



## LEADERSHIP AND FINANCIAL PERFORMANCE AMONG SMES IN IRAQ.

SUHAIL AL-TIMIMI <sup>1</sup>

<sup>1</sup> COLLEGE OF ADMINISTRATION AND ECONOMICS, UNIVERSITY OF BASRA, IRAQ.

### ABSTRACT

*The effect of Leadership on Financial performance has been extensively researched over the past two decades with authors generally agreeing on its positive outcome. It appears however that previous studies placed much emphasis on its applications in large scale organizations. The main aim of these studies was to identify practices that have an effect on performance of large organization such as Leadership on the Financial performance. The review of the small and medium enterprises (SMEs) literature reveals limited research has attempted to investigate the Effect of Leadership on the Financial performance in SMEs, particularly in the Iraq context. The primary objectives of this research is to determine the Effect of Leadership on the Financial performance on the SMEs Performance. Subsequently, understanding of effects that need to be addressed will be reviewed.*

**Keywords:** Leadership, Financial performance of SMEs.

### 1. Introduction

There abound numerous conceptual and empirical studies on the Leadership, Strategy and planning, Process product and Service in the extant literature. These works span from both developed and developing economies. The central argument of the developed and developing countries' studies demonstrates the indispensable role that Leadership, Strategy and planning, Process product and Service plays in an organization's activities in achieving superior performance in its chosen markets.

More evidence suggests that SMEs constitute the major component of the private sector and are the cornerstones for creativity and innovation because they can help raise productivity and introduce innovations; it is estimated to have accounted for between 20 and 40 per cent of labor productivity growth in some range of European countries and in the USA (Ulst & Raa 2003; Wamono et al. 2012).

Previous studies examined the relationship between some related to practices Total quality management practice (TQM) such as leadership and financial performance. The main aim of these studies was to identify some or all these practices that have an effect on financial performance of large organization (Adam, 1994; Demirbag et al. 2006; Hendricks & Singhal, 2001; Powell, 1995). However, a majority of these studies were conducted in countries such as the UK, USA, and Canada (e.g., Lai, 2003; Motwani et al. 1994; Walley, 2000).

Iraqi SME has particularly been chosen for several reasons. First, SMEs is the second most active sector in Iraq after oil and gas sector. Second, it has contribution to the country's Gross domestic product (GDP) growth (between 3 per cent to 4 per cent). Third, the sector directly employs oversized of country's workforce (represent 53 per cent of the total labor force). Fourth, the SMEs is looking forward to export its products to markets. Due to cutthroat competition, turbulent business environment, increasing customers'

expectation, and increasing demands Iraqi SMEs must consider some related to practices Total quality management practice (TQM) such as Leadership, which is a serious problem faced by the sector (Sanaa & Abbas, 2005; USAID, 2010).

In SMEs context Rahman (2001) define the TQM as a holistic approach to the organizational overall quality through major principles such as Leadership. Therefore, this study chose this factor that emphasized by Rahman (2001).

The reasons for selecting this practice are:

- Have been used frequently (highest frequency of occurrences) by different researchers in the SMEs industries.
- Have been identified as the key practice in TQM implementation in SMEs (example Demirbag et al. 2006; Samat et al. 2006; Fotopoulos and Psomas 2009; Salaheldin, 2009; Al-Swidi and Mahmood 2012; Talib, et al., 2011).
- Constitute practice that represent the hard and soft components of TQM (Talib et al., 2010). Hence, it is believed that these practice are suitable to be used in the Iraq SMEs context.

### 2. Leadership

Leadership as one of the great contributions for the efficiency of the enterprise through the performance of team work. Leadership has major roles in developing effective team work, and also in establishing basic principles, necessary, for well-functioning working processes. Robbins (2001) defines leadership as the capacity to influence a group to reach goals. Leadership consists of a process of influencing and supporting other people so that they work enthusiastically in the path of established goals. In short, it is consensual that leadership is an essential part of the work in organizations,

contributing in a decisive way towards its development. Leadership also aims to create and distribute the organizational vision, glue corporations or individuals together, as well as direct and supervise the execution of the plans (Huang et al. 2010; Avolio & Kahai 2003).

