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# Effects of the Entrepreneurial and Managerial Orientations of Owner-Managers on Company Performance: An Empirical Test in Sri Lanka

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*The present study argues that there managerial and entrepreneurial orientations on the part of manager should have different effects on company performance. To test the impact of entrepreneurial, managerial and mixed leadership orientations of owner-managers on the sales performance of their companies, data was collected from a sample of 204 owner-managers of Sri Lankan companies from a mailed questionnaire. The results of a correlation and regression analysis on the responses of the subjects indicate that the leadership orientation of owner-managers of small firms is more entrepreneurial than managerial. Also, that entrepreneurial orientation (EO) has a more positive impact on firm performance than does either managerial orientation (MO). The relative impact of the owner-manager having a mixed orientation of leadership on company performance is more positive than that of MO in the case of medium and large firms. Practical implications for the research include assisting owner-managers to determine the likelihood of appropriate leadership orientations relevant to their particular context and firm size.*

## 1 Introduction

A variety of research work indicates that leadership and entrepreneurship are vital elements of social, organisational and individual success (Vecchio, 2003; Cogliser and Brigham, 2004; Antoncic and Hisrich, 2003; Ghobadian and O'Regan, 2006; Kropp et al., 2008; Esteve et al., 2008; Marlow et al., 2009). In a dynamic, complex and uncertain competitive environment, a type of entrepreneurial leader who is distinct from the usual behavioural form of leaders is needed (Cohen, 2004; Yang, 2008; Peltier et al., 2009). As a result of significant amount of research work in these areas, common themes as well as linkages between the concepts of leadership and entrepreneurship have also been emerged (Vecchio, 2003; Cogliser and Brigham, 2004). However, little is known about leadership and its entrepreneurial orientations in South Asian, African, Arabic and Eastern European countries (Dorfman and House, 2004; Kropp, et al., 2008), as most of the research during the past half-century was conducted in the Unites States, Western Europe, Latin America and Asian nations (Dorfman and House, 2004; Yukl, 2002; Hofstede, 1993). In particular, scant attention has been paid to examine entrepreneurial, managerial, and both entrepreneurial and managerial orientations of owner-managers leadership and their relative contribution to company performance in the context of developing countries (Valliere, 2008; Idris et al., 2008).

The present study explores entrepreneurial and managerial leadership orientations of owner-managers of SMEs in Sri Lanka in order to determine their impact on financial performance. The basic issue is whether business leaders or owner-managers (specifically in the manufacturing sector) are oriented towards behaving as typical managers or entrepreneurs or both managers and entrepreneurs, and what is the relative impact of such orientations on company performance?

The study has both theoretical and practical significance. Theoretically, the impact that managerial and entrepreneurial leadership orientations or any sort of mix orientations have on performance in the context of developing countries remains unclear. Previous research findings on leadership and entrepreneurship is also characterised as diverse, fragmented and inconsistent. Therefore, the findings of this study should contribute to fill this gap to some extent and to understand the owner-managers' leadership orientations in the context of developing countries. The practical implications of this study should be useful for entrepreneurs, leaders and owner-managers in understanding and adopting their leadership orientations towards different contexts and company sizes in order to improve company performance.

The paper begins with a brief review of literature on **the differences between entrepreneurs and managers**. The next section presents a discussion on the nature of the managerial and entrepreneurial role **in organisations, and an exploration of the relationship between** these leadership orientations and company performance supporting hypotheses. Then follows a discussion of the methodology adopted for the study, a presentation of data analysis, discussions of findings and conclusions.

## 2 Conceptual Foundation and Hypotheses

### Entrepreneurs and Managers

Managers are constantly asked to behave like entrepreneurs; **entrepreneurs are often asked** to behave like managers. The manager is supposed to develop the drive and opportunism of the entrepreneur; the entrepreneur is expected to learn the methodical disciplines of the manager (Heller, 2006). **In the management literature, entrepreneurship is associated with leadership** and sometimes used synonymously. Some researchers have tried to combine the two concepts in their explorations of both leadership and entrepreneurship (Gupta et al., 2004; Tarabishy et al., 2005), while others have explored linkages between the concepts of leadership and entrepreneurship (for example, Coglisser and Brigham, 2004; Vecchio, 2003). However, management and leadership are not necessarily equivalent, but they may be related (Davidson and Griffin, 2000).

