

MANAGEMENT STYLES AND PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN MALAYSIA

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ABSTRACT

Management style as a concept and practice continue to attract much attention in the literature. As a field of study, the review of past research reveals that previous studies that examined management styles have mainly focused on large companies. Despite the importance of management style to small and medium-sized enterprises (SMEs), not many studies have attempted to investigate the management styles embraced by these firms, especially in the Malaysian context. This study investigates the relationships between management styles and performance of SMEs. Using structured questionnaire, the data was collected from 186 SMEs operating in the manufacturing sector. The results of the study show that management styles are associated to the performance of the SMEs.

INTRODUCTION

Different organizations tend to adopt different styles of management and also the styles influence the way they are being managed. The manner in which the organizations are being managed will in turn determine the performance of organizations. With regard to the performance of organizations, some continue to sustain their success while others appear to be less successful. Most often, the successful organizations are able to perform well and sustain their operations due to effective management styles. Nonetheless, in the case of the unsuccessful organizations, most frequently, these organizations fail because of mismanagement or they may have adopted ineffective styles of management.

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Numerous management styles have been identified as well as presented in the literature over the years. At the same time, various research attempts have been made to examine the kind of management that managers need to improve their organizational performance. However, these studies have mainly focused on investigating the styles of management adopted by great companies. These studies scrutinize the way these companies are being managed and also attempted to identify as well as learn the styles of management needed to make them successful companies (Meggeneder, 2007; Ogbeide & Harrington, 2011; Uche & Timinepere, 2012; Foss & Klein, 2014).

Although there is increasing evidence that suggests the relationship between certain styles of management and organizational performance, there are studies that indicate the management style adopted by each successful company tends to differ from each other. Results of previous studies that investigated the management styles of successful companies also unveils that these companies do not necessarily adopt the same style of management. This finding in turn has raised the question as to whether there is only one particular type of management style that is suitable to be practiced by all types of organizations in order to become successful (Foss & Klein, 2014; Hamel, 2012; Mintzberg, 2011; Hiltrop, 1996; Capon, Farley, Hulbert & Lei, 1991).

Notwithstanding the enormous amount of literature and increasing research attention on management style in recent years, empirical studies in this area seemed to be not only limited but also neglected, especially in the Malaysian context. The review of the management literature in Malaysia appears to indicate not much is known about the management styles adopted by Malaysian companies and also little research in this area. One specific area worthy of research would be to investigate the management styles adopted by small and medium-sized enterprises (SMEs) in Malaysia. This study specifically attempts to examine the relationship between management styles and the performance of SMEs.

LITERATURE REVIEW

Over the years, there are many different definitions of management style presented in the literature. Both as a concept and practice, management style has been defined differently by different authors. For instance, in a more recent study, Dundon and Rollinson (2011) referred to

management styles as not only the managers preferred approach to handling matters concerning employees and employment relations but also the styles reflect the manners in which the manager exercise their authority as well as make decisions in their organizations.

As an area of research, the literature suggests studies on management styles began in the 1960s and 1970s. Previous studies however primarily focused on investigating the styles of management adopted in unionized organizations. These earlier studies found that the management styles of these organizations emphasized on consultation and negotiation when dealing with their employees and unions. Nonetheless, following the decline of the number of the unions in the 1980s, organizations began to search for new forms of management practices that their managers need in order to manage their organizations efficiently and effectively as well as in maintaining the relationships between employees and employers (Bacon, 2008; Dundon & Rollinson, 2011).

In realizing the importance of management styles to organizational performance, over the decades, numerous research attempts have been made to investigate the types of management styles adopted by different organizations. The review of the findings of past studies indicate that organizations not only adopt different types of management styles but also the styles of management vary between different organizations due to various external environmental factors as well as internal organizational factors (Dimmock, 1999).

Among the earliest management styles presented in the literature included the styles identified and proposed by Likert (1967). The author developed the Likert's System 4 that consisted of four specific types of management styles. The four specific management styles involved; System 1 (exploitative authoritative style), System 2 (benevolent authoritative style), System 3 (consultative style) and System 4 (participative style).

In another early study, Poole (1986) identified another four types of management styles based on the unitary and pluralist perspectives. The four types of management styles introduced in the study include; authoritarian, paternal, constitutional and participative management styles. According to the study, the unitary framework is represented by the authoritarian and paternal

management styles. On the hand, the constitutional and participative management styles are closely associated to the pluralist approach.

