

LEADERSHIP STYLES IN SMALL ENTERPRISES OF A TRANSITION COUNTRY: AN EMPIRICAL RESEARCH IN BOSNIA AND HERZEGOVINA

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ABSTRACT

In this paper authors research the leadership styles in the small enterprises in Bosnia and Herzegovina (B&H), which are now in process of transition from the collectivist to the entrepreneurial economic system. Their intention is to determine whether the contemporary leadership styles are appropriate for the enterprises in transition. Therefore, they have initiated an empirical research in 73 small enterprises, by utilizing Likert's model and came to the conclusion that the leadership styles are transforming from authoritative toward the consultative ones. The implications of entrepreneurs' profiles and the business environment of these enterprises to such transformation are further discussed in this paper.

INTRODUCTION

1. Background. One of the most important factors determining the success of an enterprise is the quality of its leadership. Therefore, it can be easily understood that the leadership issues gain wide coverage in the contemporary management theory. The leadership itself can be defined as a process by which an individual influences the other persons, in order to accomplish the pre-defined objectives (Montana/Charnov, 1993, pp. 216). This definition implies that the leadership is closely related to human resources, which are today appraised as the most important determinant of a successful enterprise. Consequently, a successful enterprise can not exist without skillful leadership and initiation of members' activity, as well as induction of employees' high motivation and engagement.

Experience shows that the manager's efficiency depends on his leadership style. This fact has initiated many research activities, which tried to assess which is the best leadership style. Significant leadership theories have been created during these attempts, beginning with the early leadership profiles, through the behavioral theories, to the contingency theories regarding leadership. The literature features many authors who contributed to such theories: from E. Mayo and K. Lewin, through D. McGregor, Argyris and R. Likert, to Fiedler, Yetton, Handy, Bennis, Yammarino and many others.

Recent research shows that the contemporary leader is characterized by the supportive leadership style that shows leader's concern for subordinates' well being and personal needs. Leadership behavior is open, friendly and approachable, and the leader creates a team climate and treats subordinates as equals. Such a leadership style ensures the highest possible involvement of all the employees in reaching the company's objectives. The consequences are felt in the rapid growth of production, employment and standard of life. However, the issue is raised whether such a style is appropriate for all the environments and conditions, especially to the countries in transition. That is one of the reasons that motivated this research.

2. Purpose of the study. Leadership issues are of special significance to the transitional economies, taking into account that they are only developing its entrepreneurial economy. In these countries, people have started their entrepreneurial activities during the last few years,

and gained the necessary experience. However, the present business practice has shown that these “new entrepreneurs” are successfully gaining market share, which can be contributed to several different factors. How much does their leadership style contribute to such a success, and how appropriate is it to the demand of the upcoming 21 st century ? This is a central issue addressed by this research, which is intended to provide answers to the following questions:

1. Which leadership styles are utilized by the “new entrepreneurs”?
 2. Are these styles determined by the entrepreneurs' profiles, or by some other factors?
- Answers to these questions should contribute both to the management science, and the small enterprises' business practice, especially in the transitional countries.

DIAGNOSTIC MODEL

Diagnosis of the leadership styles is a complex task in each particular case, which motivated many researchers to develop adequate diagnostic models. Three of these models could be assessed as classical: (1) Theory X / Theory Y Style Test, (2) T-P Leadership Questionnaire and (3) Leadership and Followers Style Test. However, employing the assumption that the managers in transitional countries incline more strongly to the rigid leadership styles, the Likert's model was estimated as more appropriate for this research. Likert has developed certain ideas and approaches significant for the comprehension of leader's behavior. He views a successful manager as a person strongly orientated toward the subordinates, utilizing communication as means for the harmonic performance of all the company's elements. All the team members, including the manager (leader), adopt supporting style, in which they take part with the shared values, aspirations, objectives and expectations. Therefore, Likert asserts that the participative leadership style is the most efficient one, being based on group decision making, decentralization of decision making to those levels containing more knowledge and information needed for the optimal decisions, demanding objectives and high expectations that activate the individuals and develop their abilities. He thinks that each company may increase its efficiency by applying the participative leadership style. To accommodate the needs of the practical leadership analysis, Likert has developed the model in which four leadership styles are differentiated. Those are:

1. Exploitive-authoritative (System 1)
2. Benevolent-authoritative (System 2)
3. Consultative (System 3), and
4. Participative-group” (System 4).

