

To Study the Review of Leadership Styles on Small & Medium Enterprises

Nirmala Kumari^{1*}, Dr. Brajesh Kumar Singh²

¹ Department of Commerce, YBN University, Ranchi, Jharkhand.

² Associate Professor & Dean of Commerce & Management, YBN University, Ranchi, Jharkhand.

Abstract - Leadership is one of the key determinants associated with the success and failure of any organization. Leadership style is the manner in which people are directed and motivated by a leader to achieve organizational goals. Leadership style for business decision making by the business leaders is the study of identifying and choosing alternatives based on the values and preferences of the decision maker which leaders decide by specific style SME's are playing very important role in every economy of the world. Small & Medium Enterprises (SMEs) have to think & plan strategically their every decision which does have an impact either positive or negative on its business considering this every effort has to be made so as to have a positive impact on its business performance.

Keywords - Leadership, Small & Medium Enterprises, Small Scale Industries, MSMEs

-----X-----

INTRODUCTION

Leadership is the practise of influencing and guiding others to accomplish corporate goals. Leadership has been known as the way of persuading others to work toward an organization's objectives. Demonstrating both decent and successful leadership can aid in improving an enterprise's performance. Additionally, guided leadership can assist in multiplying the company's revenue, profitability, and growth. Enterprises should be able to grow strategically and in harmony with their surroundings in order to maintain a sustained competitive edge in a dynamic and competitive environment. One prominent way for any organisation to attain success, increased performance, and a sustained competitive edge is to innovate both its products and services. To maintain growth, there is a constant need to enhance and renovate, while keeping in mind the consumer's interests and preferences.

The leadership style of the senior management of any small or medium-sized firm (SME) has a significant impact on the creative and innovative features as well as the success of that SME. India values SMEs for a variety of reasons, including their potential for job creation and foreign currency generation through export, along with their potential for growth into larger firms. These firms continue to be significant as domestic producers in terms of low-cost imports of substituted consumer goods, particularly for lower-income people, as well as their role as supporting industries that manufacture the components, tools, and replacement parts used by

major enterprises. Because small and medium-sized businesses contribute significantly to the country's economy, the satisfaction of their employees must be stressed significantly more. It is never conceivable to develop such tasks simply on the basis of technological requirements, while ignoring the overall needs of the workforce. There are widespread demands for the development of humanised occupations that may satisfy workers while also demonstrating respect for their profession & work environment.

The Small Scale Industries (SSI) Sector in India

According to Dr B Yerram Raju, Dean of Studies & Senior Faculty Member at Administrative Staff College of India at Hyderabad states "the encouraging and promoting policies of the small-scale sector are always on foot front in India since independence, the priorities of each five year plan have changed as per dynamic environment."

"The Six Industrial Policy Resolutions which have been framed since 1948 have set out the guidelines for the country's industrial development with different degrees of emphasis on the main objectives." Post independence, industrialization strategy was based on 'The Industries Development & Regulation Act of 1951.'

"As per planning commission the model for industrialization in the 1950s was based on capital-intensive heavy industries. Through consumption-good producing, labour oriented, evenly dispersed small and medium enterprises are the paramount

foundation for employment creation."Regional inequality (1977), promotion of ancillary (1980), substantial concentration in rural regions , export promotion (1990) & subsequently Small, Tiny & Village Industries (1995) were the policy priorities that changed as a result of the dynamic economic environment (1991). As shown in Table1.1 below, the definition of SSIs in India has evolved throughout time in response to changes in the ecosystem and the advancement of the economy.

Table 1: From 1950 until 2001, the official definition of SSIs in India.