Leadership is defined as the use of non-coercive influences to direct and coordinate the activities of firm toward goals attainment (Ke & Wei, 2008). It is considered as an important factor that has received the attention of many studies (see for example; Ahire 1996; Anderson & Sohal 1999; Flin & Yule, 2004). The former studies asserted the positive relationship between performance and leadership. Where, that Kotter (1990) describes leadership as being combination of traits, values, attitudes, and behaviors that result in the effective long-term performance of firms. On the other, hand suggest by Khair et al. (2011), that leadership is a set of values that, are based on individual interaction, resulting in better exchange quality and greater concern for welfare.

Leadership as a matter of personality, as a matter of inducing compliance, as the exercise of influence, as particular behaviors, as a form of persuasion, as a power relation, as an important instrument in achieving performance in firms (Flin & Yule, 2004). Hence, the leadership is one of the important factor leads to success of performance in firm. Through clearly communicate expectations in terms of the activities needed to succeed (such as learning specific skills, working as a team player or treating customers with respect) as well as results). On the other hand, Yang, et al, (2010), pointed out that leadership can be improve social performance through formulation of a clear message of what must be done in the future (Yang et al. 2009). In addition, leadership is important for good performance through employee's awareness of the program of the activities of the firm. Hence,

quality leadership provides the means for departments of an organization to respond more efficiently and effectively to current and future mission requirements. Process management involves leadership actions (through teamwork) that are required to begin and sustain continuous improvement of significant processes (Robbins, 2001).

Deming describes 14 leadership principles derived from profound knowledge. They are also known as obligations, because leaders are seen as being directly responsible for their adoption and incorporation into an organization. The aim of the 14 principles is to improve performance. Leadership is defined as the combination of traits, values, attitudes, and behaviors that result in the effective long-term performance of organizations (Kotter, 1990).

The TQM perspective suggests that the involvement and participation of managers and employees at all levels are important in ensuring the successful management of quality in organizations. From this perspective, leadership literature lacks focus on leadership at all levels in the organization. TQM literature argues that, because senior

managers create the organizational systems that determine how products and services are designed and produced, the quality improvement process must begin with the management's own commitment to total quality. Thus, creating and designing systems that have an effect on how products and services are produced and fostering organizational culture are the responsibilities of leaders at the top level of the organization (Waldman, 1993). Terziowski & Samson (1999) describe leadership as one of the strong predictors of TQM practice. From the above, demonstrate that most critical success factor for performance of firms is leadership. Leadership means securing the commitment of management (starting at the very top). It also refers to the ability to respond flexibly to change and to engage in dialogue and partnerships with different members of society. The importance and scope of such factors will vary reflecting the context in which a company operates :see (Munizu, 2013).

## 5. Financial performance of SMEs

In any business, the related parties always want to see good performance in their business. In short, performance is the key interest of every owner or business manager (Njanja et al., 2010). Given that small and medium enterprises (SMEs) often play a significant role in improving the economy of a country and leads to economy development globally, this puts performance as one of the key issues for small and medium enterprises (SMEs) where management is concerned (Sharmilee & Hoque, 2016). Usually a firm's performance is seen from the extent it manages to achieve its objectives and aims.

Financial performance is an indicator that measures the profitability of a firm (Venkatraman & Ramanujam 1986). It is an accounting-based indicator that measures the profitability of the firm through financial ratios (Richard & Wei, 2010) such as return on assets (ROA), return on sales (ROS), and return on equity (ROE) (Aliabadi et al. 2013; Chandler, 2009; Orlitzky et al. 2003; Watson, et al., 2003). Firm's financial performance has traditionally been considered purely in accounting terms (reliance on accounting performance measures), an approach to performance assessment (Judge & Douglas, 1998; Liao & Wu, 2009; Ramanujam et al., 1986). Financial performance is a vital sign of an organization, showing how well activities within a process or the outputs of a process achieve a specific goal (Liao & Wu, 2009).

