson, 1976).

This theory relies on both utilitarianism and behaviorism to understand citizenship organizational behavior. Emerson (1976) explains that further explains that SET is more as a framework than theory. This theory rests on certain assumptions on human nature and the nature of relationships. According to Emerson (1976) people tend to move toward rewards and evade punishment, they and look for profit maximization and e profit and cost minimization or in other words, “what’s in it for me?” According to Hollandder and Julian (1969), SET can be used to explore leadership. To achieve the goals of the organization the leader has to provide a positive exchange to the followers. At the same time, it has been identified that’s SET can be sued to explain transformational leadership and transactional leadership. It has been identified transformational is best explained with social exchange theory. This theory is directly connected with the present research because it allows the researchers to describe the relationship between the leader and the follower. Therefore, this theory can help the researcher to explore the theoretical gap in leadership.

#### **g. Leader-Member Exchange Theory**

Leader-member exchange theory is understandably from the vertical dyad linkage (VDL) theory. This theory explains the dynamic between the leader and the follower in an organization. Dansereau, et al. (1975). Gerstner and Day, (1997) explain that the quality of the relationship between the leader and the follower influences the outcome of the organization or gathering. LMX provides an alternative approach to traditional approaches to leadership. Graen and Scandura, (1987) point out that the relationships between leaders and followers is a three-step process and they are Role-Taking, Role-Making, and Routinization. According to Dulebohn et al (2012), there are three types of characteristics to LMX and they are leader characteristics, follower characteristics, and interpersonal relationships.

After analyzing the above theories, it can be identified that these theories created the basis for this research. Even this is the case, not one of these theories provides a solution to the present research problem that is ‘what style of leadership with most suited for greater business performance in SMEs. Therefore, the author has identified that a theoretical gap exists and this research intends to address it.

#### **1.2.1.2 Literature Gap**

Literature indicates that leadership is a well-researched domain study. A large number of theses, research papers, journal articles, and other publications can be found in the leadership domain. At the same time, Fokam, (2016) indicates that researchers have explored how businesses operate and factors that are influencing business performance. Many of these researchers have identified that leadership is one of the factors that sway business performance. A considerable amount of research exists concerning business performance and leadership. However, studies about business performance in SMEs and leadership are lesser in comparison to other types of business (Madanchian and Taherdoost, 2017). The has created a recognizable gap in the literature. It can be identified that even among the conducted studies that there is no mutually agreed opinion that what style of leadership is ideal for greater business performance. The common observation is that research studies conducted on different contexts such as various geographical locations, various cultures, etc. tend to produce dissimilar results (Aziz et al, 2013).

Aziz et al, (2013) demonstrate that researches conducted concerning leadership and business performance in SMEs have produced dissimilar results. Some researchers have indicated that

the TFL tends to produce the best results while other researchers point out TSL is ideal for greater business performance in SMEs. At the same time, some researchers recommend passive avoidance for SMEs for greater business performance. Ebrahim Hasan Al Khajeh (2018) indicates that charismatic, bureaucratic, and TSL negatively impact business performance while Transformational, autocratic, and democratic leadership styles affect business performance positively. Franco and Matos (2015) in their study conducted in the Portuguese context, describe that both transformational and transactional leadership are effective in swaying business performance while passive-avoidance leadership style is unable to produce any kind of an influence. Washington (2017) indicates that some leadership styles affect positively the financial aspect of business whereas other leadership styles affect the nonfinancial aspect of business performance. Albloshi and Nawar, (2015) illustrated that based on their research conducted in Saudi Arabian context, TSL as the best-suited leadership style for greater business performance. SMEs tend to thrive under transactional leadership.

Therefore, further research is can shed light on the subject matter. Sri Lanka scholar Pretheeba (2018) acknowledged that the number of academic studies conducted on the SMEs sector in Sri Lanka is limited. She also points out that, less research has been conducted on connecting leadership styles and business performance in SMEs. Therefore, the author recognizes the lack of literature on the SME sector in Sri Lanka and leadership style and business performance in Sri Lanka.

Based on the above findings it is evident that a gap in literature does exist on the subject matter and the author intends to address these literature gaps by conducting the present research.

### **1.2.1.3 Practice Gap**

#### **a. Practice gap in general**

Leadership is a well-researched topic of study and business is also a well-researched area of researches. However, researches on leadership and business performance in SMEs is a subject area that has not been thoroughly explored. Especially, in the Sri Lankan context, researches on leadership and business performance in SMEs is an area not yet been fully explored. Therefore, owners and managers of SMEs in Sri Lanka are not aware that what style of leadership to practice for greater business performance in SMEs. SME owners are not aware of what types of personality traits to look for when hiring people for leadership positions in

their organization. Policymakers in Sri Lanka are unaware of what style of leadership is the best for greater business performance in SMEs therefore when it comes to developing training programs and education programs policymakers do not have enough information to create the right kind of material for their training programs. At the same time, academics do not have enough information to conduct their researches. The author wishes to address the abovementioned gap in practice by conducting the present research.

#### **b. Practice gap concerning the SME sector**

The SME sector plays a vital role in the Sri Lankan economy and is considered its backbone. SMEs contribute to value creation, distribution of wealth, and economic growth. The number of female entrepreneurs in the SME sector is higher than in any other business sector. At the same time number of young entrepreneurs is much higher in the SME sector than in any other business sector of the economy. It has been noted that SMEs have a higher contribution to poverty elevation than any other business sector because a significant number of SMEs are located in rural areas of the country. With the end of the 30year old war in Sri Lanka, new business opportunities are emerging in a wide range of areas including. Based on the fact that limited studies have been conducted on the SME sector, the author believes that the findings of this research can benefit the SME sector in Sri Lanka heavily. By doing so this research contributes to poverty elevation, rural development, female and youth empowerment, and the growth of the economy as a whole. Based on the above-mentioned reasons the author decided to select the SME sector for the present research.

#### **c. Practice gap concerning the tourism industry**

The author has decided to focus the present research based on the tourism industry. The tourism industry largely consists of SMEs and there is a wide range of business operations that can be observed. The tourism industry is an industry that is an accurate representation of the SME sector in Sri Lanka. It has been recognized that the tourism industry contributes to over 5% of the national GDP and over 11% of the national employment. SMEs operating in the tourism industry operates in every part of the country including rural and poverty-stricken areas. Therefore, the findings of the research can have an impact on the grander economic scale and at the same time, these findings can contribute to the growth of rural economies and poverty elevation.

It can be recognized that limited research has been conducted on the tourism industry in Sri Lanka. Significantly, limited studies have been performed to explore how leadership styles affect business performance in SMEs in the tourism industry in Sri Lanka. Therefore, SME owners and managers of SMEs in the tourism industry are unaware of what style of leadership is ideal for greater business performance. Because of that, they are don't have enough information to decide what styles of leadership to practice. At the same time, SME owners are not aware to look at what personality traits to look for when hiring management staff members for their businesses and whether they should pay attention to organizational culture. At the same time, policymakers do not have enough information to develop training and educational programs for SMEs in the tourism sector. SLTDA and other branches of government are focused on uplifting SMEs in the industry. Information on how leadership styles affect business performance can be valuable to these government organizations. It can also be pointed out that lack of research findings can make it difficult for researchers to research the tourism industry in Sri Lanka

### **1.3.2 Problem Statement**

For over a century the phenomena of leadership have been a research interest among. A countless number of researches have been performed during all these times. Researchers have also studied businesses for several decades and they have identified several factors as influencers of business performance. Among those factors' leadership has been identified as one of the predominant factors. Researches have been looking into Small and Medium Enterprises (SMEs) as a special sub-segment of business. Limited research has been conducted on what factors affect the business performance in SMEs and some researchers have identified leadership as one of the factors. It is a common understanding that not enough research has been conducted about business performance and leadership in SMEs (Aziz et al, 2013).

Ayyagari, Beck, and Demircug-Kunt, (2007) explain that throughout the years' scholars have developed a range of leadership theories. These theories include trait theory, behavioral theory, situational theory, blake mouton managerial grid, management theory, transformational theory, etc. Ayyagari, Beck, and Demircug-Kunt, (2007) explain that these theories define leadership in their unique way and they have introduced a variety of leadership styles with their characteristics. Ayyagari, Beck, and Demircug-Kunt, (2007) point out that

researchers have generated dissimilar results in their research when they try to understand what theory can be related to greater business performance in SMEs. Therefore, the author has identified a gap in theory that there is a lack of theoretical knowledge when it comes to understanding what leadership style is most suited for greater business performance in SMEs. Based on the extensively reviewed literature, a limited amount of researches can be found on how leadership styles affect business performance and how leadership styles contribute to greater business performance. Even among the conducted studies, there is no universally agreed-upon theory that what style of leadership contributes to greater business performance (Albloshi, and Nawar, 2015). Some researchers have pointed out that the TFL is the most effective for greater business performance in SMEs and some others have pointed out that the passive-avoidance leadership style is ideal. Some scholars believe that both TSL and TFL are ideal for greater business performance in SMEs Franco and Matos (2015). Therefore, the author identifies that not enough literature is available to establish a solid ground on what style of leadership styles is ideal for greater business performance in SMEs. Therefore, further research into this area of study is needed.

Sinnathurai (2013) contended that limited researches have been conducted on the SME sector in Sri Lanka. A rather limited amount of researches has been conducted on how leadership styles affect business performance in SMEs in the Sri Lankan context. Because of that, there is a lack of understanding of how leadership styles affect business performance and what leadership style is ideal for greater business performance in Sri Lanka. Sri Lankan SME leaders are unaware of what type of leadership style is ideal for them. At the same time, policymakers are blind to information when it comes to policy and decision-making concerning the SME sector. Sri Lanka academics can use more information when developing educational programs for the SME sector and leadership. Therefore, the author has identified a gap in practice on how leadership style affects business performance in SMEs in Sri Lanka. The author recognizes above mentioned theoretical gap, literature gap, and practice gap as the problem statement for the present research.

## **1.4 Objectives**

The overall objective of this research study is to discover how leadership styles affect business performance in SMEs in Sri Lanka. A significant amount of research studies can be found on leadership and business. However, only a limited amount of research was witnessed

concerning leadership styles and business performance in SMEs. Even among these limited studies, a commonly agreed opinion is hard to find. Therefore, the present research attempt to shed knowledge on this hardly explored domain of research. In the Sri Lankan context rather, limited research has been conducted on how leadership styles affect business performance in SMEs. Therefore, the present research attempts to acquire knowledge on the subject matter.

Based on the identified research problem, the following research objectives are identified

1. To examine whether leadership styles contribute to greater business performance in SMEs in Sri Lanka.
2. To examine whether leadership styles have a positive influence on organizational culture in SMEs in Sri Lanka.
3. To examine whether organizational culture contributes to greater business performance in SMEs in Sri Lanka.
4. To examine whether leadership styles can positively influence business performance in SMEs through organizational culture in Sri Lanka.
5. To understand how a leader's personality traits moderate the business performance in SMEs in Sri Lanka.

## **1.5 Research Questions**

Research questions are a vital component in the research design of any research study. Based on the research objectives identified in section 1.4, the author has designed the following research questions. The author has designed four research questions. Each of these research questions is designed to address each objective. At the same time research question are affiliated with variables of the conceptual framework and research hypotheses. Each research objective is achieved through research questions.

1. Does leadership contribute to greater business performance in SMEs in Sri Lanka?
2. Do leadership styles have a positive influence on organizational culture in SMEs in Sri Lanka.
3. Does organizational culture contribute to greater business performance in SMEs in Sri Lanka.
4. Do leadership styles positively influence business performance in SMEs through organizational culture in Sri Lanka.



5. How do leaders' personality traits moderate the business performance in SMEs in Sri Lanka?

## **1.6 Significance of the study**

The outcome of the present research has significance for theory and practice and fields such as leadership, SMEs, organizational culture, leadership traits, and business performance. It has been identified that a significant amount of research has been conducted on the domain of leadership and a similar amount of research has been conducted on businesses and business performance. A limited amount of research has been conducted on how leadership styles affect business performance in SMEs. Therefore, this research makes a significant theoretical contribution to the domain of leadership and SME performance.

A considerably limited number of researches has been conducted on how leadership style affects business performance in SMEs in Sri Lanka. Therefore, this research makes a significant contribution SME sector, policymakers, academics, etc. in Sri Lanka. This research points out what style of leadership is most effective in creating a greater business performance in SMEs in Sri Lanka and what kind of role organizational culture and leader's personality traits play in the equation. Based on the findings of this research leaders can adopt recommended leadership style for greater business performance in their SMEs. SME owners can use the findings of this research when hiring staff members for leadership positions in the future. Sri Lankan policymakers can use the findings of this research when developing training and educational programs for the SME sector in Sri Lanka. Academics can use the findings of this research for their future research studies.

### **1.6.1 Theoretical Contribution**

This research explores how leadership styles affect business performance in SMEs by studying the SMEs in the tourism industry in Sri Lanka. Previously conducted researchers on this topic have come up with conclusions that are different from each other. Trait theory, behavioral theory, situational theory, transformational theory, and transactional theory were used as leadership theories as the basis for this research, and social exchange theory and leadermember exchange theory were used to explore the relationship between leadership styles and business performance. The literature review has identified that there is no single theory that explains what style of leadership is ideal for greater business performance in

SMEs. Based on empirical data, the author wishes to point out that transformational theory explains greater business performance in SMEs.

### **1.6.2 Practical Contribution**

Scholars have been studying leadership for a significant period and at the same time business is also a well-researched area of researches. However, limited research has been done to understand how leadership styles influence business performance in SMEs. When it comes to the Sri Lankan context amount of research on the subject matter gets further limited.

Therefore, owners and managers of SMEs in Sri Lanka are not aware that what style of leadership to practice for greater business performance in SMEs. This research has identified that the TFL is the best style of leadership for greater business performance in SMEs. SME owners and managers can use this information and adopt transformational leadership in their practice. This research has identified personality traits that are associated with TFL. SME owners and managers can look for those personality traits when recruiting people for managerial positions. Policymakers in Sri Lanka can use this information when developing training and educational programs for the SME sector. At the same time, academics can use the conclusions of this research for their researches and academic teachings.

## **1.7 Methodology Overview**

The author has decided to use “positivism” as the philosophy for this research. The author is independent of the research and the human interaction is minimum during the research study (Dudovskiy,2018). This research progresses through hypothesis and deduction Probability sampling method was used to select samples to study. The researcher has selected the deductive approach as the way to approach this research because this research is focus on facts, not on human interest(Crowther and Lancaster, 2008). This research is primarily based on hypothesis testing. The author attempts to create a generalized theory/understanding by studying a sample consisting of a limited number of SMEs. Therefore, the deductive approach is most suited for this research. Only a limited period was allocated to collect data for this research. The level of risk involved in this research for both participants and the researcher is considerably low. By considering all these factors, the deductive approach is the most suited approach for this research (Wilson,2010).

Due to the “nature of the relationships within the population”, the survey can be considered as the ideal method for this research (Dudovskiy, 2018). The epistemology of this research has

been decided as positivism and deductivism has been selected as the research approach. Therefore, a quantitative research method is suited for this research (Bryman, and Bell, 2015). Therefore this research is qualitative. The unit of analysis for this research is be individual since SME managers or owners used ot as subjects for this research (Trochim, 2020). Since this survey only is conducted one time, the time horizon for this research is be cross-sectional. A survey method wasbe used and a questionnaire with a five-point Likert scale was used as the research instrument. The questionnaire consists of five parts. Part (a) of is gather background information, Part (b) Multifactor Leadership Questionnaire 6S, Part (c) Big Five Leadership questionnaire part (d) is an author designed questionnaire to study organizational Culture and part (e) is an author designed questionnaire to assess business performance. Selected SMEs were contacted over the phone and questionnaires were sent via online method. Krejcie Morgan sampling formula was used as the sampling method for this research. The formula is as follows “ $s = \frac{X^2 NP(1-P)}{d^2(N-1) + X^2 P(1-P)}$ ”. Quantitative data analysis techniques were selected for the present. SPSS software was used for the analysis of the data collected data from questionnaires. Descriptive statistics, correlations analysis, and regression analysis were used in the process of data analysis.

## **1.8 Limitations of the Study**

This research study involves both methodological and circumstantial research limitations. Unfortunately, there is no commonly agreed definition of SMEs in Sri Lanka. Different government agencies use their definition. That creates confusion when selecting samples to study. Therefore, the author has to find a definition that suits this research. This research study uses a quantitative method to understand how leadership styles affect business performance in SMEs in Sri Lanka. Consequently, descriptive data are not be used for this research. Hence, the present research does not provide any descriptive analysis. Samples to be collected from a tourism industry for convenience. Hence, it creates a bias and can reduce the level of diversity among samples for the reason that. The tourism industry may not represent an exact representation of the whole SME sector in Sri Lanka.

The questionnaire consists of 5 parts. Altogether, it is one hundred and four questions. Even though is a multiple-choice (five-point Likert scale) it takes more than half an hour to go through all the questions and answer properly. Because of that, it can be expected that some respondents could skip a question or even answer questions without going through the

questions thoroughly. The survey questionnaire includes Multifactor Leadership Questionnaire 6X, Big 5 personality traits questionnaire, and two other authors designed questionnaires (to assess the organizational culture and business performance) Multifactor Leadership Questionnaire 6X, Big 5 personality traits questionnaire is developed by native English speakers and the language is sophisticated. Since the research participants are selected based on the sampling method, the level of English language proficiency of the respondent (SME owners and leaders) cannot be predicted. It can be assumed that not all the participants may have adequate English language proficiency. Therefore, it is possible that some respondents (SME owners and leaders) may not grasp the true meaning of a few questions or more and it is also possible that the meaning of questions. It is also possible that some questions are personal. Therefore, it could be a possibility that some participants may not answer some questions honestly.

Conducting the interview became a challenge due to Covid 19 situation in Sri Lanka. The country was in lockdown and there were many social-economic difficulties. When this research was designed in post covid – 19 time, it was decided that postal service to be used to send and receive questionnaires. Selected SME leaders have contacted the questionnaire to be sent with a stamped envelope so that the participant can post the answered questionnaire back to the researcher. Unfortunately, due to Covid – 19 country was on lockdown and the postal service was not functioning. People were confined to homes and businesses were closed. Therefore, the author had to find another way to conduct the research. The author decided to use google forms as a method to conduct the research. The author uploaded the questionnaire to a google form in a way that participants could answer the questions based on a five-point Likert scale and e-mailed the link to selected participants.

Another limitation for this research is how covid-impacted Sri Lanka. The tourism industry was hit hard by restrictions. Therefore, the author had to ask respondents to answer the question based on the financial figures of 2019. At the same time, the emotional state and socio-economic circumstances of the respondent (SME owners or leaders) could affect the attention that they would give to the questionnaire.

## **1.9 Chaptalization**

This research comprises 5 chapters. Chapter 01 – Introduction, Chapter 02 – Literature Review, Chapter 03 – Methodology, Chapter 04 - Data Analysis, & Chapter 05 - Conclusion and Recommendation

## **Chapter 01 – Introduction.**

The introduction chapter provides an overall picture of the research study. The chapter discusses the background of the research study and provides an overview of the SME sector in Sri Lanka. The author explains the SME sector's contribution to Sri Lanka and the Sri Lankan economy. In this chapter, the author has provided justifications for conducting this particular research and acknowledged the problem that tends to explore. The author has highlighted the gap in research, the gap in theory, the gap in the literature, and the gap in practice to justify the research topic. At the same time, the introduction chapter contains research objectives and research questions. This chapter briefly describes the value of the study,

## **Chapter 02 – Literature Review.**

In chapter two the author has provides a theoretical underpinning for the research study. It outlines theories and concepts that are related to the research. Moreover, the literature discusses present research concepts leadership, leadership theories, leadership styles (transformational, transactional, and passive-avoidance), organizational culture, personality traits, etc. This chapter provides a theoretical base to develop the conceptual framework.

## **Chapter 03 – Research Methodology**

In this chapter, the author defines the exact methodology to be used for the entire research. The author also justifies why a certain methodology was selected for this particular research study. At the same time, this chapter introduces the research variable and conceptual framework. Then again this chapter introduces data collection, research methods, analytical tools, etc.

## **Chapter 04 – Data Analysis**

In this chapter, the author introduces the analytical process that was used to collect & analyze research. The author describes the tools, techniques, and step-by-step process that was used to generate results. It contains a deep analysis of the hypotheses test.

## **Chapter 05 – Conclusion and Recommendation.**

In this final chapter of the research study, the author explains the evaluation of research findings. It outlines the conclusion derived from the whole research process and expresses theoretical and practical knowledge gained from the research. Moreover, it provides opportunities for future research.

## **Chapter 02: Literature Review**

### **2.1 Introduction**

This chapter provides a theoretical underpinning for the current research “the effect of Leadership style on business performance. A study of SMEs in the tourism sector in Sri Lanka. Leadership has been a topic of interest among academics for over a century and it has been identified that leadership affects business performance in business. This chapter begins by describing what leadership is and the author introduces several definitions introduced by various scholars throughout the years. By doing so the author attempts to provide a reasonable explanation of what leadership is to the reader. Then the author discusses the theatrical background of the research. In this section, the author discusses leadership theories that the present research is based upon. This research is primarily based upon the full-range leadership theory that was introduced by Bruce J. Avolio and M. Bass. The author explains their primary styles of leadership (transformational, transactional, and passive-avoidance) that have been introduced in this full-range leadership theory.

In the next section, the author explains what a small and medium enterprise (SME) is and describes business performance in SMEs. The author points out some of the key performance indicators that are used to measure and capture business performance in SMEs. Thereafter, the author discusses the relationship between the leader’s (SME leaders/manager) leadership style and business performance. The author further discusses how organizational culture plays a moderating role in between leader and business performance. How a leader affects the business performance in SMEs through organizational culture. In the next section, the author explains the how personality traits of the leader (SME owner/manager) act as moderating factors in the leader’s influence on the business performance in SMEs. The author introduces the fivefactor model of personality. This model explains the personality of an individual based on five traits and they are neuroticism, extraversion, openness, agreeableness, and conscientiousness.

## **2.2 Theoretical Background**

### **2.2.1 Understanding Leadership**

Leadership is a widely discussed phenomenon in academia. Scholars generally label leadership based on their perspective. Scholars such as Roost, Bernard Bass, John P. Kotter, etc. are well known for their theories of leadership. According to Bass (1990) leadership can be described as a leader's desire to lead his or her followers. Kotter (1988) defines leadership as an effect on people while Rost (1993) considers leadership as a relationship between leader and the follower. The search for understanding into leadership dates back to the nineteenth century. During all this time meaning to leadership has been explored as an attribute and a procedure. Throughout the time the attribute approach was based on the proposition that leadership is intrinsic while the procedure approach illustrates leadership as a value-based occasion, which is present-day and progressively consistent. According to Northouse, (2007), there are countless classification frameworks in trying to make sense of what leadership truly is. These frameworks have academically attempted to label and interpret leadership in a practical way for thinking.

Cummings and Schwab, (1973) describe leadership as a highly considered factor in an organization and affect multiple variables of the organization including worker potential to be effective. It is the point of view of Jaskaran and Sri-Guru, (2014) that the concept of leadership has progressed over the past few decades. Due to countless number studies conducted over this time have come up with progressive ideas on leadership. It has been an agreed opinion that leadership styles sway workers to do their best work. Jaskaran and SriGuru, (2014) point out the recently conducted brain researches have generated results to support that argument. Jones and George (2004) define leadership as the process that allows one individual to arouse a keen interest in others to perform tasks and guides their activities to accomplish group activities and joint initiatives to accomplish organizational objectives. According to Cole, (2005) leadership is a method that is used to accomplish objectives in a given situation that can impact the gathering of people. Leppit and White (1939) describe that leadership style is the specific method that a leader used to accomplish the above objectives. Vigoda-Gadot (2007), describes leadership in their organization and actions reviews exact leadership style where such styles are derived from the value system of the individual such as their standards, personal behaviors, how they react to everyday situations, etc. Shirzad and

Zanganeh (2011) the administrator of an organization work in alliance with the workers and the value system of the leader's style of leader have an impact on the competency and confidence of the follower. This type of reinforcement on employees' confidence is recognized to have a positive impact on the performance of the employee because the employee will develop a sense that the leader can be relied on. It is one of the common assumptions that leaders are not conceived but, created. Jago (1982) that great leaders are created through the endless process of self-study, instruction, training, and experience. If the individual has the passion and pledge can turn into an excellent leader.

Northouse, (2017) in his opinion expresses that well-known connotation of leadership stated that the person who impacts a collective of people to achieve a shared objective is described as a leader. At the same time Zeitchik (2012), empathizes that it is a common trait of a leader is to motivate the follower until the common idea turns into a shared vision. A vision that would lead to the accomplishment of a shared objective. It is the opinion of Cole (2005) leadership is an influential process whereby individual influences others to contribute deliberate acknowledgment and accomplishment of the objectives and targets.

### **2.2.2 Leadership Theories**

According to Hannay, (2013), leadership theories have developed from attention on qualities, to practices, to possibility hypotheses, to progressively contemporary methodologies including hiring leader traits theories to value-based and transformational hypotheses which center on aptitudes and capacities. Bass. (2000) and Stogdill (1989) explained that the leadership improvement centers on authority characteristic that leads individuals normally into influential positions and obligations. The aptitudes approach contrasts with the qualities approach in that aptitudes and capacities can be scholarly while characteristics can't be educated. Charry, (2012) noticed that insightful enthusiasm for leadership expanded altogether during the early piece of the twentieth century. He distinguished eight significant leadership theories. Most theories see leadership as grounded in at least one of the accompanying three viewpoints: leadership as a procedure or relationship, authority as a mix of attributes or character qualities, or leadership as specific practices or, as they are all the more generally alluded to, leadership abilities. In for all intents and purposes the entirety of the more prevailing speculations there exist the ideas that, at any rate somewhat, leadership is a procedure that includes impact with a gathering of individuals toward the acknowledgment of objectives Great Man Theory Great which accept that the limit with regards to leadership is



inalienable, that incredible leaders are conceived, not made. These theories frequently depict leaders as chivalrous, mythic, and bound to ascend to leadership when required. Ololube, (2013) acknowledged that the "term incredible man" was utilized because, at that point, authority was thought of fundamentally as a male quality, particularly military leadership.

