RESEARCH ARTICLE

The role of Transactional, Transformational and Participative Leadership in performance of SME's in Albania

ADELA SHESHI*, DONIKA KËRÇINI

Faculty of Economy and Agribusiness; Agricultural University of Tirana

*Corresponding author e-mail: adelasheshi@gmail.com

Abstract:

The main issue of the study is the importance of leadership and how it impacts the performance of the business in Albania. Theories suggests that leadership has an important impact on business performance and the relationship depend on sector, size, location and other variables. This study was designed as descriptive and its data gathering method is questionnaire. The questionnaires were addressed to 100 (one-hundred) shareholders of the companies in various industries that are operating in Albania. Since for this topic no study was done before in Albania, these findings of the study will allow us to develop a model of business performance of SMEs and to test the hypotheses proposed. The results show that two out of three leadership styles have positive affect on business performance in Albania. In conclusion, this study will have a positive impact because will bring important contributions such as: determining the role of each attribute (transactional, transformational and participative) towards the performance of SMEs in Albania.

Keywords: leadership, transformational, transactional, participative and performance.

Introduction

Globally speaking 90 percent of the business are Small and Medium Enterprises (SMEs). Micro and SMEs account for around two-thirds of total employment in developing and developed countries alike. Their contribution to GDP is lower, at around 35 per cent in developing countries and around 50 per cent in developed countries; SMEs are 70 per cent less productive than large firms[12].The European economy is directly affected by the business performance of SMEs. They are considered as the key factor of development and prosperity in the future. These businesses are generating new jobs and lead to new ideas in doing business. Also, the orientation of Albanian economy is more focus in the private sector especially towards SMEs. However, still the state continues to control the main business companies, mostly those in the energy sector. After two decades property rights, freedom and corruption remain still sensitive issues. Government intervention and their regulatory control continue to restrict the dynamic investments and economic efficiency in general. Despite recent reforms, inefficient business environment still obstructs the development of the economy. Since the labor market is incapable of operating well, informal labor activity continues to glow.

Leadership still remains one of the most important factor that affects business performance, because leaders influences directly the company directions and policies. Leadership matters- while some believe that business outcomes are more governed by historical, structural, or environmental factors, research has demonstrated a relationship between managerial effectiveness and positive organizational performances[8].Since human beings could become members of an organization in other to achieve certain personal objectives, the extent to which they are active members depends on how they are convinced that their membership will enable them to achieve their predetermined objectives. Therefore, an individual will support an organization if he believes that through it his personal objectives and goals could be met; if not, the person's interest will decline. Leadership style in an organization is one of the factors that play significant role in enhancing or

retarding the interest and commitment of the individuals in the organization[10].

This study is intended to identify and determine the effect of leadership style in the performance of SMEs. Data collection was conducted through surveys to SMEs businesses operating in Albania. The main issue of this study is the importance leadership to sustain competitiveness and positive performance. Combining empirical methods with theoretical notions of leadership, will help determine the impact on business performance in this study. This study has a feasible impact because will bring an important contributions in: determining the role of each attribute (transactional, transformational and democratic/participative) towards the performance of SMEs in Albania. The paper is divided in 4 (four) sessions; session one is the introduction; session two is materials and methods; session three is the results and discussion; session four is referring to the conclusion of the study.

Material and Methods

2.1 Leadership Focus and performance of the SMEs businesses.

By the end of the 30s' had no academic interest in the field of leadership. Mary Parker Follett, has brought the classic theory of leadership during the 1920s before the war which is still important in today business. Mary Parker Follett, a social worker raised the question of how important was the orientation towards people or group of management through interaction and sharing power between managers and employees in business, in fact it was a pioneer of the term leadership participants. Leadership participative, including managers and employees to work together with a common goal in decision-making and problem solving. Participative managers in decision-making support the staff with the necessary resources in order to accomplish the goals.Leaders of organizations today use common goals and participatory decision-making, to achieve a better performance and understanding in an organizational environment. Leadership in the literature has been seen as an important feature of organization behavior [1, 3, 5, 8].Bass in 1990 provides a definition of leadership:

Leadership is an interaction between two or more members of a group that often involves a structuring or restructuring of the situation and the perception and expectations of the members… Leadership occurs when one group member modifies the motivation or competencies of others in the group. Any member of the group can exhibit some amount of leadership". So, leadership is define as "an instrument of goal achievement" [1].

The three main styles of leadership are referred to this paper:

- Democratic/participative leadership: is behavior that influences people in a manner consistent with and/or conducive to basic democratic principles and processes, such as self-determination, inclusiveness, equal participation and deliberation [6, 7].

- Transactional leadership: clarifies expectations and provides recognition when goals are met. They tend to be focus on the short term, physical securities need of subordinates and they usually operate through an economic exchange mode[1, 2].

- Transformation leadership: is to transform people and organizations, to change them in mind and heart, enlarge vision, insight, and understand; clarify purpose; make behavior congruent with beliefs, principles, or values; and bring about changes that are permanent, self-perpetuating, and momentum building[5].