The study by Purcell (1987) was able to single out the following two additional styles of management; individualism and collectivism management styles. The individualism style focused on the extent to which personnel policies emphasized on the rights and capabilities of individual employees. While, the collectivism style underscored the extent to which management policies are directed toward inhibiting or encouraging the development of collective representation by employees as well as allowing employees to participate in management decision making.

Syed Abdullah (1991) further investigated management style based on the unitary and pluralist approaches. According to the study, the unitary management style postulated one source of authority as well as stressed on employees' loyalty. In contrast, the pluralism management style considered many separate and competitive interests of stakeholders in the organizations and also featured on the role of management in ensuring harmony at the workplace.

In an analysis of previous studies on employment relations, Blyton and Turnbull (1994) were able to identify five types management styles adopted by organizations. Among the five management styles identified in the study involved; the traditional style, the sophisticated paternalists/human relation style, the consultative (sophisticated modern) style, the constitutional (sophisticated modern) style and the standard modern style.

Khandwalla (1995) proposed two broad styles of management that included; the best and worst management styles. According to the author, the best management style consists of the following four specific styles; participative style, altruistic style, professional style and organic style. Meanwhile, the worst management style includes; the defective intuitive style, the defective conservative style, the defective authoritarian and the defective professional style. In the study, the author further highlighted two fundamental reasons why styles of management vary from one organization to the other. First, each organization differs in term of their characteristics such as types of organization, purpose, size, environment and history. Second, there are many different

ways to manage the various managerial functions in organizations. In addition, due to their different characteristics and the availability of various ways to manage, organizations have to make a choice in establishing their goals as well as developing their strategies. With regard to this, each organization needs to adopt a distinctive management style that specifically suits its business requirements and environment.

The study by Menkhoff and Kay (2000) attempted to investigate the management styles adopted by small firms in the Southeast Asia region. According to the findings of the study, the small firms in the Southeast Asia countries, especially among the Chinese owned small firms, tend to exercise the benevolent autocratic management style, emphasized on paternalism to ensure employees loyalty and at the same time stressed on centralized decision making.

The subsequent study by Deery and Jago (2001) examined management styles adopted in medium-sized hotels. In the study, the authors focused on four types of management styles. Evidence from the study suggests that the management of the medium-sized hotels used the following management styles; autocratic style, decisive style, consultative style and the democratic management style.

Matlay(2002) investigated the management styles among SMEs in Britain. Findings of the study indicated that the SMEs in Britain adopted five types of management styles. Among the five types of management styles include; the formal style, the informal style, the mixed formal and informal style, the professional style and the external or agency. According to the study, the SMEs used these five styles to not only manage and control their organizations but also their employees.

According to Scase (2003), the two common management styles found in small organizations involved the egalitarian style and the autocratic management style. Owners and managers of small firms that followed the egalitarian style or also known as participative management style (Kennedy, 2002) tend to work alongside their employees. More specifically, this particular style established the duties and responsibilities of employees based on mutual adjustment, emphasis on commitment, teamwork and profit sharing. On the other hand, the

autocratic management style has an inclination to exploit their employees, particularly in SMEs where their employees are unskilled and have no union to represent them. Employers that used this style are more likely to offer low rates of pay, poor working environment and unfavourable terms and conditions of employment.

Ansari, Ahmad, & Aafaqi (2004) proposed another type of management style in their study that may replace the participative management style. The style of management presented in the study is known as nurturant-task (NT) management style. The emphasis of this style is on the balance between work as well as the relationships between employees and their superiors. This management style was first introduced in the context of organizations in India. According to this study as well as the study by Jayasingam & Cheng (2009), the NT management style is also relevant and applicable to firms in Malaysia due to certain similarities in the working environment of organizations in both countries.

In another study, Ahmad (2005) examined the management styles among SMEs in Malaysia. Findings of the study suggest that not only majority of the Malay employees in these firms perceived paternalistic management style as important to them but also revealed that the Chinese and Indian employees as well viewed paternalistic management style as crucial, particularly in terms of fulfilling their needs and protecting their rights.

The subsequent study on management in SMEs conducted by Edwards, Ram, Gupta, and Tsai (2006) identified two types of management styles adopted by these firms. The two styles included; the authoritarian and participative management styles. However, the study cautioned that since SMEs are heterogeneous, these firms may not necessarily adopt only these two styles of management. These firms are also known to have used other styles of management. According to the study, the paternalistic style of management also appeared to be useful to manage employees in the SMEs.

Interestingly, the study by Mikhailitchenko and Lundstrom (2006) made an attempt to survey the management styles embraced by SMEs in the United States of America, China and Russia. According to the evidence from the study, the SMEs in the three countries adopted four

types of management styles. The four types of management styles identified in the three countries include; the supervision style, the decision making style, the information sharing style and finally, the paternalistic orientation style.