**2.2.2.1 Trait Theory** is similar somehow or another to extraordinary man theories, the characteristic theories accept that individuals acquire certain characteristics or qualities that improve their fit to authority. These theories delineate the possibility that extraordinary leaders have certain basic character characteristics that prompt powerful leadership. Great leaders are conceived, not made. The qualities related to capable authority are straightforward, astute, incredible comical inclination, leadership, constancy, and aspiration, want to exceed expectations, capable, uprightness, and conviction, obligation, understanding, fearlessness, and motivation. Kouzes (2008) opined that the most attractive and significant attribute is "Genuineness". He went further to state that insights have indicated that trustworthiness is in reality one best attribute a leader must-have. Genuineness is immensely urgent in authority in this manner, a leader ought to have the attributes (qualities) referenced right now to be effective in an association with the end goal of productivity and reachability between the leader and adherents.

Although there had been little steadiness in the outcomes of the numerous trait studies, some traits did seem more often than others, including practical skill, outgoingness, task motivation, application to task, cluster task supportiveness, communal skill, emotional control, managerial skill, general charisma, and intelligence. Kilpatrick and Locke (1991), in a meta-analysis, did seem to discover some steadiness around the resulting traits: drive to accomplish; the inspiration to lead; honesty and truthfulness; self-confidence, including the ability to withstand setbacks, standing firm, and being emotionally resilient; and knowledge of the business. Kilpatrick and Locke (1991), also note the importance of managing the perceptions of others about these characteristics. Northouse (1997) offers a valuable historical judgment of the list of traits exposed in various other research studies.

Trait theory is partially applicable for this research because this theory helps to provide a somewhat understanding of what leadership is characteristics of a leader and where the characteristics of leader derive from. Since this theory is only applicable partially, it creates room for further exploration.

#### **2.2.2.2 The behavioral theory**

The behavioral or style school was popular from the 1940s to the 1960s. This theory of leadership is based on the belief that great leaders are made, not born. This leadership theory focuses on the actions of leaders, not on intellectual qualities or internal states. According to behavioral theory, people can learn to become leaders through training and observation. Naylor, (1999) noted that interest in the behavior of leaders has been stimulated by a systematic comparison of autocratic and democratic leadership styles. It has been observed that groups under these types of leadership perform differently. Behavioral Theory assumes Leaders can be made, rather than are born which means that people can learn to become leaders through teaching and observation. Behavioral theorists characterize leaders in contrast to one or two constraints and place them on a one-dimensional continuum or in a twodimensional matrix (Blake & Mouton, 1978). The constraints include apprehension for people or relationships, apprehension for production, use of authority, participation of the team in decision-making, participation of the team in decision making, and plasticity versus the application of rules

##### **a. The Blake and Mouton Managerial Grid**

The Blake and Mouton managerial grid of brought out a presumable mode of management in the organization. They attempted to highlight the relationship or compromise between Interestbased tasks, objectives, results, performance, and Interest-based on people.

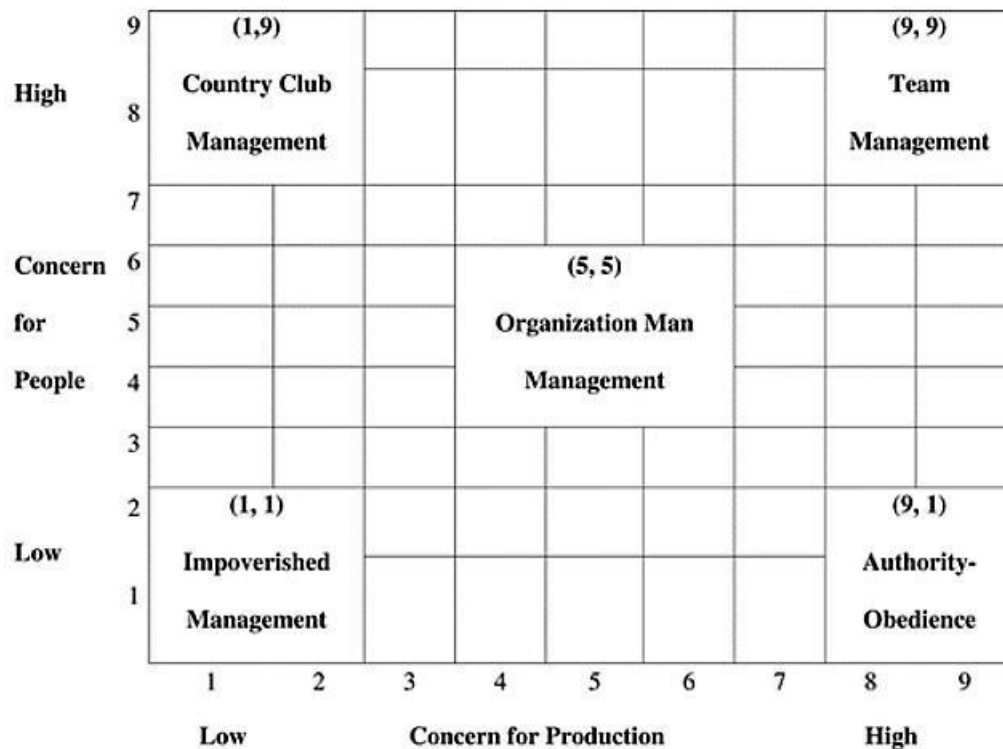


Figure 2.1 The Blake and Mouton managerial grid (source: [http://apppm.man.dtu.dk/index.php/The\\_Blake-Mouton\\_Manual\\_Grid](http://apppm.man.dtu.dk/index.php/The_Blake-Mouton_Manual_Grid))

According to Blake & Mouton, (1978), the Laissez-faire leader is characterized as a manager who evades responsibilities. The social or country club style importance is given to the pleasantness in the management style. It defines a manager who has more courtesy to the security and the comfort of workers, favoring a working atmosphere sometimes at the detriment of production. The Autocratic leader is a manager who coerces his team and is only inattentive with results. The Integrative style represents a well-adjusted manager who reassures and assistance his team in the understanding of fixed aims. The institutional style illustrates a manager who harmonies importance to his people and production and who targets a suitable level of results. This managerial grid separates two vital leadership characteristics. The first type of manager is fixated on behavior that is oriented towards tasks, productivity, and results. These leaders have a dominant concern which is the realization of objectives. They focus on competence to the detriment of working relations. The second type a manager is fixated on a behavior-oriented towards the relation between workers. The manager is inattentive with the social climate and sustains a decent working relationship with the team.

## **b. McGregor's Theory of X and Y**

McGregor's theory of X and Y is another theory that falls under behavioral theory. McGregor (1960) explains that there are primarily two ways of managing people. Those two say are illustrated as theory X and theory Y. McGregor (1960) explains that theory X is grounded on suppositions such as the person is lazy and does not like work henceforth, they must be controlled, engaged, acquiesced to sanctions. Only wages can reward the work. At the same time, people desire to be directed and choose to evade all responsibility. People are not ambitious and wish security. They despise change and prefer routine work. According to McGregor (1960), theory Y explains that work is as essential to a worker just as rest. A system that consents and outside control helps to achieve organizational outcomes and satisfy the worker. At the same time, he explains that an individual has the capacity to self-manage and self-control. McGregor (1960), also believes that the worker can use their imagination and their ingenuity for the best interest of the employer. Comparison of McGregor's theory of X and are illustrated in the below table.

<b>Theory X leaders assume</b>	<b>Theory Y leaders assume</b>
1. Employees inherently dislike work and, Whenever an attempt to avoid it.	1. Employees can view work as being as natural as possible, will rest or play
2. Because employees dislike work, they must be coerced, controlled, or threatened with punishment desired goals	2. Men and women will exercise self- direction and self-control if they are committed to the to achieve objectives
3. Employees will shirk responsibilities and seek formal direction whenever possible	3. The average person can learn to accept, even seek, responsibility
4. Most workers place security above all other factors associated with work and will display little ambition	4. The ability to make good decisions is widely dispersed throughout the population and is not necessarily the sole province of managers

Table 2.1 McGregor's Theory X and Theory Y comparison (Source: McGregor (1960) )

The behavioral theory of leadership is partially applicable for this research because this theory describes certain aspects of leadership that relevant to this research. However, this theory does

not paint a complete picture of leadership. Therefore, this theory is partially applicable for this research and leaves a void that needs to be addressed.

### **2.2.2.3 Situational theory**

The situational or contingency method suggests that the efficacy of a leadership style is based on the situation. A leadership style that may be effective in one situation may not be effective in another. Therefore, leaders pick the best strategy dependent on situational conditions or conditions. These facets of the condition can enhance or reverse the effects of the leader. Yukl (2002) explains this as ‘situational moderator variables.’ Therefore, situational theorists contend that there is no universally fitting leadership style. Based on that assumption situational theorists proposes that the best activity of the leader relies upon the scope of situational factors. For instance, in a circumstance where the leader is relied upon to be the most proficient and experienced individual from a gathering, a dictator style of initiative may be generally fitting. In different cases where a bunch of individuals are talented specialists and hope to be treated, all things considered, a fair style might be progressively successful. At the point when a choice is required, a powerful leader doesn't simply fall into a solitary favored style.

Contingency theory leadership was initially introduced by Fiedler (Fiedler, 1964, 1967). He determined the situation using three facets: “the leader-member relations, the position power, and the task structure.” The effectiveness of a leadership style rests on situational favorability. The situational favorability derives from pondering and compounding the three situational facets. Fiedler (1967) theorizes that the correlation between leaders’ efficiency and style of leadership style can differ based on the situation. He also contended that in highly favorable or highly unfavorable circumstances task-oriented leaders can thrive, while in intermediate favorable circumstances, the person-oriented leader is more effective. With the introduction of the contingency theory, Fiedler was able to arouse interest in situational factors. However, certain conceptual weaknesses can be found this Fiedler’s. A key weakness is that the way leadership behavior was measurement (Schriesheim& Kerr, 1977). This measure has been changed multiple times since the introduction of the theory. The most recent theory that was introduced by Staehle, (1999) is still under some speculations, especially of those not obtained by Fiedler’s scholars (Neuberger, 2002).

The path-goal theory of leadership provided a solution to overcome the inconsistency in measuring leadership behavior. Evans, (1970) contends that “the effects of leaders on the motivation and abilities of immediate subordinates and the effects of leaders on work unit performance” (House, 1996). This theory signifies a claim of the expectancy theory of motivation. The competence of the leader rests on his skill to positively influence the subordinates’ expectation of instrumentations and valency and the prospects of rewards. The motivational purposes of the leader contain growing personal payments to aides for a work goal accomplishment. Making the path to these remunerations easier to achieve by illuminating it, reducing barricades and drawbacks, and growing the chances for individual satisfaction (House, 1971).

House & Mitchell, (1974) extended the number of leadership behaviors to four, supportive leadership, directive leadership, participative leadership, and achievement-oriented leadership. Yukl, (2002) illustrates that the early form dealt with supportive leadership and directive leadership. House and Dessler (1974), further explain that the “leader behavior will be viewed as acceptable to subordinates to the extent that the subordinates see such behavior as either an immediate source of satisfaction or as instrumental to future satisfaction.” Furthermore, subordinates’ locale of control and experience are important variables. On the other side the circumstantial characteristics, the competence of leader conduct will be subject to the nature of the duty. When the task is heavily structured, commanding leadership might lead to unnecessary control. Therefore Yukl (2002) illustrates that dissatisfaction can arise among subordinates.

The particular theory is somewhat applicable for this research because it looks at leadership from a situational perspective. This theory addresses situational effectiveness only. Therefore, this theory is partially relevant for this research and at the same time leaves a void that needs to be addressed properly.

#### **2.2.2.4 Transformational Leadership Theory**

The concept of transformational leadership was originally introduced by James MacGregor Burns in 1978. According to Burns (1978), transformational leadership is a situation, “one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality.” Bass (1985) explains transformational leadership is a set of ’s behaviors derived from a set of beliefs and values system of an individual. It can be

expected from a transformational leader to do more than expected and motivate subordinates to do more than expected that it is common for a transformational leader to receive loyalty, trust, and admiration from the followers. The transformational leader (TFL) makes the follower aware of the value of the outcome of tasks persuading them to look at the greater picture rise above their interest for the greater good of the organization (Kahn, 1978) Bass and Avolio (1994) contend that TFL applies intellectual stimulation to his or her encourages followers by encouraging them to think critically and take new approaches to the way they work. Because of that performance of the organization increases and at the same time employee fulfillment and commitment increase (Podsakoff et al, 1996).

Ismail et al., (2009) discuss that transformational leaders pay attention to subordinates' needs and their development. At the same time, transformational leaders tend to boost the morale of the subordinates, uplift their value system and motivate them to do better and work harder. Also, transformational leaders work on developing the skills of their team members. Bass (1994). Further, describe that transformational leaders are keen on understanding thing follower interests and by doing so try to act as a conduit between leaders and followers. It helps followers attain their organization and it inspires subordinates to be open and adaptable and easily adaptive to changing organizational atmosphere. Bass (1994) further elaborates that to induce the follower to a genuine interest in the vision and mission of the organization by widening the interest in the organization and the work that they are doing. Transformational leaders pay genuine interest in his or her employees to understand what they need to know to do their best work and provide the best support for them to do their best work.

Bass (1989) transformational leaders urge adherents to see issues from new viewpoints, offer help and consolation convey a dream, animate feelings, and distinguishing proof. Bruce et al. said that transformational leaders can describe and verbalize a dream for their organizations and their leadership style can impact or "change" singular level factors, for example, expanding inspiration and organization-level factors, for example, interceding strife among gatherings or groups. Bass, (1989), discovered that transformational leadership had a dynamic effect on individual and leadership results, for example, worker fulfillment and performance. More elevated levels of transformational leadership were related to more significant levels of gathering intensity. This type of leadership advances that workers are in subjection to their bosses. It likewise works under the standard of remuneration and discipline. Bureaucratic Leadership: This type of leadership guarantees outright consistency to strategies and rules to

the last letter. Employees normally welcome this leadership over the long haul particularly in a high hazard working condition, for example, a concoction plant or a manufacturing plant.

Transformational leadership is one of the leadership styles that influence the organizational responsibility of their devotees by urging them to take an interest in dynamic procedures and creating individual capacities to oversee change. Golshani, (2001) demonstrated that leadership style motivates the adherents and lifts their assurance. Transformational leadership is one of the persuasive leadership styles as indicated by written works. In TFL, the colleagues consent to comply with their leader when they acknowledge an occupation while the organization pays colleagues as a result of their exertion and consistency. It is a leadership style that depends on the setting of clear targets and objectives for the devotees. Jantz, (2012) opined that transformational leadership has been seen in a few contextual analyses as more powerful than other leadership styles, for example, value-based and laissez-faire leadership. Leader relies upon the leadership style that is embraced in an offered circumstance to fill in as a manual for the arrangement of the organization (Iguisi, 2009). To this end, unmistakably the leadership style of a leader has a nearby connection to the advancement of an organization. It is imperative to take note of that for an assistance conveyance organization like the library, the achievement and disappointment are for the most part dictated by the exhibition of the staff which is extraordinarily affected by the leadership styles that are embraced by the leader. Bass (1990), introduces four characteristics to transformational leadership and they are Idealize influence, inspirational motivation, intellectual stimulation, and individual consideration.

#### **a. Idealized influence**

Idealized influence or charisma is one of the early characteristics introduced by Bass (1985) in “Leadership and Performance Beyond Expectations.” Bass (1985) explains that charisma is one of the key elements in transformational leadership. According to Humphreys & Einstein, (2003) idealized influence behavior contributes to setting the common vision and aligning employees to achieve a shared goal. This is achieved by creating a sense of mission among the group. In that process, the transformational leader gains the respect of the followers and their trust. This behavior encourages subordinates to look beyond self-interest for the good of the collective. By doing so idealized influence behavior promotes confidence, overcoming obstacles in the process of achievement. Conger and Kanungo (1998) contend that because of



that reason followers place an inordinate amount of confidence and trust in charismatic leaders.

Hughes (2014) contends that idealized influence behavior instills pride in the groups for being allied with the leader and because of that they will go beyond their normal commitment for the organization and their leader. They even compromise their self-interest in the process. With this type of behavior, a transformational leader can keep the group together to achieve organizational objectives. A leader with idealized influence behavior tends to show confidence and power. Because of this reason, followers get a sense of assurance and confidence during difficult periods.

#### **b. Inspirational motivation**

Inspirational motivation is one of the primary aspects of a transformational leader. It is usually a companion of charisma and is concerned with a leader setting higher standards, thus becoming a sign of reference. Subordinates look up to their leaders who can inspire and motivate with the expectation of emotional appeal to raise awareness and consideration of shared goals that are desirable. Transformational leaders do this by communicating greater expectations, using signs to focus efforts, and modestly express key attributes. Bass and Avolio (1994) explain that leaders with this facet in their character are optimistic and have a positive approach toward the future. They can articulate a convincing vision for the future and provide a thrilling vision of the future transformation of the organization. The inspiration happens by providing sense and challenge to subordinates at an individual level and the team environment. These leaders encourage followers to envision striking future circumstances, for both themselves and the organization (Bass and Avolio, 1994).

#### **c. Intellectual stimulation**

According to Bass (1985) leaders with intellectual stimulation drive followers to break away from tradition and old ways of things and evolve into a new way of thinking. Leaders with this behavior indulge strategic thinking, logical reasoning, rational decision making, intelligence, careful problem thinking, etc. The qualities comprise of seeking opposing viewpoints when it comes to solving problems, telling new ways of exploring how to accomplish tasks encouraging re-thinking of previously completed activities. Bass and Avolio (1994) further elaborate that leaders with this type of behavior inspire the subordinates to be innovative problem solving, reframing problems reanalyzing previously dealt situations.

#### **d. Individualized consideration**

Bass & Avolio, (1990) discuss that this dimension of transformational leadership refers to the coaching and mentoring aspect of the transformational leader. This behavior is the most recent addition to the aspect of the transformational leader. This quality allows the transformational leader to pay individual attention to individuals and identify their differences. By doing so the leader can provide individual attention and mentor them on a personalized level. Then the leader can provide and support to his or her followers to capitalize on their strengths and work on their weaknesses (Bass and Avolio, 1994).

This theory is directly linked with this research because transformational leadership is a key component in this research. This research is based on three styles of leadership and transformational leadership is one of the key leadership styles that is used in this research and it is used to describe certain key characteristics that are used to analyse leadership in this research. However, this theory only covers one aspect of leadership, therefore, it allows the opportunity to explore a gap in theory.

#### **2.2.2.5 Transactional/Management theory**

The transactional theory of leadership was initially introduced by Max Weber in 1947. His work was further developed by Bernard Bass in 1981. Nikezic, Puric, and Puric, (2012) pointed out “that transactional leadership is a necessary, evolutionary path toward transformational leadership.” Weber (1947) in his publication ‘The Theory of Social and Economic Organization’ talks about three styles of leadership, bureaucratic - transactional leadership, traditional leadership, and charismatic leadership. Bass, (1981) characterizes that transactional leadership as a primary stage exchange between leaders and followers where all parties get something out of that transaction. Therefore, the interaction between the leader and the follower is a rewarding system based on pre-agreed performance. It was further explained that maintaining the status quo is a key attribute in transactional leadership. Bass (1981) further elaborates that transformational leadership can be effective in the short term. However, for long-term sustainability changes are required for transactional leadership to be effective in the long run. At the same time, transactional leadership is recognized to be effective in process-oriented organizations with short-term goals.

Transactional leaders tend to focus on providing contingent reinforcement to followers’ employees based on performances. By doing so transformational leaders by appealing to their

wishes, grounded on instrumental economic dealings. It is also said that transactional leaders are bureaucratic. Bennet, (2009) explains that these leaders normally use structural bureaucracy, policies, authority, etc. to control their followers. Because of that transformational leadership is often recognized as leadership with authoritative nature. Bass (1985) has (e.g., Bass, 1985, Podsakoff, 1990) recognized that transactional leadership uses contingent rewarding to motivate their followers. These leaders clarify the role and the duty which is expected and the reward that will be offered in return for fulfilling the previously agreed commitment. Podsakoff (1990) explains that these contractual commitments as the fundamental characteristic of transactional leadership. Podsakoff (1990) further describes that the reward offered by the transaction leader can be tangible or intangible. A tangible reward can be an increase in pay or promotion and an intangible reward can be recognition, recommendation, etc. It is important to understand that in this transactional process the leader explains clearly what is exactly expected from the followers to achieve the offered. There are two key characteristics to transformational leadership and they are contingent reward and management by exception.

#### **a. Contingent reward**

The system of contingent reward establishes a trust the leader can be relied on. It creates the impression that the leader will continue to reward his or her followers consistently based on their performance. This makes a leader reliable in the eyes of the follower. Avolio, (1999) describes that “the leader assigns or secures agreements on what needs to be done and promises rewards or actually rewards others in exchange for satisfactorily carrying out the assignment.” For this arrangement to work efficiently, the leader must understand the needs of the follower and link them with the task at hand. Bass & Avolio (1995) because the above reason followers can rely on the leader to honor the commitment that has been set forth by the leader. Mclaggan, Botha, and Bezuidenhout (2013) explain that contingent reward leadership behavior is applicable in task-oriented work environments where followers are engaged in routine work environments and hard labor working conditions such as construction, mining, oil rigs, etc.

#### **b. Management by Exception**

Leaders who practice management by exception intervene usually when the cause of action runs off course. Bass (1990) describes the motto of this type of leader to be “if it ain’t broken

don't fix it." Bass (1990) further explains that the absence of criticism is one of the key traits that can be expected from the leaders who practice thy type of leadership behavior.

Management by exception behavior can be highly effective in situations where active monitoring is required or things need to be fixed before they can go wrong or in a submissive manner or when officials wait submissively and respond when faults or glitches arise. Bass & Avolio (1994) explain that there are two types of management by exception and they are active management by exception and passive management by exception. Leaders who practice active management by exception actively monitor their subordinates and immediately attend to remedy the situation when things go off course. Leaders who practice passive management by exception intervene only when employees fail to meet expected goals or the circumstances become dire.

The transactional theory directly connects with the concepts of this theory. This research is based on three styles of leadership and transactional leadership is one of the key leadership styles that is used in this research. The transactional theory describes certain key characteristics that are used to analyses leadership in this research. However, this theory only concerns one facet of leadership, therefore, it permits the opening to explore a gap in theory.

#### **2.2.2.6 Passive avoidance Leadership**

Yukl, (1981) describes passive avoidance leadership as a lack of leadership or no leadership at all. This type of leader prefers to ignore his or her duties as the leader and avoid taking responsibility. At the same time, passive avoidant leaders are ignorant of the tasks at hand and the workers under their leadership. They also avoid paying attention to the needs of their subordinates and the needs that they may have. Leaders of an organization are expected to face the problems in their organization head-on. Unfortunately, passive avoidant leaders do the opposite. They tend to ignore the problems avoid them instead of dealing with them (Kiernan, Westbrook, and Cranney, 1995). A passive avoidant leader is a poor decision-maker. In most cases instead, of taking decisions they delegate the decision-making to their subordinates and avoid the responsibility of decision making. Even on a rare occasion if they make a decision, they tend to take a longer period to decide the cause of action.

Avolio, Bass, and Jung, (1999) describe that it is an expected role of a leader to provide necessary feedback, guidance, provide the necessary motivation, and recognition to their follower. It is highly unlikely that this type of support to come from a passive avoidant leader. It is unlikely that a passive avoidant leader to react to a situation in a systematic manner.

Passive avoidance leaders are identified as poor communicators. They struggle to clear communication and avoid clarifying misunderstandings. Since these leaders do not clarify what they expect from their subordinates. Because of this reason, employees of the organization will not get a clear picture of the organizational goals and objectives. This impacts the organization as a whole and individuals in the organization. Because of that organization can fail to meet its organizational outcomes (Avolio, Bass, and Jung, 1999). Passive avoidance leader is regarded as the most ineffective leadership style in the full range of leadership.

There are two characteristics in passive avoidance leadership and they are management by exception and laissez-faire leadership. (Managed by exception is described in the above section. Therefore, it is not described in this section

#### **a. Management by Exception**

Leaders who exercise this type of behavior get involved when it is absolutely necessary. According to Bass (1990) this type of leader play by the rule that “if it ain’t broken don’t fix it.” Bass (1990) further explains that the absence of criticism is something that can be expected from this type of leader. This type of leadership behavior can work in certain situations such as situations where vigorous monitoring is essential or in situations where things have to be remedied before a disaster. Active management by exception and passive management by exception are two types of behaviors that can be associated with passive avoidant leadership (Bass & Avolio, 1994). Leaders who exercise the passive method intervene only when situations turn to turmoil and the leader has no choice but to intervene.

#### **b. The laissez-faire leadership**

The expression lassies-fare is originally a French expression that describes incompetence in matters related to monitory and social issues. Northouse, (2013) describes laissez-faire as an approach that implies a “hands-off, let things ride” in a working environment. This behavior of leadership is can only be found in the PAVL among all the leadership styles this research is based on. According to Bass and Avolio (1990) Leaders with laissez-faire leadership behavior tend to shy away from being a leader. This leadership behavior could be simply explained as "non-leadership" and this is the exact opposite of the behavior described in the behaviors of a transformational leader. A key trait of laissez-faire behavior is that these leaders hesitate to

accept the responsibilities that come with a leadership position. It is common among leaders with this trait not to offer enough information, feedback, acknowledgment, etc. According to Skogstad et al (2007) laissez-faire, leadership has a negative and destructive effect on an organization. The previously agreed opinion is that laissez-faire behavior is no leadership at all and it will not have a positive impact on the organization and organizational performance. Skogstad et al (2007) describe that due to the lack of governance and involvement in the matters of the organization laissez-faire leadership can have “systematic relationships with workplace stressors, bullying at work, and psychological distress.” At the same time conflict among coworkers can be identified with this type of leadership behavior due to the reason that these types of leaders often fail to define roles within the organization.