YEAR	INVESTMENT LIMITS
1950	Upto Rs.5Lakh in Fixed assets
1960	Upto Rs.5Lakh in Fixed assets
1966	Upto Rs.7.5 Lakh in Plant and Machinery
1975	Upto Rs.10 Lakh in Plant and Machinery
1980	Upto Rs.20 Lakh in Plant and Machinery
1985	Upto Rs.35 Lakh in Plant and Machinery
1991	Upto Rs.60 Lakh in Plant and Machinery
1997	Upto Rs.300 Lakh in Plant and Machinery
1998	Upto Rs.1 crore in Plant and Machinery
1999	Upto Rs.100 Lakh in Plant and Machinery
2001	Upto Rs.100 Lakh in Plant and Machinery

Definitions of MSME:

"MSMEs are enterprises involved either in manufacturing or service activities on a commercial basis with the following limits on financial investments. The SMEs in the Manufacturing and Service sectors as defined by the Micro, Small & Medium Enterprises Development Act, 2006 are presented below in Tables 1.2 and 1.3 respectively.

Table 2: Small Medium Enterprises in Manufacturing Sector

Manufacturing – Investment in Plant & Machinery		
Description	INR	USD(\$)
Micro Enterprises	Upto Rs. 25Lakh	Upto \$ 62,500
Small Enterprises	Above Rs. 25 Lakh & Upto Rs. 5 Crores	Above \$62,500& Upto \$1.25 million
Medium Enterprises	Above Rs. 5 Crores & Upto Rs. 10 Crores	Above \$ 1.25 million & Upto \$ 2.5 million

Source-Micro, Small & Medium Enterprises Development Act 2006

Table 3: Small Medium Enterprises in service Sector

Service – Investment in Equipments		
Description	INR	USD(\$)
Micro Enterprises	Upto Rs. 10 Lakhs	Upto \$ 25,000
Small Enterprises	Above Rs. 10 Lakhs& Upto Rs. 2 Crores	Above \$ 25,000& Up to \$ 0.5 million
Medium Enterprises	Above Rs. 2 Crores & Upto Rs. 5 Crores	Above \$ 0.5 million & Up to \$ 1.5million

Source - Micro, Small & Medium Enterprises Development Act, 2006

Small and Medium Sector consists of enterprises which are usually run under proprietorship, either by a Hindu undivided family, an association of persons, a co-operative society, a partnership or an undertaking or any other legal entity."

Role of Micro Small and Medium Enterprises

Production cost of SME is less as compared to large scale industries. SMEs have smaller capital investments and are labor intensive in India. This is why small and medium enterprises are very significant as for countries like India where more output at lower cost and more employment are equally important. Countries like Japan and China are on this track especially in the rural areas.

Nanda⁹ (January, 2016) in his paper states "MSMEs have contributed to economic development in several ways, like generating employment openings for both rural as well as urban people, supplying goods and rendering services at reasonable costs by innovating solutions, improvising material for sustainable development of national economy. SMEs in India face a variety of problems – scarcity of sufficient and timely banking, avenues to raise finance, non-accessibility of appropriate technology, lack of proper marketing strategies, and shortage of skilled manpower." Globalization and domestic reforms have major emphasis on SME sector in India. SMEs had felt pain on many counts like growth, employment, performance, exports and issues arising out of these. Subrahmanya (2004)¹⁰ SME sector friendly government policies have opened doors to new opportunities for development for SMEs. SMEs have faced the challenges of newer technology, lack of financial facilities and infrastructure Government's pro Small and Medium enterprise policies assist SME to be more competitive at the domestic as well as international level. Country has achieved remarkable export earnings and is characterized by low investment requirements. It offers operational flexibility, ease of mobility, lesser imports, ability to manufacture home grown technology, and improvisation which impacts cost reduction. All these are making India highly competitive in domestic as well as global markets. This has given an impetus to the entrepreneurship and in turn to the SME sector, which is now responsible for nearly 45 percent of national industrial output and contributes to 40 percent of exports As per MSME annual report 2017-18. Although a large number of SMEs are unregistered, they are significantly contributing to national wealth. It is growing regularly at 11.5% per year as per MSME annual report 2017-18. This count to be greater than the total GDP growth which is at the rate of 8 percent¹¹The SME sector has impacted Indian economy to a great extent. It has kindled hopes in the minds of young

entrepreneurs and motivated them to develop indigenous alternatives and technologies..