Burns in 1978 stated that: conceptualizes two factors to differentiate "ordinary" from "extraordinary" leadership: transactional and transformational leadership. Transactional leadership is based on conventional exchange relationship in which followers "compliance (effort, productivity, and loyalty) is exchange for expected rewards. In contrast, transformational (extraordinary) leaders raise

followers "consciousness levels about the importance and value of designated outcomes and ways of achieving them. They also motivate followers to transcend their own immediate self-interest for the sake of the mission and vision of the organization [3].The difference between transformational, transactional and democratic leadership is the approaches they motivate followers.

The SMEs performance has a multi-dimensional structure; based on the combination of quantitative and qualitative variables can be measured the success of the business. Some of these attributes that measures the success are: profitability of the business; quality of the products/ services; image of the company; customer satisfaction; employee satisfaction/ motivation; efforts to innovate; number of employees; productivity of the company.

Factors that have positive impact in the performance are: motivation, education, partnership. Many authors had tried to explain the success of SMEs. One of these theories state that human capital, social capital and financial capital are essential factors in improving the performance of business. Performance is directly related to innovation. Increase business performance affects the expansion, competitiveness and chances of survival. Improved performance has an impact on the economy of the country or region [11].Competitive organizations, constantly supporting and implementing transformative changes [4].Organizational performance refers to ability of an enterprise to achieve such objectives as high profits, qualities product, large market share, good financial results and survival at pre-determined time using relevant strategy for action[9].

2.2 Methodology

The Purpose of Study is to determine the role of leadership in performance of small- and medium enterprise.Objective of the study is to identify and determine the role of leadership in the performance of SMEs in Albania.Hypothesis of the study:

- *"No significant correlation between transformational, transactional and democratic/ participative leadership and performance of businesses (SMEs) in Albania".*

-*"There is significant correlation between transformational, transactional and democratic/ participative leadership and performances businesses (SMEs) in Albania.*

In this research was used the quantitative data collection methods. Data collection was conducted during the period April - June 2016. The collection process began with the identification of potential candidates in Albanian business environmental. Selection and identification of these candidates was made using the database of Raiffeisen Bank, and with the approval of business owner presented at the branch. The number of valid questionnaires were 100 (one-hundred). The data collection was done by searching for information about the business and the collection of information through direct survey.

The questionnaire was segmented into 2 (two) core parts:

1. evaluation of models of leadership- is used to measure leadership styles of business owners (democratic/participative, transactional and transformational) based on the theoretical leadership characteristics; (5- point Likert scales)

2. the performance of the business within market- is measured by 8 factors (profitability of the business, quality of the products/ services, image of the company, customer satisfaction, employee satisfaction/ motivation, efforts to innovate, number of employees, productivity of the company) (5- point Likert scales).

In addition, the questionnaire was collected data for the type of industry, number of employees, number of years operating in the market and annual sales which were used in this study as variables of control.

Results and Discussion

The sample is relatively small and limited to 100 surveys and in this study was used Multi-Regression Analysis to test proposed hypothesis. This approach is designed to develop a regression model with the fewest number of variables which are statistically independent. Analysis of Variance (ANOVA) was used to determine the differences between the models of leadership and performance. Was used the SPSS statistical method to analyze the data based on multiple regression analysis to test the proposed hypothesis. To measure the reliability of a model and significant that the components / questions is used Cronbach alpha level. If Cronbach Alpha values are greater than 0.70 are considered acceptable. In this study the level of reliable values are above 0.70.

Table 1:Validity and Reliability (KMO and Bartlett's Test)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.620
	Approx. Chi-Square	217.349
Bartlett's Test of Sphericity	Df	28
	Sig.	.000

Kaiser-Meyer-Test Olkin (KMO) measure the adequacy of the data collected, it should be greater than 0.5. This correlation indicates that the models are relatively compact and analysis factor should provide adequate and reliable factors the result is showed in table 1.

Factor analysis method is applied to determine the size of a scale. Factor analysis is a technique to identify groups or groups of variables and to understand the structure of any hidden variable. Factors will be presented in the form of linear equation to explain the variables measured and their importance as factors.

$$Pkk = a + b1Ltr + b2Lpr + b3Lts$$

Note: Pkk= Business Performance

Ltr= Transformational leadership

Lpr= Democratic leadership

Lts= Transactional Leadership

The factor analysis method had identified three main dependent variables as it is showed in table 2, and other variables' items and statements as it is showed in table 3.

Using SPSS regression model to test the correlation between each leadership models and the performance of businesses in Albania. It was first investigated the relationship between the model of transformational leadership and performance. Output in table 6 shows the results of regressive analysis performed with SPSS regression model where the dependent variable is as performance and as the independent variable is transformational leadership.