Passive avoidance leadership is directly relevant for this research because this style of leadership is used to describe one of three leadership aspects that are used in this research. Therefore, passive avoidance leadership is directly relevant to this research. However, passive avoidance only covers one area of leadership. That allows the room to discover a gap in theory.

#### **2.2.2.7 Social Exchange Theory**

Social exchange theory (SET) is a social-psychological theory that dates back to the 1960s. This theory is based on utilitarianism on the one hand and behaviorism on the other hand. Emerson (1976) explains that this theory can be used to provide a theoretical explanation for organizational citizenship behavior. Emerson (1976) further explains that SET is more as a framework than theory. This theory is considered as one of the highly influential conceptual archetypes for understanding workplace behavior. The foundation of SET rests on several core assumptions regarding human nature and the nature of relationships. There are a few core assumptions in SET. One of the main assumptions is that people tend to move toward rewards and evade punishments. One more assumption is that the purpose of interaction with one another is to maximize profit and minimize cost, in other words, “what’s in it for me?” The final assumption is that people prefer to analyze the profit and cost before engaging. Finally, the SET assumes that individuals know that these circumstances can vary from person to person and even with the same person during a period. One of the basic doctrines of the theory is that relationships can grow into that is trusting, trustworthy, and communal assurances over time.

### **a. Social Exchange Theory and Leadership**

According to Hollandder and Julian (1969), SET applies to studies on leadership. They explain that the leader provides more benefits or regards to the follower than burdens or costs to them followers in the mission of achieving the goals of the organization. To achieve the goals of the organization the leader has to provide a positive exchange to the followers. This theory explains that a leader is expected to provide benefits/rewards that exceed burdens/costs for followers. Elstad, Christophersen, and Turmo, (2011) that SET explains how individuals behave in an organization and they further explain that leadership has a clear influence on how individuals behave within that organization. This organizational behavior occurs because of the social exchange that happens between the leader and followers of the organization.

### **b. Social Exchange Theory and Transformational Leadership**

Transformational leadership theory can be best explained with social exchange theory. Initially, SET described that social behavior or human interaction has an economic transaction in nature. However, later it was explained that the exchange goes beyond a simple transaction of materialistic goods. Under transformational leadership, it is considered a mutually beneficial transaction between the leader and the follower. Werbel and Henriques (2009) explain that by comparing transformational leadership and social exchange theory, the dynamic between leaders and followers can be identified. That relationship goes beyond the economic transaction. Nohe and Hertel, (2017) explain that SET can be considered as the leading framework that can be used to explain the leader-follower relationship. This is based on the understanding that transformational leaders have a positive influence on job satisfaction, commitment to the organization, and attitudes towards the organization as a whole. Nohe and Hertel, (2017) further explain that can later evolve into a sophisticated relationship. They further explain that under transformational leadership the exchange can be turned into a high-quality relationship characterized by, for example, trust and leader-member exchange.

### **c. Social Exchange Theory and Transactional Leadership**

Young et al (2021) explain that the TSL is one of the most common styles of leadership. Countless studies have been performed on transactional leadership, not enough research has been performed to understand the mechanisms that explain why transactional leadership

predicts follower performance. Young et al (2021) further illustrates that TSL is hypothesized to influence the performance of the follower and follower performance successively through the leader-member exchange (LMX) and psychological enablement. Researches further argue that certain behaviors of the transformational leader such as contingent reward can benefit performance through positive encouragement of the leader-follower social exchange. At the same time, some leadership behaviors such as contingent reward may simultaneously display an undesirable impact on performance because of reduced empowerment. Young et al (2021) point out that TSL is a “double-edged sword” when it comes to predicting its influence on followers because it displays both positive and negative indirect influences on the performance of the follower. At the same time, Young et al (2021) contend that management by exception fosters empowerment but hinders it.

The social exchange theory is directly connected with the present research. This theory is used to explain a leader’s behavior, the relationship between the leader and the follower, and how leaders influence followers to induce business performance in SMEs. Therefore, this theory can be considered one of the key theories this research is based upon. At the same time, this theory allows the researcher to explore the theoretical gap.

#### **2.2.2.8 Leader-Member Exchange Theory**

The origin of leader-member exchange dates back to the 1970s. Vertical dyad linkage (VDL) theory is considered. Liden, Sparrowe, and Wayne (1997) explain that LMX is used to explain the dynamic between the leader and the follower in an organization. Even though is a decades old theory, it still provides “operable alternative to the traditional leadership approaches focused on leader traits and behavior.” Dansereau, et al. (1975). According to Gerstner, and Day, (1997) the outcome of the organization, group, or any other gathering is subjected to the quality of the relationship between the leader and the follower. Van Breukelen, Schyns, and Le Blanc (2006) also agree that the quality of the exchange relationship between a leader and a particular member or members of the organization impacts the performance of the organization.

Graen and Scandura, (1987) explain that relationships between leaders and followers go through three stages and are Role-Taking, Role-Making, and Routinization. Role-taking happens when followers join the team for the first time. Leaders usually use this stage to evaluate the capabilities of their followers. Role-Making happens when new followers initiate



their work as team members. During the second stage leaders expect the new followers to work hard, show loyalty and show their trustworthiness. In the final stage, leaders allocate new followers into one of two groups. Followers who are loyal, trustworthy, and skilled, they're put into one group and others into another group. In the final stage, routines between the leader and the follower will be established.

Dulebohn et al (2012) describe three types of antecedents related to LMX and they are leader characteristics, follower characteristics, and interpersonal relationships. According to Dulebohn et al (2012) followers, the characteristics include “competence, agreeableness, conscientiousness, extraversion, neuroticism, and openness, positive affectivity, negative affectivity, and locus of control.” Leader characteristics include the “supervisor's expectation of followers, contingent reward behavior, transformational leadership, extraversion, and agreeableness.” In this dynamic situation, the leader takes the lead, it is important to understand that follower has a role to play. This study also further explained that there are certain characteristics of the follower that can lead to either positive or negative output of the relationship. However, the leader should have the ability to drive the situation to his or her liking because the leader has the upper hand in the relationship.

The LMX is important for the present research because this theory help to understand the interactive relationship between leaders and follower. This explanation is important to the present research because this explains how leaders influence the follower to create business performance in the organization. Therefore, this theory is of key importance to this research and at the same time, this theory allows the researcher to explore the gap in leadership theory.

### **2.3 SME, SME Performance Measures, and KPIs**

Small and medium enterprises (SMEs) play a vital role in the global economy. OECD reports that 90% of global firms are SMEs and contribute to sixty-three percent of global employment. Several characteristics distinguish an SME from a large business. Academics, authors, policy makers' etc. use a variety of definitions to identify SMEs. These criteria can vary, based on industry classifications (Berisha Pula, 2015). When defining SMEs factors such as the number of employees, sales volume, net assets value, total investment, etc. are considered. European Commission defines SMEs based on staff headcount and turnover or balance sheet total. Businesses with less than fifty employees, no more than ten million euros turnover, or no more than ten million euros balance sheet total are considered as small

businesses. Businesses with less than two hundred and fifty employees, no more than fifty million euros turnover, or no more than forty-three million euros balance sheet total are considered medium-sized businesses (European Commission, 2021). OCED defines SMEs as “non-subsidiary, independent firms which employ less than a given number of employees. The most frequent upper limit designating an SME is 250 employees.”

In Australia, businesses with fewer than two hundred employees are recognized as SMEs. In the United States businesses with less than five hundred employees and gross annual sales below volume less than a hundred million USD are considered SMEs. In Canada businesses with less than a hundred employees are recognized as small-sized businesses and businesses with hundred to five hundred employees are considered medium-sized enterprises. In Sri Lanka, one of the key policy frameworks on SME, the National Policy Framework for SME Development (2017), defines SME as enterprises with 50 to 200 employees and enterprises with an annual turnover between 16 million rupees to 750 million rupees in the service sector as SMEs. In the manufacturing sector businesses with 51 to 300 employees and annual turnover between 16 million rupees to 750 million rupees are considered as SMEs.

Kaplan and Norton, (2005) stress the importance of measuring performance. Performance measurements are important to SMEs as much as for other businesses. It has been identified that it is difficult to manage something that is not measured. Certain performance measures are financial such as Sales Volume, Revenue, Operational Expenditure, cost of sales, Total expenditure, Earnings before interest and taxes (EBIT), net cash flow, Gross profit margin, etc. Other performance measures are described as non-financial measures. One of the most effective ways to measure business performance in SMEs is by analyzing key performance indicators KPIs. Lindberg et al (2015) point out that KPIs are “fundamental in measuring the performance and its progress. Peng, (2008) points out that KPIs are vital to the future and present success of an SME. Further, KPIs, indicate how industrial percusses of the business actively operate toward the business success. At the same time, KPIs can provide information about the performance in different areas such as energy, raw-material, control & operation, maintenance, planning & scheduling, product quality, inventory, safety, etc.” Peng, (2008) further explains that KPIs are used in a variety of levels in the organization. At the top-level KPIs look at overall operations and at lower levels KPIs look at processes.

Ahmad et al (2017) point out that KPIs play a pivotal role in achieving objectives and measuring performance. By measuring performance, SME leaders and managers can maintain

efficacy, efficiency, productivity, and organizational stamina. At the same time, KPIs act as guiding posts to deliver everyday results. KPIs create an impeccable and singular roadmap to achieve business performance. KPIs assist decision-makers to make decisions that are accurate and in line with organizational objectives. At the same time, KPIs help a business to stay on the right track by providing mile markers (Ahmad et al, 2017). The management team of an SME can often be subjected to change, KPIs can keep goals and performance in check even in the change of management.

SMEs often look at the SMART KPIs concept. Al-Ghunaim et al, (2017) point out that SMART stands for Specific, Measurable, Achievable, Relevant, and Time-bound. The letter S stands for specific. An effective KPI should be specific about what needs to be measured. The letter M stands for measurable. It has to be able to be measured in a numerical or another way. The letter A stands for achievable. The KPI has been practical enough to be achievable. The letter R stands for relevant. The KPI has to be relevant to the business and the goals of the business. The letter T stands for time-bound. There should be a specific time frame for achieving the goal. KPIs that can fully fill the above criteria can be considered effective. Al-Ghunaim et al, (2017) further explain that SMART KPIs play a pivotal role in decision making, improving performance, and implementing business strategy. At the same time, it allows businesses to allow benchmarking by providing the opportunity to compare past performance to present and to future expected performance.

Zhou et al (2020) explain that KPIs can be further defined as leading KPIs and lagging KPIs. Lagging KPIs measure the past performance of a business and predict future performance based on the patterns and trends of the previous performance. Lagging KPIs can indicate indicators such as growth in annual sales, annual sales, annual net income, and growth in the annual net income, gross profit margin, and earnings before interest, taxes depreciation and amortization, etc. Leading KPIs on the other hand are utilized as the indicators that occur within the business (Zhou et al, 2020). They can indicate a negative or positive initial result. Leading KPIs can include percentage in growth, percentage of growth in new markets, number of website viewers, number of new customers, etc.

Lindberg et al (2015) point out that, another way of identifying KPIs is based on the area of operations. Those areas are sales, HR, finance, and projects. Some of the key sales KPIs can include sales growth and profit, sales pipeline, rate of follow-up contact, market share, customer lifetime value, etc. Key HR KPIs can include retention of talent, average tenure,

absenteeism rate, employee productivity rate, etc. Key financial KPIs can include accounts receivables, accounts payable turnover, inventory turnover, working capital, net profit margin, revenue, and revenue growth rate, revenue per employee, order fulfillment cycle time, cash flow forecast, etc. (Lindberg et al, 2015). Key project management KPIs can include planned value, earned value, task cycle time, employee time spent, budget variance, budget line items, customer satisfaction, etc.

## **2.4 Leadership Styles and Business Performance**

The topic of leadership has been of enthusiasm for a huge number of years for researchers and numerous researchers have attempted to make meaning of leadership. The initiative is a social marvel that is found all over the place. For person fantasies and legends consistently got appealing about what separate extraordinary leaders from adherents (Hartog and Koopman, 2011). Leadership is a relational procedure through which one individual can impact the activities of people or gatherings (i.e., the supporters) towards the achievement of given distinct countries inside a specific circumstance by methods for communication (Covey, 2007; Mullins, 1999). The idea of the initiative has produced enthusiastic intrigue, banter and periodic disarray as the executives suspected has advanced. Indeed, even today, it is difficult to characterize initiative, and given the intricacy of the subject, there is no broad agreement about the delimitation of the field of the country.

As indicated by Bass (1999), the meaning of leadership is identified with the reason related to the endeavor to characterize it, thus presenting a wide scope of potential outcomes. Leadership can be viewed as a gathering procedure, a property of character, the craft of inciting obligingness, an activity of impact, a specific sort of activity or conduct, a type of influence, a forced relationship, an instrument to accomplish objectives, the consequence of cooperation, a separated job or commencement of a structure (Bass, 2000).

Ruslan, Rosli, and Hussin (2013) explain that leadership is a decisive factor in business performance in SMEs. They further elaborate that leadership styles affect business performance but, the level of impact on business performance can be varied. Ruslan, Rosli, and Hussin (2013) explain that it is the traditionally accepted opinion that leadership is an important factor of success in business performance in any organization. To lead organizations leaders to utilize different tactics and strategies to be effective. A combination of these tactics and strategies can be described as leadership styles. Different leaders use styles of

their own to lead the organization that they are in charge of and these styles of leadership contribute to the performance of the organization that they lead. Ruslan, Rosli, and Hussin (2013) further illustrate that the leach leadership style can have a different manner of impact on organizational performance.

Nave (2006) contends that the style of leadership used by the leader of the organization can result in the success and the demise of the organization. He further elaborates that each leadership style can have different characteristics that are different from one another. Therefore, the effect of each leadership style on people, organizational culture, motivation, etc. is different. Because of that, the impact of the leadership style on business performance is different. Nave (2006) further explains that some styles of leadership can have a positive impact on the business performance of the organization while some leadership styles may have a negative one. According to Van Wart (2006) leadership is the guiding hand that drives organizational operations in any kind of organization. It is the role of the leader to direct the people in the right direction of the organization in a way that the organizational objectives. By doing so leaders influence the performance of the organization.

Leaders are problem solvers in an organization. Plowman et al (2007) describe that leader's ability to solve problems affects the business performance and overall performance of any organization. Plowman et al (2007) further illustrate that leaders deploy tactics to solve problems based on the styles of leadership they practice. Therefore, the effectiveness of the leader in solving problems can be vary based on the styles of leadership leaders practice, and the effectiveness of the leader in swaying business performance and organizational performance is subjected to the style of leadership they practice. Leaders are expected to guide the organization through tough and challenging situations. To do that leader has to unite to people in the organization to work tother to achieve organizational objectives or objectives. Stahl (2007) contends that ability depends on the leader's ability to influence and motivate employees and the ability to define clear objectives for them. Therefore, leaders' leadership styles influence business performance in different ways.

Mgeni (2015) has identified that when the styles of the leader are directed towards entrepreneurial orientation, a positive impact on business performance can be identified. Based on the study he conducted on SME Tanzania Mgeni (2015) has identified that entrepreneurial orientation is a substantial predictor of business performance. Therefore, thus

its role should not be dented. He also contends that entrepreneurial leader has high ambitions, are highly motivated, and lead the organization with passion. At the same time, Mgeni (2015) points out that a lack of entrepreneurial skills in a leader can contribute to poor performance in the organization. A leader's ability to communicate is a decisive factor determining the business performance in any organization. According to Stahl (2007), an effective leader has to be an excellent communicator. He or she should be able to communicate a vision, mission, objectives, and goals of the business to the employees and should be able to communicate effectively with outside stakeholders. This ability of the leader affects not just the business performance but, it affects every other aspect of the business. Not all leadership styles used the same way of communication. Therefore, the effectiveness of leadership communication can vary from one leadership style to another and because of the impact on the business performance of the organization. Bass (1985) identified three styles of leadership. They are transactional leadership, transformational leadership, and passive-avoidant leadership. These styles of leadership have different characteristics and impact business performance in an SME in different ways. These leadership styles are relevant to the SME environment because they influence individual and organizational performance.

#### **2.4.1 Transformational Leadership Style and Business Performance**

Bass (1999) opinionated that leaders with the transformational style of leaders lead with motivation, morale upliftment, inspiring, and catering to the immediate self-interest of the follower. Transformational leaders have shown the ability to excel at problem-solving and decision-making, especially in challenging situations (Feinberg, Ostroff, and Burke, 2005). These leaders also have shown the ability to promote corporation among team members. These characteristics lead to business performance and the overall performance of the organization. For a business to achieve its objectives, promotion of personal growth, and development, offering emotional support and direction, and developing their abilities and capabilities to the employee is important. Transformational leaders promote such behaviors which lead to better performance. Gillispie and Mann (2004) discuss that transformational leaders possess the ability to interconnect, care, appreciate and grow supporters helps promote the trusting relationship between the followers of the group. Prior research studies have illustrated that a strong correlation between transformational leadership with a wide range of performance of business performance.

### **2.4.2 Transactional Leadership and Business Performance**

Udayanga, (2020) explains that transactional leadership maintains an affiliation between leaders and subordinates. The leader establishes a clear goal and what is expected from the follower and then clarify that what are the rewards for accomplishing these goals and what are the consequences if they fail to achieve what they are expected of. These rewards can be a promotion, pay raise, performance reviews, new responsibilities, etc. Udayanga, (2020) further explains that transactional leadership does not significantly influence the productivity of the organization. However, Al Khajeh, (2018) argues that the TSL has a constructive influence on the organizational performance because transactional leadership defines what is expected of the worker and clarity of what is the expectation and rewards that employees be getting in return for their accomplishment. Longe (2014) further illustrates due to the ability of the transactional leader to create sustaining context within the organization and the ability to maximize the human potential lead to innovation and efficacy which lead to the growth of business performance. Being said that, Sofi and Devanadhen (2015), explain that it is difficult to find a direct relationship between transactional leadership and business performance of the organization because transactional leadership does not promote creativity and innovation. among the employees and hence, the employees do not perform as per the expectations of the organization.

### **2.4.3 Passive-avoidance Leadership Style and Business Performance**

Avolio & Bass, (2004) explain that this type of leadership provides a minimum or no leadership at all to the followers. It is considered as lack of leadership or leaders inability to provide necessary leadership or do nothing leadership at all. According to Gartner & Stough (2002), passive-avoidance leadership is ineffective in challenging situations where tough decisions need to be made because this type of leader tends to avoid making sharp and quick decisions and delegate decision-making to others. That can lead to poor business performance. Gartner & Stough (2002) further describe that passive-avoidant leaders' inability to provide the necessary supervision and support can affect the performance of the organization negatively. It is also being said that due to inaction passive avoidance leaders lose control and influence over the organization, making it ineffective in swaying the business performance of an organization.

#### **2.4.4 Leadership Style and Business Performance in SME**

Literature indicates that leadership is considered one of the key influential factors in business performance in any business. Several studies have identified leadership sway business performance in SMEs (Fokam, 2016). Leaders have a certain set of behaviors that can be described as styles of leadership. The research looks at how transformational, transaction and passive-avoidance leadership styles affect business performance in SMEs. It has been identified that a significant number of studies have been conducted on leadership and business performance. However number of researches have been conducted with reference SMEs are considered limited (Madanchian and Taherdoost, 2017). le Max Weber introduced transformational leader in 1947 and James MacGregor Burns in 1978. In the full rage model introduced by Avolio, and Bass, (1991) all three leadership styles were combined as a model. Studies have identified that these leadership styles have an influence on business performance in SMEs but, they often disagree on what style of business is ideal for greater business performance in SMEs. The common observation is that research studies conducted on different contexts such as various geographical locations, various cultures, etc. tend to produce dissimilar results (Aziz et al, 2013). Some researchers have indicated that the TFL tends to produce the best results while other researchers point out TSL is ideal for greater business performance in SMEs. At the same time, some researchers recommend passive avoidance for SMEs for greater business performance.

Aziz et al, (2013) describe that based on their research conducted on SMEs in Malaysia, leadership styles impact business performance in SMEs. They have identified that each leadership style impacts business performance differently. These researchers have identified a positive relationship between transformational leadership style and TSL. They also identified that passive-avoidance leadership styles hurt business performance in SMEs. Among these two leadership styles, the TFL appears to produce greater business performance. Therefore, Aziz et al, (2013) point out TFL to have a greater business performance in SMEs.

Ebrahim Hasan Al Khajeh (2018) conducted his research based on six leadership styles – - “transformational, transactional, autocratic, charismatic, bureaucratic and democratic.” This research identified that TFLs, autocratic leadership style, and democratic leadership style have a positive effect on the performance of SMEs. On the other hand, TSL, charismatic leadership style, and bureaucratic leadership style were identified to have a negative influence on business. Therefore, this research points out that some leadership styles can have a positive impact while others can have a negative impact. Ebrahim Hasan Al Khajeh (2018) further



explain that SMEs should focus on transformational and democratic leadership styles to improve their performance. In addition to that Ebrahim Hasan Al Khajeh (2018) points out the importance of involving employees in the decision-making process.

Franco and Matos (2015) in their study conducted on SMEs in the Portuguese context, identified that leadership is an essential component for the business performance in SMEs.

SME leaders practice not just one but, different styles of leadership in their organization and each leadership style produces different results. Franco and Matos (2015) opinionated that both TFL and TSL indicate a positive impact on business performance in SMEs. Results indicated that the passive-avoidance leadership style does not show any positive or negative influence on business performance. Franco and Matos (2015) further explain SMEs that practice TSL produces greater performance compared to other styles of leadership. On top of that the points out that TFL can be effective in one on one level. At some time, it was identified that environmental factors such as dynamism, hostility, or geographical region can impact the effectiveness of the leadership styles.

Washington (2017) conducted his research based on financial performance and non-financial performance. His research revealed that some leadership styles support the financial aspect of the business performance and some leadership styles support the non-financial aspect of the business performance. Washington (2017) concludes that the TSL is better suited for the financial performance in SMEs, while transformational has a greater impact on non-financial performance in SMEs. Paudel (2020) studied how leadership styles affect business performance in SMEs in the Nepali context. Paudel (2020) used TFL and TSL as predicting leadership styles and entrepreneurial orientation as mediating variables. The research has identified that TFL has a greater impact on business performance directly and through entrepreneurial orientation.

Albloshi and Nawar, (2015) conducted their study on SMEs and business performance in Saudi Arabian context. In most countries, SMEs contribute heavily to economic growth. However, in Saudi Arabia SMEs' contribution to economic growth is considered low. They based their research on three styles of leadership and they are transactional, transitional, and passive avoidance leadership styles. Researchers contended that the TSL appeared to be the most suited style of leadership. Results of their research pointed out that under transactional leadership employees tend to put extra effort into their work willingly and the job satisfaction is indicated to be higher than other leadership styles. At the same Albloshi and Nawar, (2015)

point out that transformational also indicated to have a positive correlation with business performance. However, Albloshi and Nawar, (2015) finalized that the effectiveness and motivation of employees are at the best under transactional leadership.

Mwakajila and Nyello (2021) explain that leadership is a crucial factor that influences business performance and financial performance in SMEs based on their study in the Tanzanian context. This research was conducted based on the relationship between four leadership styles and they are TSL, TFL, a combination of transactional and transformational leadership styles and, passive-avoidant leadership style. According to Mwakajila and Nyello, (2021) TFL and, combined transformational and transactional leadership styles have a positive and significant influence on business performance. At the same time, the TSL demonstrates a significantly negative influence on SMEs' business performance. They also point out that passive- avoidant leadership style was found to have an insignificant impact.

Yıldız, Baştürk, and Boz (2014) suggest that leadership and innovation are influential factors affecting business performance in SMEs. They used innovation, TFLs, and TSL as predictors of business performance. According to Yıldız, Baştürk, and Boz (2014) innovativeness produce a positive impact on business performance and that influence is consistent. However, the impact of leadership styles is subjected to industry, sector, location, size, and other variables. Among the two leadership styles, transformational leadership is indicated to have a greater impact on business performance.

According to the study conducted in the Taiwanese context, Yang, (2006) describes that leadership and entrepreneurial orientation affect business performance in SMEs. The researcher points out that not all leadership styles correlated with entrepreneurial orientation and business performance equally. Yang, (2006) points out that TFL is the better predictor of leadership orientation in SMEs. At the same time, TFL have a greater influence on business performance than both transactional and PAVLs. At the same time, passive-avoidance leadership is indicated to have a better influence on business performance than the TSL.

Doctoral research conducted by Ossai, (2021) in the Nigerian context questions whether leadership is an important component in business performance. The researcher conducted this study based on transformational, transactional, and passive-avoidance leadership styles. The researcher has identified that innovation as an influential factor in business performance. The study was conducted based on the full range leadership model and organizational learning

theory. Ossai, (2021) further explains that TFL is an excellent predictor of business performance and both transactional and transformational and passive-avoidance leadership styles do not have a recognizable impact on business performance.

Based on this evidence it can be understood that there is no universally accepted opinion on the effect of leadership styles on business performance. Therefore, further research is can shed light on the subject matter.