This study adopts the financial performance of SMEs indicators related to the operating Profit, and Sales growth rate. Given that small and medium enterprises (SMEs) sector is fast developing and has become an important characteristic of a flourishing and growing economy in the world (Kongolo, 2010). This is especially so in developing countries where SMEs sector development has become one of the recent key issues (Onugu, 2005) since this sector may directly or indirectly support the livelihood of many people. Kongolo (2010) stated that the SMEs sector is important because small and medium enterprises are actually the beginning of larger enterprises. According to Mohd Shariff et al. (2010) and Mohd Shariff & Peou (2008)

Financial performance of SMEs refers to the level of companies' growth relative to their major competitors over the past years. It is literally refers to measures, such as market Size, additional capital, sale growth, profit growth, and employee number (Mohd Shariff et al. 2010; Mohd Shariff & Peou, 2008). Mohd Shariff et al. (2010) and Mohd Shariff & Peou (2008) claimed these indicators is the best indicator to identify whether an organization is doing things right and hence these indicators can be used as the primary measure of organization success. Furthermore, profitability as the most common measure of Financial performance in companies. These indicators are considered to be the common measures of financial profitability (Robinson, 2001).

## 6. Contingency Framework

According to the resource-based view (RBV) framework, Leadership are considered as an important variable. This framework viewed Leadership as source of competitive advantage for a company. However, a company will need to align its Total quality management practice to its strategy. The resource-based view theory suggests that companies that adapt their Leadership to their practices tend to improve their Financial performance . From the resource-based view viewpoint, different types of companies operating in different situations require different Total quality management practice. Leadership are normally effective for companies involve in high volume products. The following Figure 1 presents the re-search model of the present study.

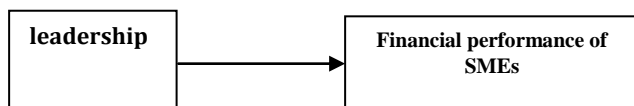


Figure1. Proposed theoretical framework

In order to exam the proposed relationships between some total quality management practice (TQM) such as Leadership and financial performance of small and medium enterprises (SMEs), current study developed the following proposition:

*The financial performance of SMEs will vary with the choice of leadership adopted.*

## 7. Conclusion

This study was found the Relationship between Leadership and financial performance of small and medium enterprises (SMEs). Conceptually, the study indicate the financial performance of SME vary with the choice of the Leadership they adopted. This is significant for at least three parties, i.e. customers, companies and the relevant authorities' bodies, to strategize on containing the existence of the effect in SMEs by accordingly controlling the selected factors.

## REFERENCES

1. Adam, E. E. (1994). *Alternative quality*

*im-provement practices and organization per-formance. Journal of Operations Management, 12(1), 27-44.*

2. Ahire, S. L., Golhar, D. Y., & Waller, M. A. (1996). *Development and validation of TQM implementation constructs. Decision Sciences, 27(1), 23-56.*

3. Aliabadi, Sara, Dorestani, Alireza & Balsara, Nauzer. (2013). *The Most Value Relevant Accounting Performance Measure by Industry. Journal of Accounting and Finance vol. 13(1)*

4. Al-Swidi, A. K., & Mahmood, R. (2012). *Total quality management, entrepreneurial orientation and organizational performance: The role of organizational culture. African Journal of Business Management, 6(13), 4717-4727.*

5. Anderson, M., & Sohal, A. S. (1999). *A study of the relationship between quality management practices and performance in small businesses. International Journal of quality & Reliability management, 16(9), 859-877.*

6. Avolio, B. J., & Kahai, S. S. (2003). *Adding the "E" to e-leadership: How it may impact your leadership. Organizational Dynamics, 31, 325-338.*

7. Berry, M 1998, 'Strategic Planning in Small High Tech Companies', *Long Range Planning, 31 (3), 455-466.*

8. Bracker, JS, Keats, BW & Pearson, JN 1988, 'Planning and Financial Performance Among Small Firms in a Growth Industry', *Strategic Management Journal, 9 (6), 591-603.*

9. Brouters, KD, Andriessen, F & Nicolaes, I 1998, 'Driving Blind: Strategic Decisionmaking in Small Companies', *Long Range Planning, 31 (1), 130-138.*

10. Bryson, J. M. (1988). *A strategic planning process for public and non-profit organiza-tions. Long Range Planning, 21(1), 73-81.*