Trask, Rice, Anchors and Lillieholm (2009) indicated that information and knowledge concerning management style used by owner-managers in SMEs are also useful in understanding how decisions are made in their organizations. According to the study, the decisions made in SMEs are influenced by the management style adopted by their managers and that the decisions have implications on the success as well as failure of these firms. The study found almost similar types of management styles adopted by small firms that included; the autocratic style, the authoritarian style, the bureaucratic style, the democratic style and the participative style.

Jain and Premkumar (2010) in their study also attempted to determine the styles of management adopted by companies in India. According to the results of the study, the companies adopted four specific types of management styles. Among the four management styles uncovered in the study include the following; the participative style, the altruistic style, the professional style and the organic style.

In a more recent study, Uche and Timinepere (2012) examined the management styles of firms in the private sector in Nigeria. The results of the study showed that the private firms in Nigeria used at least six styles of management. Among the six management styles identified in the study included; participative, paternalistic, authoritarian, entrepreneurial, conservative and bureaucratic management styles.

RESEARCH METHODOLOGY

Sampling Frame and Procedure

The small and medium-sized enterprises (SMEs) that participated in this study were selected from the manufacturing sector. In the study, the SMEs were classified as those manufacturing firms that have between 10 to 300 full time employees. Based on this general definition, the study identified 1,867 firms from the 2014 Federation of Malaysian Manufacturers (FFM) Directory of Malaysian Manufacturers. Following this, the data was collected by mailing the structured

questionnaires to the senior managers of the 1,867 selected sample firms. Of the total of 1,867 questionnaires posted, 186 usable questionnaires were returned, yielding a response rate of 9.96%.

Questionnaire

In the study, the structured questionnaire was divided into four parts. The first and second parts contain 34 items that were used to obtain the general information concerning the background of the respondents (12 items) and profile of the SMEs (22 items). In the third part, 30 items were adapted from previous studies to capture the five types of management styles examined in the study. The five styles included; autocratic, participative, nurturant task, paternalistic and laissez-faire. By using a five-point scale that ranged from Least like you (1) to Most like you (5), the respondents were asked to rate the management styles. Next, nine measures of financial and non financial performance were included in part four of the questionnaire. Of the nine measures, four measures were used to determine the financial performance which include; sales, gross profit, assets and equity. The remaining five non financial measures were used to examine the workplace performance (productivity, employee turnover, employee absenteeism) and workplace harmony (number of disciplinary actions and number of grievances). The questionnaire was tested and the coefficient alpha scores for the five types of management styles range from 0.79 to 0.88.

THE RESULTS

Profile of the Respondents

Of the 186 respondents that were involved in this study, 94 (50.5%) were managers, 60 (32.3%) were owners cum managers, 18 (9.7%) were owners as well as Chief Executive Officers, six (3.2%) were owners and the remaining eight respondents (4.3%) were executives. In terms of race, the Chinese constituted 77.4% of the respondents. This was followed by the Malays (15.1%), the Indians (3.8%) and other races such as Eurasian and Japanese (3.8%). Most of the respondents were male and married. The age of the respondents ranged from 26 years old to more than 40 years old.

With regard to their education, 155 (83.3%) of the respondents had a bachelor degree, five (2.7%) had a master's degree, one (5%) had a PhD degree, 18 (9.7%) had a diploma, and seven (3.8%) had only a secondary school certificate. Most of the respondents had been with their companies for more than a year. As for prior work experience, majority of the respondents (87.1%) have less than 10 years of experience.

Characteristics of the Sample Firms

Out of the total number of 186 companies, 46 were private limited companies, 67 companies were partnerships, and the remaining 73 companies were sole proprietors. In terms of employment, 73 companies (39.0%) employed between 10 to 50 employees, 57 companies (30.5%) employed between 51 to 100 employees, 25 companies (13.4%) employed between 151 to 200 employees, 10 companies employed (5.3%) and the remaining 4 companies (2.1%) had between 251 to 300 employees.

The SMEs in the study were involved in various manufacturing activities. Of the 186 SMEs, 30 firms (16.1%) were involved in metal products industry, 22 firms (11.8%) operated in the plastic product industries, 19 firms (10.2%) represented the food and beverage industry, 19 firms (10.2%) were involved in motor vehicles industries, 16 firms (8.6%) operated in the chemical industry, 15 firms were involved in the electrical industry and the remaining 65 firms represented the other industries such as ceramic, concrete, customer products, fertilizer, furniture and fixtures, hardware and machinery, textile, motor vehicles, non-metal products, paper products, printing, pharmaceuticals, wood, vegetable and animal oils and fat products, and rubber products. Of the 186 SMEs, 98 firms (52.7%) had been in operations for more than 10 years and the remaining 88 firms (47.1%) had been in business for more than 20 years.