## **2.5 Mediating Role of the Organization Culture**

Organizational culture depends on the idea of expanding on three levels: Level Basic Assumption, Value, and Artifact to be specific something that is abandoned. A degree of essential suspicion is a human relationship with what is on the earth, for example, nature, plants, creatures, and different people. The fundamental suspicion could mean a way of thinking, a conviction that can't be seen by the eye yet exists. Second, Value has a profound connection to acts or conduct. As a result of it, the worth can be estimated with any progressions or through social accord. While the ancient rarity is something that can be seen yet it is hard to recreate. It very well may be as innovation, workmanship, or anything that can be heard. Organizational culture is a type of convictions, qualities, and ways that can be figured out how to adapt and live in an association. Authoritative Organizational culture is probably going to be acknowledged by the organization employees. Kennedy and Quigley, (1994) expressed that a solid culture would drive the organization's performance and serve to defeat the authoritative individuals' issues to adjust to their outer condition by reinforcing the comprehension of the organization employees, the capacity to understand the strategy, standard, and assessment.

Ogbonna and Harris, (2000) have demonstrated the firm relationship between organizational culture and leadership in organizations. Be that as it may, there is an extensive discussion comparative with how a culture starts and whether leaders have any effect on molding organizational culture. Smircich, (1983) recommended that the way of life is simply the association, and seen as something which can be controlled. Therefore, it is normal for leaders that oversee and control the way of life in any event somewhat. Denison, (1990) and Hofstede et al., (1990) proposed that the activity of the organizational leaders can make and without a doubt affect the shape of the authoritative culture and vision. Bryman, (1992) explains that

the job of leaders to actualize an altar of course directed by a dream has an unmistakable potential to keep up e shaped by the way of life (Schein, 1997).

Transactional leaders will in general work inside the limits and cutoff points of the current culture, while transformational leaders much of the time progress in the direction of changing the way of life by their vision (Bass, 1985). The connection between the two ideas speaks to a progressing transaction wherein the leader shapes the way of life and is thus molded by the subsequent culture (Bass and Avolio, 1993). The endurance of an association relied on the change and responsiveness of culture as impacted by successful leadership (Bass, 1998; Kotter, 1998; Schein, 1997).

## **2.6 Moderating Role of Personality Traits**

The findings of Cabral and Mata (2003) show that for medium measured firms it is financial imperatives that produce skewness in the firm size dissimilar country, by constraining the development pace of firms that need capital. Research on banking deregulation shows that increasingly serious financial markets can carry specific advantages to small-scale firms (Cetorelli and Strahan, 2006). The absence of access to acknowledge has been distinguished as one of the significant imperatives blocking the development of private companies and along these lines, the gracefulness of innovative activities in Tanzania, however in other creating countries (Kuzilwa and Mushi, 1997).

Although the role of credit as a determinant of fruitful leading action may look evident when utilizing a fractional examine country, the elements in the enterprising procedures make this job subtler. The examine country of an innovative movement shows that money doesn't in itself make financial chances. Or maybe it is innovative individuals who see manners by which they can produce pay from circumstances, abilities or contact, or other push factors (Christen, 1997). Kristiansen (2001) summarizes it well by contending that credit makes dynamic business/opportunity open to the privileged enthusiastic person(s). The absence of credit could keep innovative activities from being attempted, and subsequently lead to business disappointment. An exploration of small-scale and medium estimated firms in Nairobi has uncovered that underlying capital more than some other firm-level variable clarified the size of the article of clothing business (McCormick and Pederson, 1996). This implies an absence of credit to get the required physical capital is probably going to restrict business development.

As Rogerson (2011) contends, entrepreneurs with a bigger supply of human capital, as far as instruction and additionally professional preparing are relied upon to be better ready to adjust to big business' continually evolving condition. While in the past preparing and aptitudes building were assumed as the liability of the express, the present changes in many creating countries are progressively commercializing this leadership. Harper and Finnegan (1998) effectively watch, the writing on layaway sway evaluation is tormented by methodological issues. Adams (1988) has been condemning the endeavors to quantify the impacts of credit on big business execution by looking, for instance, at the progressions in physical yield. He thinks that it's convoluted and hard to disengage the level of progress that can be ascribed to the accessibility of credit. There is a threat of exaggerating the impacts of credit by neglecting to consider self-sufficient changes that would have been made regardless of credit. Also, credit is typically offered related to another mediation, all the more regularly business preparing. Other effect evaluation concentrates using credit card programs have gone past taking a gander at the company's presentation, to take a gander at the general improvement in the personal satisfaction of the beneficiaries, contrasted with non-beneficiaries.

According to Harper and Finnegan, (1998), a study by Chowdhury and Abed surveyed the customers taking part in the Bangladesh Rural Development Committee and indicated that the personal satisfaction of the customers in the wording of nutrition and ownership of family unit resources had expanded. One of the as of late embraced approaches outfitted towards catching the elements of small-scale undertaking improvement is through seeking after longitudinal examine countries that screen the states of individual small-scale projects over some stretch of time and periods of their development cycle from the fire up through development or endurance to graduation (Mead and Liedholm, 1998). While this methodology sounds powerful, it necessitates that it is in-incorporated with the checking arrangement of the miniaturized scale fund program. A standard circumstance should be set up toward the start of the intercession Studies on the impact of obligation on returns have produced blended outcomes running from those supporting a positive relationship theory to those restricting it as indicated by Obert and Olawele (2010).

Empirical studies concluded by Ruland and Zhou (2005), coincide with that the additions from influence are noteworthy, and that the utilization of obligation expands the market estimation of a firm. They have reasoned that financial leverage has a positive effect on the firm's return on equity provided that the earning powers of the company's advantages (the proportion of

profit before interest and expenses to add up to resources) surpass the normal intrigue cost of obligation to the firm. Abor (2005) led an examining country on the impact of obligation on firms in Ghana which demonstrated an altogether positive association between all-out obligation and absolute resources and profit for value. The outcomes hence depicted a positive influence. As indicated by Berkivitch and Israel (1996), a company's obligation level and its worth are emphatically related particularly when investors have total power over the matter of the firm and it is contrarily related when debt.

### **2.6.1 Five-Factor Model of Personality**

The Big five personality model is occasionally signified by the acronym of OCEAN; openness, consciousness, extraversion, agreeableness, and neuroticism (Barrick and Mount, 1991). Mark and John (2000) explored the relationship of openness to experience and job performance, and reveals that this specific trait predicts unique variance in job performance for personnel; they further propose that leaders who are more open to experience can cope and resolve the conflicts positively and thereby enhances job performance. Leutner et al., (2014) explain that conscientiousness is the trait of dutifulness, competence, achievement orientation, and self-discipline. This trait is found to be the most descriptive of employee job performance (Hurtz and Donovan, 2000). Extraversion is possibly the most important trait of leadership and is the extent to which individuals are emphatic, invigorated, and eager (Solaja, Idowu, and James, 2016). Extroverted leader tends to be more efficacious because they are more likely to be conversational, sociable, and network-oriented (Colquitt, Le-Pine, and Wesson, 2009).

Five-Factor Model of Personality Consensus is developing that a five-factor model of a character (regularly named the Big Five) can be utilized to portray the most striking parts of the character (Goldberg, 1990). The principal scientists to duplicate the five-factor structure were Tupes and Christal (1992), commonly credited with establishing the five-factor model. The five-factor structure has been recovered through examinations of characteristic descriptive words in different dialects, factor expository investigations of existing character inventories, and choices concerning the dimensionality of existing estimates made by master judges (McCrae and John, 1992). The multifaceted generalizability of the five-factor structure has been built up through research in numerous nations (McCrae and Costa, 1997). Proof demonstrates that the Big Five are heritable and stable after some time (Digman, 1989). The measurements involving the five-factor model are Neuroticism, Extraversion, Openness to

Experience, Agreeableness, and Conscientiousness. Neuroticism speaks to the inclination to show poor enthusiastic alteration and experience negative effects, for example, tension, weakness, and antagonistic vibe. Extraversion speaks to the propensity to be friendly, emphatic, dynamic, and to encounter positive effects, for example, vitality and enthusiasm. Receptiveness to Experience is the attitude to be inventive, nonconforming, unusual, and self-sufficient. Suitability is the propensity to be trusting, agreeable, mindful, and delicate. Good faith is contained two related features: accomplishment and trustworthiness. DeNeve and Cooper, (1998) the Big Five characteristics have been seen as applicable to numerous parts of life, for example, abstract prosperity and even life span (Friedman et al., 1995). One of the most famous utilization of the five-factor model has been to the territory of occupation execution, where eight meta-investigations have been led (Barrick and Mount, 1991). **a.**

### **Neuroticism**

Ruler et al (1986) meta-investigation uncovered a remedied connection of .24 between proportions of change and initiative observations based on a moderately modest number of studies cumulated in their examination. This measure, in any case, couldn't be recognized from zero. Bass (1990), in his survey, demonstrated that practically all examinations on the relationship of self-assurance—showing low Neuroticism—to the initiative "was uniform the positive way of their discoveries. Luciano et, al (2018) recommended that confidence—another marker of low Neuroticism (Eysenck, 1990) is prescient of administration: 'Apparently there is persuading proof for the consideration of confidence as a significant quality of both unrivaled and subordinate in examining initiative viability' (Hill and Ritchie, 1977). Proof additionally demonstrates that psychotic people are more averse to being seen as leaders (Hogan et al., 1994). Considering this proof and these contentions, we would expect that Neuroticism is contrarily identified with leader development and administration adequacy.

### **b. Extraversion**

In Bass' (1990) survey, results connecting Extraversion to the initiative were conflicting. In early examinations, Extraversion was emphatically identified with administration in five investigations and adversely related in three, and there was no connection in four. Different audits, be that as it may, recommend that extraverts ought to be bound to rise as leaders in gatherings. According to Costa and McCrae, (1988) extraversion is emphatically identified with social authority and, as indicated by Watson and Clark (1997), to leader rise in

gatherings. Hogan et al. (1994) noticed that Extraversion is identified with being seen as leaderlike. Extraverts will in general be vivacious, exuberant individuals. Kirkpatrick and Locke (1991) remarked, 'Leaders are more probable than non-leaders to have a significant level of vitality and endurance and to be commonly dynamic, vivacious, and regularly eager'. Descriptive words used to portray people who rose as leaders in leaderless gathering conversations included dynamic, decisive, fiery, and not quiet or pulled back (Gough, 1988). These are the attributes of extraverts. Undoubtedly, Gough (1990) found that both of the significant aspects of Extraversion—predominance, and friendliness—were identified with self and companion appraisals of administration. Thinking about this proof, Extraversion ought to be decidedly identified with both leadership development and authority viability, albeit to some degree all the more unequivocally to leader rise

### **c. Openness**

At the point when Bass (1990) recorded the qualities that were the best corresponds of administration, creativity, and away from of Openness beat the rundown. Receptiveness corresponds with dissimilar reasoning (McCrae, 1987) and is unequivocally identified with both character-based and social proportions of inventiveness (McCrae and Costa, 1997). Inventiveness gives off an impression of being the significant expertise of viable leaders. Innovativeness was one of the abilities contained in Yukl's (1998) synopsis of the aptitudes of leaders, which depended on Stogdill's (1974) prior survey. Research demonstrates that imagination is connected to powerful initiative (Sosik, Kahai, and Avolio, 1998), proposing that open people are bound to develop as leaders and behavior.

### **d. Agreeableness**

Thoughtfully, the connection between Agreeableness and administration is uncertain. From one perspective, helpfulness will in general be identified with administration (Bass, 1990), and Zaccaro et al. (1991) found that relational affectability was identified with administration. That unselfishness, respect, and affectability are signs of a pleasing character would recommend that leaders ought to be progressively pleasing. Then again, pleasing people are probably going to be humble (Goldberg, 1990), and leaders tend not to be unreasonably unobtrusive (Bass, 1990). Besides, even though it regularly is viewed as a component of Extraversion (Watson and Clark, 1997), numerous researchers believe alliance to be a marker of Agreeableness (Piedmont, McCrae & Costa, 1991). Requirement for the association has all



the earmarks of being adversely identified with initiative (Yukl, 1998). These variables recommend that Agreeableness would be adversely identified with administration. Considering these clashing defenses, the conceivable connection between Agreeableness and initiative is uncertain.

#### **e. Conscientiousness**

Bass (1990) remarked that the “Task competence results in attempts to lead that are more likely to result in success for the leader, effectiveness for the group, and reinforcement of the tendencies”. Barrick and Mount, (1991) explain that Conscientiousness is identified with by and large employment execution, and this proposes Conscientiousness will be identified with leader adequacy. Besides, activity and tirelessness are identified with administration. As Kirkpatrick and Locke (1991) noted, ‘leaders must be vigorously tireless in their exercises and finish their projects’ (p. 51). Since faithful people have greater determination and tirelessness (Goldberg, 1990), we expect that reliable people will be progressively viable leaders. **f.**

#### **Overall Relationships**

Like meta-examinations including work execution in which different parts of execution are consolidated into a general measure, we explored the relationship of the Big Five qualities to initiative pooling over the administration standards (Barrick and Mount, 1991). As noted before, adroitly, initiative viability and rise are particular builds. In any case, operationally, both are commonly estimated through evaluations or perceptions of others, which implies that the two models speak to people’s view of authority. Since there is valid justification to accept that Neuroticism, Extraversion, and Openness will be identified with numerous authority measures, which accept that these qualities will show critical (nonzero) associations with initiative in the joined analyses.

## **2.7 Literature summary**

This chapter provides a theoretical underpinning of the present research. A thorough review of the literature has been conducted by the author. A significant number of materials including books, academic journals, articles, websites, etc. have been used for the literature review. Under the initial section theoretical background, the author explores the meaning of leadership based on several definitions provided by multiple scholars during the last several decades. In the second part of this section, the author has discussed leadership theories that provide the

basis for designing this research. The author has discussed, trait theory, behavioral theory, situational theory, transformational theory, transactional theory, etc. and leadership theories and social exchange theory, and leader-member exchange theory to analyze the relationship between the leader and the member. In the next section, the author introduces what is a small and medium enterprise (SME) and discussed commonly used definitions to identify SMEs.

Then the author discusses business performance in SMEs and performance measures that are used to measure business performance in SMEs. The author points out that key performance indicators (KPIs) are the ideal way to measure business performance in SMEs and the use of leading KPIs and Lagging KPIs.

In the next section, the author discusses literature relating to leadership and business performance. He compares different scholarly work that has been performed about leadership styles and their impact on business performance. He points out that there is no mutually agreed opinion on what styles of leadership are ideal for greater business performance in SMEs. In the next section, the author explores the literature on organizational culture and the mediating role organizational culture plays in the present research. In the final section, the author discusses how personality traits play a moderating role between leadership styles and business performance. Since the big five personality model is used for this research, the author discusses the five traits of the big five model which are extroversion, agreeableness, openness, conscientiousness, and neuroticism.

## **Chapter 03- Research Methodology**

### **3.1 Introduction**

In chapter two, the author provided a theoretical and conceptual underpinning of the present research by reviving the work of previous scholars. In the same chapter, the author has conversed theories on leadership, organizational culture, how leadership styles affect business performance, etc. Chapter three illustrates the methodology upon which the present research is based upon. In the first subdivision, the author has explained the conceptual framework that the present research is based upon. The conceptual framework illustrates, variables of the research study, the relationship between each variable, and the rationale for selecting these particular variables. In section two the author has explained hypotheses that are to be tested during this research. In section three the author enlightens operational definitions that are relevant to this research and in section five the author has explained the operationalization aspect of this research. In section six the author has illuminated the design of the research and its component, Research Epistemology, Research Approach, Research Strategy, etc. In sections seven and eight the author has outlined how primary data were collected, what tools that were used, what sort of questionnaire used, how the researcher is planning on selecting a sample to study, what is the size of the sample, what sampling method used. In the same section, the author has explained the data collection method and the method and techniques that were to be used to analyze data.

### **3.2 Conceptual Framework**

The conceptual framework outlined the variables of this research and the relationships between each variable in a precise manner. The author used the conceptual frames to define the aim and objectives of the research clearly (Jabareen, 2009). The conceptual framework was scientifically designed based on the research topic, findings of the reviewed literature (Chapter Two), research objectives, and research questions the conceptual framework has been designed. The author has used a 6-step process to develop the conceptual framework.

1. The research topic was selected
2. an in-depth review of the literature was conducted.

3. Research objectives and research questions were identified.
4. Variables of the conceptual framework were identified
5. Relationships between variables were identified.
6. The conceptual framework was generated.

Based on extensive reviews on literature the author has identified the following variables. The conceptual framework consists of four variables, and they are independent variable, dependent variable, mediating variable and moderating variable. Leadership Styles of SME owners or managers have been identified as the independent variable, business performance in SMEs has been acknowledged as the dependent variable, organizational culture has been recognized as the mediating variable and SME owners' or managers' personality traits have been identified as the moderating variable.

Based on the reviewed literature, the author has recognized the leadership style of the SME owner or manager as the Independent Variable and business performance in SME as the Dependent Variable. as a leadership style. Ulrich and Smallwood (2012) describe that "leadership occurs when the organization builds a cadre of future leaders who have the capacity to shape an organization's culture and create patterns of success." Cohen (1990) expresses leadership as "the art of influencing others to their maximum performance to accomplish any task, objective or project." As remarked by Kouzes and Posner (1995) "leadership is the art of mobilizing others to want to struggle for shared aspirations." Mihai et al (2017) describe leadership as "the process of guiding a group to act in a certain direction." Based on the research topic and the literature review business performance in SMEs has been identified as a Dependent Variable. According to the present research, business performance is influenced by leadership style. Therefore, business performance in SMEs has been identified as the Dependent Variable.

It has been a topic of research for the last several decades that, whether leadership makes a difference in performance in businesses. Based on this evidence the author has identified business performance in SMEs as the dependent variable. Thomas (1988) points out that leaders have a significant and crucial impact on the performance of their business. Nave (2006) depicted the importance of leadership in driving business performance. He also illuminates that the success of a business depends on the leadership style adopted by the leader. Based on the above justifications the author has established that leadership style affects

business performance. Therefore, Independent Variable has a relationship with Dependent Variable.

To further elaborate the relationship between the Independent Variable and the Dependent Variable, the author has introduced a Mediator. Reviewed literature indicates that leaders of an organization affect business performance through multiple avenues. Organizational culture has been identified as one of these avenues. Therefore, the author had introduced organizational culture as the Mediating Variable. By adding the Mediating Variable the author attempts to provide a cause and effect between Independent Variable and Dependent Variable.

Tsai (2011) theories that values and ways of doing things of an organization are referred to as the organizational culture. The culture of an organization gets stimulated by the behavior and style of the leader of the organization. Organizational culture contributes to job satisfaction among other things in an organization. Job satisfaction leads better performance (business performance) of the business. Ogbonna and Harris (2000) reassure that a positive relationship can be acknowledged between leadership, organizational culture, and business performance. Xenikou and Simosi, (2006) contend that leadership has an impact on the organizational culture. At the same time, organizational culture influences leadership. Especially, transformational leadership has been recognized to have a distinct impact on organizational culture. Xenikou, and Simosi, (2006) similarly reasons that organizational culture plays a vital role in organizational outcomes and performance. With that understanding, it is evident that organizational culture mediates between leadership and business performance. Therefore, organizational culture has been recognized as the mediating variable.

To add further weight to the outcome of the research, the author has included a Mediating Variable to the conceptual framework. By adding the Moderating Variable try to explain the relationship between Independent Variable and Dependent Variable. A leader's personality traits have been identified as a mediator between leadership styles and business performance in SMEs. Why each leadership style affects business performance on its own has been explained by personality traits associated with each leadership style.

Deinert, et al (2015) contended personality traits of the leaders affect both leader's performance as a leader and the business performance of the organization. Deinert, et al (2015) argue that the big five personality traits illustrated in transformational leadership have a

clear association between leaders' performance and the business performance of the organization. Andersen, (2006) elucidates that there is a relationship between personalities traits that contribute to the persona of the leader. At the same time Deinert, et al (2015) remark the significance of a leader's persona on effectiveness in swaying business performance. According to Garcia et al (2014), a strong affiliation can be acknowledged among perceived personality traits and leadership styles. Garcia, et al (2014) specified that Openness, Agreeable, and Emotionally Stableness are shared among Transformational Leaders, and Openness and Emotional Stableness are common among Transactional Leaders, while Conscientiousness and Emotionally Unstableness, are shared among Passive-Avoidant Leaders.

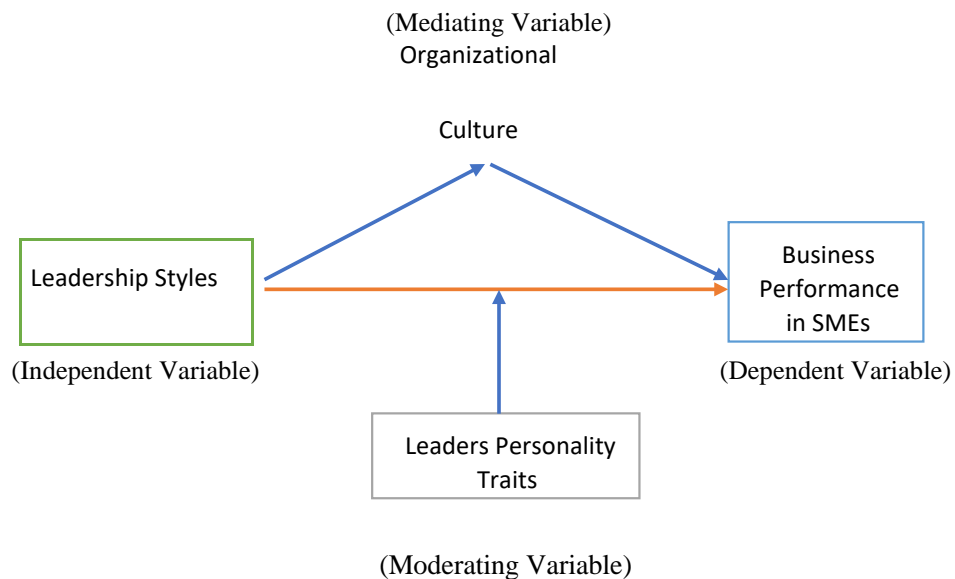


Figure 3.1 Conceptual Framework

### 3.3 Hypotheses

Literature indicates that scholars have empirically proved that leadership styles affect business performance in SMEs (Aziz et al, 2013). have identified that leadership styles influence the business performance in SMEs, and organizational culture and personality traits play a role. Therefore, the present research study investigates the effect of leadership styles on business performance in SMEs in the Sri Lankan context with special reference to the tourism industry. Based on the above conceptual framework the author has developed several hypotheses.

Literature indicates that various researches have tested the association between leadership styles and business performance in SMEs from different perspectives, different contexts, different cultures, different geographical locations, and different standpoints. Therefore, Obiwuru et al, (2011) point out that the outcomes of these research generated dissimilar results. The researcher's opinion is unique because of the context, geographic location, and the industry the research has conducted. At the same time, the present research uses mediating and moderating variables in this research. Several scholars have examined the correlation between leadership styles and business performance in SMEs based on similar variables that are demonstrated in the conceptual framework (Aziz, et al, 2013; Nave, 2006; Tsai, 2011; Andersen, 2006). Ogbonna and Harris, (2000) contended that in UK context organizational culture has been identified to have a link with business performance and leadership and act as a mediator between leadership and business performance. Xenikou and Simosi, (2006) contend that TFL has a has impact on organizational culture and transactional leaders can business performance. Obiwuru, et al (2011) claim it is visible that there is a relationship between a leader's personality traits and business performance in SMEs. However, the effect of personality traits on leadership and business performance is different in each context. Based on the above findings, the following hypotheses were developed. Each hypothesis is designed to test the relationship between variables of the conceptual framework.

Hypothesis one tests the relationship between the independent variable and dependent variable. Hypothesis two tests the relationship between the independent variable and mediating variable. Hypothesis three tests the relationship between mediating variable and the dependent variable. Hypothesis four tests the relationship between moderating variable and the dependent variable. Hypothesis five tests the how independent variable affect the dependent variable through mediating variable. The present research is questionnaire-based quantitative research. Parts of the questionnaire are linked to hypotheses and hypotheses were tested based on results generated from these parts of the questionnaire.

### **3.3.1 Research Hypotheses**

Based on the conceptual framework, the following hypotheses are identified. Hypotheses are used to predict the outcome of the findings of the research. Hypothesis one is used to establish the relationship between the independent variable and dependent variable.

As indicated by Mullins, (1999), leadership can be demonstrated as an interpersonal procedure through which one individual can sway the activities of a group of people. Bass (1999), defines leadership as an influence based on reason and characteristics. Stogdill (1957), acknowledges that an individual's ability to manage a group of people to accomplish an objective can be declared as leadership. Bass (1999) illustrate that leader influence the behavior of a group of individuals through communication and providing a common purpose. The idea and meaning of leadership style may contrast from one individual, or circumstance, to the next. Messick and Kramer (2004) explain that the capacity to lead differs from individual to individual and it can be a result of traits that person possesses. Leadership style is the most predominant components component of an organization (Adair, 2002). Chung-Wen, (2008) recognizes a direct association between leadership styles and business performance in SMEs. At the same time, Chung-Wen (2008) enlightens that each leadership style can affect business performance in a dissimilar manner.

Avolio and Bass (1991) introduced full range of leadership with three distinct leadership styles and they are TFL, TSL, and passive-avoidance leadership style. Each of these leadership styles indicates a distinct characteristic separate one from the other. The multifactor questionnaire was introduced to analyze characteristics and to identify the styles of leadership practiced. Aziz et al (2013) have conducted a research study to examine how leadership styles affect business performance in the Malaysian context. Based on the multifactor questionnaire (MLQ 5X) Aziz et al (2013) recognized a relationship between leadership and business performance in SMEs. Additionally, it was realized that each leadership style influence business performance in SMEs in a distinct way. The questionnaire tested business performance in SMEs against each leadership style.

