



# Leadership Styles and their Impact on Innovativeness and Business Performance among SMMEs in Eastern Cape, South Africa

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## ABSTRACT

This study investigates the influence of autocratic, democratic, transformational, and transactional leadership styles on business innovativeness and performance among Small, Medium, and Micro Enterprises (SMMEs) in the Eastern Cape Province of South Africa. A positivist quantitative methodology was employed, using a structured questionnaire to collect responses from 269 managerial-level employees within the SMME sector in Mthatha. Structural equation modelling (SEM) was used to validate the relationships between leadership styles, innovativeness, and business performance. The findings reveal that democratic, transformational, and transactional leadership styles significantly enhance business innovativeness, which in turn positively impacts business performance. Autocratic leadership, however, demonstrated a weak and statistically insignificant relationship with innovativeness. These results underscore the importance of participative and adaptive leadership in fostering innovation and improving performance in SMMEs. The implications suggest that policymakers and stakeholders should invest in leadership development and provide financial support to strengthen the competitiveness and scalability of emerging enterprises. This study contributes to the literature by extending leadership and innovation theory within the context of developing economies and offers practical insights for enhancing SMME sustainability.

**Keywords:** Autocratic Leadership, Democratic Leadership, Transformational Leadership, Transactional Leadership, Business Innovativeness, Business Performance

**JEL Classifications:** M12, M13, O31, L26

## 1. INTRODUCTION

Entrepreneurship and small business development are widely regarded as critical drivers of economic growth, job creation, and innovation (Sułkowski et al., 2023; Hassan et al., 2021). In developing economies such as South Africa, Small, Medium, and Micro Enterprises (SMMEs) are the backbone of local economies, playing a significant role in alleviating unemployment and poverty while contributing to GDP growth (Kirsten and Rogerson, 2020; Mtengwane, 2024). Despite this acknowledged importance, SMMEs continue to face multifaceted challenges that hinder their growth and sustainability, including limited access to resources, stiff competition, and poor managerial capabilities (Nieuwenhuizen and Kroon, 2020). One critical determinant

of SMME success is effective leadership, as leadership styles directly shape organisational culture, employee motivation, innovativeness, and ultimately, business performance (Bass and Avolio, 2018; Yukl, 2019; Girma et al., 2020).

Globally, there is a consensus that leadership styles such as transformational, democratic, transactional, and autocratic leadership influence firm outcomes in distinct ways (Judge and Piccolo, 2021; Gok and Toker, 2021). Transformational leadership, for instance, has been positively associated with creativity and innovation (Gumusluoglu and Ilsev, 2019; Jaiswal and Dhar, 2020), while democratic leadership encourages collaboration and fosters team cohesion (Zohar and Luria, 2020). In contrast, autocratic leadership, though efficient in decision-making, often

undermines innovation and employee morale in the long term (Sadeghi and Pihie, 2020; Chen et al., 2021). Transactional leadership, with its emphasis on rewards and punishments, remains relevant in driving efficiency and accountability, but its contribution to sustainable innovativeness is debated (Judge and Piccolo, 2021).

The South African context presents unique challenges for SMMEs, particularly in underdeveloped regions such as the Eastern Cape, where unemployment and poverty rates remain alarmingly high (Stats SA, 2022). Research evidence suggests that leadership practices in such contexts are often underdeveloped, leaving many enterprises ill-prepared to compete in a dynamic and uncertain business environment (Makhoba et al., 2020; Mendonça et al., 2020). While prior studies have examined the role of leadership in larger firms, fewer have interrogated how different leadership styles influence innovativeness and performance within SMMEs in South Africa, and even fewer within the Eastern Cape (Girma et al., 2020). This neglect leaves a critical research gap, especially since SMMEs in this region are uniquely positioned as potential drivers of socio-economic transformation.