Differences are evident between managers and entrepreneurs: entrepreneurs emerge out of people, whereas managers are appointed. Entrepreneurs have helpers; managers have colleagues. Entrepreneurs tend to use their natural powers of wisdom, charisma and intuition, but managers depend more on positional power. Although the influencing power of a manager is founded on authority, entrepreneurs' influencing power goes beyond formal authority. Building on non-rational decision-making models from

behavioural decision theory, Busenitz and Barney (1997) assert that entrepreneurs are more susceptible to decision-making biases and heuristics than are managers. Thus, 'entrepreneurs are the people who notice opportunities and take risk and responsibility for mobilising the resources necessary to produce new and improved goods and services' (Jones and George, 2007, p. 42). In contrast, managers are responsible for supervising the use of human and other resources to achieve organisational goals effectively and efficiently (Jones and George, 2007). However, Davidson and Griffin (2000) argue that when it comes to performing functions, the differences between roles are often ones of degree, rather than of kind. As the lifecycle theory of organisational leadership highlights (Baliga and Hunt, 1987), organisations need both managers and entrepreneurs or leaders. However, to achieve optimum results, the two skill sets should overlap or complement each other (Davidson and Griffin, 2000). Accordingly, when an organisation is at the beginning stage, entrepreneurial leadership (transformational) is instrumental in creating a vision that allows the organisation to be born and take its first steps. At the collectivity and formalisation stages, managerial or transactional leadership becomes important for handling accelerating growth. A heavy emphasis on entrepreneurial leadership is needed again at the elaboration of structure stage.

In the context of rising competition for critical resources in a complex and volatile environment, the recent literature observes that the escalating ineffectiveness of more traditional approaches to strategy necessitates an entrepreneurial approach to enhance company performance (Gupta et al., 2004). In general, EO refers to top management's strategy in relation to innovativeness, proactiveness and risk taking (Poon et al., 2006). According to Lumpkin and Dess (1996), EO consists of the processes, practices and decision-making activities used by entrepreneurs that lead to the initiation of an entrepreneurial firm.

The demand for differential placed on leaders may vary according to the demographic composition of organisations, national or regional political systems, or the strategic requirements of the leader's organisations (Bass, 1990). Preferences for certain leader-behaviours have also been shown to be associated with dominant norms of cultural entities (Stening and Wong, 1983) and religious or ideological values, such as Confucianism (Hofstede and Bond, 1988). For example, organisational management practices in China, India and Hong Kong are often based on kinship relationships — hiring relatives is often the norm, rather than the exception (Dorfman and House, 2004). Thus, the importance of strong family ties and paternalistic management practices are emphasised in these countries (De Lema and Durendez, 2007; Dorfman et al., 1997). Similar management practices have also been adopted by entrepreneurs or business leaders in the Sri Lankan context (for example, Nanayakkara, 1993). According to the management literature, these orientations or behaviours are not essentially managerial or professional. Simultaneously, the literature indicates that the role of lead entrepreneur is important to new start-ups or to smaller dynamic entrepreneurial business ventures (Kropp, et al., 2008; Lumpkin and Dess, 1996; Covin and Slevin, 1989). The lifecycle theory of organisational leadership (Baliga and Hunt, 1987) also highlights the need for entrepreneurial leadership at the

beginning and elaboration stages of the lifecycle. When such lead entrepreneurs or owner-managers manage organisations, their leadership orientation is likely to be more entrepreneurial than managerial, simply because they are not rational, systematic and professional. Based on the above evidence, we derive our first hypothesis:

H1: The leadership orientation of owner-managers in Sri Lankan firms is more entrepreneurial than managerial.

### **Leadership Orientations and Performance**

The research uses different leadership approaches or orientations to examine the impact of leadership styles on performance. While Lumpkin and Dess (1996) viewed entrepreneurship as an autonomous pursuit of innovative opportunities, Thornberry (2006) asserts that entrepreneurial leadership is more like transformational than transactional leadership; yet it differs in some fundamental ways. The present study uses leadership approaches, behaviours and styles to explore entrepreneurial orientation (EO) and managerial orientation (MO). The most commonly studied behavioural aspects of leaderships are task-oriented and relationship-oriented leadership dimensions (for example, Bond and Hwang, 1986). Participatory and charismatic leadership styles have also been studied in cross-cultural contexts, with participatory styles showing major differences among cultures and charismatic ones having more universally positive effects (Dorfman and House, 2004). Some researchers have developed predictions of participation based on Hofstede's power distance scores, and results are generally supportive for the forecast that participation tends to produce good results for lower power distance cultures (for example, Jago et al., 1993).

Bass (1990) notes confirming cross-cultural evidence for the proposition that a hierarchy of leadership effectiveness exists among various leadership styles. For example, transformational leaders are more effective than those practising transactional leadership. Yang (2008) also found that transformational leadership with higher EO can produce higher business performance. In their study of comparison between entrepreneurs and managers of small business firms in the US, Begley and Boyd (1987a) found that entrepreneurial firms showed higher growth rates than managerial firms. The strategic management literature also indicates that firms must have strong EO to yield high performance (Lumpkin and Dess, 1996; Covin and Slevin, 1991; Peters and Waterman, 1982; Zahra, 1993). Based on this evidence we derived our second hypothesis:

H2: Entrepreneurial orientation of leadership influences company performance more positively than managerial orientation of leadership.