According to Aziz et al (2013), transformational leadership can drive organizations to advance performance for reasons that of participative, supportive, collaborative, delegate nature of the relationship between leader-follower that in the organization. Fokam, (2016) indicated both transformational and TSLs have a comparable level of positive impact on SME performance. Arsawan, Pasek, and Suryantini, (2017) declared that “transactional leadership was more appropriate in inducing commitment and business performance in small and medium enterprises than transformational leadership style.” Arsawan, Pasek, and Suryantini, (2017) reflect that transactional leadership is significantly effective in influencing business performance in SMEs. Adom, (2017) in his research SMEs in Gahanna remarks that



passiveavoidance/laissez fair is the most effective leadership style and this leadership style promotes creativity among employees and transactional leadership fails to create employee commitment.

Based on the above justification the author has developed hypothesis one to determine the relationship between the independent variable (leadership style) and the dependent variable (business performance in SMEs).

### **H1:Leadership styles contribute to greater business performance in SMEs**

According to Sürücü, and Yeşilada, (2017) organizational culture is the founding of the organization's general behaviors, organizational value system, distributed beliefs, organizational characteristics, organizations attitudes, etc. Gholamzadeh, Khazaneh, and Nabi, (2014) recognize organizational culture as assumptions, underlying beliefs, values, etc. in an organizational climate. It is also identified that organizational culture is a collection of attitudes, beliefs, and non-formal ways of behaving within an organization. Ogbonna and Harris, (2000) have demonstrated that leadership plays a vital role in defining organizational culture.

Gholamzadeh, Khazaneh, and Nabi, (2014) recognize a relationship between leadership and organizational culture. At the same time, not all leadership styles have a similar impact on organizational culture. It is the opinion of Gholamzadeh, Khazaneh, and Nabi, (2014) that transformational leadership style and TSL have a positive influence on organizational culture and Laissez-fair leadership style has a negative effect. TFL was recommended to balance all four traits of Denison's organizational culture. Rijal, (2010) enlightens transformational leadership can have a positive impact on organizational culture. However, that impact can be subject to differ based on the context of the research. Bass and Avolio (1993) point out that transformational leadership creates transformational cultures within organizations. Therefore, transformational leaders have a positive impact on organizational culture.

Contrary to the popular opinion Sürücü, and Yeşilada, (2017) in the article "The Impact of Leadership Styles on Organizational Culture" challenges the notion that leadership styles have any effect on organizational culture. It is the opinion of Sürücü, and Yeşilada, (2017) that organizational culture is immune to the effects of leadership. Sürücü and Yeşilada, (2017) further illuminate that transactional leadership act according to procedures, rules, and

agreements. Therefore, under transactional leadership, the interactions take a requirement fulfilling nature. In such circumstances, the room for innovation, creativity, or motivation gets minimized. In this scenario, both the leader and followers are just fulfilling their responsibilities and duties while no risk-taking is involved. Sürücü and Yeşilada, (2017) also illuminate that in highly competitive markets both TFL and TSL appear to have no effect at all.

Based on the above justification the author has developed hypothesis two to determine the relationship between the independent variable (leadership style) and the mediating variable (organizational culture).

## **H2: Leadership styles have a positive influence on organizational culture**

Shehu and Mahmood, (2014) contended that a positive relationship between organizational culture and business performance in SMEs can be identified. Berson, Oreg, and Dvir (2005) also suggested a correlation between organizational culture and business performance can be identified. Ezirim, Nwibere, and Emecheta (2010) enlighten that a positive relationship can be acknowledged between organizational culture and business performance. Ezirim, Nwibere, and Emecheta (2010) point out organizational culture has a significant impact not just on business performance but, on market share, sales volume, and profitability as well.

As indicated by Aliyu, Rogo, and Mahmood, (2015) a positive relationship can be witnessed between organizational culture and business performance in SMEs. When the organizational culture has an entrepreneurial orientation, is innovative, and creates a positive atmosphere, they contribute to growth in business performance within particular SMEs. According to Shehu, and Mahmood, (2014) both organizational culture and entrepreneurial orientation affect business performance in an organization (SME) significantly. It was discovered organizational culture act as a mediating factor between entrepreneurial orientation business performances. Shehu and Mahmood, (2014) further empathy that with the appropriate organizational culture, managers can face competitive market situations with optimal performance levels. Eker and Eker (2009) find it difficult to connect financial and business performance to organizational culture. Organizational culture may influence certain factors within an organization such as job satisfaction. However, Eker and Eker (2009) were unable to link business performance and financial outcomes with organizational culture. Once again,

firms with a flexible organizational culture are less likely to influence business performance than organizations with solid organizational culture.

Sok, Blomme, and Tromp, (2014) Recognize are two main types of organizational cultures and are Positive organizational culture and negative organizational culture. Positive organizational cultures affect business performance in a positive manner and negative organizational cultures, the impact on business performance is unmeasurable. Therefore, it is clear that there is no common agreement on whether organizational culture has an impact on business performance in SMEs or not. Therefore, the author wishes to test that theory.

Based on the above justification the author has developed hypothesis three to determine the relationship between mediating variable (organizational culture) and the dependent variable (business performance in SMEs).

### **H3: Organizational culture contributes to greater business performance in SMEs**

In the 1970s Costa and McCrae led a team of scientific research in pursuit of identifying traits in personality and discovered the Five-Factor Theory of Personality (McCrae & Costa, 2003). In the Five-Factor Theory of Personality McCrae & Costa, (2003) identify five personality traits in a person and are Openness, Extraversion, Agreeableness, Conscientiousness, and Neuroticism. McCrae & Costa, (2003) declared each personality trait has its characteristics. Extroversion is broadly defined by using factors such as initiative, cheerfulness, communicativeness, and initiative. Those who score high for extroversion are companionable, sociable, and able to accomplish what they set out to do. Those with low scores tend to be introverted, reserved, and more submissive to authority. Openness relates to novelty and creativity. Individual with is low score tend to be conventional thinkers, has a sense of right and wrong, and routine. Agreeableness describes how well a person gets along with others (McCrae & Costa, 2003). An individual with a high score in conscientiousness is selfmotivated, well-disciplined, and is considered trustworthy. Those who are found in the low end are easily distracted and act irresponsibly. McCrae & Costa, (2003) identified neuroticism relates to emotional stability. Those who are high on the scale demonstrate traits such as anxiousness, inhibition, moody, and less self-assured. People at the lower scale tend to be more confident, calm, and contented.

Kalshoven, Den Hartog, and De Hoogh, (2011) contended that these personality traits affect the personal capacity of an individual as a leader and these traits affect the business

performance when a person leads an organization. It was discovered that these personality traits have a significant influence on business performance in SMEs due to the close interaction between leaders and employees in SME organizational environment. According to Franco, and Prata, (2019) personality traits and business performance in SMEs have a complicated relationship. Extraversion, conscientiousness, and openness have a positive relationship with business performance in SMEs. Neuroticism appears to hurt business performance in SMEs. Personality trait agreeableness appears to not affect business performance in SMEs. Andersen, (2006) empathies that the personality traits of the leader do not have an impact on the business performance of the SME he/she is leading. According to Andersen, (2006) further describes that in traditional organizations leaders' personalities and traits or event leadership have no impact on business performance. Avolio & Bass, (1991) indicated that personality traits in the big five leadership model can be interconnected with full-range leadership theory.

Based on the above justification the author has developed hypothesis four to determine the relationship between moderating variable (leader's personality traits) and the dependent variable (business performance in SMEs).

#### **H4: Leadership styles can positively influence business performance in SMEs through organizational culture**

Ogbonna and Harris, (2000) illustrate leadership styles and organizational culture are interlinked to each other, and together both leadership styles and organizational culture impact business performance in SMEs. It was discovered that leadership style contributes to the positive or negative nature of the organization and that impacts business performance. Ogbonna and Harris, (2000) contended that organizational culture plays the role of the mediator between leadership style and business performance in SMEs. Al-Sada, Al-Esmael, and Faisal, (2017) recognize that both leadership style and organizational culture is direct influencer on predominant influences on business performance such as job satisfaction, work motivation, organizational commitment, work attitudes, and ability to handle stress at work that has an impact on organization's business performance. Al-Sada, Al-Esmael, and Faisal, (2017) contend that leaders influence business performance contributing to the positive and negative nature of the organizational culture. In such circumstances, organizational culture becomes the mediating factor. It has been indicated that organizational cultures such as innovative organizational culture are shaped transformational nature of the leader. Ogbonna

and Harris, (2000) explain that innovative cultures lead to breakthroughs and leads to better business performances.

and competitive cultures can have a direct effect on business performance without the intervention of the leader or leadership styles. It has also been said that bureaucratic and community-style organizational cultures do not influence business performance. Because of the uniformity and strictness, these cultures prevent leaders from using organizational culture as a tool to influence business performance. effecting the business performance using (Ogbonna, and Harris, 2000). It is also a fact that factors such as industry, and competitiveness organizational culture can influence business performance without the influence of the leader or leadership style. According to Birincib, (2013) not all leadership styles behave in the same way. Some leadership styles impact business performance in SMEs while some leadership styles have no effect on organization culture and by doing so not impact business performance. At the same, some leadership styles influence organizational culture in a way that it would influence business performance. Birincib, (2013) illuminates that some leadership styles and organizational culture of that organization can have similar traits. TFL can have an influence on the organizational culture in a way that it creates a transformational organizational culture and that would lead to business performance in the organization. Birincib, (2013) indicated leadership styles such as TSL and passive-avoidance leadership style affect the organizational culture and by doing so the business performance.

Based on the above justification the author has developed hypothesis five to determine whether the mediating variable (organizational culture) acts as a conduit between the independent variable (leadership styles) and the dependent variable (business performance in SMEs).

#### **H5: Leader's personality traits moderate the business performance in SMEs**

### **3.4 Operational Definitions**

This section illustrates key concepts and definitions used in the conceptual framework. These concepts and terminologies derive from related fields such as psychology, management, and leadership. Based on appropriate literature the author recognizes the following operational definitions.

<b>Concept</b>	<b>Definition</b>
Leadership	Leadership is the behavior of an individual when he is directing the activities of a group toward a shared goal. The ability to affect a gathering of employees' choice, behavior, acknowledgment of the objective, and work with certainty and enthusiasm can be described as leadership (Bass, 1988). Leader envisions the future to spur members of the organization to accomplish the goals and to improve the exhibition.
Transactional Leadership	According to Bass (1999) "transactional leaders cater to their follower's immediate self-interest" and the relationship is an exchange of interests. This relationship can be a contingent rewards system. The transactional leader will directly or indirectly clarify the rewards and what followers need to receive those rewards. The leader monitors the performance of the followers and if the follower is unable to meet the expected performance the leader will take corrective actions such as reducing rewards. Bass (1998) further elaborates transaction leadership contributes to a greater level of stress within an organization comparative to transformational leadership styles and the passive-avoidance leadership style.
Transformational Leadership	According to Bass, (1999) "transformational leaders uplift the morale, motivation, and morals of their followers" and also "inspire, intellectually stimulates, and is individually considerate of them." Bass (1999) further discloses that transformational leadership is effective in fragile market conditions where employee development is significantly important. Under transformational leadership, followers are treated as colleagues rather than subordinates.
Passiveavoidance Leadership	According to Avolio & Bass, (1994), passive-avoidance leadership is compatible with "no leadership." At the same time, they contend it as a "do nothing" leadership style. Passive avoidance leaders provide hardly any direction or hardly any guidance to their followers. Because of that, the followers are left to make the decisions. Avolio & Bass, (1994) also portray that passive avoidance leadership is a lack of leadership altogether.
Small and Medium Enterprises (SMEs)	The "National Policy Framework for SME Development (2017)", defines SMEs as enterprises with 50 to 200 employees and enterprises with an annual turnover between 16 million rupees to 750 million rupees in the service sector. In the manufacturing sector, SMEs defines as enterprises with 51 to 300

	employees and annual turnover between 16 to 750 million rupees (National Policy Framework for SME Development, 2017).
Business Performance	Business performance “is a set of analytic processes that enables the management of an organization's performance to achieve pre-selected goals.” It is “An effective management of financial and non-financial objectives and measures to venture growth” (Franco-Santos et al, 2007)
Organizational Culture	Tsai, (2011) refers to organizational culture as a “set of beliefs and values that have existed in an organization for a long time, and to the beliefs of the staff and the foreseen value of their work that will influence their attitudes and behavior” (Tsai, 2011).
Personality Traits	“Personality traits are typically defined as descriptions of people in terms of relatively stable patterns of behavior, thoughts, and emotions” ( Parks-Leduc, Feldman, and Bardi, 2015).
Gross Domestic Product (GDP)	It is the “measures the monetary value of final goods and services that is, those that are bought by the final user produced in a country in a given period (say a quarter or a year). It counts all the output generated within the borders of a country. GDP is composed of goods and services produced for sale in the market and also includes some nonmarket production, such as defense or education services provided by the government” (Callen, 2008).

Table 3.1 Operational Definitions (Source: Author’s Work)

### 3.5 Operationalization

Operationalization is the process that turns abstract concepts into measurable annotations. It defines how concepts can be measured and observed. Operationalization, allow the researcher to evaluate abstract concepts into measurable indicators. Operationalization is important for any kind of research. Especially, for quantitative research operationalization of variables is significantly important.

The author has used a three-step process for operationalization.

1. Identify the main concepts you are interested in studying.
2. Choose a variable to represent each of the concepts.
3. Select indicators for each of your variables.
4. Identify Measurement Indicators

The author has used previous literature to identify measurement indicators for variables specified in the conceptual framework. The operationalization table is shown in the below table

### 3.5.1 Measurement Indicators

No	Concept	Variables	Measurement Indicator		Source
01	Leadership	Leadership Styles	Transformational Leadership Style	Idealized influence Inspirational motivation Intellectual stimulation Individual consideration	Bass and Avolio (1998)
			Transactional Leadership Style	Contingent reward Management-by-exception	Bass and Avolio (1998)
			Passive avoidance Leadership Style	Management-byexception Laissez-faire leadership	Bass and Avolio (1998)
02	Business Performance	Business Performance	Financial performance Non-financial performance		Mead, Bolnick, and Young, (1989)
03	Organizational Culture	Organizational Culture	Communication Decision making Change Growth Management		Tidor, et al (2012)
04	Leader's Personality	Personality Traits	Openness Conscientiousness Extraversion Agreeableness Neuroticism		Barrick and Mount, (1991)

Table 3.2 Measurement Indicators (Source: Author's Work)



## **3.6 Research Design**

### **3.6.1 Research Epistemology**

Malhotra et al., (1996) define that the conceptual framework provides a support structure to researchers. By using the conceptual framework as a reference, researchers were then able to illustrate the relationship between the key variables of the study. At the same time, it enables researchers to measure data about research structure. Based on previous scholarly work, the author, a conceptual framework has been developed. Based on the conceptual framework, “positivism” has been identified as the research philosophy. During the present research, the investigator is independent of the study and human interaction was be mininum (Dudovskiy,2018). The research progresses through hypothesis and deduction. Sample for the research was selected based on probability formula and a considerable number of samples were be used for the study.

Based on conceptual framework and research philosophy it is determined that positivism is the research philosophy. The present research is primarily based upon facts, numbers, and statistics because that philosophy has been selected (Crowther and Lancaster, 2008). For a research that is based upon a survey method, questionnaire is ideal research tool. As a result of those interactions with the research, participants would be minimal. As a result, the investigator is independent of the research study and participants are to be treated objectively (Smith et al. 2008). At the same time, the present research attempt to find answers through hypothesis testing. All these justifications indicate that positivism as the research philosophy deductive approach is the most suited approach for the present research (Dudovskiy,2018).

### **3.6.2 Research Approach**

Crowther and Lancaster, (2008) contend that two predominant approaches to research and are the inductive approach and the deductive approach. Wilson, (2010) expresses that for a research study that is based on hypothesis testing, the deductive approach would be the most appropriate. The present study explore selected number of samples that are selected from the population. By investigating these samples a theory is expectedt to be developed and that theory to be generalized and applied to the whole population. That qualifies the deductive approach as the most relevant approach for the present research (Wilson, 2010). Gulati, (2009) explains that for a low-risk research study, the deductive approach is ideal. At the time research studies conducted within a limited period qualifies for a deductive approach. When

using the deductive approach makes it easier for the researcher to illustrate the correlation between variables (Dudovskiy, 2018). At the same time, the deductive approach allows the researcher to measure results quantitative manner. Based on the above justifications the author established that the deductive approach to be the most suited approach for the present research.

### **3.6.3 Research Strategy**

Scholars have identified two predominant research strategies and they are qualitative research method and quantitative research strategies (Dudovskiy, 2018). Qualitative research studies are descriptive and quantitative researches are numerical. Dudovskiy, (2018) contended research studies that are based on positivism and deductive approach tend to be more quantitative than qualitative. For the present research, the author has adopted “positivism” as the research philosophy. Since the present research is based on hypothesis testing the author decided to take a deductive approach for this present research. It has been identified that for research studies to conduct hypothesis testing numerical data is required (Dudovskiy, 2018). The present research uses a structured questionnaire with a five-point Likert scale to collect numerical data. Based on research philosophy, research approach, hypotheses testing and fivepoint Likert scale-based questionnaire the author has decided to the present research to be quantitative.

### **3.6.4 Research Method**

Investigators use several research strategies for their research. As indicated by Sackett, and Larson (1990) several factors need to be taken into consideration when selecting the strategy to conduct research. Empirical studies contend that factors such as research philosophy, research approach, and research method need to be taken into consideration. Strauss and Whitfield enlighten that for research that is based on positivism philosophy, deductive research approach, and quantitative method, the survey is the most suited strategy. It is important to understand that the present research is based on hypothesis testing. To conduct hypothesis testing controlled numerical data is needed. At the time number of samples to be studied needs to be considered when deciding the strategy (Strauss and Whitfiel, 2018). The survey is ideal in a situation where a considerable number of samples need to be studied. Under such circumstances survey would be the most suited research strategy for the recent research.

### **3.6.5 Research Instruments**

Wilkinson and Birmingham, (2003) contend that there are two types of research instruments used in research and are Qualitative Research instruments and Quantitative Research Instruments. These research instruments can be generally included, Interviews, Observation, Surveys, etc. Interviews be divided into five categories, Structured Interviews, Unstructured Interviews, Non-Directive Interviews, Focus Interviews, and Group Interviews. Wilkinson and Birmingham, (2003) contended that Observations can be divided into three categories, Structured Observations, Naturalistic Observation, Participant Observations. Survey research can be divided into two categories, free answer surveys, and guided response surveys. Research methodology, conceptual framework, and the qualitative nature of a controlled questionnaire have been adopted for the present research.

The research questionnaire consists of of four parts. Part (a) of the questionnaire is to gather general information about the participant (anonymity of participants is preserved by not presenting personal questions). Part (b), (c), (d) be aligned with the variables of the conceptual framework. Part (b) of the questionnaire is Multifactor Leadership Questionnaire (MLQ 6S ) short form. This form consists of 15 self-assessment questions. This part of the questionnaire addresses the relationship between the independent variable (leadership styles) and the dependent variable (business performance in SMEs). Part (c) of the questionnaire is the big five personality traits questionnaire. This particular part of the questionnaire addresses the moderating variable (personality traits of the SME owner/manager). Part (d) is an authordeveloped questionnaire. This set of questions addresses the mediating variable (organizational culture). Questions in parts (b), (c), & (d) are to be assessed based five-point Likert scale.

### **3.6.5 Unit of Analysis**

Sekaran (2009) specifies that the unit of analysis is a key component of the research design. Malhotra & Grover (1998) contended that the unit of analysis can be group, individual, organization, and department or with the industry-level organization. The present research surveys either the leader or the manager of the selected SME. Therefore, under the present circumstances unit of analysis can be identified as an individual(Trochim, 2020).

The unit of analysis for this research is individual. The manager or the owner of the SME who is directly managing the employees was selected for this research study. In a company where the owner is directly managing the employee, he or she was selected for the research. In a company where there is a chairman and a general manager and if the general manager is directly managing the employees, he or she was selected. In companies where the managing director and chairperson manage employees directly, they were selected for the research.

### **3.6.6 Time Horizon**

Malhotra & Grover (1998), enlighten that there are two types of time horizons in research and they cross-sectional or longitudinal. In longitudinal survey research, the survey is expected to be conducted multiple times on the same subjects over a period of time. In Cross-sectional, it is a one-time survey. Data collected from a one-time survey is treated as the final data (Saunders et al. 2007). The present research participants (SME leader or manager) is to be given a questionnaire and expect to fill it one time only. Considering the above justifications, the time horizon for the present research has been identified as Cross-Sectional.

## **3.7 Primary Data Collection**

Data collection is a crucial component of a research study. Data collection can be divided into two categories and they are primary data and secondary data. Secondary data is collected based on previous literature and information available (Kabir, 2016). New findings are discovered through primary data analysis. Collection of primary involves surveying, interviewing, observing, or experimenting. Then these data were analyzed using analytical tools and based on these results new conclusions are drawn. Selecting primary data that meets the standards of quality, availability, statistical power, and another requirement is crucial. Then again it is vital to identify a research method to meet the above expectations. The present research investigates how leadership styles affect business performance in SMEs in the Sri Lankan context. SMEs in Sri Lanka are the generic target population. To increase the accuracy, a specific industry has been identified. The tourism industry represents a diverse variety of businesses that qualify for research such as the present research. Primary data were be drawn from SMEs in the tourism industry in Sri Lanka. Based on the collected data hypotheses were be tested and conclusions were drawn. Literature indicates that previously conducted research studies have based their investigations based on research questionnaires.

Several research studies had used Multifactor Leadership Questionnaire (Obiwuru, et al, 2011; Aziz, et al, 2013; Nave, 2006; Tsai, 2011; Andersen, 2006).

The below table provides examples of researches that are conducted on leadership the effect of leadership styles on business performance.

Author/s	Research Approach	Research Instruments	Sample size
Mgeni, T.O., 2015	Interview & Survey	Self-designed questionnaire	100
Zehir, C., Ertosun, Ö.G., Zehir, S. and Muceldili, B., 2011	Survey	questionnaire	295
Aziz, Abdullah, Tajudin, and Mahmood, 2013	Survey	Multifactor Leadership Questionnaire	250
Obiwuru, Okwu, Akpa, and Nwankwere, 2011	Survey	Multifactor Leadership Questionnaire	15

Table 3.3 Past Research Methods (Source: Author's Work)

Based on the information in the above table the majority of past investigators' researches have used questionnaire-based surveys. The multifactor leadership questionnaire appears to be a preferred questionnaire among several investigators.

### 3.7.1 Questionnaire

Based on the research philosophy, research approach, and research strategy a questionnaire has been identified as the research tool. Based on the conceptual framework, variables and hypotheses a five-part questionnaire has been designed. Part (a) of the questionnaire is to collect background information of the participant. This part of the questionnaire is to get the demography of the participant. However, these questions are not designed to reveal the identity of the participant, and the participants can refrain from answering any questions that seem to reveal their identity or they feel uncomfortable. Part (b) of the questionnaire is Multifactor Leadership Questionnaire 6S. This form consists of 15 self-assessment questions and is linked to the relationship between the independent variable (leadership styles of SME owner/manager) and the dependent variable (business performance in SMEs). Part (c) of the questionnaire is the big five personality traits questionnaire. The part of the questionnaire

addresses the moderating variable (personality traits of the SME owner/manager). Part (d) of the questionnaire is developed by the author. This part of the questionnaire addresses the mediating variable (organizational culture of the SME). Part (e) of the questionnaire is an author-developed questionnaire to address the dependent variable business performance.

The author has designed this research in a way that hypotheses can be tested. Part (a) of the questionnaire is used to test hypothesis 01 (H1: Leadership styles have a direct impact on business performance in SMEs). Part (b) of the questionnaire is test hypothesis four (H4: Leaders' personality traits affect the business performance in SMEs) and Part (c) of the questionnaire is used to test hypotheses H2 (H2: Leadership styles have an impact on organizational culture, H3 (H3: Organizational culture has an impact on business performance in SMEs) and hypothesis H5 (H5: Leadership styles affects the business performance in SMEs because of organizational culture). and detailed questionnaire exemplified in the annexure (Please refer to Annex 01 for the complete questionnaire). Questions are assessed based on a five-point Likert scale. Participants are be allowed to answer the question. Five points of the scales would be 1. Strongly disagree 2. Disagree, 3. Neutral/ Agree to some extent, 4. Agree, 5 strongly agree. The structure of the questionnaire is illustrated in the below table.

<b>Section</b>	<b>Investigation Area</b>	<b>Questionnaire Type</b>	<b>Questionnaire Numbers</b>
A	General Information of the subject	Author designed questionnaire	From Q 1.1 to Q 1. 8
B	Leadership Styles and Business performance	Multifactor Leadership Questionnaire 6 S	From Q 2.1 to Q 2. 21
C	Leaders Personality Traits	Gig Five Personality Traits Questionnaire	From Q 3.1 to Q 3. 44
D	Organization Culture	Author designed questionnaire	From Q 4.1 to 4.30
E	Business Performance	Author designed questionnaire	From Q 5.1 to 5.12

Table 3.4 Questionnaire Structure (Source: Author's Work)

### **3.8 Sample Plan**

According to Bryman (2006) sampling plays a vital role in both quantitative and qualitative research studies. Since this is a study of business performance and leadership styles in SMEs in Sri Lanka, SMEs in Sri Lanka would be the general population. Therefore, samples have to be selected from SMEs in Sri Lanka. According to National Policy Framework for SME Development (2017), in Sri Lanka, an SME can be described as businesses “with 50 to 200 employees and enterprises with an annual turnover between 16 million rupees to 750 million rupees in the service sector. In the manufacturing sector, SME defines as enterprises 51 to 300 employees and annual turnover between 16 to 750 million rupees.” According to Certified Management Accounts of Sri Lanka (2018), over fifty thousand SMEs are operating in Sri Lanka. There is a large number of SMEs that are not registered with any organizations. SMEs in Sri Lanka are spread across all industries including import, export, tourism, health care, hospitality, manufacturing, agriculture, transport, logistics, FMCG, retail, etc. Therefore, it makes it difficult to obtain a justified sample from the general population. The author believes that sticking with a certain industry that has a higher degree of diversity and a list of registered businesses that are registered with a government authority would be better suited for this research.