11. Carland, JC & Carland, JW 2003, 'A Model of Entrepreneurial Planning and its Effect on Performance', *paper presented at the ASBE Annual Conference - Building Bridges to the Future, Houston, Texas.*

12. Chandler, A. D. (2009). *Shaping the industrial century: the remarkable story of the evolution of the modern chemical and pharmaceutical industries (Vol. 46). Harvard University Press.*

13. Cua, K.O., Mc Kone, K.E. and Schoreder, R.G. 2001. *Relationship between implementation of TQM, JIT and TPM and manufacturing performance. Journal of Operations Management, Vol.19, pp.675-694.*

14. Demirbag, M., Koh, S. C. L., Tatoglu, E., & Zaim, S. (2006). TQM and market orientation's impact on SMEs' performance. *Industrial Management & Data Systems*, 106(8), 1206-1228.
15. Flin, R., & Yule, S. (2004). *Leadership for safety: industrial experience. Quality and Safety in Health Care*, 13(suppl 2), ii45-ii51.
16. Fotopoulos, C. B., & Psomas, E. L. (2009). The impact of –soft// and –hard// TQM elements on quality management results. *International Journal of Quality & Reliability Management*, 26(2), 150-163.
17. Huang, R., Kahai, S., & Jestice, R. (2010). The contingent effects of leadership on team collaboration in virtual teams. *Computers in Human Behavior*, 26(5), 1098-1110.
18. Judge, W. Q., & Douglas, T. J. (1998). Per-formation implications of incorporating natural environmental issues into the strategic planning process: an empirical assessment. *Journal of management studies*, 35(2), 241-262.
19. Ke, W., & Wei, K. K. (2008). Organizational culture and leadership in ERP implementation. *Decision Support Systems*, 45(2), 208-218.
20. Khdair, W. A., Shamsudin, F. M., & Subra-manim, C. Improving safety performance by understanding relationship between management practices and leadership behavior in the oil and gas industry in Iraq: A proposed model. *health*, 22, 23. *International Conference on Management and Artificial Intelligence IPEDR vol.6 (2011) © (2011)IACSIT Press, Bali, Indonesia*
21. Kongolo, M. (2010). Job creation versus job shedding and the role of SMEs in economic development. *African Journal of Business Management*, 4(11), 2288-2295.
22. Kotter, J. (1990). *A force for change: How leadership differs from management*. New York: The Free Press
23. Lai, M. C. (2003). *An investigation into the relationship between Total Quality management Practice and Performance in a Taiwan Public Hospital*. Australian Catholic University.
24. Liao, S. H., & Wu, C. C. (2009). The relationship among knowledge management, organizational learning, and organizational performance. *International Journal of Business and Management*, 4(4), P64.
25. Mohd Shariff, M.N. Peou, C. Ali, J. (2010). "Moderating Effect of Government Policy on Entrepreneurship and Growth Performance of Small-Medium Enterprises in Cambodia." *International Journal of Business and Management Science* 3(1): 57.
26. Mohd Shariff, M. N. M. and C. Peou (2008). "The relationship of entrepreneurial values, firm financing and the management and growth performance of small-medium enter-prises in Cambodia." *Problems and Perspectives in Management* Volume 6, Issue 4.
27. Motwani, J. G., Mahmoud, E., & Rice, G. (1994). *Quality Practices of Indian Organizations:: An Empirical Analysis. International Journal of Quality & Reliability Management*,
28. Motwani, J. 2001. *Critical factors and performance measures of TQM. The TQM Magazine, Vol.13, No.4, pp. 292-300. Oakland, J.S. 1993. Total Quality Management: The Route to Improving Performance, Butterworth-Heinemann, Oxford 11(1), 38-52.*
29. Munizu, M. (2013). *The Impact of Total Quality Management Practices towards Competitive Advantage and Organizational Performance: Case of Fishery Industry in South Sulawesi Province of Indonesia* *Pakistan Journal of Commerce and Social Sciences*. 7, 184-197.
30. Njanja W L, Pellisier R and Ogotu M. (2010). *An Investigation into the Effect of Management Factors on Performance of Micro, Small and Medium Enterprises in Kenya. International Journal of Business and Management*. 5 (11).
31. Onugu, B. A. N. (2005). *Small and Medium Enterprises (SMEs) in Nigeria: Problems and prospects*. St. Clements University, Nigeria (Unpublished Dissertation for a Doctor of Philosophy in Management Award.
32. Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). *Corporate social and financial performance: A meta-analysis. Organization studies*, 24(3), 403-441.
33. Powell, T. C. (1995). *Total quality management as competitive advantage: a review and empirical study. Strategic Management Journal*, 16(1), 15-37.
34. Rahman, S. U. (2001). *Total quality management practices and business outcome: Evidence from small and medium enterprises in Western Australia. Total Quality Management & Business Excellence*, 12(2), 201-210.
35. Ramanujam, V., Venkatraman, N. & Camillus, J. (1986). *Multi-objective assessment of effectiveness of strategic planning: A discriminant analysis approach. Accrdensy c\$Mancrgement Journcd*. 29: 347-372.
36. Robbins, S.P. (2001). *Organizational Behavior*. (9th ed.). New Jersey: Prentice-Hall, Inc