SMEs have demonstrated steady development in the last few years. However, the sector has faced quite a few constraints which have resulted into wasteful resource management. It culminates into hampering the growth and development of SMEs. The enterprises become vulnerable and result into economic slowdown mainly due to scarce financial management, which is the major blockage to their development.

NEED AND IMPORTANCE OF THE SMEs

Small and Medium Enterprises (SMEs) have played a crucial role in India's economic growth. In the year 2014-15 more than 30 million units manufacturing SMEs contributed towards 6.11 per cent of the country's GDP. The service sector's contribution to GDP was 23.28 percent, and totally SMEs as a sector's contribution to the GDP was 29.39%.

Small & Medium Business Development Chamber of India projects the share of SMEs in the expansion of the Indian economy to increase to 40 per cent of the GDP in 2017. This assessment is supported by its supposition that by 2016 - 17 approximately 15 million additional people would be joining the SME sector. SME units have currently employed 1,117.32 lakhs people in the year 2014-15. As per All India census of MSMEs, share of MSME manufacturing output in total manufacturing output is 33.40% in 2014-15.17

SMEs play significant role in the economy of many developed and developing countries across the globe.

Table 4: State-Wise Distribution of Registered Functioning SMEs

Geography	No of Enterprises (In lakhs)	Employment (In lakhs)	Original value of plant & machinery (in Rs. crore)	Market value of fixed investment (in Rs. crore)
Maharashtra	47.78	48	12384.89	54365.37
India	510.6	1173	105024.61	449138.40

Source- MSME District council report

"Maharashtra contributes approximately 6 percent of total registered functioning SMEs in India. However, SMEs suffer from major challenge of high rate of devastation and many enterprises may not even progress beyond infancy. Sustenance and success to grow into a big enterprise is, though a dream for all enterprises, is achieved by only a very few.

Table 5: State/Union Territory-wise number of sick MSEs (at the end of March)

Geography	2011	2012	2013	2014	2015	2016
Maharashtra	9,992	10136	31,322	40,365	49,293	46,549
India	90141	85,591	2,47,289	4,65,492	4,65,226	4,80,280

Source: RBI Reports

The causes of failures are attributed to many factors, which impede on the progress and cause sluggishness. These are difficulty in accessing the credit, regulatory framework, management issues, market barriers and education and training. Therefore present study is aimed at investigating the factors affecting the performance of SMEs enterprises within Maharashtra in India. Such research gaps has necessitated to study on the subject.

The developmental process of liberalization and global market integration has opened up enormous prospects for the sector, along with new challenges. The new ambitious National Manufacturing Policy (2016), which aims to make India a manufacturing pivot and upsurge the sectoral stake to 25 per cent in the next decade from the present level of 15-16 per cent, necessitates extensive backing from SME sector and significant hike in the growth rate of MSME sector from the existing level of 12-13 % per annum."

LITERATURE REVIEW

HoxhaAgron (2019) The goal of this study was to determine the effect of leadership styles on employee performance, namely transformational and transactional leadership. The sample comprised of 333 leaders and subordinates from a Malaysian telecoms business, representing a range of managerial positions, job responsibilities, gender, and educational backgrounds. The Multifactor Leadership Questionnaire (MLQ) and the Employee Performance scale were employed as measures. The transformative leadership style was found to have a beneficial effect on staff performance in this study. The findings of this study will add to a greater knowledge of the roles and functions of leadership styles, particularly transformational leadership, in enhancing employee performance in Malaysian workplaces.