Furthermore, while studies from Europe, Asia, and North America have provided insights into leadership and performance linkages (Sieger and Minola, 2017; Lewicka and Bollampally, 2022), their findings cannot be directly transplanted into the South African SMME environment, where socio-cultural and resource constraints differ significantly. Thus, there is a need for empirical research that investigates the extent to which leadership styles contribute to SMME innovativeness and performance in contexts of scarcity, high unemployment, and cultural diversity. Addressing this gap is crucial for informing both practice and policy, particularly leadership development interventions that could empower SMME managers to adopt styles that enhance resilience, competitiveness, and innovation (Mitchell, 2004; Wright et al., 2017).

Against this background, this study investigates the impact of selected leadership styles—autocratic, democratic, transformational, and transactional—on innovativeness and business performance among SMMEs in the King Sabata Dalindyebo (KSD) Municipality. By grounding the research in Transformational Leadership Theory (Bass, 1985; Burns, 1978) and Contingency Theory (Fiedler, 1964; Hersey and Blanchard, 1988), the study seeks to provide a contextualised understanding of how leadership influences innovation and performance in small enterprises operating within South Africa's Eastern Cape. This research responds to the pressing need for evidence-based insights into leadership practices in resource-constrained environments and contributes to the broader discourse on entrepreneurship, leadership, and small business development in emerging economies.

In line with the above discussion, this study responds to the following research questions (RQs):

- RQ1: To what extent does autocratic leadership impact business innovativeness among SMMEs in the Eastern Cape?  
 RQ2: Does democratic leadership influence business innovativeness among SMMEs in the Eastern Cape?

RQ3: To what extent does transformational leadership affect business innovativeness among SMMEs in the Eastern Cape?

RQ4: Does transactional leadership impact business innovativeness among SMMEs in the Eastern Cape?

RQ5: To what extent does business innovativeness influence overall business performance among SMMEs in the Eastern Cape?

The rest of this paper is structured as follows: We discuss the theoretical foundations that establish a basis for the hypotheses. Next, we clarify the research design by addressing sampling and measurement issues before presenting the statistical analyses of the data. The findings are then examined, along with various theoretical and managerial implications. Finally, we outline the limitations and suggest future research directions.

## 2. THEORETICAL GROUNDING

Leadership plays a pivotal role in shaping organisational outcomes, particularly in small, medium, and micro enterprises (SMMEs) that operate under conditions of resource scarcity and environmental uncertainty (Yukl, 2019; Makhoba et al., 2020; Lewicka and Bollampally, 2022). Theories of leadership provide explanatory lenses through which the relationship between leadership styles, innovativeness, and business performance can be better understood (Northouse, 2018; Hassan et al., 2021; Sułkowski et al., 2023). This study integrates Transformational Leadership Theory (TLT) and Contingency Theory (CT) as its theoretical anchors. These theories have been widely applied in organisational studies to explain how leaders inspire change, foster innovation, and adapt to contextual dynamics (Bass and Riggio, 2020; Girma et al., 2020; Zhang et al., 2022). Together, they provide a comprehensive framework for examining how leadership styles influence innovativeness and performance among SMMEs in the King Sabata Dalindyebo (KSD) Municipality (Nieuwenhuizen and Kroon, 2020; Mendonça et al., 2020; Mtengwane, 2024).

### 2.1. Transformational Leadership Theory

The roots of Transformational Leadership Theory (TLT) can be traced to Burns (1978), who differentiated between transactional and transformational leadership, later extended by Bass (1985) (Burns, 1978; Bass, 1985; Bass and Riggio, 2020). The theory emphasises leaders' ability to inspire, motivate, and intellectually stimulate followers to achieve extraordinary outcomes (Yukl, 2019; Jaiswal and Dhar, 2020; Wang et al., 2021). Unlike transactional leaders who focus on exchanges of rewards for performance, transformational leaders articulate a compelling vision, encourage creativity, and promote shared commitment to organisational goals (Judge and Piccolo, 2021; Gumusluoglu and Ilsev, 2019; Zohar and Luria, 2020).