Fundamental characteristics of these styles can be briefly described as follows: *System 1*: Manager has no trust in subordinates. All the decisions are being made at the top. Subordinates are pressed to work with fear, are often subjected to threats and punishments, with occasional rewards. Control function is concentrated at the top management level. Parallel to the formal organization, an informal organization with separate objectives is created. Those objectives are often confronted with those of the formal organization.

System 2: Manager has some trust in subordinates. This relationship can be described as a “master-servant” one. Even in this case, objectives are set at the top management level, in

which the key decisions are also made, but some routine decisions are delegated down the hierarchy. Managers mainly motivate with rewards, but do not avoid punishments either. Control function is still concentrated at the top management level, although some control can be delegated to the middle management.

System 3: Manager has substantial, but not complete confidence in subordinates, who are allowed to make less important decisions on the lower hierarchy levels. Communication flow both up and down. The most important means of motivation are rewards, with occasional punishments. Interaction between superiors and subordinates contains a certain amount of trust. Informal organization may evolve, but its objectives are either compatible with the formal organization, or are only partially confronted to it.

System 4: Management has complete confidence in subordinates. All hierarchical levels are included into the decision making process. Communications flow not only up and down the hierarchy, but also in all directions. Motivation is based on the participation in decision making and involvement in setting goals and appraising progress toward them. Interaction between superiors and subordinates are friendly, which results in increase of mutual trust. Objectives of both the formal organization and the informal organization are frequently corresponding, so all the actions are directed toward the accomplishment of previously defined organizational objectives. Such a model of leadership styles has been the basis for the design of the research instruments for the practical diagnosis.

METHODOLOGY

1. Sample. In order to gain insight into the entrepreneurs' leadership style, 73 of total 658 small enterprises have been surveyed, which represents 11.09% of the small enterprises in the region. Special attention has been paid to the dominant economic activities in this part of B&H. Data on the chosen sample are given in Table 1.

Table 1 Number and structure of the surveyed enterprises

Economic activity	Total		Total	
	Number	%	Number	%
Industry	49	7.45	16	32.65
Agriculture	11	1.67	1	9.09
Civil engineering	16	2.43	5	31.25
Transport and communication	20	3.05	0	0.00
Trade	508	77.20	50	9.84
Tourism and restaurant management	6	0.91	1	16.67
Craftsmanship	27	4.10	0	0.00
Financial and other services	21	3.19	0	0.00
Total:	658	100.00	73	11.09

A. Characteristics of the surveyed enterprises. Research has encompassed the following four characteristics of enterprises:

1. Economic activity in which the enterprise engages,
1. Size of the enterprise,
3. Lifespan of the enterprise,
4. Headquarters of the enterprise.

Data on economic activity in which the enterprise engages are given in Table 2.

Table 2 Overview of surveyed enterprises according to the economic activity

Economic activity	Number	%
Agriculture	1	1.37
Industry	16	21.92
Trade	60	68.49
Civil engineering	5	6.85
Tourism and restaurant management	1	1.37
Total:	73	100.00

As it can be observed from Table 2, the largest number of surveyed entrepreneurs engages in trade, which implies that their leadership style dominates in the overall entrepreneurial style in surveyed enterprises.

Data on size of the enterprise are given in Table 3.

Table 3 Size of surveyed enterprises according to the number of employees

Size	1-25	25-50	51-250	Total
Number of enterprises	3	15	55	53
%	4.11	20.55	75.34	100.00

Table 3 indicates that the structure of small enterprises is dominated by those hiring from 1 to 25 employees (micro and mini-enterprises), while the amount of the “gazelles”, which showed to be the most successful among the small companies, is quite small.

Taking into account that the surveyed companies are in private property, it is reasonable to expect that they have been founded only after the transition from socialist to capitalistic economy. Data on this are given in Table 4.

Table 4 Overview of surveyed enterprises according to the year of establishment

Year of establishment	until 1980.	1981. – 1990.	1991. – 1997.	Total
Number of enterprises	3	15	55	53
%	4.11	20.55	75.34	100.00

Table 4 reveals that relatively young enterprises (not older than 7 years) dominate, which means that many of them are still in critical position, taking into consideration that in average only 20% of established companies survives first 5 years. It can be concluded that the small enterprises in B&H are characterized by following:

- Economic activity in which the new entrepreneurs engage is mostly trade, which is the consequence of opening the markets for imported products,
- Micro and mini-enterprises dominate in the structure of small enterprises,- Largest number of these enterprises is relatively young, so a significant amount of them are still fighting for survival.