Management Styles and Performance of SMEs The following Table 1, Table 2 and Table 3 present the results of the correlations between the five styles of management and performance of the SMEs that participated in this study. As shown in Table 1, the results show significant positive relationships between the five management styles (autocratic, participative, nurturant task, paternalistic and laissez-faire) and the financial performance of the SMEs as measured in terms of sales, gross profit, assets and equity.

Table 1: Correlations between Management Styles and Financial Performance

Management Performance	Styles/Financial	Sales	Gross Profit	Assets	Equity
Autocratic		.264**	.261**	.308**	.238**
Participative		.366**	.345**	.308**	.245**
Nurturant task		.318**	.295**	.290**	.313**
Paternalistic		.443**	.393**	.283**	.409**
Laissez-faire		.264**	.203**	.197**	.349**

The results in Table 2 indicate significant positive relationships between the five management styles (autocratic, participative, nurturant task, paternalistic and laissez-faire) and the non financial performance of the SMEs as measured in terms of workplace performance. In the study, productivity, employee turnover and employee absenteeism were adopted to measure workplace performance.

Table 2: Correlations between Management Styles and Workplace Performance

Management Performance	Styles/Workplace	Productivity	Turnover	Absenteeism
Autocratic		.193**	.330**	.234**
Participative		.288**	.198**	.286**
Nurturant task		.303**	.305**	.366**
Paternalistic		.313**	.296**	.380**
Laissez-faire		.303**	.176*	.227**

The results of the relationships between management styles and workplace harmony are presented in Table 3. As indicated in Table 3, the results suggest significant positive relationships between the five management styles (autocratic, participative, nurturant task, paternalistic and laissez-faire) and the non financial performance of the SMEs as measured in terms of workplace harmony. The study used number of disciplinary actions and grievance as measures of workplace harmony.

Table 3: Correlations between Management Styles and Workplace Harmony

Management Styles/Workplace Harmony	Disciplinary Actions	Grievances
Autocratic	.088	.177*
Participative	.105	.255**
Nurturant task	.241**	.312**
Paternalistic	.227**	.394**
Laissez-faire	.222**	.224**

DISCUSSION AND CONCLUSION

The purpose of this empirical study was to examine the relationships between management styles and the performance small and medium-sized enterprises (SMEs) in the Malaysian manufacturing sector. The results of the correlation analyses of the data gathered from the 186 SMEs indicate statistically significant positive relationships between the management styles and the performance of the SMEs. The results of the study add support to previous studies that suggested the relationship that existed between management styles and organizational performance. The results appear to be consistent with the findings of past research conducted by Khandwalla (1995), Menkhoff and Kay (2000), Matlay (2000), Deery and Jago (2001), Kennedy (2002), Scase (2003) and Ansari et. al, (2004).

The following findings can be summarized from this study. First, the empirical information resulted from this study suggest that management styles are positively related to the performance of SMEs as measured in terms of financial measures as well as non financial indicators such as

workplace performance and workplace harmony. Second, in terms of the management styles adopted by the SMEs, the results of the study also suggest that the 186 firms in the study appear to follow the styles of management as advocated in the literature. Third, at the general level, the findings of the study indicate that the 186 firms that participated in the study practiced management styles that are associated to their organizational performance.

These findings offer the following managerial implications to SMEs in Malaysia. The findings of this study suggest relationships exist between management styles and performance of SMEs. The positive relationships between management styles and performance of SMEs suggest that the style of management is important for SMEs to perform. Therefore, in order to ensure that their firms would continue to perform, in particular owners and managers of SMEs need to be concerned with practicing the style of management that can stimulate their organizational performance.

Lastly, this study empirically demonstrates the existence of the linkage between management styles and performance of SMEs. Given the findings of the present study, approaches to enhance style of management appear to be worthwhile. If small and medium-sized enterprises are to be more effective, efficient and productive, their owner and managers need to intensify their efforts, particularly in terms of training and development. By emphasizing on training and developing, they would be able to not only further improve their skills, knowledge and attitudes but also their styles of management. This greater commitment and efforts may present SMEs with additional opportunity to enhance not only their level of performance, but also their competitiveness.

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