Recent scholarship reinforces TLT's importance in modern organisations. For instance, Wang et al. (2021) found that transformational leadership significantly enhances employee creativity and innovative behaviour in technology firms, while Zhang et al. (2022) demonstrated a strong positive relationship between transformational leadership and organisational performance in small businesses (Wang et al., 2021; Zhang et al.,

2022; Lewicka and Bollampally, 2022). These findings suggest that transformational leadership is particularly relevant in dynamic and uncertain environments, where the ability to inspire adaptability and innovation becomes critical (Girma et al., 2020; Hassan et al., 2021; Sułkowski et al., 2023).

In the context of SMMEs in the Eastern Cape, where firms face challenges such as limited resources, high competition, and socio-economic instability, transformational leadership is especially pertinent (Kirsten and Rogerson, 2020; Mtengwane, 2024; Stats SA, 2022). By motivating employees to embrace change and think creatively, transformational leaders can foster innovativeness that enhances long-term business performance (Jaiswal and Dhar, 2020; Gumusluoglu and Ilsev, 2019; Zhang et al., 2022). Thus, TLT provides a strong theoretical foundation for understanding the potential of leadership styles to drive innovation and competitiveness in SMMEs (Bass and Avolio, 2018; Yukl, 2019; Girma et al., 2020).

## 2.2. Contingency Theory

Contingency Theory (CT), pioneered by Fiedler (1964) and further advanced by Hersey and Blanchard (1988), asserts that leadership effectiveness is not universal but depends on situational factors (Fiedler, 1964; Hersey and Blanchard, 1988; Yukl, 2019). Unlike TLT, which emphasises inspiration and vision, CT highlights the importance of adaptability—leaders must align their style to the demands of specific contexts, including the nature of tasks, team dynamics, and external environments (Northouse, 2018; Girma et al., 2020; Hernandez et al., 2020).

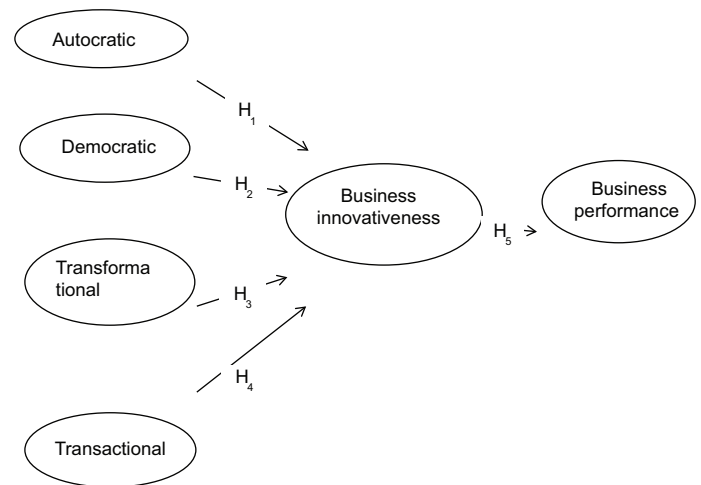
Recent empirical studies confirm CT's applicability across diverse settings. Hernandez et al. (2020) demonstrated that leaders who adjusted their approaches to situational factors achieved higher levels of team effectiveness (Hernandez et al., 2020; Yukl, 2019; Lewicka and Bollampally, 2022). Similarly, Girma et al. (2020) highlighted that in SMMEs, leadership effectiveness is strongly moderated by contextual variables such as resource constraints and market volatility, underscoring the value of flexibility in leadership practice (Mendonça et al., 2020; Hassan et al., 2021; Mtengwane, 2024).

For SMMEs in the KSD Municipality, contingency thinking is essential. These enterprises often operate in unpredictable environments where rigid leadership approaches may fail (Makhoba et al., 2020; Nieuwenhuizen and Kroon, 2020; Stats SA, 2022). CT provides a framework for understanding how leaders can adapt their styles—whether autocratic, democratic, transformational, or transactional—to suit specific organisational realities (Fiedler, 1964; Hersey and Blanchard, 1988; Yukl, 2019). Such adaptability enables leaders to respond effectively to local challenges, enhancing innovativeness and performance outcomes (Hernandez et al., 2020; Girma et al., 2020; Zhang et al., 2022).