Madanchian, Mitra, et al (2019) SME's play a critical and potentially transformative role in achieving economic development goals. After the establishment of the National SME Development Council (NSDC) in 2004, Malaysia recognised the importance of SMEs as the primary engine of the country's economic growth. The contribution of SMEs to the country's growth and development is a critical aspect of Malaysia's economic development. Numerous scholars believe that leadership effectiveness is a critical component in organisational performance; however, research on this aspect in small enterprises, particularly SMEs in Malaysia, is still limited. Thus, in order to

increase the performance of SMEs in the future, the function of SMEs must be balanced against the efficacy of leadership. The goal of this study is to evaluate the dimensions of leadership effectiveness in SMEs, more precisely in Malaysian SMEs. In this study, the applicable research approach is quantitative, utilising SPSS analysis. The sample for this study included managers of selected SMEs in Malaysia. The findings of this study indicated that dimensions of leadership effectiveness are critical for measuring leadership effectiveness, which has an effect on the performance of SMEs.

Dr Francis Okyere (2017) The purpose of this study was to determine the effect of owners'/managers' leadership styles on firm performance in Lesotho's SMMEs. Leadership is commonly viewed as a critical management function for achieving a firm's objectives. However, a review of the literature finds that little study has been conducted on the relationship between SMME owner/manager leadership styles and company success in the African environment. Data were acquired from ten SMME owners/managers in Maseru, Lesotho, using a qualitative method and an open-ended questionnaire. The findings corroborate the hypothesis that there is a positive link between the use of leadership styles and the performance of SMMEs in Lesotho. This qualitative technique is significant since it elucidated the leadership styles of SMME owners/managers and their impact on business performance.

Gross Raushan (2016). This research empirically studied the association between leadership styles & strategic thinking in SME's, an area that has received little attention. The research contributes to current understanding of the impact of leadership styles on employees' strategic thinking. This is crucial because it establishes a presbyopic baseline for the future application of strategy thinking and leadership theory to SME's. A cross-sectional survey design was used to collect 200 surveys from employees in southeastern U.S. industries. Hierarchical regression analysis was used to analyse the sample data. According to research, both transformational and transactional leadership styles are associated with good and significant effects on employee strategic thinking. Additionally, laissez-faire style shown a favourable correlation with strategic thinking, but it was not statistically significant. Thus, practical and theoretical consequences are discussed, as well as a section on future research options.

JEFF FOKAM MbahAstein (2016). SME's contribute over 50% of GDP and account for approximately 92% of enterprises in Cameroon (INS, 2009), yet approximately 80% of SME's formed in Cameroon fail before their fifth anniversary, with one of the primary factors being a lack of corporate leadership. The research's primary purpose is to demonstrate the effect of leadership style on the efficiency of Cameroonian SMEs. The research employs a

hypothetico-deductive methodology, with primary data collected via the Multi Factor Leadership Questionnaire administered to 114 workers from 38 SMEs in 05 major towns in Cameroon's southwest region between November 2015 & January 2016, and data analysed utilising PCA, Pearson correlation coefficient, & Ordinary Least Square Multiple Regression (OLS), the SPS. &The principal findings indicated that transformational leadership styles had a significant positive effect on the performance of SMEs in Cameroon, whereas transactional leadership styles had a positive & significant effect on performance. These findings are consistent with those obtained by Bass & Avolio, 2004 in their work titled "Leadership & Performance Beyond Expectations." This research will therefore recommend that in order to obtain organisational performance, managers should apply the Transformational jointly with the Transactional leadership style since a mix of the two leadership style will permit the firm to attain performance beyond expectations.

YldzSebahattin et al (2014). The purpose of this study is to examine the relationship between leadership styles and innovativeness and corporate performance. According to theory and research, both leadership and innovativeness have a significant impact on business performance. This link, however, varies according to sector, location, size, and other characteristics. Motivation and leadership styles are used. This study is descriptive in nature and uses a questionnaire to collect data. The case study includes 576 individuals from Istanbul who work in the service and manufacturing sectors. The findings indicate that two leadership styles and a proclivity for innovation have a good effect on business performance. The findings indicate that innovativeness, transformational leadership, and transactional leadership all have a greater impact on business performance.