Research carried out in a non-Western context also suggests several other approaches to leadership and performance. Misumi's performance-maintenance (PM) theory of leadership (1985) focuses on performance and maintenance functions in the Japanese context. These leadership functions are similar to the task-centred and support-oriented leadership functions previously addressed in Western theories of leadership (Dorfman and House, 2004). Misumi's results suggest that, for effective leadership, supervisors

must emphasise both orientations together. As pointed out by Smith (1997), specific behaviours associated with each function will vary according to context. Research carried out in the Indian context also supports the view that managers and workers often voice a preference for paternalistic and nurturing leaders who are also authoritarian and assertive (Sinha, 1994; Kakar, 1971). Based on these mixed research findings, Sinha (1984) developed a nurturing-task oriented model (NT) that incorporates a combination of leadership styles. The model suggests that an ideal leader is both nurturing and task oriented. Both the Misumi and Sinha research programs are important because they emphasise the importance of context as determining which processes of leadership are considered effective and which are not (Smith, 1997).

In a study of managerial behaviour within SMEs, De Lems and Durendez (2007) found that managers of family firms use certain managerial tools, such as management accounting systems and a cash budget. On the other hand, the entrepreneurship literature suggests that organisations must be more entrepreneurial to enhance their performance (Lumpkin and Dess, 1996; Begley and Boyd, 1987; Gupta et al., 2004). In addition, the lifecycle theory of organisational leadership (Baliga and Hunt, 1987) also highlights that organisations need both managers and entrepreneurs or leaders, and the two approaches should overlap or complement each other in order to achieve optimum results (Davidson and Griffin, 2000). Gupta et al., (2004) also emphasise the need for a balanced approach of entrepreneurship and management for effective leadership. For example, while pursuing innovation and proactive behaviour, a collaborative orientation may be required to contain risk and speedy commercialisation of innovation. This theoretical and empirical research evidence suggests our third hypothesis.

H3: The mix of both managerial and entrepreneurial orientation of leadership impacts more positively on firm performance than that of managerial orientation of leadership.

Thus, the main objective of this study is to investigate whether Sri Lankan business leaders (specifically in the manufacturing sector) are oriented towards entrepreneurial or managerial leadership, and then to determine the impact of these behaviours on company performance.

The study has both theoretical and practical significance. Theoretically, the impact that managerial and entrepreneurial leadership orientations or any sort of mix orientations have on performance in the context of developing countries and for SMEs remains unclear. Previous research findings on leadership and entrepreneurship is also characterised as diverse, fragmented and inconsistent. Therefore, the findings of this study should contribute to fill this gap to some extent and to understand the owner-managers' leadership orientations in the context of developing countries. The practical implications of this study should be useful for entrepreneurs, leaders and owner-managers of SMEs in understanding and adopting their leadership orientations towards different contexts and company sizes in order to improve company performance.

#### 4 Methodology

This study employed a mixed research approach, consisting of both qualitative and quantitative methods. The main strategy used in the study was survey. It was enriched by semi-structured interviews conducted with 18 entrepreneurs in order to identify common areas for the development of measures of leadership orientations of owner-managers, which was supported by the existing concepts and theories. The procedure adopted for developing measures is described below.

##### Sample

A questionnaire survey was conducted on a sample of randomly selected 500 manufacturing companies in Sri Lanka. Companies were selected using a telephone directory of Sri Lanka Telecom and the questionnaire and a letter of request were mailed to CEO of these firms. They were requested to return the blank questionnaires in the case of where the CEO was not an owner-manager or the major shareholder. A brief description of categories of companies contributed for the study is presented in Table 1. Thus, the analysis was based on 204 usable responses, providing a response rate of 41 per cent. Given the context of a developing country and a mail questionnaire survey, this response rate can be considered satisfactory.