#### **3.8.1 Target Population**

The SME sector in Sri Lanka is the general population for this research study. Since the SME sector is a broad population to acquire quality samples, the author decided to acquire samples from one particular industry. Because of that research, the author has selected the tourism industry as the target population for the present research. The tourism industry includes a large number of SMEs and includes a diverse range of businesses. SMEs operate in the tourism industry cross-reference with many other industries such as transport and logistics, healthcare, hospitality, food and drinks, and many other industries. Therefore, the author believes that the tourism industry can accurately represent the SME sector in Sri Lanka. Having properly maintained database maintained by the SLTDA is a bonus. Therefore, the sampling frame for this research would be Tourism Industry in Sri Lanka.

### **3.8.2 Definition of SME for this research**

For the present research, SMEs were selected from the Sri Lanka tourism development (SLTDA) registered database. The number of employees and annual turnover were used as indicators to identify SMEs. Businesses with employees were considered as small businesses and businesses with employees between and fifty and a hundred were considered as medium businesses. Businesses with annual turnover below fifty million LKR were considered and small businesses and businesses with annual turnover between a hundred million and two hundred were considered as medium scale businesses. SLTDA database consists of businesses such as hotels, guesthouses, restaurants, travel agents, transport providers, activity providers, healthcare providers, etc. all of these businesses that were considered as potential samples. Therefore, all these businesses were used sample selection.

#### **3.8.2.1 Sampling Method**

According to Taherdoost, (2016) researchers use a wide range of sampling methods to find a quality sample that represents the population accurately. Taherdoost, (2016) described 6 stage process when it comes to selecting a sample,

Stage1: Clearly Define Target Population,

Stage 2: Select Sampling Frame,

Stage 3: Choose Sampling Technique,

Stage 4: Determine Sample Size,

Stage 5: Collect Data and

Stage 6: Assess Response Rate.

For the present research, the author has decided to use the probability sampling method to attain an accurate sample because of the size of the target population. Out of multiple probability sampling techniques, the author has decided on a representative sampling method. In representative sampling, all samples get an equal probability of being included in the sample. Based on these factors the researcher decided that a sampling formula would be the best course of action. Therefore, the researcher decided to use a sampling formula to select the sample for the research. The Krejcie Morgan sampling formula was selected for the research to avoid sampling bias (Taherdoost, 2016).

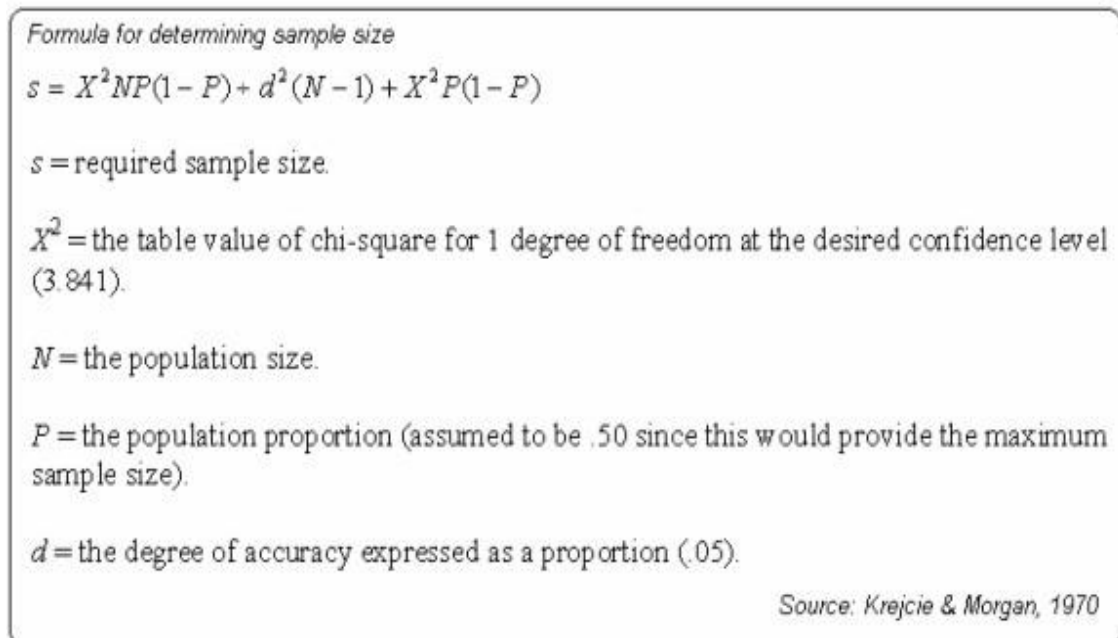


### 3.8.2 Sample size and Sampling formula

Scholars always prefer a snapshot sample of the target population. When a researcher is faced with a larger population it makes it difficult to get an exact representation of the population. In such a situation researchers use a sampling method to get the best possible sample (Chuan, and Penyelidikan, 2006). Chuan and Penyelidikan, (2006) portrayed that a representative sampling method based on formula would be the most effective way to get the an accurate and unbiased sample. Krejcie & Morgan sampling method was developed in 1970 by Robert V. Krejcie and Daryle W. Morgan. Due to the timely need for an accurate representative statistical sampling method Krejcie & Morgan method was developed.

According to Chuan, and Penyelidikan, (2006). Krejcie and Morgan formula has higher accuracy than Cohen's formula over to base decisions on research findings with confidence. The author believes that it is very important to select samples (SMEs in the tourism industry) in an unbiased manner.

The database of SMEs in SLTDA consists of over thousand businesses. Because of that reason the author decided to use a sampling formula. The author decided to use Krejcie Morgan sampling formula to select sample SMEs to study (Chuan, and Penyelidikan, 2006). The Krejcie Morgan formula is given below:



*Formula for determining sample size*

$$s = \frac{X^2 NP(1 - P)}{d^2(N - 1) + X^2 P(1 - P)}$$

$s$  = required sample size.

$X^2$  = the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).

$N$  = the population size.

$P$  = the population proportion (assumed to be .50 since this would provide the maximum sample size).

$d$  = the degree of accuracy expressed as a proportion (.05).

*Source: Krejcie & Morgan, 1970*

Figure 3.2 Krejcie and Morgan formula (Source: Kerjcie & Morgan, 1970)

Table 3.1									
Table for Determining Sample Size of a Known Population									
N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	283	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	1000000	384
Note: N is Population Size; S is Sample Size					Source: Krejcie & Morgan, 1970				

Table 3.5 Krejcie and Morgan Table (Source: Kerjcie & Morgan, 1970)

Based on the number of SMEs in the Sri Lanka Tourism Authority number of samples were be selected. According to SLTDA, over 1000 SMEs are operating in the Sri Lanka Tourism industry. Therefore, based on the Krejcie Morgan sampling formula the researcher decided to selct select 285 sample SMEs.

### 3.9 Data Analysis Techniques

A wide range of data analysis techniques are used in modern-day research. Data can be divided into two categories. Qualitative Data and Quantitative data. For this research, the author decided to collect quantitative data using a questionnaire that is assessed based on fivepoint liker scales. Data analysis can be s defined as “a process of cleaning, transforming, and modeling data to discover useful information for decision-making. The purpose of Data Analysis is to extract useful information from data and make the decision based upon the data analysis.” According to the Responsible Conduct of Research (RCR) website at Northern Illinois University (2021) “data analysis is the process of systematically applying statistical and/or logical techniques to describe and illustrate, condense and recap, and evaluate data.” Data analysis techniques can be primarily divided into two categories. Qualitative data analysis techniques and quantities data. Qualitative data analysis techniques are descriptive in

nature and qualitative data analysis techniques are statistical. Since this research is quantitative this part of the chapter mainly focuses on quantitative data analysis techniques.

According to Kawulich, (2004), qualitative data analysis involves getting familiar with data, identifying themes and patterns, and trying to establish relationships between data points.

According to Davis, and Meyer, (2009) qualitative research techniques include Conversation analysis, Discourse analysis, Narrative analysis, Semiotics qualitative comparative analysis, Constant comparison analysis, Keywords-in-context, Word count Membership categorization analysis, Domain analysis, Taxonomic analysis, Componential analysis, Classical content analysis, Micro-interlocutor analysis, Comparative Analysis, etc. Bernard, (2013) defined that there are several approaches to qualitative data analysis including grounded theory analysis, interpretive analysis, narrative analysis, performance analysis, discourse analysis, hermeneutics analysis, content analysis, cross-cultural analysis, etc.

The below table explains the approach to the analysis used in the qualitative analysis by two authors – Bernard (2013) and Merriam (1998).

Author	Approaches
Merriam (1998)	Ethnographic Analysis
	Narrative Analysis
	Phenomenological analysis
	Constant Comparative analysis
Bernard ( 2013)	Hermeneutic/Interpretive Analysis
	Narrative/Performance Analysis
	Discourse Analysis
	Grounded Theory Analysis
	Content Analysis
	Cross-Cultural Analysis

Table 3.6 Approached to Analysis (Source: Kawulich, 2004)

There are several software available today to assist qualitative researchers enabling a large number of data to be analyzed in a short period. This software allows the researcher to conduct rather accurate analysis than manual process (Kawulich, 2004). Some software allows the researcher to analyze audio and visual data to analyze. Quantitative data analysis techniques

can be divided as Techniques based on Mathematics and Statistics and Techniques based on Visualization and Graphs (Zikmund, et al, 2003). Techniques based on Mathematics and Statistics include Descriptive Analysis, Dispersion Analysis, Regression Analysis, Factor Analysis, Time Series Analysis, etc. According to Zikmund, et al (2003) descriptive data analysis is “the transformation of raw data into a form. That makes it asy to understand and interpret; rearranging, ordering, and manipulating data to generate descriptive information.”

Jansen and Warren, (2020) contended quantitative data analysis as a number-driven analytical method. Quantitative data analysis allows researchers to perform hypothesis testing and at the same time allow the measure correlation between variables in contrast to analysis of perceptions and feelings in people in qualitative data analysis. As indicated by the University of Sothern California library website (2021) “quantitative methods emphasize objective measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires, and surveys, or by manipulating pre-existing statistical data using computational techniques. Quantitative research focuses on gathering numerical data and generalizing it across groups of people or to explain a particular phenomenon.” The present research study is quantitative. The conceptual framework has identified research variables. Hypotheses are developed to test relationships between variables and they will be tested based on numerical data collected from the research questionnaire.

#### **a. Descriptive analysis**

Lawless and Heymann, (2010) contended descriptive statistics as a way of organizing statistical data in a manner that it can be comfortably understood. Descriptive analysis is not developed based on probability theory, unlike inferential statistics. Unlike inferential statistical analysis, descriptive analysis can provide data in a vivid descriptive way. Descriptive analysis is less time-consuming compared to other statistical-based analytical techniques. According to Lawless, and Heymann, (2010) descriptive analysis can be divided into two categories based on variables, and are “Descriptive analysis for each variable” and “Descriptive analysis for combinations of variables.” When analyzing each variable separately, histograms and box-and-whisker plots calculate mean and standard deviation separately. When analyzing combinations of variables, scatter plots, box-and-whisker plots, or contingency tables are commonly used.

### **b. Predictive Analysis**

Predictive analysis is a modern-day data analytic tool used in a wide range of statistical-based data analyses. Nyce and Cpcu, (2007) contended predictive analysis uses a wide range of analytical and statistical techniques to predict future behaviors and events based on predictive models. Predictive models that are used for analysis can be differ based on each behavior or event that the researcher tries to predict. These models use a system that is based on a scoring system. When the score is high the probability of a particular event or behavior occurring is highly probable. In predictive analysis, the researcher uses a technique called ‘data mining’ which enables the researcher to establish relationships, trends, patterns, etc., and this information is then used to generate predictive models. Nyce and Cpcu, (2007) illustrated that predictive analysis commonly used research technique in the insurance industry. Researchers used predictive analysis to predict the future behavior of people based on present and past data, therefore they can design future insurance plans. Advances in technology, faster computer (with greater speed and higher data processing power), machine learning, and access to big data have contributed to the accuracy in predictability in predictive analysis.

### **3.9.1 Main Data Analysis Techniques**

To analyze collected data and to test the hypothesis, the researcher has used two quantitative data analysis techniques, Regression Analysis and Correlations Analysis.

#### **a. Regression Analysis**

Gallo, (2015) enlightened that regression analysis is one of the popular statistical-based analysis techniques used in quantitative data analysis. Regression analysis is a way of conducting analysis based on variables and “a way of mathematically sorting out which of those variables does indeed have an impact.” One of the key elements in regression analysis is the measure of the correlation between of how variables. Especially, it measures the independent variable correlation between dependent variable Gallo, (2015). For regression analysis to work, researchers need to gather data on variables using questionnaires, then a regression model will be designed using a scatterplot.

## Building a Regression Model

The line summarizes the relationship between x and y.

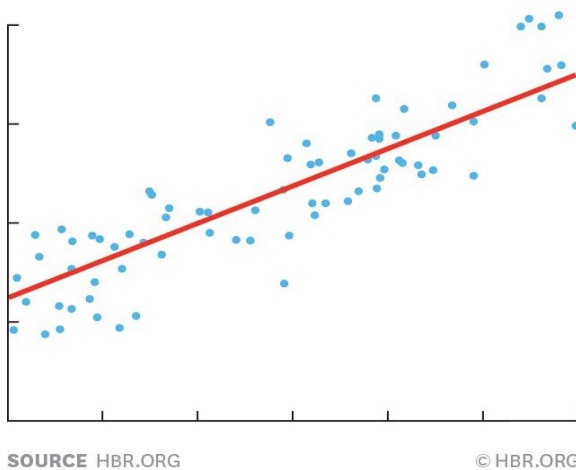


Figure 3.3 Regression Model (Source: Gallo, A., 2015)

The regression line is drawn based on statistical calculation. These calculations are primarily calculated using statistical software. Microsoft Excel is an elementary software that can be used. Then again for sophisticated analysis, software such as SPSS or STATA are available (Gallo, A., 2015). By analyzing the regression line, the relationship between the independent variable and dependent variable. In addition to conducting analysis based on the regression line, statistical software is capable of performing formula-based analyses. Regression formulas are given below.

### Formula 01

$$Y=200+5X+\text{error term}$$

### Formula 02

$$Y=200+5X$$

Regression analysis is primarily divided into two categories and they are linear regression and multiple regression. Linear regression is primarily used to analyses deterioration between two variables and multiple regression is used to estimate the relationship between more than one variable. For research with only an independent variable and a dependent variable linear regression is suited. For research such as the present research with more than two variables (research with an indigent variable, a dependent variable, a mediating variable, and a moderating variable) multiple regression is the applicable model.

## b. Correlation Analysis

Correlation analysis looks at the relationship between two different variables. When the correlation coefficient is between +1 and 0 it is considered as a positive relationship and when the correlation coefficient is between 0 and -1 it is considered as a negative relationship between two different variables (Senthilnathan, 2019). When the correlation coefficient value gets closer to 0 (either positive or negative) the relationship between the variables becomes less significant. When data are scattered closely together in a line it is considered that correlation is strong and when data points are scattered loosely it is considered as a weak correlation. The below figure illustrates this relationship clearly.

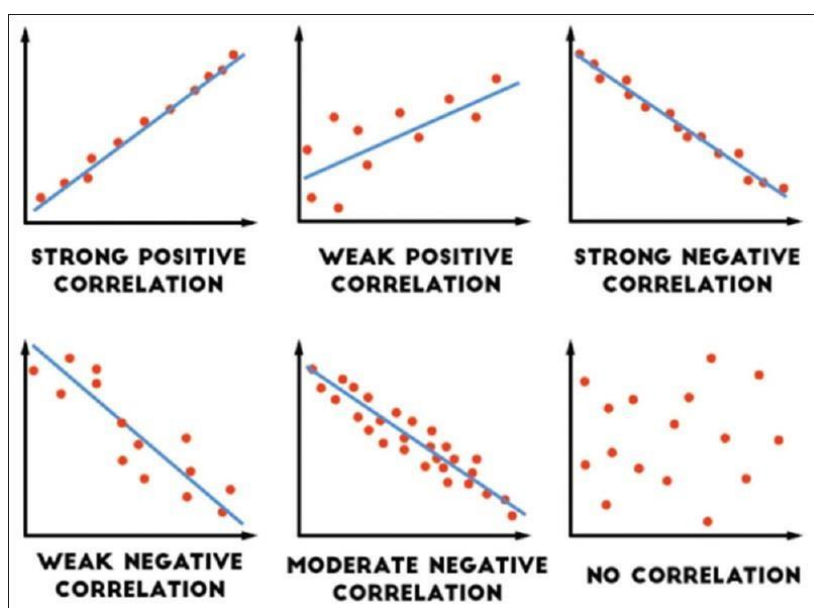


Figure 3.4 Regression Model Scatter Plot (Source: Yadav S., Correlation analysis in biological studies, 2018)

Calculating the correlation coefficient manually is time-consuming and room for error can be high. Therefore, using software such as SPSS, Eviews, Minitab 18, Stata, JMP, etc. are recommended. According to Xu, et al. (2015) correlation analysis is often used in quantitative data-driven research methods. The correlation coefficient is commonly used for analysis in financial markets. For example, it can be used measure how to stock behave against each other under the same market conditions. At the same time correlation coefficient in academic research are data-driven. It can be used to analyze the correlation between variables in the conceptual model and to see whether these variables have a positive, negative, or insignificant relationship.

### **3.9.2 Validity and Reliability**

Zikmund, (2003) indicated validity and reliability are key elements in measuring research data. Reliability and validity positively impact the effectiveness and accuracy of analysis results because of the efficiency and effectiveness. The author believes that it is very important to include validity and reliability measures in the present research. By doing so the author would be able to increase the accuracy of the research. According to Sekaran & Bougie, (2011) reliability measures ensure the consistency of the measurement's indicators, stability, measurement across the time, etc. Canava et al., (1998) contended that reliability can create a degree of consistency among variables act as an indicator of measurement. The Cronbach's alpha coefficient is used to conduct the reliability test. By using Cronbach's alpha coefficient, the reliability of each element can be measured and how closely they are related as a group can be measured.

Validity can be considered as is one of the key important techniques that are used in research modern day. It is also stated that "the degree to which an instrument measures what it is prime to measure." According to Sekaran and Bougie, (2011) researchers have high regard for valid measurement because it helps researchers to maintain the level of accuracy in their research. At the same time validity has been proven that when it comes to the final output it plays an important part (Sekaran and Bougie, 2011). The validity test is mainly conducted using Kaiser –Meyer -Olkin (KMO) tests and Sphericity by Bartlett's Test (BTS). It is recommended that Uni-Dimensionality Test is to be conducted before conducting Kaiser –Meyer -Olkin (KMO) tests and Sphericity by Bartlett's Test. The accuracy of collected data is measured through the KMO test and the suitability of the data is measured by the BTS test.

### **3.10 Chapter Summary**

The present chapter illustrates the methodology that the present research was conducted. The chapter begins with the introduction of the conceptual framework. The author introduces a conceptual framework with four variables. The author introduces leadership styles as the independent variable and business performance in SMEs as the dependent variable. The author introduces two more variables to the conceptual framework a mediating variable and a moderating variable. Organizational Culture has been introduced as the mediating variable and the leader's personality traits have been introduced as the moderating variable. H1: Leadership



styles influence business performance in SMEs positively. H2: Leadership styles influence organizational culture positively. H3: Organizational culture influences business performance in SMEs positively. H4: Leader's personality traits facilitate the leader's influence on business performance (re-worded) & H5: Leadership styles influence business performance in SMEs positively through organizational culture (re-worded)

Further, into the chapter, the author introduces operational definitions of key concepts that are used in the research and measurement indicators for each of these concepts. The next section of the chapter discusses the design of the research. The author explains that the present research used positivism as the research philosophy and uses the deductive approach. The present research uses quantitative as the research strategy and uses surveys as the research method. Questionnaire as the research tool. The unit of analysis for this research is individual and the time horizon is cross-sectional. In the next section, the author contends that SMEs in Sri Lanka have been identified as the general population and the Tourism industry in Sri Lanka has been identified as the target population. 285 SMEs were selected from the SLTDA database using Krejcie & Morgan sampling method. A 5-part questionnaire which is based on a 5-point Likert scale was identified to collect data. In the next section, the author has discussed data analysis techniques and explains that descriptive analysis, correlation analysis, and regression analysis is used for the present research. Then the researcher explains the Importance of validity and reliability measures in research.

## Chapter 04- Data Analysis

### 4.1 Introduction

In previous chapters of the present research, the author has discussed the background of the study, reviewed literature, and research methodology. In the research methodology chapter, the author has discussed data analysis tools with reference with relations to variables that are used in the research in detail. The present chapter explained the analysis of the empirical data collected by the author through the main survey process. Firstly, this chapter demonstrates how the database was prepared from the selected sample. Secondly, the author illustrates how the reliability of the variables was analyzed for this research. In the final section, the author has conducted dept data analysis.

### 4.2 Data Analysis Process

The author has used a 5-step process to conduct data analysis. Step 1: Identification of Data Requirements. Step 2: Data Collection. Step 3: Preparation of Database. Step 4: Data Analysis Step 5: Interpretation of results.

- a. Step 1: Identification of Data Requirements.* In the previous chapter, the author illustrated that in detail that the present research study is quantitative research. This research uses a survey method and uses a questionnaire that is based 5point Likert scale. SMEs in the tourism industry have been selected as the population and 285 samples were selected based on the Krejcie Morgan sampling formula.
- b. Step 2: Data Collection.* Data collection was performed via google forms. Link to the google form was emailed to the selected respondent.
- c. Step3: Preparation of Database.* Google form creates an automatic excel type database automatically and based on the database for data analysis was developed. (Please refer to section 4.3 for detailed description information).
- d. Step 4: Data Analysis.* Primary data analysis was done based on descriptive analysis, correlation analysis, and regression analysis.
- e. Step 5: Interpretation of results.* Based on the results of the analysis hypothesis test results and other finds were presented. Please refer to chapter 5 for a detailed interpretation of the results.

### **4.3 Preparation of Database**

As mentioned in the previous chapter, a questionnaire method was used for collecting primary data. Previously, the author decided to use the postal system as the way to go. The tool Google Forms was used for data collection. The questionnaire was uploaded to a Google Form with the ability for participants to answer the questions based on a 5-point Likert scale. Then the link to the Google Form was sent to selected SME leaders/managers via an e-mail. The leader of the SME who is directly managing employees is selected as the respondent. The leader of the organization who is directly managing the employee was identified as the respondent for the present research. For example, if a company has a chairman and he or she is directly managing the employees, he or she was selected as the respondent. If in a company there is a chairman and general manager and if the general manager is the person who is directly managing the employees, he/she was selected as the respondent.

Google Forms provided data in Microsoft Excel format. That data was downloaded onto the primary computer used for this research and used for further analysis. It was decided that a particular industry be used as the population. Based on a wide variety of factors, the tourism industry was selected. SLTDA maintains a registry of SMEs operating in the industry. Based on the number of SMEs registered with SLTDA, it was decided to use Krejcie and Morgan Formula. On that basis, 285 was determined as the suitable sample size for the research.

Owners/managers of selected SMEs were contacted and an e-mail was sent with the link to the Google Form. The questionnaire included 5 sections. Section (a) included 8 questions on basic information about the participant's background. Section (b) is the Multifactor Leadership Questionnaire which included 21 questions to assess the leadership style. Section (c) is the Big 5 Personality questionnaire which included 44 questions on personality traits. Section (d) included 30 questions on organizational culture. Section (e) included 12 questions on business performance. Out of 285 selected participants, 240 responses were received. These responses were carefully reviewed and 40 responses had to be taken out of the database due to the incompleteness or extremeness of the responses. Therefore, for the final analysis, 200 responses were selected. The valid response rate for this research is calculated as 70% and it is an acceptable rate for this type of research.

#### **4.3.1 Data Entry and Handling Missing Data**

The data entry process was conducted systematically. Google Forms creates an automatic Microsoft Excel format datasheet. That datasheet was downloaded to the primary research computer. After removing invalid responses, the data was entered manually to SPSS software for analysis. It has been identified that missing value is considered to have a significant influence on the outcome of the data analysis (Hair et al., 2010). The researcher identified that missing values error kept on appearing. Therefore, data has to be checked multiple times to assure the accuracy of the entered data. The researcher identified missing data is missing in some sections of the datasheet. Later, it was identified that it was due to a data entry mistake. The researcher was able to re-enter the data after careful rechecking. At the same time, 25 missing values were identified. The researcher was able to remedy the situation by using the hot and cold deck imputation techniques. The hot and cold deck imputation technique illustrates missing value can be assumed by substituting the value of a similar answer of another. Therefore, the researcher remedied the situation by paired with another case that had a similar outcome to the missing variables (Hair et al., 2010).

#### **4.4 Sample Profile**

Understanding the demographic profile of respondents is important to any research. According to Sekaran and Bougie (2011) characteristics of the demographic profile help the researcher when it comes to generalizing findings to the population (Sharma, Shimp & Shin, 1995). To create the demographic profile of the respondent, the researcher evaluated respondents based on age, gender, the role of the organization (Managing Director, Manager, Chairperson, General Manager, etc.) highest educational qualification, years of experience in the SME sector number of, type of the business, number of employees employed in the organization and the annual turnover of the business. The researcher used data collected from section (a) of the questionnaire and data was analyzed based on descriptive statistics.