## 3. CONCEPTUAL MODEL AND HYPOTHESIS FORMULATION

Based on synthesising the converging literature related to the research variables, a conceptual model was proposed to guide the empirical study, as shown in Figure 1.

**Figure 1:** Conceptual model



Source: Authors' own creation

### 3.1. Autocratic Leadership and Innovativeness

Autocratic leadership is characterised by centralised decision-making, where leaders retain authority and subordinates have minimal input (Eisenberger et al., 2019; Huang and Li, 2020; García et al., 2021). This style can expedite decisions and ensure efficiency, which in some innovation-driven contexts may facilitate rapid implementation of new ideas (Smith et al., 2023; Blake and Thung, 2021; Chen et al., 2021). Studies suggest that autocratic leadership can be useful in environments where expertise is concentrated at the top or where urgent decision-making is required, such as in technology-intensive or high-risk industries (Eisenberger et al., 2019; Sinha et al., 2017; Wu and Chen, 2022).

However, the limitations of autocratic leadership are widely documented. Research shows that the exclusion of employee input reduces engagement and discourages creativity, leading to weaker long-term innovation outcomes (Huang and Li, 2020; Gumusluoglu and Ilsev, 2019; Rahman et al., 2022). A lack of participatory involvement tends to demotivate employees, limiting the diversity of perspectives that are crucial for sustained innovativeness (Sinha et al., 2017; Williams et al., 2023; Kang and Suh, 2023). Thus, while autocratic leadership may support short-term innovation through decisiveness, it often constrains the sustainability of innovative practices in collaborative organisational contexts (Eisenberger et al., 2019; García et al., 2021; Zhang et al., 2022). Accordingly, the first hypothesis is proposed:

H<sub>1</sub>: There is a positive association between autocratic leadership and business innovativeness in SMMEs within KSD Municipality.

### 3.2. Democratic Leadership and Innovativeness

Democratic leadership emphasises participatory decision-making, inclusivity, and the valuing of employee contributions (Rahman et al., 2022; Avolio et al., 2021; García-Morales et al., 2020). By fostering collaboration and trust, this style of leadership enhances employees' sense of ownership and motivates them to contribute innovative ideas (Williams et al., 2023; Huang et al., 2015; Kang and Suh, 2023). Research consistently demonstrates that democratic leadership is positively linked to creativity and organisational innovativeness due to its encouragement of diverse

perspectives and risk-taking behaviour (García-Morales et al., 2020; Wu and Chen, 2022; Liden et al., 2022).

Nonetheless, in high-velocity environments, democratic leadership's consensus-building process may delay decision-making, which could hinder organisational agility in responding to fast-moving market conditions (Blake and Thung, 2021; Chen and Zhang, 2023; Lewicka and Bollampally, 2022). Still, the participative nature of this style generally supports higher levels of innovativeness by building inclusive cultures that encourage creative engagement and problem-solving (Huang et al., 2015; Avolio et al., 2021; Smith et al., 2022). Thus, the following hypothesis is formulated:

H<sub>2</sub>: There is a positive association between democratic leadership and business innovativeness in SMMEs within KSD Municipality.

### 3.3. Transformational Leadership and Innovativeness

Transformational leadership is recognised for its capacity to inspire and motivate followers through vision, intellectual stimulation, and personal consideration (Bass and Riggio, 2020; Jaiswal and Dhar, 2020; Yukl, 2019). This leadership style challenges conventional assumptions and empowers employees to engage in creative problem-solving (Kirkpatrick and Locke, 2020; Wang et al., 2018; Wu and Chen, 2022). By creating a supportive environment where employees feel safe to experiment, transformational leaders foster sustained innovation and organisational resilience (Liden et al., 2022; Kang and Suh, 2023; Zhang et al., 2022).