##### Measures of Leadership Orientations

In this study, we intended to measure at least two major leadership orientations (EO and MO), and therefore decided to develop a scale for two reasons. First, many existing scales are relevant to measuring EO only. Second, we wanted to ensure that issues to be raised in the scale made sense in the context of their organisations and had practical utility. Bass (1990) notes that one of the shortcomings of leadership research is the use of existing

**Table 1: Industry Category**

Industry Category	Frequency	Percent	Cumulative Percent
Chemical, petroleum, rubber and plastics products	43	21.1	21.1
Electronics and electric equipment	7	3.4	24.5
Fabricated metal products	13	6.4	30.9
Food, beverage and tobacco	11	5.4	36.3
Furniture, fixtures and lumber and wood	13	6.4	42.6
Machinery, computer and transportation equipment	8	3.9	46.6
Paper, printing, and allied products	34	16.7	63.2
Stone, clay, glass, concrete products	14	6.9	70.1
Textile and apparels	36	17.6	87.7
Miscellaneous	25	12.3	100.0
<b>Total</b>	<b>204</b>	<b>100.0</b>	

instruments that may not fully capture non-US conceptualisations of leadership. Therefore, we attempted to combine both contextual and theoretical knowledge in developing measures. For example, indicators of leadership orientations were developed by considering two factors: (1) identification of problem scenarios and (2) selecting alternative decision styles. In order to identify common problem areas, in-depth interviews were conducted with 18 owner-managers. The interview guide was supported by the existing concepts and theories. This process was resulted in identifying the following common problem areas: investment decisions, people management, routine problem solving, planning, rewarding and compensating, and managing crisis situations.

Each respondent was provided with 10 decision-making situations relevant to the above problem areas associated with managing their companies. For each decision making situation, respondents were provided with two alternative statements (choices) associated with entrepreneurial orientation (EO) and managerial orientation (MO) respectively. In order to ensure content and face validity of EO and MO statements, we used the EO construct as conceptualised by Lumpkin and Dess (1996), which consisted of five dimensions, namely: autonomy, innovativeness, risk taking, proactiveness and competitive aggressiveness. Accordingly, the EO statements comprised ideas relevant to vision and strategy drivers, improving entire systems, risk taking, long-term orientation, trusting of one's own ideas, values-based work and lifestyle, focusing on opportunities and exploitation, self-determination and independent spirit, assertiveness, and changing the status quo.

Alternative MO statements were developed by considering differences between entrepreneurs and managers as asserted by previous researches (for example, Busenitz and Barney, 1997; Jones and George, 2007; Dorfman et al., 2004; House and Dessler, 1974). Accordingly, MO statements were relevant to the ideas of short-term orientations, focusing on operational efficiency and cost and technical analysis, relying on rationality and objectivity, performance orientation, organisational policy and position-based work, consultative decisions, changing short-term strategies and styles, and focusing on smooth functioning. An example of a scenario question and alternatives EO and MO statements is: 'In deciding on a new business project, which of the following you would consider more important to you?' The two alternatives relevant to the above statement were: 'my own vision and strategy' and 'the cost analysis and market forecasts prepared by my staff'. In the analysis we considered first alternative to be indicative of EO, and the second alternative of MO. Altogether, there were ten such business scenarios in the scale.

The theory of transformational leadership put forward by Bass (1985) suggests that transactional leadership is a subset of transformational leadership. We also believe that respondents may also select any combination (or mixed orientation) of EO and MO as well in responding to scenarios given in the questionnaire (for example, Misumi, 1985; Sinha, 1984 suggested such orientation).

The initial questionnaire had pilot testing through personal interviews with the same 18 owner-managers, which allowed us to make a final check for clarity and appropriateness

of language. To ensure content validity of items selected for inclusion in the questionnaire, conceptual variables were used as indicated above. Face validity was accomplished through in-depth interviews conducted with owner-managers and identifying scenarios relevant to the context. The Cronbach alpha reliability coefficient of the initial scale was found to be 0.61. Although there was a possibility of enhancing this value up to 0.72 by deleting a few items, we decided to proceed with initial scale responses for two reasons. First, item deletion seems to affect content validity of EO and MO. Second, given the relatively small number of items to measure two major orientations, the coefficient of  $\alpha$  in the 0.60s was regarded as acceptable (see for example, Taris and Feij, 2001).

### Measures of Company Performance

Richard et al. (2009) suggest that researchers who measure organisational performance should (1) select measures that are appropriate to the research context and (2) rely on theory to guide the nature of the measures used. Thus, alternative methodological formulation is encouraged as methods of appropriately aligning research contexts with the measurement of organisational performance. Previous studies have often used self-reports to gather business performance data, and these results have proved reliable (Knight, 2000). Furthermore, public information is unreliable because most SMEs are privately held and have no legal obligation to disclose information (Yang, 2008). In addition, respondents may be reluctant to provide actual financial data (Tse et al., (2004). Hence, this study used subjective, self-reported measures of business performance. Specifically, respondents were asked to select one of five business performance situations that described the changes in sales revenue over the previous three operating years. The five situations given were: (1) substantial increase, (2) slight increase, (3) no significant change, (4) slight decrease, (5) substantial decrease. This method is assumed to be more reliable in a socio-cultural context in which many business people in the country do not have positive attitudes towards the income tax system and therefore tend to avoid revealing actual sales or profits. Similar methods have been used by previous researchers in the context of Japanese SMEs (for example, De Zoysa and Herath, 2007).