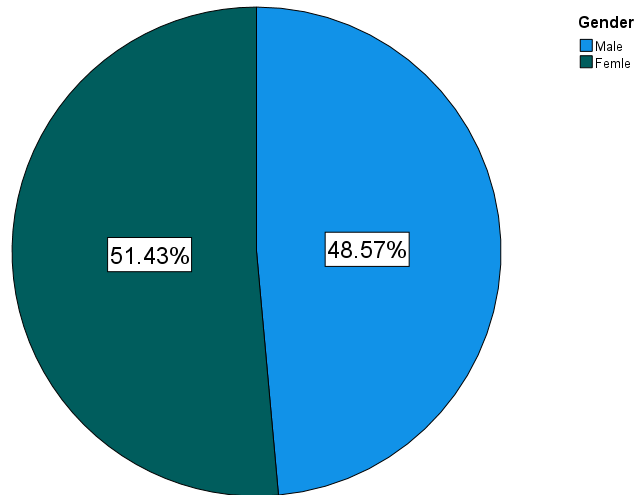


Figure 4.1 Responder Demography-Gender (Source: Author's Work)

Based on descript statistical analysis (figure 4.1) male SME owners/managers amount for 51.43% of the respondents and female SME owners/managers amount for 48.57% of the respondents. Based on these results gender gap between SME owners/managers among responses appears to be insignificant.

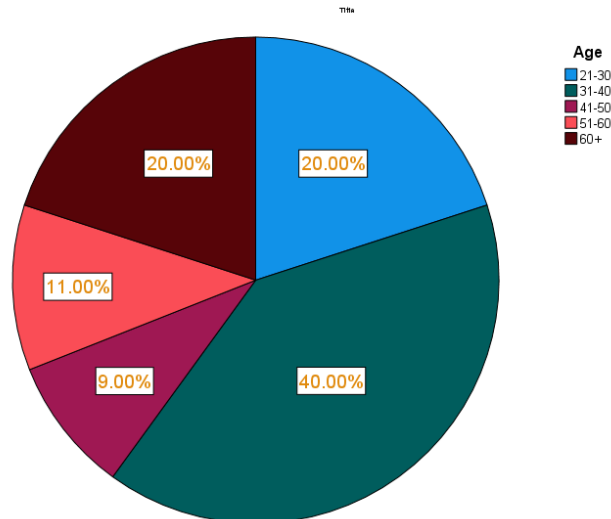


Figure 4.2 Responder Demography-Age (Source: Author's Work)

Age plays an important factor in developing the demographic profile of respondents. Age was analyzed based on five categories. Category 1 is aged between 21- 30, category 2 is aged between 31-40, category 3 is aged between 41-50, category 4 is aged between 51-,60 and category 5 is aged above 61. Descriptive statistics illustrated that (figure 4.4) 20% of

respondents fall into category 1 and another 20% of respondents fall into category 5. 11% of respondents fall into category 4 and 9% of respondents fall into category 3. Based on the descriptive statistics 40% of the respondents fall into category 2 which is the age group between 31-40. This appears to be a significantly recognizable demographical characteristic for the age factor.

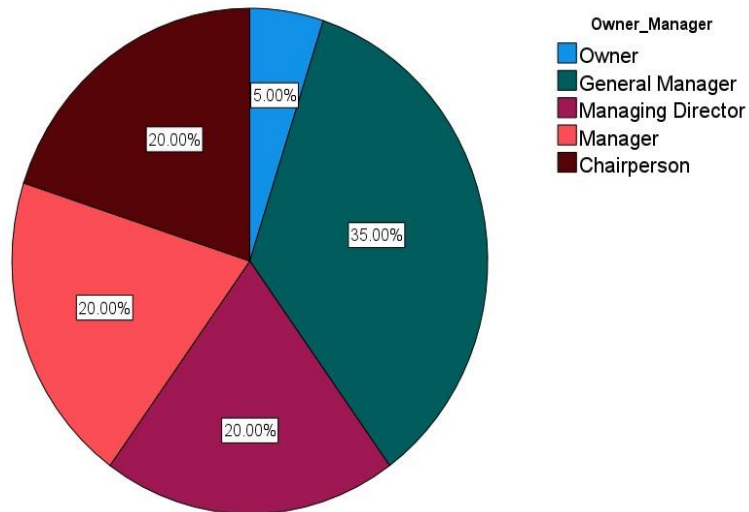


Figure 4.3 Responder Demography Managerial Position (Source: Author's Work)

A managerial position is considered the 3<sup>rd</sup> demographic factor. The present research is focused on leaders of SMEs. These leaders can be owners or managers. Therefore, for this geographic factor respondents were requested to describe their position based on the following categories and they are Owner, General Manager, Managing Director, Manager, and Chairperson. In reality, there can be a wide range of titles. However, their titles are selected to provide generalized representation. Based on descriptive statistics 5% of the respondents fall into the Owner category. 20% fall into the Managing Director category. Another 20% fall into the Manager category and for the Chairperson category number of respondents is 20%. The number of respondents who fit into the General Manager category is 35%. Based on these descriptive statistics 45% of the respondents are owners (it could be a sole proprietor, majority shareholder, or a shareholder) and 55% of the respondents are managers (employees).

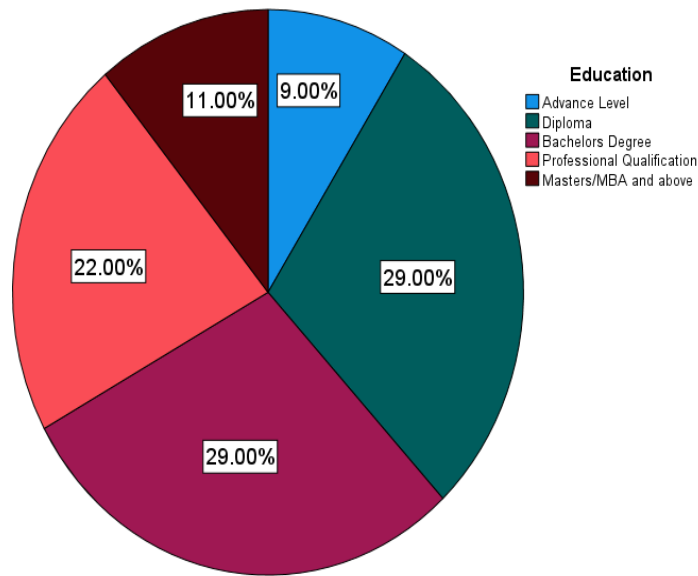


Figure 4.4 Responder Demography- Highest Educational Qualifications (Source: Author's Work)

Education qualifications play a vital factor when understanding the demographic profile of the respondent. Education qualification can be categorized in a wide range of ways. To suit this research education qualifications were categorized under 5 categories and respondents were asked to mark their highest level of education based on the following categories and they are G.C.E. Advanced Level, Diploma, Bachelor's Degree, Professional Qualifications such as CIM, SLIM, CIMA, Chartered Accountancy, etc., and Masters/MBA and above. Descriptive statistics illustrate that respondents fall into all the categories in different percentages. Only 9% of respondents have Advanced Level as the highest level of education. Respondents with Masters Degree, MBA, or even higher qualification (including post-graduate diploma, Ph.D., etc.) was estimated as 11% out of all the. Diploma holders accounted for 22% of the respondents. Respondents with university degrees accounted for 29% of the respondents and the same diploma holders accounted for 29% of respondents. Diploma holders and degree holders have the exact percentage and it is the highest percentage there is. Respondents with Advanced level as the highest qualification accounted for the lowest number of respondents.

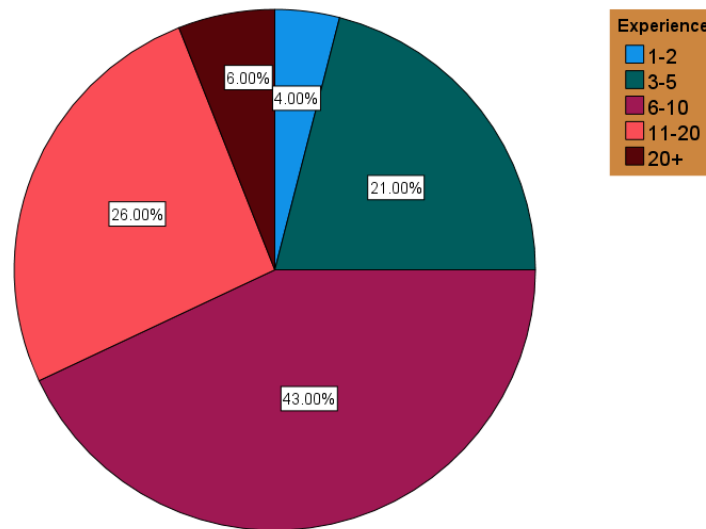


Figure 4.5 Responder Demography- Years of Experience in SME Sector (Source: Author's Work)

The researcher believes that the number of years of experience is an important factor in understanding the demographic profile. The researcher categories years of experience 1-2 years of experience, 3-5 years of experience, 3. 6 - years of experience 11-20 years of experience, and more than 20 years of experience. Descriptive statistics indicate that only 4% of respondents had 1-2 years of experience in the SME sector. Respondents with over 20 years of experience amount to 6% of the respondents. Respondents with 3-5 years amount for 21% of the respondents while respondents with 11-20 years of experience amount for 26% of the whole respondents. It appears that 43% of respondents fall into the group of 6-10 years of experience category. That is almost half of the entire respondents' population.



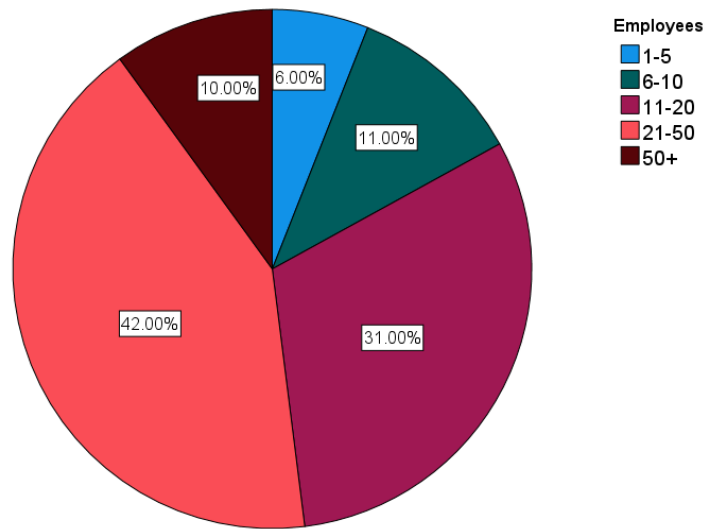


Figure 4.6  
Responder  
Demography-

Number of Employees (Source: Author's Work)

The number of employees in the organization is another vital demographic factor in assessing the demographic profile. This factor helps the researcher to get a sense of the size of the organization. The number of employees was categorized as 1-5 employees, 6-10 employees, 11-20 employees, 21-50 employees, and more than 50 employees. Based on descriptive statistics a significantly small amount of respondents are in charge of organizations with less than 5 employees. Only 10% of respondents manage organizations with over 50 employees. At the same time, 11% of respondents manage organizations with 6-10 employees. The lion share of the respondents which is 73% of the total respondents manage organizations with 11-20 and 21-50 employees.

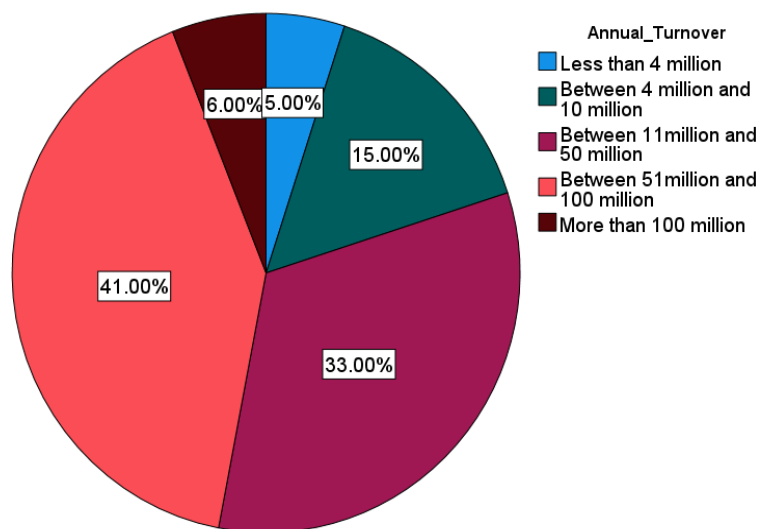


Figure 4.7 Responder Demography- Annual Turnover (Source: Author's Work)

Annual turnover is another influenceable factor in understanding the demographic profile of respondents. Annual turnover is categorized under 5 categories and they are less than 4 million, between 4 million and 10 million, between 11million and 50 million, between 51million and 100 million, and above100 million (these numbers are in Sri Lankan rupee terms). The least number of respondents fall in category 1 which is less than 4million LKR. Only 5% of respondents fall into that category. Only 6% of respondents manage business over 100 million annual turnovers. The majority of the respondents manage a business with annual turnover between 11-50 million and 50-100million which amounts to 74% (41% & 33%) of overall respondents.

#### 4.4 Reliability Test

Based on the information provided by the author in chapter 03, a reliability test was conducted to measure the internal consistency and reliability. The author used Cronbach's alpha coefficient to measure the reliability of each element. A reliability test was performed before conducting the validity test. This research consists of one independent variable, one dependent variable, one moderating variable, and a mediating variable. The questionnaire was divided into subsections based on variables. Each of these variables has indicators varying from 5 to 7. These variables were used in designing the questionnaire. Please refer to the below table for the summary of the information.

Variable	No of Items	Cronbach's Alpha
independent variable - Leadership Styles	21	.809
dependent variable - Business Performance	12	.735
moderating variable - Personality Traits of the Leader	44	.547
mediating variable - Organizational Culture	30	.966

Table 4.1 Reliability Statistics- Cronbach's Alpha (Source: Author's Work)

Based on table 4.1 Cronbach's Alpha value of variable remains <0.5. Moderating variable (Personality Traits of the Leader) shows a low Cronbach's Alpha value which is .547. The other 3 variable indicates Cronbach's Alpha value <0.7 and mediating variable - Organizational Culture indicates a Cronbach's Alpha value close to 1.0.

## 4.5 Validity Test

Based on the previous chapter validity testing is a vital component of research when it comes to measuring the accuracy of the research and collected data. On the other hand validity test give an indicator of the level of precision of the research and collected data. To validate the independent variable, dependent variable, mediating variable, and moderating variable the researcher selected the Kaiser –Meyer -Olkin (KMO) tests and Sphericity by Bartlett’s Test.

### 4.5.1 Uni-Dimensionality Test

Uni-Dimensionality test is conducted right before conducting validity testing. It provides a meaningful construct summarize construct with numbers that can be easy to understand (Hattie, 1985). The ideal way to analyze Uni-Dimensionality is by calculating factor loading. It is important to check whether factor loadings are equal to or greater than 0.45 before moving into validity testing. Ziegler & Hagemann, (2015) points out that this test provides satisfactory results in a circumstance where a single indicator measures a single dimension within the construct.

Uni-dimensionality test analyzed for the present research based on rotated component matrix table for all 4 variables.

No	Variables	Measurement Indicator	Component 1	Components 2
01	Leadership Styles	Idealized influence	.729	-
		Inspirational motivation	.922	-
		Intellectual stimulation	.920	-
		Individual consideration	.950	-
		Contingent reward	.916	-
		Management-by-exception	.915	-
		Laissez-faire leadership	.901	-
02	Business Performance	Financial performance	.723	-
		Non-financial performance	.715	-

03	Organizational Culture	Communication	.8912	-
		Decision making	.877	-
		Change	.922	-
		Growth	.852	-
		Management	.832	-
04	Personality Traits	Openness	.7371	-
		Conscientiousness	.766	-
		Extraversion	.714	-
		Agreeableness	.740	-
		Neuroticism	.778	-

Table 4.2 Rotated Component Matrix (Source: Author's Work)

Source: Based on Author's Data Analysis based on Component Analysis - Kaiser Normalization.

Based on table 4.2 rotated component matrix, it is evident that for all measurement indicators factors all the variables, the loading is higher than 0.45 ( $>0.45$ ) clearly illustrates that all the factors. Therefore, the researcher has satisfied that uni-dimensionality test for the variable of this research.

#### 4.5.2 Convergent Validity

It is considered that measuring convergent validity is important for any kind of research. Convergent validity is used to analyses up to what degree the findings of the present research correlate with previous theoretical understanding. At the same time, convergent validity is used to analyze the correlation between elements of the related concepts. For the present research, the researcher has conducted **Convergent Validity** based on the KMO Test (Kaiser Meyer Olkin) and BTS Test (Bartlett's Test of Sphericity) using SPSS software.

#### 4.5.3 KMO Test (Kaiser Meyer Olkin Test)

KMO test is primarily used to measure the accuracy of the collected data. At the same time, the test is used to measure how far data deviated with factor analysis. KMP test points towards sustainability quantity sampling suitability for the entire module as well as for individual

elements. At the same time, the KMO test is used to determine the validity of factor analysis enumerating adequacy. The value of the KMO test must be higher than 0.5 ( $>0.5$ ) for a research context to be accepted as valid. When the KMO value is toward 1.0 it is considered desirable and when the value of close to 0.5 it is considered undesirable. Vale between 1.0 and 0.8 is a highly desirable range.

#### 4.5.4 Bartlett's Test of Sphericity (BTS Test)

Bartlett's Test of Sphericity shows the suitability and validity of the research. Therefore, the researcher believes that it is important to incorporate the BTS test for the present research. At the same time, the author believes that BTS Test is relevant for this research because of the topic of the research.

No	Variables	Measurement Indicator	KMO Test	BTS Test	Significance
01	Leadership Styles	Idealized influence	.729	891.231	0.0
		Inspirational motivation	.675	471.250	0.0
		Intellectual stimulation	.701	473.390	0.0
		Individual consideration	.734	597.867	0.0
		Contingent reward	.742	390.703	0.0
		Management-by-exception	.744	476.202	0.0
		Laissez-faire leadership	.620	448.039	0.0
02	Business Performance	Financial performance	.623	891.231	0.0
		Non-financial performance	.715	973.211	0.0
03	Organizational Culture	Communication	.773	1949.731	0.0
		Decision making	.877	739.861	0.0
		Change	.665	1043.288	0.0
		Growth	.631	1076.837	0.0
		Management	.580	976.837	0.0
04	Personality Traits	Openness	.737	2574.363	0.0
		Conscientiousness	.834	2174.311	0.0
		Extraversion	.790	1134.063	0.0
		Agreeableness	.637	974.250	0.0
		Neuroticism	.778	2177.153	0.0

Table 4.3 Convergent Validity for all variables (Source: Author's Work)

Based on table 4.2 the LMO value remains above >0.5 for all variables and elements. The BTS value is recorded below 0.05. Therefore, the conver validity for the research appears to be at acceptable levels.

#### 4.6 Independent Variable Responses and Frequencies -Leadership Styles

The independent variable of the research is leadership styles (leadership styles of the SME owner/manager). Leadership styles were studied under 3 leadership categories and are Transformational Leadership, Transactional Leadership, and Passive-avoidance leadership, and 7 elements/ measurement indicators (Bass and Avolio, 1990). The below table illustrates the way respondents reacted to leadership style questions based on descriptive statistics and frequency analysis.

Variables		Measurement Indicator	1. Not at all	. Once in a while	. Sometimes	. Fairly often	. Frequently, if not always	Mean Value	Standard Deviation
Leadership Styles	Transformational	Idealized influencer	-	20.0	20.0	32.0	28.0	3.6600	0.76638
		Inspirational motivation	-	20.0	20.0	28.0	32.0	3.6800	1.14198
		Intellectual stimulation	-	26.0	28.0	20.0	26.0	3.4600	1.13793
		Individual consideration	-	28.0	12.0	26.0	34.0	3.6600	1.21316
	Transactional	Contingent reward	-	12.0	28.0	18.0	42.0	3.9000	1.08438
		Management-by-exception	-	20.0	20.0	25.0	35.0	4.0000	1.26809
	Passive-Avoidance	Managementby-exception		20.0	20.0	25.0	35.0	4.0000	1.26809
		Laissez-faire leadership	20.0	12.0	20.0	14.0	34.0	3.3000	1.53026

Table 4.4 Descriptive Statistics for Leadership Styles (Source: Author's Work)

To collect responses from the questionnaire five-point Likert scale was used by the researcher. Deliberating to scale the mean value to remain between 1 to 5. Mean value between 3.67 to 5

is recognized as high on the scale and mean value between 2.33 and recognized as low on the scale. A mean value between 3.6 and 2.33 is recognized as a medium.

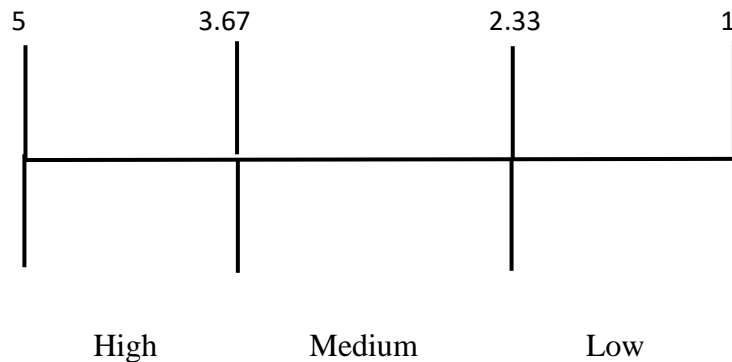


Figure 4.8 Mean Scale (Source: Author's Work)

Based on the analysis the mean value for all 7 indicators for the independent variable (leadership styles of the owner/manager of SMEs) remained above 3.4 and 3.67 indicating medium level men value while, measurement indicators Inspirational motivation, Contingent reward, and Management-by-exception had a mean value above 3.67 which indicates high mean value. The standard deviation for measurement indicators ranges from 0.76638 to 1.53026 where the Idealized influencers had the lowest value and the Laissez-faire leadership indicator had the highest.

#### 4.7 Dependent Variable Responses and Frequencies – Business Performance

Business performance is the dependent variable for the research. A researcher-developed questionnaire was used based on Financial Indicator which is based on financial KPIs) and Non-Financial indicator which is based on non-financial KPIs. Hence, the below table illustrates descriptive and frequencies associated with the responses and mean value and standard deviation for each indicator.

Variables	Measurement Indicator	1. Not at all	2. Once in a while	3. Sometimes	4. Fairly often	5. Frequently, if not always	Mean Value	Standard Deviation
Business Performance	Financial performance	-	20.0 6.0	6.0	46.0	28.0	3.707	0.752
	Non-financial performance	-	20.0	20.0	28.0	32.0	3.520 0	.72956

Table 4.5 Descriptive Statistics for Dependent Variable – Business Performance (Source: Author's Work)

#### 4.8 Mediating Variable Responses and Frequencies – Organization Culture

Organizational Culture has been identified as the mediating variable for this research. A researcher-developed questionnaire was used to collect information based on five indicators. Those five factors are Communication, Decision Making, Change, Growth, and Management. The below table illustrates descriptive and frequencies associated with the responses and means value and standard deviation for each indicator.

Variables	Measurement Indicator	1. Not at all	2. Once in a while	3. Sometimes	4. Fairly often	5. Frequently, if not always	Mean Value	Standard Deviation
Organizational Culture	Communication	-	20.0	6.0	46.0	28.0	3.707	0.752
	Decision making	14.0	6.0	4.0	30.	46	3.107	.93637
	Change		20.0	6.0	46.0	28.0	2.255	.91969
	Growth	8.0	20.0	-	40.0	32.0	2.707	.86495
	Management	-	20.0	20.0	28.0	32.0	3.520	.72956

Table 4.6 Descriptive Statistics for Mediating Variable-Organizational Culture (Source: Author's Work)



## 4.9 Moderating Variable Responses and Frequencies – Personality traits of the business owner/manager

Personality traits of the leader have been identified as the moderating variable. The Big 5 personality questionnaire was used to collect information and 5 personality traits that are described in the Big 5 personality model: Openness, Conscientiousness, Extraversion, Agreeableness, and Neuroticism used as measurement indicators.

Variable	Measurement Indicator	1. Not at all	Disagree 2	. Neither agree nor disagree	Agree a little	. Strongly Agree	Mean Value	Standard Deviation
Personality Traits of the Leader	Openness	-	20.0		66.0	14.0	3.7200	0.752
	Conscientiousness	-	20.0		68.0	12.0	3.7400	.86495
	Extraversion		20.0		66.0	14.0	3.7200	.67727
	Agreeableness		20.0		68.0	12.0	4.1600	.91969
	Neuroticism		12.0	56.0	18.0	14.0	3.3400	.93637

Table 4.7 Descriptive Statistics for Moderating Variable-Personality Traits (Source: Author's Work)

## 4.10 Data Analysis

### 4.10.1 Correlation Analysis

The correlation coefficient is primarily used to analyze the linear affiliation between two elements. It is used to summarize trends and patterns. By using the correlation coefficient, it can be identified that what is the relationship between elements. The correlation coefficient can be performed even those the indicators are not exact in linear pattern. According to Hedges and Olkin (1985), the correlation coefficient is largely practiced to calculate the shared connotations with the two arithmetical approaches. At the same time, it is understood that the correlation coefficient can also be used to measure how two concepts influence each other (Klein and Ettenson, 1999). Based on multiple factors the author deemed it is appropriate to conduct correlation analysis for the research. Correlation coefficient values range from -1 to 1

(minus 01 and positive 1). This value system indicates the direction of the correlation. If the value is between 0 and +1 the trend is upward. If the value is between 0 and -1 the trend is downwards. If the correlation coefficient value is 0 the trend is leveled. If the correlation coefficient is close to +1 or -1 correlation coefficient value is considered stronger and if the correlation coefficient value is close to 0, the correlation coefficient is considered weaker.