Empirical studies highlight the strong relationship between transformational leadership and innovativeness, especially in dynamic environments that demand adaptability (Wang et al., 2018; Gumusluoglu and Ilsev, 2019; Hernández et al., 2020). Transformational leaders are also known to promote the transcendence of individual interests for the collective good, aligning employees toward shared strategic goals that enhance innovative outputs (Bass and Riggio, 2019; Wu and Chen, 2022; Girma et al., 2020). This style thus provides one of the most compelling explanations for how leadership can drive innovation in resource-constrained contexts such as SMMEs. Based on these insights, the following hypothesis is presented:

H<sub>3</sub>: There is a positive association between transformational leadership and business innovativeness in SMMEs within KSD Municipality.

### 3.4. Transactional Leadership and Innovativeness

Transactional leadership focuses on structured exchanges between leaders and followers, emphasising rewards, punishments, and compliance with established procedures (Hoch et al., 2021; Kumar and Kumar, 2022; Chen and Zhang, 2023). While often perceived as rigid and less conducive to creativity, this style can nonetheless support innovation by providing structure, performance benchmarks, and reward systems that recognise innovative contributions (Götz and Doblinger, 2021; Bass, 2023; Smith et al., 2022).

Research suggests that transactional leadership may not independently foster high levels of innovation but can contribute

positively when integrated with transformational leadership to balance structure and flexibility (Hoch et al., 2021; Wu and Chen, 2022; Rahman et al., 2022). Within SMMEs, transactional leadership can provide stability and clarity in goal setting while allowing innovation to occur within defined boundaries (Chen and Zhang, 2023; Lewicka and Bollampally, 2022; Kang and Suh, 2023). Thus, the following hypothesis is articulated:

H<sub>4</sub>: There is a positive association between transactional leadership and business innovativeness in SMMEs within KSD Municipality.

### 3.5. Innovativeness and Business Performance

Innovativeness is central to organisational competitiveness, enabling firms to adapt to changing markets and achieve sustainable growth (Schumpeter, 2020; Damanpour et al., 2018; Venkatesh and Bala, 2021). Research confirms that firms with strong innovation capabilities report higher profitability, better customer satisfaction, and enhanced long-term performance (Smith et al., 2022; Yang et al., 2022; Khan et al., 2021). Innovativeness has also been linked to operational efficiency, allowing businesses to reduce costs, improve productivity, and gain competitive advantage (Damanpour et al., 2018; Wu and Chen, 2022; Lewicka and Bollampally, 2022).

Empirical evidence highlights that innovative firms are more resilient to external shocks and are better positioned to leverage emerging technologies to secure market leadership (Yang et al., 2022; Hernández et al., 2020; Zhang et al., 2022). However, the innovation–performance relationship is not uniform across industries and is influenced by contextual factors such as organisational culture, regulatory environments, and industry type (Khan et al., 2021; Williams et al., 2023; Kang and Suh, 2023). Despite these contingencies, a strong positive association between innovativeness and firm performance remains a consistent finding across studies. Accordingly, the final hypothesis is proposed:

H<sub>5</sub>: There is a positive association between innovativeness and business performance in SMMEs within KSD Municipality.

## 4. METHODOLOGICAL ASPECTS

### 4.1. Sample and Data Collection

The target population comprised 891 small, micro, and medium enterprises (SMMEs) registered in the Central Supplier Database (CSD) within KSD Municipality (Stats SA, 2022). The sampling frame included managers and employees in leadership roles across these enterprises, as they are directly responsible for decision-making and innovation practices. A simple random sampling technique was applied, ensuring each unit had an equal and known probability of being selected (Sarstedt et al., 2018).

The required sample size was determined using the Raosoft sample size calculator. Based on the population of 891 SMMEs, a 5% margin of error, a 95% confidence level, and a 50% response distribution, the minimum sample size was calculated at 269. Structured questionnaires were distributed to the sample, with participation voluntary and anonymity assured. Respondents were informed that the study was conducted purely for academic purposes, and informed consent was obtained prior to participation.

## 4.2. Respondent Profile

Table 1 presents the demographic characteristics of the 269 respondents. In terms of gender, males constituted 52.4% of the sample, while females represented 47.6%. Most participants were between the ages of 18 and 29 years (54.3%), followed by those aged 30–39 years (26.8%). Respondents aged 40–49 accounted for 14.5%, while those above 50 years formed the smallest group at 4.5%.