## 5 Analysis and Results

### Characteristics of the Sample

The sample consisted of firms in the manufacturing sector, with the chemical, petroleum, rubber and plastic products category representing 21.1 per cent of all firms. The other two dominant industry categories were textiles and wearing apparel (17.6 per cent) and paper, printing and allied products (16.7 per cent). Table 2 presents a profile of the sampling firms and respondents characteristics.

Table 2 shows that males dominate (about 76 per cent) the representation of owner-managers in the sample, while the majority (55 per cent) belong to the age category of 30–50 years. Among the interesting and notable features of the respondents' profiles are the qualifications and the years of experience. According to Table 2, almost 50 per cent of the owner-managers had either a professional qualification or a bachelor's, or master's degree qualification, and approximately 60 per cent have more than 15 years

of experience. This feature is a more reliable response when we compare it with the age of the business, which also indicates that 57 per cent of firms have more than 15 years of experience. The representation of small and medium scale firms was approximately 86 per cent. In the absence of commonly accepted definition of SME at national level, we used the Sri Lankan Standards Institution’s definition of company categorisation based on number of employees: those with fewer than 50 are small, those with 50-249 are medium-sized, and those with more than 250 are large.

**Entrepreneurial and Managerial Orientations of Owner-Managers**

In order to identify the leadership orientations of owner-managers and test Hypothesis 1, we allocated one mark for each of the entrepreneurial orientation statement of the

**Table 2: Profile of Firms and Characteristics of Respondents**

<b>Characteristics/Profile</b>	<b>Number/Frequency</b>	<b>%</b>
<b>SEX</b>		
Male	156	76.4
Female	48	23.6
Total	204	100
<b>AGE</b>		
Below 30 Years	13	6.4
30-50 Years	110	53.9
Above 50 Years	81	39.7
Total	204	100
<b>QUALIFICATIONS</b>		
GCE O/L, A/L, Diploma	98	48
Bachelor’s Degree	42	20.6
Postgraduate Degree	28	13.7
Professional Qualifications	36	17.7
Total	204	100
<b>EXPERIENCE</b>		
Less than 5 Years	20	9.8
5-10 Years	25	12.3
11-15 Years	40	19.6
Over 15 Years	119	58.3
Total	204	100
<b>AGE OF FIRM</b>		
0-5 Years	12	5.9
6-15 Years	75	36.8
16-25 Years	60	29.4
26-50 Years	44	21.6
Over 50 Years	13	6.4
Total	204	100
<b>NUMBER OF EMPLOYEES/SIZE</b>		
Up to 49 Employees	55	27.0
50-25 Employees	120	58.8
Over 250 Employees	29	14.2
Total	204	100

scale. Hence, the total number of points applicable for 100 percent EO was 10. The leadership orientation of owner-managers was measured by the total score they received. As such, a score of 1–5 was identified as MO, while a score of 6–10 was identified as EO. Table 3 shows the distribution of respondents based on their respective leadership orientations.

Table 3 shows that the leadership orientation of 56 per cent of owner-managers was entrepreneurial and that forty-four per cent of them were of managerial. This finding provides an initial support for Hypothesis 1. Further analysis of EO based on firm size indicates that there is a significant positive relationship between EO and small firm size ( $r = 0.22, P > 0.01$ ). This finding suggests that H1 (entrepreneurial leadership orientation) is more relevant to owner-managers of small-sized firms. It also indicates a significant negative relationship between entrepreneurial leadership orientation and medium-sized firms ( $r = -0.19, P > 0.01$ ). In addition, the negative relationship between managerial leadership orientation and small firm size also confirmed H1 in the case of small firms. Hence, the overall finding of this study provides strong support for the assertion that leadership orientation of owner-managers of small-sized firms is more entrepreneurial than managerial.

**Relationship between Leadership Orientation and Financial Performance**

In order to test our H1, we identified two major leadership orientations as entrepreneurial and managerial. However, the literature also suggested the possibility of having any sort of mix orientations of leadership that consists of both elements both entrepreneurial and managerial orientations. We also recognized the significance of this idea theoretically and practically because such identification would essentially be more meaningful in the examination of the impact of leadership orientations on company performance. Therefore, we reallocate marks for each of the entrepreneurial orientation statements as follows. As it was already indicated, total number of points applicable for 100 percent entrepreneurial leadership styles was 10. A score of 1 to 4 was identified as more oriented towards managerial style (less oriented towards entrepreneurial), while a score of 7 to 10 was identified as more oriented towards entrepreneurial. A score of 5 or 6 was identified as mix of both managerial and entrepreneurial styles. Accordingly, Table 4 shows the distribution of respondents based to their respective leadership styles.