B. Characteristics of the surveyed entrepreneurs. Research has encompassed 18 following entrepreneurs' characteristics:(1) property status, (2) workplace,(3) sex, (4) age, (5) place of birth,(6) social background,(7) marital status,(8) household size,(9) education level,(10) profession, (11) years of working experience, (12) years of managerial experience, (13) job changes,(14) promotion, (15) expansion of existing knowledge,(16) intensity of learning,(17)

length of working day,(18) relation toward the political parties.

The research has revealed the following characteristics of the respondents:

- 78% are sole proprietors, or joint owners of the enterprise,
- 8.67% are occupying the position of general manager, or his assistant,
- 86.30% are men,
- 84.94% are between 31 and 50,
- 75.34% are born in the location of the enterprise headquarters,
- 57.53% descend from workers' families, and 41.10% from rural families,
- 94.52% are married,
- 98.68% are living in the family household with 3 or more family members,
- 41.10% have completed the secondary education, 30.14% higher, and 26.03% high education,
- dominant amount of 35.62% have degrees in business or economics,
- 89.04% have more than 10 years of managerial experience,
- 86.30% have changed jobs once or two times,
- 65.75% have been promoted to management, and 30.14% have been promoted to professionally more demanding jobs during their career,
- only 10.96% constantly expands their knowledge, 56.16% does it occasionally,
- 24.66% expand their knowledge through the literature from their professional field, 23.29% through learning new managerial skills, and 19.18% through informing themselves about the competition and the similar companies,
- for 82.19% of respondents, the working day lasts between 9 and 13 hours,
- 19.18% are members of a political party, 39.73% are supporters of a political party, and the others are politically indifferent.

2. Research instruments. A special questionnaire, consisting of 40 questions grouped into three sections, was designed for the research. First section was related to the characteristics of the enterprise, and consisted of 4 questions, the second one was related to the respondents' characteristics, encompassing 18 questions, and the last one covered the leadership style with 18 questions. As the research was oriented toward the Likert's leadership style model, the third section of questionnaire was outlined according to that specific model,

addressing six fundamental variables that can be judged as the essence of leading. Those are: (1) leadership, (2) motivation, (3) communication, (4) decision making, (5) objectives, (6) control.

RESULTS Computation of questionnaires has provided much data regarding both the respondents' profile and the leadership styles. We shall first present the results according to individual variables, followed by the summarized findings.

1. Leadership. Leadership is defined (Koontz/Weihrich, 1988, pp. 437.) as a skill, or a process of influencing people so that they readily and enthusiastically incline toward the accomplishment of common objectives. The manner by which managers influence people exhibits their leadership style. Therefore, it is important to find out how is the leadership style being practiced, which has been studied through the following variables:

1. leader's confidence and trust toward the subordinates,
2. impression of free communication with the leader,
3. utilization of subordinates' ideas by the leader.

Answers to questions regarding the above variables have resulted in Table 5.

Table 5 Amount of variables related to leadership in leadership styles (%)

Organizational variables	Leadership systems			
	1	2	3	4
Leader's confidence and trust toward the subordinates	0.00	24.66	68.49	6.85
Impression of free communication with the leader	0.00	21.92	69.86	8.22
Utilization of subordinates' ideas by the leader*	4.11	57.53	28.77	1.37

*Divergence to 100% relates to the respondents who haven't provided any answer.

Such results lead to the conclusion that the leaders have quite a large amount of confidence and trust toward the subordinates, which implies that the consultative leadership style is being used. Regretfully, employees' ideas articulated in communication with leaders are used only occasionally, which diminishes the initiative.

2. Motivation. Motivation is defined as (Buble, 1993, pp. 303.) any influence that causes, directs and preserves the behavior directed toward the objectives. Consequently, one should answer the question of manner by which managers accomplish such an influence. This issue has been studied through the following three basic variables:

1. form of motivation,
2. responsibility for meeting the objectives,
3. teamwork.