37. Salaheldin, S. I. (2009). *Critical success factors for TQM implementation and their impact on performance of SMEs. International journal of productivity and performance management*, 58(3), 215-237.
38. Samat, N., Ramayah, T., & Saad, N. M. (2006). *TQM practices, service quality, and market orientation: Some empirical evidence from a developing country. Management Research News*, 29(11), 713-728.
39. Sana, A. U. and A. A. Abbas (2005). "The SME sector in Iraq: A key resource to short-term income generation and longer-term development." *International Labour Office Geneva*.
40. Sitharam, S. & Hoque, M. (2016). *Factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa. Problems and Perspectives in Management*, 14 ( 2), 277-288.
41. Talib, M. F., Rahman, Z., & Qureshi, M. (2011). *Analysis of interaction among the barriers to total quality management implementation using interpretive structural modeling approach. Benchmarking: An International Journal*, 18(4), 6-6.
42. Talib, F., Rahman, Z., & Qureshi, M. (2010). *Integrating Total Quality Management and Supply Chain Management: Similarities and Benefits. Journal of Supply Chain Management*, Vol. 7 Issue 4, p26-44.
43. Talib, F., Rahman, Z., & Qureshi, M. (2010). *The relationship between total quality management and quality performance in the service industry: a theoretical model. International Journal of Business, Management and Social Sciences Vol. 1, No. 1, 2010, pp. 113-128.*
44. Terziovski, M. and Samson, D. (1999). *The link between total quality management practice and organizational performance. International Journal of Quality & Reliability Management*, 16 (3), 201-210
45. Ulst, I., & Raa, R. (2003). *Basel II and Lending to SMEs: What Lies Ahead? EBS REVIEW*, 62.
46. United States Agency for International Development (USAID). (2010). *Investor Guide to Iraq*.
47. Venkatraman, N. & Ramanujam. V. (1986). *Measurement of business performance in strategy research: A comparison of approaches. The Academy of Management Review*, 11(4), 801-814.
48. Waldman, D.A. (1993) *A theoretical consideration of leadership and total quality management, Leadership Quarterly*, 4(1), pp. 65-79.
49. Walley, K. (2000). *TQM in non-manufacturing SMEs: evidence from the UK farming sector. International Small Business Journal*, 18(4), 46.
50. Wamono, R. N., Kikabi, P., & Mugisha, J. (2012). *Constraints and Opportunities for SMEs Investment in Uganda's Oil and Gas Sector. Investment Climate and Business En-vironmental Research fund*.
51. Watson, J., Kober, R., Ng, J., & Subramaniam, T. (2003, September). *The impact of TQM adoption on SME financial performance. In 16th Annual Conference of Small*.
52. Yang, C., Wang, S. Chang, S. Guo, and M. Huang, (2010) "A Study on the Leadership Behavior, Safety Culture, and Safety Performance of the Healthcare Industry," *World Academy of Science, Engineering and Technology L: Educational and Psychological Sciences*, 2, pp.87-94.