**Table 3: Entrepreneurial and Managerial Orientations of Owner-Mangers**

Leadership Orientation	No. of Owners or Firms	%	Correlation between LO and Company Size					
			Small-Size Firms	No.	Medium-Size Firms	No.	Large Firms	No
Entrepreneurial	114	56	0.21**	36	-0.19**	63	- 0.01	15
Managerial	90	44	- 0.12	20	0.06	56	0.05	14
<b>Total</b>	<b>204</b>	<b>100</b>		<b>56</b>		<b>119</b>		<b>29</b>

\*\* Significant at 0.01 level, \* Significant at 0.05 level

Table 4 shows rather equal distribution of leadership styles among two major categories of leadership style. Although it is not necessarily the majority of the sample, managerial leadership is the dominant group among the three leadership styles that represents 39 percent of the owner- managers. There are about 35 percent owner managers who are oriented towards entrepreneurial leadership styles. The sample also consists of 26 percent of owner- managers who are having both entrepreneurial and managerial leadership styles.

With regard to financial performance, approximately 60 per cent of firms had a substantial or slight increase in sales. Of the total number of firms, approximately 11 per cent reported a stable position, while approximately 29 per cent had a substantial or slight decrease in their sales performance. In order to examine the impact of leadership orientations on company performance, we performed correlation and hierarchical regression analysis. The result of correlation analysis is presented in Table 5

The result of correlation analysis shows numbers of important relationships. First, the relationship among three leadership orientations is negative and statistically significant. This indicates the independence of entrepreneurial orientation from managerial and mixed leadership orientations and therefore a test of criterion validity of independent variables. In the regression analysis, we first entered respondent characteristics and company profiles (presented in Table 1) in order to control the impact of owner-managers characteristics on company performance (for example, Richbell et al., 2006; Johnsen et al., 2005). In

**Table 4: Leadership Orientations of Owner-Managers**

Leadership Orientation	Number of Owner-Managers	Percentage
Entrepreneurial	71	35
Managerial	79	39
Both Entrepreneurial and Managerial	54	26
<b>Total</b>	<b>204</b>	<b>100</b>

**Table 5: Correlation between Firm Performance and Leadership Orientations**

No	Variable	1	2	3	4	5	6	7	8	9	10
1	Sex	1									
2	Age	-.15*	1								
3	Qualification	-.32**	-.01	1							
4	Experience	-.18*	.48**	.01	1						
5	Firm Size	.03	.20**	.10	.07	1					
6	Age	.01	.02	.01	.15*	.14*	1				
7	Managerial	-.02	.02	.02	-.08	.12	-.05	1			
8	Entrepreneurial	.09	-.06	-.10	.03	-.06	.05	-.64**	1		
9	Mixed Ori.	-.06	.03	.07	.07	-.08	-.12	-.57**		1	
10	Sales Performance	.06	.01	-.12	-.04	.06	.01	-.31**	.24**	.08	1

\*\* Significant at 0.01 level, \* Significant at 0.05 level

order to identify the impact of any sub categories of respondent characteristics, gender was dummy coded dichotomously (1 = female, 0 = male). The variables of age, education, and age of the firm were also dummy coded to produce roughly normal distribution of responses. Then, we entered three leadership orientations and examined the change in R<sup>2</sup>. We performed two regression models as we hypothesised MO to compare with EO and Mixed orientations separately. Table 6 presents relative impact of EO and MO on Company performance, while Table 7 presents the relative impact of MO and Mixed leadership orientation.

**Relative Impact of EO and MO on Company Performance**

As found in the correlation analysis, none of the company profile factors or respondent characteristics was correlated with company performance and therefore that result is not presented in Table 6 and Table 7.

Table 6 shows regression results of firm level and overall model. Overall model indicates a significant negative impact of MO on company performance ( $\beta = -0.21, p > 0.01$ ) and that this relationship is more relevant to medium sized firms ( $\beta = -0.34, p > 0.001$ ). Table 6 also shows that although it is not statistically significant at 95 percent level of confidence, but at 90 per cent confidence level, the impact of EO on company performance is positive ( $\beta = 0.13, p > 0.10$ ). As hypothesised in H2, the overall results indicate that EO tends to produce more positive contribution to firm performance than MO, and that EO is more relevant to small firms in terms of increasing company performance ( $\beta = 0.41, p > 0.03$ ).