Roslan Abdul Aziz. Et al. (2013). The purpose of this article is to examine the mediating impacts of entrepreneurial orientation on the link between leadership styles & business performance in SMEs. The owners/managers received a questionnaire package that included the Multifactor Leadership Questionnaire, the Entrepreneurial Orientation Questionnaire EOQ, the Business Performance BP questionnaire, and a demographic questionnaire. There were substantial positive connections between i) transformational leadership and business performance, ii) transactional leadership & business performance, iii) entrepreneurial orientation & business performance. Additionally, this study discovered a negative correlation between passive-avoidant leadership and corporate performance. Although entrepreneurial orientation was expected to entirely mediate the association between leadership styles and firm

performance, the findings indicated that the influence was only partial. The following conclusions can be drawn: (i) The study discovered that transformational & transactional leadership styles were the most frequently used by owner/managers of SMEs, and (ii) the direct relationship between leadership styles and business performance was more significant than the effect of using entrepreneurial orientation as a mediator. Additionally, this study enables the expansion of research into other areas, such as manufacturing, construction, agriculture, and telecommunications. Additionally, future studies may choose to explore the effect of leadership styles & entrepreneurial orientation on Malaysian SMEs that expand internationally, as international expansion may provide an opportunity for these enterprises to grow and enhance performance.

CONCLUSION

In today's highly competitive world doing business it is becoming very challenging for every business manager. This becomes highly challenging business environment when it comes to SMEs

(Small & Medium Enterprises) level because of various constraints at every department like it may be lack of expert manpower. In order to address the issue of many SMEs are not aware about their leadership styles & its possible positive & negative impact, researcher has decided to find out what exactly goes wrong in SMEs, as researcher himself was once upon a time small scale industry owner & due to various reasons he had to close his unit as it did not remain commercially viable to sustain further. In the context of SMEs, there is growing interest in innovation and creative management. This attention could stem from the critical role that SMEs play in the economy.

REFERENCES

- Gross, R. (2016). Towards an understanding of the relationship between leadership styles and strategic thinking: A small and medium enterprise perspective. *Journal of Business Studies Quarterly*, 8(2), 22-39.
- Hoxha, A. (2019). Transformational and transactional leadership styles on employee performance. *International Journal of Humanities and Social Science Invention*, 8(11), 46-58.
- FOKAM JEFF Astein Mbah. (2016). Leadership style and Performance of Small and medium size enterprises in Cameroon. A dissertation presented and defended publicly for the award of a master's degree in Human Resource Management. M.Sc. thesis. UNIVERSITY OF YAOUNDE II FACULTY OF ECONOMICS AND MANAGEMENT. Page 135
- Madanchian, M., & Taherdoost, H. (2019). Assessment of leadership effectiveness dimensions in small & medium enterprises (SMEs). *Procedia Manufacturing*, 32, 1035-1042.
- Roslan Abdul Aziz, Rosli Mahmood, M. Hussin Abdullah. (2013). The Mediating Effects of Entrepreneurial Orientation on the Relationship Between Leadership Styles and Performance of SMEs in Malaysia. The 2nd IBSM, International Conference on Business and Management.
- Sebahattin Yıldız, Faruk Baştürk İknur, Taştan Boz. The Effect of Leadership and Innovativeness on Business Performance. *Procedia - Social and Behavioral Sciences* 150 (2014) 785 – 793. Available online at www.sciencedirect.com. International Strategic Management Conference. doi: 10.1016/j.sbspro.2014.09.064
- Dr B. Yerram Raju, Small and Medium Enterprises (SMEs): Issues in the changing global economic environment (part III) , bankingnetindia.com
- Dr. Prashanta Athma, "Financial Accounting and Analysis", Himalaya Publishing House, 1st Edition, 2011, Mumbai, New Delhi.
- Dr. Raju KD. "Small and Medium Enterprises (SMEs) in India: Past, Present and Future" *PHDCCI Working Paper* (2008)

Corresponding Author

Nirmala Kumari*

Department of Commerce, YBN University, Ranchi, Jharkhand.