Answers to questions related to these variables have resulted with the figures below:

Table 6 Amount of motivational variables in leadership styles (%)

Organizational variables	Leadership systems (styles)			
	1	2	3	4
Form of motivation*	47.94	18.36	12.33	3.29
Responsibility for meeting the objectives	58.90	34.25	0.00	0.00
Teamwork	0.00	1.37	12.33	86.30

These results indicate that leaders dominantly use fear, threats and punishments as instruments of motivation, less frequently utilizing rewards, while participation is practically never used. If we also take into account that the leaders are solely responsible for meeting the determined objectives, it is evident that the prevalently used leadership style is exploitive-authoritative one. The above conclusion is not diminished by the significant utilization of teamwork, because the respondents have probably misinterpreted the teamwork itself.

3. Communication. Communication is usually defined as a process of transferring the information from one person to another. Interpersonal communication is not only the indicator of individual's involvement into the group, but also the indicator of his self-realization. Accordingly, the development of communication within the enterprise substantially influences its business success. In order to find out how developed is the communication, the following four variables have been examined:

1. common direction of communication flow,
2. acceptance of information by the employees,
3. accuracy of information emitted by the employees, managers' comprehension of employees' problems.

Answers to questions dealing with these variables have resulted with following figures:

Table 7 Amount of variables related to communication in leadership styles (%)

Organizational variables	Leadership systems			
	1	2	3	4
Common direction of communication flow	0.00	0.00	39.99	63.01
Acceptance of information by the employees	0.00	1.37	27.40	73.23
Accuracy of information emitted by the employees	0.00	2.74	46.58	50.68
Managers' comprehension of employees' problems	2.74	49.32	43.84	4.11

Results from the above table lead to the conclusion that the communications are horizontal, vertical and lateral, and that the employees accept the information emitted by the managers in a very satisfactory manner. The latter is comprehensible, because the employees are afraid of the sanctions. Directed by such fear, they do not always emit the accurate information toward the management, which originates unreliable managers' comprehension of employees' problems.

4. Decision making. Decision-making is usually defined as a process of identifying the problems and the possibilities for their solving (Daft, 1997, pp. 279.), which includes the efforts before and after the decision is made. Implementation of decisions is basically determined by the question who the decision-makers are, and how much are the employees involved to the process. Thus, it is important to investigate what is the decision making process like in the small enterprises, which has involved the examination of the following three variables:

1. organizational level in which the decisions are made,

2. participation of employees in decision making,
3. motivation of employees.

Answers to questions dealing with these variables have resulted with following figures:

Table 8 Amount of variables related to decision making in leadership styles (%)

Organizational variables	Leadership systems			
	1	2	3	4
Organizational level in which the decisions are made	21.92	68.49	6.85	2.74
Participation of employees in decision making	1.37	76.71	5.48	16.44
Motivation of employees*	1.37	1.37	58.0	36.99

*Divergence to 100% relates to the respondents who haven't provided any answer. Obtained results suggest that the decisions are made at the top, with some delegation. The subordinates are occasionally consulted, which they regard as sufficient motivation in implementing such decisions.

5. Objectives. Objectives can be defined as the desired outcomes which organization intends to accomplish (Etzioni, 1984, pp. 6). As such outcomes are directed toward the enterprise mission, it is substantial how do the companies realize them. Each manager tries to accurately define and reach his objectives, in order to ensure the growth and development of the company. To study the process of defining and reaching the enterprise objectives, two following variables have been examined:

1. manner in which the objectives are defined,
2. presence of resistance toward the objectives.

Answers to questions related to these variables have resulted with following figures:

Table 9 Amount of variables related to objectives in leadership styles (%)

Organizational variables	Leadership systems			
	1	2	3	4
Manner in which the objectives are defined	13.70	75.34	4.11	6.85
Presence of resistance toward the objectives	0.00	0.00	4.11	95.89

Obtained figures lead to the conclusion that the objectives are defined at the top management level. They are transferred to the lower hierarchy levels through commanding, allowing some comments and discussion by the employees. The resistance toward the objectives defined in such a manner is virtually non-existent, which is comprehensible if we take into account both the sanctions that could be carried out by managers and the fear to lose one's job in the environment with high unemployment rate.