**Relative Impact of MO and Mixed Orientation of Leadership on Company Performance**

Table 7 shows regression results of firm level and overall model. Overall model indicates a significant negative impact of MO on company performance ( $\beta = -0.35, p > 0.001$ ) and that this relationship is more relevant to medium sized firms ( $\beta = -0.44, p > 0.001$ ). Table 7 also shows that although it is not statistically significant at 95 percent level of confidence, but at 90 per cent confidence level, the impact of mixed orientation on company performance is also negative ( $\beta = -0.12, p > 0.10$ ). However, the negative impact of mixed orientation of leadership on the performance of small firms is also statistically significant ( $\beta = -0.32, p > 0.03$ ). Hence, the overall finding indicates that the relative negative impact of mixed orientations of leadership on company performance is lower

**Table 6: Impact of EO and MO on Company Performance**

Size of the Firm	$\Delta R^2$	Sig.	EO		MO	
			$\beta$	Sig.	B	Sig.
Small	.09	.09	.41	.03	.23	.22
Medium	.15	.000	-.08	.39	-.34	.001
Large	.13	.17	.01	.94	-.37	.17
Overall	.09	.000	.13	.11	-.21	.01

EO = Entrepreneurial Orientation, MO = Managerial Orientation

than that of MO on performance of medium and large firms. In other words, the mixed orientation of leadership tends to produce relatively much better company performance than MO and therefore overall findings support Hypothesis 3 in the case of medium and large firms indicating the fact that relative impact of mixed orientations of leadership on company performance is more positive than that of MO on company performance.

In sum, the findings from this study provide support for the assertion that the leadership orientation of owner-managers of small-sized firms is more entrepreneurial than managerial. The analysis also indicates that EO tends to produce a more positive contribution to firm performance than MO, and that the EO is more relevant to small firms in terms of increasing company performance. We also found that the impact of MO on company performance is negative, and that the relative impact of mixed orientations of leadership on company performance is more positive than that of MO on company performance in the case of medium and large firms.

**6. Discussion**

The lifecycle theory of organisational leadership (Baliga and Hunt, 1987) suggests that when an organisation is at the beginning stage, entrepreneurial leadership (transformational) is instrumental in creating a vision, allowing the organisation to be born and take a few steps. At the collectivity and formalisation stages, managerial or transactional leadership becomes important to handle accelerating growth. In this study, we hypothesised (H1) that the leadership orientation of owner-managers of Sri Lankan companies was more entrepreneurial than managerial. The findings of the study confirm the notion of the lifecycle theory of leadership in relation to small firms in the Sri Lankan sample.

Similarly, the strategic management literature indicates that firms must have strong entrepreneurial orientations to yield high performance (Lumpkin and Dess, 1996; Covin and Slevin, 1991; Peters and Waterman, 1982; Zahra, 1993). The findings in relation to testing Hypothesis 2 of this study also revealed that owner-managers with an EO achieved higher performance in sales in small firms compared to the owner-managers with MO. Our findings are consistent with Begley and Boyd’s (1987) finding that entrepreneurial firms show higher growth rates than managerial firms in the case of small companies in the US context. Our findings are also consistent with that of Yang (2008), who found that transformational leadership with higher EO can produce higher business performance.

**Table 7: Impact of MO and Mixed Orientation of Leadership on Company Performance**

Size of the Firm	$\Delta R^2$	Sig.	MO		Mixed Orientation.	
			$\beta$	Sig.	$\beta$	Sig.
Small	.09	.09	-.14	.35	-.32	.03
Medium	.15	.000	-.44	.000	-.09	.39
Large	.13	.17	-.39	.09	-.01	.94
Overall	.09	.000	-.35	.000	-.12	.10

EO = Entrepreneurial Orientation

However, Gupta et al., (2004) emphasise the need for a balanced approach of entrepreneurship and management for effective leadership. The findings from this study support this argument in the case of medium and large firms, because the result of testing H3 indicates that a mix of both EO and MO tends to produce more positive sales performance compared to managerial leadership orientation in medium- and large-sized firms. Davidson and Griffin (2000) also argue that the two approaches should overlap or complement each other in order to achieve optimum results; and therefore, when it comes to performing leadership roles, the differences between roles are often the differences of degree, rather than of kind. Overall, this study found that when owner-managers of small companies become more entrepreneurial in their leadership orientation, there is a tendency to increase the sales performance of their companies. The study also suggests that EO tends to be more effective compared to MO, in terms of increasing sales performance. In the case of medium and large firms, a mix of both EO and MO was found to be more important for increasing sales performance.