Table 2: Total Variance/ Principal Component Analysis

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.633	32.910	32.910	2.633	32.910	32.910	2.140	26.745	26.745
2	1.704	21.302	54.212	1.704	21.302	54.212	1.943	24.288	51.033
3	1.371	17.140	71.352	1.371	17.140	71.352	1.625	20.319	71.352
4	.601	7.515	78.866						
5	.563	7.034	85.900						
6	.460	5.749	91.650						
7	.399	4.993	96.642						
8	.269	3.358	100.000						

Table 3: Variables and Statements

Statement	Components/ Variables		
	Transformational	Participative	Transactional
TR7 Promotion of my employees when they take the initiative to find new creative solutions.	.823		
TR11 Provide individual counseling for each of my employees, so they can reach their maximum potential, although is not required by the organization.	.812		
TS11 Provide assistance and resources for employees who make more effort in their work.	.783		
TR10 I support my employees when they present new ways of doing work.		.807	
TR8 I give my trust employees to take important decisions.		.746	
TS1**I** reward my employees when they all together reach the goals set by the company.		.721	
PR2**I** interference in the duties of employees when they have problems.			.896
TS7 I continuously monitor the employees		.408	.775

Table 4: Model of Transformational Leadership

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.226[a]	.051	.042	4.680

a. Predictors: (Constant), Transformational Leadership

Table 5: Correlation Analysis (ANOVA)regarding Dependent Variable Performance and independent variable Transformational Leadership.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	115.817	1	115.817	5.287	.024[b]
	Residual	2146.623	98	21.904		
	Total	2262.440	99			

a. Dependent Variable: Performance; b. Predictors: (Constant), Transformational Leadership

Table 6: Regression Analysis Regarding Transformational Leadership

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	25.553	1.846		13.839	.000
	Transformational leadership	.404	.176	.226	2.299	.024

a. Dependent Variable: Performance

From the ANOVA table 5, as p = .024 < = .05, we can say that: "There is a significant correlation between the model of transformational leadership and performance of SMEs businesses in Albania.

Moreover, it was investigated the relationship between the model of participative/democratic leadership and performance. Output in table 9 shows the results of regressive analysis performed with SPSS regression model where the dependent variable is as performance and as the independent variable is participative/democratic leadership.

From the ANOVA table 8, as p = .024 < = .05, we can say that: "There is a significant correlation between the model of participative leadership and performance of SMEs businesses in Albania".

To conclude, it was investigated the relationship between the model of transactional leadership and performance. Output in table 12 shows the results of regressive analysis performed with SPSS regression model where the dependent variable is as performance and as the independent variable is transactional leadership

Table 7: Model of Participative Leadership

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.444[a]	.197	.189	4.306

a. Predictors: (Constant), Participative Leadership

Table 8: Correlation Analysis (ANOVA)regarding Dependent Variable Performance and independent variable Participative Leadership.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	445.194	1	445.194	24.008	.000[b]
	Residual	1817.246	98	18.543		
	Total	2262.440	99			

a. Dependent Variable: Performance; b. Predictors: (Constant), Participative Leadership

Table 9: Regression Analysis Regarding Participative Leadership

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	20.243	1.970		10.278	.000
	Participative Leadership	.833	.170	.444	4.900	.000

a. Dependent Variable: Performance

Table 10: Model of Transactional Leadership

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.052[a]	.003	-.008	4.798

a. Predictors: (Constant), Transactional Leadership

Table 11: Correlation Analysis (ANOVA)regarding Dependent Variable Performance and independent variable Transactional Leadership.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.050	1	6.050	.263	.609[b]
	Residual	2256.390	98	23.024		
	Total	2262.440	99			

a. Dependent Variable: Performance

b. Predictors: (Constant), Transactional Leadership

Table 12: Regression Analysis Regarding Transactional Leadership

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	30.664	2.016		15.210	.000
	LTS	-.137	.268	-.052	-.513	.609

Dependent Variable: Performance

From the ANOVA table 11, as p = .024 < = .05, we can say that: "There is no significant correlation between the model of transactional leadership and performance of SMEs businesses in Albania".

The correlation between the model of transactional leadership and performance is negative, which this issue has been emphasis on previous studies. From the multi-regression analysis using the leadership models as independent variables shows that the participative/ democratic leadership model has s positive correlation and a significant impact in the business performance more than transactional leadership. These finds are in align with previous studies where research indicates that the behavior of transformational and participative/ democratic leadership are effective in maximizing the performance of the businesses in Albania. These leaderships change the cultures of the business and labor productivity by enhancing the good ideas, changing the attitudes and assumptions and increasing commitments in order to achieve the goals and objectives of the business.

Conclusions

In this study concepts like transactional, transformational and democratic/ participative leadership are very important regarding the performance of the business. Analysis was conducted on three types of leadership models as transformational leadership, democratic/ participative leadership and transactional leadership. It is important to highlight that from all models of leadership, transformational and democratic/ participative leadership has stronger connection, but transactional leadership has negative correlation. Democratic/participative leadership

enhances commitment of employees, inclusiveness, equal participation and making possible to achieve company goals. In conclusion, there is a lack of information and no studies done before in this specific area in Albania, so these findings can be used as guidelines in practice by business owners, managers, directors in improving the performance of the company and being more competitive in the market. In additional, this study can help the policymaker to look for new approaches or update the old ones so SMEs can improve more their performance and being competitive.

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