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# Role of Leadership in Small and Medium Enterprises (SMEs)

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**Abstract:** - Small and Medium Enterprises (SMEs) play a significant role in a country's economy and social wellbeing. The literature highlights on the importance of leadership to organizations. On the other hand the review of the literature indicates limited studies have attempted to empirically examine leadership in the context of small and medium-sized enterprises (SMEs). In spite of the importance of leadership, a review of past studies suggests few studies have attempted to investigate leadership behavior adopted by leaders of SMEs. This paper attempted to review literature that examined the leadership behavior practiced by SMEs to give more insights of roles of leadership in SMEs to academician, practitioners and leaders.

**Key-Words:** - Leadership, Small and Medium Enterprises, SMEs, and Organizations.

## 1 Introduction

Leaders are important to all types of organizations and play different roles as well as perform various important functions in organization. Nowadays, the purpose of any organizations is to survive and maintain its entity by improving performance. Organizations must always increase their performance to be highly competitive in markets (Arslan & Staub, 2013). Small and Medium Enterprises (SMEs) performance, as a topic, is generating numerous discussion between researchers, practitioner, academics and politicians (Arham, 2014). Previous and to date literature suggest that to achieve good performance of organization, leadership is critically important factor (Boal & Hooijberg, 2001; Choudhary, Akhtar, & Zaheer, 2013; Peterson, Smith, Martorana, & Owens, 2003; Sahin Danisman, 2015; B.-B. P. Uchenwamgbe, 2013; B. Uchenwamgbe, 2013).

According to Harms & Creda (2010), leadership is defined as "a process whereby an individual influences a group of individuals to achieve a common goal" (p. 3). To enhance organizational performance, leadership plays a crucial role, therefore, to make the best possible products and services through the best utilization of the available resources, leaders are responsible to the stakeholders of their organizations (Gul, Ahmad, Rehman, Shabir, & Razzaq, 2012). As stated by Hashim, Ahmad, & Zakaria (2012), leaders in the 21st century are faced with an increasingly

challenge to lead their organizations effectively. Therefore, leaders must concentrate on developing their effectiveness and use it as a strategic direction to make them apart from their competitors. SMEs are always suffering by severe struggle from globally and inside their industries.

There is sufficient evidence in the literature to suggest that the performance of SMEs is essentially related to the leadership of the leaders (Spinelli, 2006). As Avolio & Yammarino (2013) points out, the activities of the SMEs' leaders relate to leadership, the all-important, driving force of the organization. Leadership is needed to move an organization forward among a changing, competitive landscape by imagining, motivating, organizing, managing and leading employees to a higher level of performance (Tucker & Russell 2004).

Consequently, good leadership is required for organizational and team performance (Hogan & Kaiser 2005). Leadership is regarded as effective when it brings positive efficacy of performance, which relates to better organizational performance. Organizational performance, as a result of leadership effectiveness of the leaders, contributes to the firms' success or failure. In summary, the outcomes of leadership as a result of effective leadership influence the satisfaction, work effectiveness and efforts of the employees and leaders in their organizations (Madanchian, Hussein, Noordin, & Taherdoost, 2016a).

## 2 Literature Review

### 2.1 Small Medium Enterprises (SMEs)

There is no universal definition or criterion for SMEs as they are context dependent and have different definitions for different countries (Abe et al. 2012). Small and Medium Enterprises (SMEs) are perceived as the backbone of any country as they are interlinked with almost every facet of the society and economy. According to Madanchian et al. (2016) SMEs is also viewed as the engine of growth, and catalysts for economic and social transformation in a country. The contributions of SMEs at macro or micro level are the results of successful SMEs managed by effective leaders (Madanchian, Hussein, Noordin, & Taherdoost, 2016b). This is achieved through leadership behaviours or styles of the SMEs' leaders, who have direct influence on their organizational performance, competitive edges and successes (Popa, 2012).