6. Controlling. Controlling is defined as a management function directed toward the monitoring of employees' activities, establishing whether the organization is guided by its objectives, and taking the corrective actions, if necessary (Daft, 1997, 12). The management's task is ensuring that the enterprise objectives are met, but the new approaches to this issue include empowerment and confidence to employees. Following three variables have been examined to find out whether the situation is identical in the surveyed enterprises:

1. person who implements the controlling function,

2. presence of resistance toward the rules,
3. purpose of control information.

Answers to questions related to these variables have resulted with following figures:

Table 10 Amount of variables related to controlling in leadership styles (%)

Organizational variables	Leadership systems			
	1	2	3	4
Person who implements the controlling function	41.10	35.62	19.18	4.11
Presence of resistance toward the rules	0.00	0.00	8.22	91.78
Purpose of control information	58.90	34.25	0.00	6.85

The results above lead to the conclusion that the top management is implementing the controlling function, while individuals who resist the enterprise rules are practically non-existent. The control information is mostly used for managing the company and rewarding (punishing); its usage for self-direction of work is only symbolic.

Six key variables that, according to Likert, determine the leadership style are manifesting quite differently in our case. Namely, while some variables indicate that the management fosters the authoritative style, the other ones suggest that the same management develops the consultative leadership style. Therefore, it was necessary to summarize the obtained results, in order to create the organizational characteristics profile belonging to the small enterprise managers (entrepreneurs) in B&H.

From Table 11 it can be concluded that a form of authoritative leadership style, having quite a few elements of the consultative one, prevails in small enterprises in B&H.

Table 11 Profile of organizational characteristics of small enterprises managers in B&H

Organizational variables	System 1	System 2	System 3	System 4
LEADERSHIP: How much confidence and trust is shown in subordinates? How free do they feel to talk to superiors about job? How often are subordinate's ideas sought and used constructively?	virtually none not very free seldom	some somewhat free sometimes	substantial amount quite free often	a great deal very free very frequently
MOTIVATION: Is predominant use made of (1)fear, (2)threats, (3)punishment, (4)rewards, (5)involvement? Where is responsibility felt for achieving organization's goals? How much cooperative teamwork exists?	1,2,3, occasion mostly at top very little	4, some 3 top and middle relatively little	4, some 3 and 5 fairly general moderate amount	5,4, based on group-set goals at all levels great deal
COMMUNICATION: What is the usual direction of information flow? How is downward communication accepted? How accurate is upward communication? How well do superiors know problems faced by subordinates?	downward with suspicion usually inaccurate not very well	mostly downward possibly with suspicion often inaccurate rather well	down and up with caution often inaccurate quite well	down, up and sideways with a receptive mind almost always accurate very well
DECISIONS: At what level are decisions made? Are subordinates involved in decisions related to their work? What does decision-making process contribute to motivation?	mostly at top almost never not very much	policy at top, some delegation occasionally consulted relatively little	broad policy at top more delegation generally consulted some contribution	throughout but well integrated fully involved substantial contribution
GOALS: How are organizational goals established? How much covert resistance to goals is presented?	orders issued strong resistance	orders, some decisions invited moderate resistance	after discussion, by orders some resistance	by group action (except in crisis) little or none
CONTROL: How concentrated are review and control functions?	very highly at top	quite highly at top	moderate delegation to lower levels	widely shared

CONCLUSIONS

Although this paper presents only the preliminary research results, it leads to the conclusion that the “soft” form of authoritative leadership style, containing a significant amount of consultative style characteristics, prevails in small enterprises in B&H.

Fundamental characteristics of such a hybrid style are in Table 12.

Table 12 Fundamental characteristics of the observed hybrid leadership style

Extremely characteristics of the authoritative style	Extremely characteristics of the consultative style
Objectives – defined through directives, with the responsibility for the implementation concentrated at the top	Teamwork – significantly represented, which can be attributed to the size of the surveyed companies
Decisions – decision-making is concentrated at the top	Communication – in all directions, due to the size of the surveyed companies
Motivation – fear, threats and punishments still dominate as instruments of motivation, with the unequal share of awards, and the participation being virtually non-existent	Resistance toward the enterprise objectives – minor
Control – concentrated at the top and implemented mainly for the purpose of managing the enterprise	Resistance toward the enterprise rules – practically non-existent

Management education, along with organizational and another measures, are able to diminish the extremely characteristics of the authoritative style and contribute to the strengthening of the consultative style, which can be judged as much more appropriate both to the present and upcoming times.

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