### Implications

Our empirical findings give overall support for our major hypothesis: that EO is relatively more important for increasing company performance, but mainly in the case of small firms. The study also provides some specific implications for our understanding of the impact of EO on company performance by showing how a more entrepreneurial-oriented leadership style is specifically important for small firms, while a mix of both EO and MO is more important for medium and large firms. Thus, this research contributes to the theory of entrepreneurship, leadership styles and strategic management by determining that the appropriateness of leadership orientations of leaders should be determined by considering the size of the company, and that the size of the firm may not necessarily be compatible with the lifecycle stages of a firm (Baliga and Hunt, 1987).

We note that Bass' (1990) theory of leadership emphasises that the demand for differential placed on leaders may vary according to the demographic composition of organisations, national or regional political systems, or the strategic requirements of the leader's organisation. Our study shows that preference for leader orientations is associated with company size, an aspect of company demographic composition. Similarly, dominant norms of cultural entities (Stening and Wong, 1983) and religious or ideological values such as Confucianism (Hofstede and Bond, 1988) have also been found to be associated with a leader's behaviour.

The findings from this study also contribute to a better understanding of the critical role of entrepreneurial, managerial and integrative leadership orientations on company performance across different country and cultural contexts. However, we emphasise that our knowledge of the impact of different leadership styles on company performance depends not only on a company lifecycle stage, but also on its size, which is largely unexplored.

The study notably contributes to the emerging body of knowledge about entrepreneurship, leadership orientations and company performance in the context of developing countries.

For example, as Misumi (1985) and Sinha (1994) found that the sort of mix orientation of leadership and the context are important in determining leadership orientations, our findings also provide evidence of mixed leadership orientation in the Sri Lankan context. As found in the literature, both EO and a mixed orientation of leadership are highlighted as significant in context of developed countries (for example, Begley and Boyd, 1987) and developing countries (for example, Sinha, 1994) respectively. Our findings are consistent with both these branches of knowledge. This suggests that rather than considering developed and developing countries as entirely different entities, we recognise that some elements of leadership orientation in developing countries are similar to those in developed countries. The study also contributes to the growing body of knowledge in the area of linkages between the concepts of leadership and entrepreneurship (for example, Cogliser and Brigham, 2004; Vecchio, 2003).

With regard to practical implications, our study suggests that more an entrepreneurial-orientated leadership approach is important mainly for small firms, but not so important for medium- and large-sized firms. For them, a mix of both EO and MO approach is shown to be more important to increase their sales performance. This emphasises that more systematic, rational and professional, as well as entrepreneurial approaches are required by leaders and managers when the size of the company increases from small to medium to large. Thus, business owners and practising managers may need to develop both entrepreneurial and managerial skills (Baliga and Hunt, 1987) while maintaining flexibility in their application of those skills and qualities, according to changes in company size. Our study also offers some suggestions for entrepreneurship education as well. Overemphasising entrepreneurship or managerial and professional orientation alone may not always produce the desired in relation to all company sizes and may also be in the context of developing countries. We therefore encourage rather dynamic approach to leadership orientation.

### **Limitations and Further Research**

We designed our study by considering both theoretical and contextual characteristics of respondents and firms, which may produce limitations in its ability to generalise the findings. Our research design was also cross-sectional, which makes it impossible to resolve the issues of whether leadership orientation causes company performance. Although our findings are consistent with several important previous studies and theories, a single-country study may also limit the generalisability of our findings. Additional studies conducted in different countries with a relatively large sample size may be required to test the robustness of our results across contexts and different sectors.

Future research could refine and extend the exploratory scale used to measure leadership orientations. The use of different performance indicators may also increase the validity of measuring company performance in future studies. Because the empirical findings of this study were not comprehensive enough to identify the impact of mixed leadership orientations on company performance, future research may be designed so that both the degree of mixed leadership orientations and their relative impact on company performance could be examined.

## 7. Conclusions

The main objective of this study was to explore leadership orientations of owner-managers of firms in the context of a developing country in South Asia and examine their impact on financial performance. The literature review indicates that less is known about EO and its impact on company performance in the context of developing countries in South Asia. Conceptually, the study was basically intended to identify and explore entrepreneurial and managerial leadership orientations of owner-managers. The existing literature supports the argument that EO is relatively more important than MO, and research carried out in a non-Western context suggests the importance of pursuing mix of both MO and EO. We developed three hypotheses to explore entrepreneurial, managerial and mixed leadership orientations and their impact on company performance and the results were based on 204 responses. The analysis revealed that EO was more important than MO in terms of increasing financial performance of small firms. In the case of medium- to large-sized firms, a mix of both EO and MO was found to be more important than managerial leadership orientation in terms of increasing financial performance. Overall, this study contributes to the theories of entrepreneurship, leadership and strategic management in general, and the growing body of knowledge in the said field in the context of developing countries in particular. The study also has practical implications for business leaders and owner-managers of SMEs as well as large companies. The limitations of the study and some directions for further research were also presented.

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