According to SMEs' literatures (e.g. Abu Bakar, Mad, & Abdul Latif, 2006; Arham, 2014; Aris, 2007; Saleh & Ndubisi, 2006; Samad & Hassan, 2007), there is the unique limitations that encountered by SMEs, like having an inadequate employees, lacking resources of finance, lacking experience and background of education and importantly lack of managerial knowledge. Therefore, there are always attempts to understanding the SMEs' performance improvement, these attempts are significant since SMEs is known as one of the vital engines of growth for a country's economy (Kassim & Sulaiman, 2011).

### 2.2 Leadership in SMEs

According to Avolio et al. (2003), leadership has an important role in the development and growth of any organization. The reason for this fact is that the leaders of the organization generally consider all the plans and business decisions, effective and timely decisions considering by the leadership of the organization can have a wide impression on the crucial business results.

In relation with Mumford, Zaccaro, Harding, Jacobs, & Fleishman (2000), leadership becomes more essential when one has to develop and lead adaptive analysis to new or changing situations. Amagoh, 2009; Chen (2013) pointed out that a successful leadership knowledge results from the

key elements consist of changing attitudes, personnel development, and improved business and leadership skills.

To drive the success of SMEs, good leadership has been recognized as the key elements (Madanchian et al., 2016b). The literature (Arham, Muenjohn, & Boucher, 2011; Davies, Hides, & Powell, 2002; Razak, 2011), in SMEs shows that insufficient and weak leadership skills are main factors causes failure of SMEs. For that reason, SMEs to guide their firms through all situations either crisis times need to develop their leadership behavior. To avoid organization failure and have good organizational performance, the right leadership behavior is an important element. As Fiedler (1996) approved, due to the leaders contribution to the achievement or failure of an organization, effective leaders are significant.

The response to the challenges faced today by SMEs is only possible through adoption of leadership roles by the various people in charge (Ladzani, 2010). It is important to develop the competences and effectiveness of leadership at various levels, defining mobilizing goals, ensuring the clarity of objectives, building high performance teams, concentrating on developing the best talents, creating a climate favorable to innovation, stimulating permanent learning and creating a culture of value always based on the cohesion of teams and the quality of service provided (Kilpatrick, Cheers, Gilles, & Taylor, 2009).

According to Avolio et al. (2003), still small and medium firms now have a global position. It is important to understand the point that, in this new setting, how leaders face the challenge of working with a ethnically diversified workforce which includes differences in values, traditions, customs and beliefs and what constitutes effective leadership. Some authors (e.g., Anderson, 2009; Andersson & Tell, 2009) found several organizational factors that can influence leadership in SMEs. Nevertheless, according to Short et al. (2002), so far researchers have not reached a consensus about these factors. Therefore, the better the understanding of the leadership's influence on SMEs, the more they can be helped in their growth process. According to a conducted study on the effects of leadership behavior on organization performance in SMEs by Saad et al. (2006), they found out that leadership was an essential factor to successfully implement small manufacturing in SMEs.

On the other hand, and due to the fact that all SMEs are more and more showing to a competitive, dynamic environment full of changes and difficulties, the way they deal with human resources also changes. Nowadays, people are seen as human capital (Youndt, Subramaniam, & Snell, 2004), as an essential part of the organization's success, able to add more or less value to the organization. But for this to happen, the organization has to appreciate them and motivate them to demonstrate their capacities and understand how they can contribute to the firm's good performance. There must be interaction of behavior, which the leader must encourage, and its success depends on the style of leadership. Langowitz & Allen (2010), in a study related to the importance of SME founders, concludes that the leader is the founder and argues that many SME leaders present proactive behavior.

### 3. Conclusion

In sum up, in the current business environment, besides factors such as finance, strategy and innovation, it becomes important to find out about SMEs' leaders, due to the increasing need to understand the road to success and the process of creating sustainable competitive advantages, in other words, SMEs must manage to find and adopt strategies that allow them to overcome their challenges (Madanchian et al., 2016b). Based on the literature reviewed in this paper on leadership practices in SMEs, it has showed that to enhance the organizational performance, the leadership behaviors play a significant role in SMEs. Conversely, the results are different and questionable and for that reason more efforts is needed in relation to organizational performance to understand the role of leadership in SMEs.

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