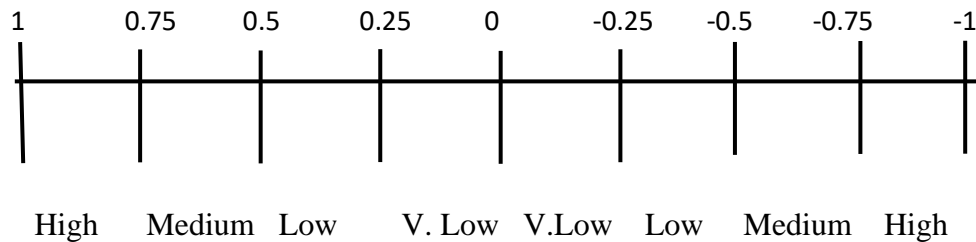


Figure 4.9 Correlations Scale (Source: Author's Work)

#### 4.10.2 Regression Analysis

The author has decided to use regression analysis for the present research. Regression analysis is a reliable analysis tool that can be used in research such as this. Regression analysis is ideal for hypothesis testing and to measure the relationship between variables in a conceptual framework. It allows researchers to analyze the association between multiple variables. The present research consists of multiple variables. Therefore, using regression analysis the researcher is able to analyze all the variables together. Regression analysis indicates the level of correlation between variables. Therefore, regression analysis can tell what variables have the greater impact and what variables have a weaker impact on each other. The ability to get that information is vital for this research because research is intended to find what leadership styles it the best for greater business performance. Therefore, regression analysis is ideal for this research.

At the same time, regression analysis offers insights in detail that can be used for future purposes. Regression analysis allows the researcher to understand what factors matter in the research. Regression analysis can be divided into subcategories such as a coefficient table, ANOVA table, multiple linear regression analysis, modules summer table, etc. When it comes to analyzing interrelatedness between theories, a regression can be considered an effective tool (Vegas, 2010).

#### 4.10.2.1 Multi Linear Regression (MLR)

Multi Liner Regression (also known is as multiple regression) is one of the most common and highly effective techniques that is used by researchers to analyze variable outcomes. It is an extension of linear regression. Linear regression is used to analyze a single explanatory variable. Multi Liner Regression is used when multiple variables need to be explored. Multi Liner Regression is relevant for the research because a linear relationship can be found between the independent variable and dependent variable in this research. SPSS software has been used for this research.

### 4.10.3 Hypothesis 01

#### 4.10.3.1 Correlation Analysis

			Business Performance
Transformational Leadership Style	Pearson Correlation	1	.312**
	Sig. (2-tailed)		<.001
	N	200	200
Transactional Leadership Style	Pearson Correlation	1	.273**
	Sig. (2-tailed)		<.001
	N	200	200
Passive Avoidance Leadership Style	Pearson Correlation	1	.154*
	Sig. (2-tailed)		<.001
	N	200	200

Table 4.8 Correlations Coefficient for Hypothesis 01 (Source: Author's Work)

Based on table 4.8 it is clear that all 3 leadership styles have a positive impact on business performance. TFL indicate to have the strongest correlation and the Passive-Avoidance leadership style has the weakest correlation to business performance. Based on what is being illustrated in table 4.8, hypothesis 01 is tested positively. Therefore, is it is conformed that leadership styles influence business performance in SMEs positively.

#### 4.10.3.2 Regression Analysis

Hypothesis		Regression Weight	Beta Coefficient	R Square	F	t-value	P-value	Hypotheses Supported
H 1	TFL >BP	TFL >BP	.654	.933	911.950	11.9458	<.001b	Yes
	TSL >BP	TSL ->BP	.421	.933	911.950	10.943	<.001b	
	PAVL > BP	PAVL > BP	.208	.933	911.950	3.657	<.001b	

Table 4.9 Regression Analysis for Hypothesis 01 (Source: Author's Work)

Table 4.9 illustrates the testing of hypothesis 01. The Independent Variable has been divided into 3 indicators and they are TFL, TSL, and PAVL. Leadership style predicts business performance  $F = 911.950$ ,  $p, <.001b$ , which indicates that leadership styles have an impact on business performance. Table 4.9 indicates that among all 3 leadership styles TFL ( $b=.654$ ,  $p, <.001b$ ) has the highest influence on business performance.

#### 4.10.4 Hypothesis 02

##### 4.10.4.1 Correlation Analysis

		Organizational Culture
Transformational Leadership Styles	Pearson Correlation	.700**
	Sig. (2-tailed)	<.001
	N	200
Transformation Leadership Styles	Pearson Correlation	.398**
	Sig. (2-tailed)	<.001
	N	200
Passive-Avoidance Leadership Style	Pearson Correlation	.488**
	Sig. (2-tailed)	<.001
	N	200

Table 4.10 Correlations Coefficient for Hypothesis 02 (Source: Author's Work)

Based on table 4.10 it is clear that all 3 leadership styles have a positive impact on organizational culture. Transformational leadership styles indicate to have the strongest correlation and the TSL has the weakest correlation to organizational culture. TFL appears to have a much higher influence on organizational culture. Based on table 4.10, hypothesis 02 is tested positive. Therefore, it is confirmed that leadership styles influence organizational culture positively.

#### 4.10.4.2 Regression Analysis

Hyp thesi s	Regression Weight	Beta Coefficient	R Square	F	t-value	P-value	Hypotheses Supported
H 2	TFL > OC	.855	.891	908.950	18.801	<.001b	Yes
	TSL > OC	.356	.891	908.950	13.504	<.001b	
	PAVL - OC	.489	.891	908.950	11.102	<.001b	

Table 4.11 Regression Analysis for Hypothesis 02 (Source: Author's Work)

Table 4.11 illustrates the testing of hypothesis 02. The Independent Variable has been divided into 3 indicators and they are TFL, TSL, and PAVL. Leadership style predicts the performance of organizational culture  $F = 911.950$ ,  $p, <.001b$ , which indicates that leadership styles have a significant impact on organizational culture. Table 4.11 indicates that among all 3 leadership styles TFL ( $b=.855$ ,  $p, <.001b$ ) has the highest influence on organizational culture. business performance and TSLs ( $b=.356$ ,  $p, <.001b$ ) have the least influence on organizational culture.

#### 4.10.5 Hypothesis 03

##### 4.10.5.1 Correlation Analysis

		Business Performance
Organizational Culture	Pearson Correlation	.703**
	Sig. (2-tailed)	<.001
	N	200

Table 4.12 Correlations Coefficient for Hypothesis 03 (Source: Author's Work)

Based on table 4.12 it is clear that organizational culture has a positive impact on business performance. The impact can be considered as a strong correlation. Based on the results of

table 4.12, hypothesis 03 is tested positive. Therefore, it is confirmed that organizational culture influences business performance in SMEs positively.

#### 4.10.5.2 Regression Analysis

Hypotheses	Regression Weight	Beta Coefficient	R Square	F	Pvalue	Hypotheses Supported
<b>H 3</b>	<b>OC&gt;BP</b>	<b>.492</b>	<b>.531</b>	<b>150.350</b>	<b>&lt;.000</b>	<b>Yes</b>

Table 4.13 Regression Analysis for Hypothesis 03 (Source: Author's Work)

Table 4.13 illustrates the testing of hypothesis 03. Organizational culture predicts the business performance  $F = 150.350$ ,  $p, <.000$ , which indicates that leadership styles have a significant impact on organizational culture. Table 4.13 indicates that a ( $b=.492$ ,  $p, <.000$ ) organizational culture has a significant influence on organizational culture.

#### 4.10.6 Hypothesis 04

##### 4.10.6.1 Correlation Analysis

		Business Performance
Leaders Personality Traits	Pearson Correlation	.321**
	Sig. (2-tailed)	<.001
	N	200

Table 4.14 Correlations Coefficient for Hypothesis 04 (Source: Author's Work)

Based on table 4.14 it is clear that a leader's personality traits have a positive impact on business performance. The impact can be considered as a medium-level correlation. Based on the results of table 4.14, hypothesis 04 is tested positive. Therefore, it is confirmed Leader's personality traits facilitate the leader's influence on business performance.

##### 4.10.6.2 Regression Analysis

Hypotheses	Regression Weight	Beta Coefficient	R Square	F	P-value	Hypotheses Supported
H 4	PT > BP	.623	.571	891.652	<.000	Yes

Table 4.15 Regression Analysis for Hypothesis 04 (Source: Author's Work)

Table 4.15 illustrates the testing of hypothesis 04. Personality traits of the leader predict the business performance  $F = 191.652$ ,  $p, <.000$ , which indicates that personality traits of the leadership have a significant impact on business performance. Table 4.15 indicates that a ( $b=.623$ ,  $p, <.000$ ) leader's personality traits have a significant influence on business performance.

#### 4.10.7 Hypothesis 05

##### 4.10.7.1 Correlation Analysis

			Business Performance
Transformational Leadership Style	Pearson Correlation	1	.312**
	Sig. (2-tailed)		<.001
	N	200	200
Transactional Leadership Style	Pearson Correlation	1	.273**
	Sig. (2-tailed)		<.001
	N	200	200
Passive Avoidance Leadership Style	Pearson Correlation	1	.154*
	Sig. (2-tailed)		<.001
	N	200	200
Organizational Culture	Pearson Correlation		.703**
	Sig. (2-tailed)		<.001
	N		200

Table 4.16 Correlations Coefficient for Hypothesis 05 (Source: Author's Work)

Based on table 4.16 it is clear that leadership styles can affect business performance through organizational culture. Table 4.16 indicates that leadership styles influence business performance in different intensiveness's. TFL appear to have an effective level of influence on business performance while organizational culture intends to have significant influence.

#### 4.10.7.2 Regression Analysis

Hypothesis	Regression Weight	Beta Coefficient	R Square	F	t-value	P-value	Hypotheses Supported
H 5 Transformational	TFL>OC	.855	.723	721.941	16.401	<.001b	Yes
	OC>BP	.492	.723	721.941	10.000	<.001b	
Transactional	TSL>OC	.356	.723	721.941	10.454	<.001b	
	OCBP	.492	.723	721.941	11.454	<.001b	
Passive-Avoidance	PAVL>OC	.489	.723	721.941	12.145	<.001b	
	OC>BP	.492	.723	721.941	11.123	<.001b	

Table 4.17 Regression Analysis for Hypothesis 05 (Source: Author's Work)

Table 4.17 illustrates the testing of hypothesis 05. For this testing, the author has used 2 independent variables and one dependent variable. Leadership styles (independent variable 01) and organizational culture (independent variable 02) have been identified as independent variables and for this testing, the author has used leadership styles and organizational culture as predicting variables and business performance as the dependent variable. The Independent Variable 01 (leadership styles ) has been divided into 3 indicators and they are TFL, TSL, and PAVL. Leadership style predicts the performance of organizational culture  $F = 721.941$ ,  $p, <.001b$ , which indicates that leadership styles and organizational culture have a significant impact on business performance. Table 4.17 indicates that among all 3 leadership styles TFL ( $b=.855$ ,  $p, <.001b$ ) has the highest influence on business performance through organizational culture.

#### 4.12 Hypothesis Test Summary

Hypotheses testing has been conducted based on correlation analysis and regression analysis. In section 4.10 in-depth analysis of correlation has been conducted and in section 4.11 in-depth analysis of regression has been conducted. All 5 hypotheses were tested using both correlation analysis and regression analysis. The below table represents the summarized details of analyses conducted.



Hypotheses	Relationship	Status- Regression Analysis	Status-Regression Analysis
H1: Leadership styles influence business performance in SMEs positively	LS → BF TF → BF TS → BF PV → BF	Accepted	Accepted
H2: Leadership styles influence organizational culture positively	LS → OC TF → OC TS → OC PV → OC	Accepted	Accepted
H3: Organizational culture influences business performance in SMEs positively	OC → BP	Accepted	Accepted
H4: Leader's personality traits facilitate the leader's influence on business performance	LS → BP ↑ PT	Accepted	Accepted
H5: Leadership styles influence business performance in SMEs positively through organizational culture	LS → OC → BP	Accepted	Accepted

Table 4.18 Hypotheses Testing – Summary – (Source: Author's Work)

As illustrated in table 4.18 it can be confirmed that all 5 hypotheses have been tested and accepted as valid in both correlation analysis and regression analysis. Therefore, it can be identified that leadership styles have a positive impact on business performance and organizational culture in SMEs in Sri Lanka. At the same time, it can be identified that leaders of SMEs in Sri Lanka can influence business performance through organizational culture. Personality traits of the leader have a mediating influence on the business performance.

## **Chapter 5 – Conclusion and Recommendations**

### **5.1 Introduction**

The present research is to explore how leadership style affects business performance in SMEs. The examination was conducted on SMEs operating in the tourism industry in Sri Lanka. Two hundred SME leaders were surveyed based on a quantitative method to draw the conclusion of the research. The present research is to contribute to the body of knowledge on to the domain of leadership, business performance, and the SME sector. Lack of studies has been conducted on leadership style and business performance in SMEs in the Sri Lankan context, especially together with organizational culture and leader's personality traits.

In the first section of the chapter, the author has critically evaluated key findings of the study in regard to how it addresses the research gap identified in the literature review. The second section discusses the general conclusion of this research with reference to research objectives. In the third section of this chapter, the author expressed his recommendations to SME leaders and other interested parties on how leadership affects the business performance in SMEs. In the final section, the author has discussed the room for future research and exploration possibilities.

### **5.2 Key Finding**

Research objectives were primarily fixated on adding new knowledge to the existing body of knowledge empirical data. The findings of the research have both theoretical and practical contributions. The research findings of this research can be applicable not just to the tourism industry but to the SME sector in Sri Lanka in general. At the same time findings of this research can be applied to global contexts as well. The findings can help SMEs grow and prosper. Research findings have been laid out according to research objectives.

### **5.2.1 Leadership styles affect business performance**

Limited research has been done in the SME sector in Sri Lanka, especially with reference to leadership and business performance. Because of that, this research brings a new perspective to the research domain.

The research questionnaire identified three leadership styles, TFL, TSL, and passiveavoidance leadership style. Analysis of empirical data suggested that all three leadership styles have a positive impact on business performance in SMEs in Sri Lanka. However, it was recorded that not all three leadership styles swayed business performance in the same manner. TFL indicated to have the highest impact on business performance in SMEs while passive avoidance indicated to have the least level of influence on business performance.

Transactional leadership was indicated to have a greater level of influence over business performance than passive avoidance leadership but, it was much lesser than the influence of TFL. Avolio et al (1999) also points out that leadership has an impact on business performance and TFL has a considerable influence on business performance and individual performance. At the same time, transactional leadership is less effective in swaying business performance than transformational leadership. Based on the findings it can be confirmed that leadership styles have an influence on business performance in SMEs in Sri Lanka.

### **5.2.2 Leadership styles and organizational culture**

Organizational culture plays a significant role in any organization. It can be identified that limited studies have been conducted to measure how leadership styles affect business performance in the SME context in Sri Lanka. Therefore, this can be considered as the first empirical attempt to explore the subject area.

Empirical data was conducted based on three leadership styles, TFL, TSL, and passiveavoidance leadership styles. The analysis of empirical data suggested that all three leadership styles have an influence on organizational culture in SMEs in Sri Lanka. However not all leadership styles have the same level of influence on organizational culture. Bass and Avolio, (1993) also agree that the leadership style influences organizational culture. TFL is indicated to have the highest influence on organizational culture. It can be considered as a significantly high level of influence on organizational culture. TSL has the least level of influence on organizational culture and the passive-avoidance leadership style has a slightly higher significant level of influence on organizational culture. It can be observed that the impact of transformational leadership on organizational culture is almost twice the influence

of TSL. Bass and Avolio, (1993) also confirm that transformational leadership has a greater impact on organizational culture. Therefore, it can be assumed that leadership styles have an influence on organizational culture.

### **5.2.3 Organizational culture affects business performance**

Organizational culture has been studied as an influencer of business performance by researchers. However, limited research has been done to understand how organizational culture affects business performance in SMEs in the Sri Lankan context. Therefore, the findings of this research on the subject matter are important. Both correlation analysis and regression analysis clearly indicate that organizational culture influence business performance in SMEs. Umrani et al (2017) based the study conducted in Pakistani context also confirms that organizational culture sways business performance. Correlation analysis indicates that organizational culture has a significant influence on business performance in SMEs in Sri Lanka. Regression analysis also indicates that organizational culture has a considerable influence on business performance in SMEs in Sri Lanka.

### **5.2.4 A leader influence business performance through organizational culture**

It has been identified that during hypothesis testing that leadership styles (TFL, TSL, have an impact on business performance directly. For this research organizational culture has been brought in as a mediating factor between leadership and business performance. Based on empirical data the author has identified that leadership styles influence organizational culture and each leadership style impacts organizational culture differently. Empirical evidence also suggested that organizational culture influence business performance. Based on all the relevant data it can be identified that leadership styles can influence business performance through organizational culture and not all leadership styles influence business performance same way. Yıldırım and Birinci (2013) suggest that leadership style and organizational culture are predictors of business performance.

Empirical evidence has indicated that transactional leadership has the highest level of styles that influence business performance in SMEs through organizational culture. TSL can be considered as the leadership style that has the least level of influence on business performance through organizational culture and passive-avoidance leadership has a slightly greater influence on business performance than TSL. At the same time Yıldırım and Birinci, (2013)

describe transformational leadership to have a greater influence on business performance through organizational culture.

### **5.2.5 Moderating effect of leader's personality traits**

The author wished to add an extra element to the research by adding a moderating variable to the conceptual framework. In section 5.2.4 the author has explained that organizational culture can be a mediator in predicting business performance. By adding personality traits as a moderator, the author attempts to explain how leadership styles influence business performance. The big five personality model was used to analyze the personality traits of the leaders of SMEs. According to the big five personality models, there are five distinct personality traits to a person, openness, conscientiousness, extraversion, agreeableness, and neuroticism. The leadership model that was used in this research and the big five personality model can be associated. Each of the leadership styles in the full range model (TFL, TSL, and passive-avoidance leadership style) can be linked with personality traits in the big five personality model. TFL shows high scores on Extraversion, Openness to Experience, Agreeableness, and Conscientiousness while passive-avoidance leadership style and transformational leadership shows a high score on Neuroticism. Andersen, (2006) also recognized leader's personality traits affect performance. Especially, business performance and employee job performance. Based on empirical data it can be understood that a leader's personality traits influence the leader's ability to influence the business performance in SMEs. That influence can be identified as a recognizable level of influence. Therefore, it can be confirmed that a leader's personality traits act as a moderator between the leader's ship style and the leader's ability to influence business performance.

## **5.3 Conclusion and Implications**

Implications of this research study have both practical and academic significance. The below sections illustrate the conclusion and implications.

### **5.3.1 Practical Implications**

The findings of the present research have a significant practical contribution to the SME sector in Sri Lanka. Lack of research into the SME sector has created gaps in understanding how certain aspects of the SME sector operate and how to maximize efficiencies and profitability.

Due to a lack of research into studies into leadership and business performance in the SMEs sector in Sri Lanka, SME owner and leaders are unaware of what styles of leadership is ideal for greater business performance. At the same time, policymakers in Sri Lanka lack the information to develop the right policies that contribute to greater business performance in SMEs. The present research study sheds light on this subject matter. By understanding the findings of the present research SME leaders and followers can adopt the best practices in their leadership and gain greater business performance.

#### **5.3.1.1 Implications for SME Leaders**

##### **a. Leadership style and business performance**

The research has identified that all three leadership styles (TFL, TSL, and passive-avoidance leadership style) have influence in business performance in SMEs in Sri Lanka. The present research has identified that TFL have a greater influence on business performance. Therefore, now the SME leaders and managers are aware of what leadership styles to practice to gain greater business performance in their SME. The present research has pointed that the passiveavoidance leadership style is the least effective in creating a business performance in SMEs. Therefore, SME leaders can now avoid passive-avoidance leadership styles in their leadership practices.

##### **b. Use of Mediator and Moderator**

Since there is a lack of research into how organizational culture and leader's personality traits affect business performance SME leaders are previously not aware of the role organizational culture and leader's personality traits play. The present research has identified that organizational culture influence business performance in SMEs and leader can influence organizational culture. Therefore, the leader of an SME can influence business performance by influencing organizational culture. The present research compared all three leadership styles with organizational culture to identify what leadership styles would have a greater influence on organizational culture. The author has identified that TFL have a greater influence on organizational culture in SMEs and the influence level of TFL is much greater than other leadership styles. Therefore, the author recommends a TFL for greater organizational culture.

Research findings describe the personality traits of the leader as a mediator of business performance. The research has identified that a leader's personality traits mediate business performance in a considerable way. This is new information for SME leaders in Sri Lanka. The present research has linked personality traits with each leadership style. The present research has identified that transformational leadership style as the leadership style that contribute to greater business performance in SMEs directly and through organizational culture. SME leaders can adopt personality traits of TFL and gain greater business performance in their SME.

#### **5.3.1.2 Implications for Policymakers**

The findings of the present research point out important implications for policymakers in Sri Lanka. For the last two decades, the government of Sri Lanka has paid significant interest in the SME sector as the front runner for economic growth in Sri Lanka. Tourism is one of the key industries that the Sri Lankan government had paid special attention to. Therefore, the implications of the present research are valuable for policymakers. This research has identified that leadership as a driving force in business performance in SMEs. Therefore, policymakers can develop policies with that in mind. At the same time, the present research has identified TFL as the most suited leadership style for greater business performance. Policymakers can use this information when developing training educational programs for the SME sector. Government agencies operating in the tourism industry are regularly conduct training and other supportive projects. Officials who conduct such projects can use the information acquired in the present research.

The present research has identified that organizational culture can be used to sway business performance in SMEs. Policymakers can use this new information when developing training and development programs. Through training programs, SME leaders can be educated to improve organizational culture. At the same time with this information policymakers can set rules and guidelines that can promote organizational culture. The present research has identified that transformational leadership to be the leadership style that contributes to greater business performance directly and through organizational culture. At the same time, the present research has identified personality traits that are associated with TFL. Policymakers can use that information in the training and development of SMEs. Specialize training programs can be designed for SME leaders and employees to develop these personality traits in them. Also, the information given in section 4.3 sample profile, can be useful for getting an

idea of the demography of the SME sector in Sri Lanka. Demographic factors such as gender balance, age, educational background, etc. That information can be helpful in policymaking.

### **5.3.2 Academic Implication**

Leadership is a highly researched area of study and business and what factors affect business performance is also an area that has been thoroughly studied. However, it has been identified that not enough studies have been conducted on how leadership styles affect business performance in SMEs. Even among these, it is difficult to discover a mutually agreed opinion on what styles of leadership affect the business performance the best. Therefore, the findings of the present research bring important discoveries into the field.

The present research has identified that transformational leadership as the leadership style that creates greater business performance in SMEs. There are a number of researchers who have also had come to the same outcome. Therefore, the present research validates that theory. At the same time, the present research points out that transactional leadership has less influence on business and PAVL have the least influence on business performance. This discovery affirms one of the previous theories by other researchers who have conducted similar research in different contexts.

The present research included a mediating variable and a moderating variable. Organizational culture as the mediating variable and leader's personality traits as the moderating variable. That makes this research unique. Therefore, the present research brings forth an original contribution to the body of knowledge. The present research introduces that organizational culture influence business performance in SMEs as new knowledge to the body of literature. The present research has discovered that the leader of an SME can influence business performance in SME by influencing organizational culture. This is a valuable contribution to the body of knowledge in the domain of leadership.

Previous literature has connected leadership styles in full range model (TFL, TSL, and passive-avoidance leadership styles) with personality traits described in big five personalities (extraversion, openness to experience, agreeableness, conscientiousness, and neuroticism). The present research has proven that the personality traits of the leader mediate the leader's ability to create business performance in SMEs. At the same time, the TFL has been identified to be the leadership style that has the greater influence on business performance. It has been identified that transactional leaders have a high score on (big five leadership test) extraversion, openness to experience, agreeableness, conscientiousness. Therefore, the present research has



identified that extraversion, openness to experience, agreeableness, conscientiousness contribute to greater business performance in SMEs.

## **5.4 Recommendation for Future Research**

The present study highlights the following areas for future research purposes.

### **5.4.1 Recommendation based on the theoretical perspective**

As indicated by literature similar research has been conducted on the same domain (leadership styles and SMEs) in various geographical and cultural contexts. There are many other geographical and cultural contexts where this research can be conducted. Geographical locations such as South America, North America, etc. can be recommended. The present research is based on the full-range leadership model. Future researchers can conduct the same research based on other leadership theories and models. The present research has used organizational culture and the mediating variable and personality traits as the moderating variable. Future researchers can look into different mediating variables and moderating variables.

### **5.4.2 Recommendations for Sri Lanka researchers**

Within Sri Lankan context future researchers have the opportunity to conduct the same research-based on qualitative methods. The qualitative methods can bring outcomes with a descriptive out. At the same time combination of both qualitative and quantitative can be explored. For the present research, the tourism industry was selected as the target population due to the representative nature of the industry with the SME sector in Sri Lanka. Future researchers can look into industries other than the tourism industry for their research. Industries such as hospitality, logistics, etc. can be used in future research.

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# Appendices

## **Appendix 01- Research Questionnaire**

### **Part (a): General Information**

Age:

Gender:

SME Owner/Manager:

Highest level of education:

Years of experience in the SME sector:

Number of Employees:

Annual turnover:

### **Part (b): Leadership Assessment:**

**Removed**

### **Part (c): Personality Test:**

**Removed**

### **Part (d): Organizational Culture**

**Removed**

### **Part (e): Business Performance**

**Removed**