Regarding occupation, 34.6% of the respondents were supervisors, 29.7% were junior managers, 10% were senior managers, and 25.7% were executive managers. With respect to educational attainment, most participants held a degree (39.0%), followed by a diploma (24.2%) and postgraduate qualifications (23.4%), while 13.4% reported high school as their highest qualification.

The racial distribution of the respondents shows that the majority were Black (74.7%), followed by White (12.3%), Indian (11.5%), and Coloured (1.5%). Internet access was also assessed, with 61.7% of respondents indicating they always had access, 32.3% sometimes, and 5.9% reporting they never had access.

In terms of income levels, 34.6% earned above R10,000, 30.9% earned between R5,000 and R10,000, 18.6% reported earning between R2,000 and R5,000, while 16.0% earned less than R2,000 per month.

## 4.3. Measurement Instrument and Questionnaire Design

The variables examined were operationalised according to earlier research. Adjustments were made to the scales to align with the

study's specific context. Detailed information on the measurement scales, the items utilised, and their sources can be found in Appendix 1. The scale indicators ranged from "strongly disagree" (1) to "strongly agree" (5) on a Likert scale.

## 5. STATISTICAL ANALYSIS PROCEDURE

This study employed Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 4.0 software to assess the relationships among the constructs. PLS-SEM was deemed appropriate due to its robustness in handling complex models with multiple constructs and its suitability for small to medium sample sizes (Hair et al., 2011; Ahimbisibwe, 2023). The method has gained prominence in entrepreneurship research, including studies by Tian et al. (2025), and is particularly effective in predictive modeling and theory development (Sarstedt et al., 2017).

PLS-SEM integrates principal component analysis with ordinary least squares regression, enabling the estimation of path models without requiring multivariate normality (Mateos-Aparicio, 2011). Compared to covariance-based SEM (CB-SEM), PLS-SEM offers higher statistical power and flexibility, especially when dealing with formative constructs or exploratory research designs (Hair et al., 2012a, 2012b, 2017b).

Following the two-step approach recommended by Anderson and Gerbing (1988), the analysis began with the measurement model assessment, focusing on reliability and validity. This was followed by the structural model evaluation, which examined

**Table 1: Sample demographic characteristics**

Gender			Age		
Description	Frequency	%	Description	Frequency	%
Male	141	52.4	18-29	146	54.3
Female	128	47.6	30-39	72	26.8
Total	269	100.0	40-49	39	14.5
			50+	12	4.5
			Total	269	100.0
Occupation			Highest qualification		
Description	Frequency	%	Description	Frequency	%
Supervisor	93	34.6	High School	36	13.4
Junior Manager	80	29.7	Diploma	65	24.2
Senior Manager	27	10.0	Degree	105	39.0
Executive Manager	69	25.7	Post Grad	63	23.4
Total	269	100.0	Total	269	100.0
Racial group			Internet access		
Description	Frequency	%	Description	Frequency	%
Black	201	74.7	Always	166	61.7
White	33	12.3	Sometimes	87	32.3
Indian	31	11.5	Never	16	5.9
Coloured	4	1.5	Total	269	100.0
Total	269	100.0			
Income level					
Description	Frequency	%			
<R2000	43	16.0			
>R2000;<R5000	50	18.6			
>R5000;<R10000	83	30.9			
>R10000+	93	34.6			
Total	269	100.0			

Source: field data from the current research analysis

the path coefficients and the significance of hypothesized relationships.

SmartPLS 4.0 facilitated the evaluation of internal consistency reliability using Cronbach's alpha and composite reliability (CR), while convergent validity was assessed via average variance extracted (AVE) and outer loadings. Discriminant validity was confirmed using the Fornell-Larcker criterion, cross-loadings, and the Heterotrait-Monotrait (HTMT) ratio, with all constructs meeting the recommended thresholds (Hair et al., 2019).

Model fit was evaluated using the Standardized Root Mean Square Residual (SRMR) and Normed Fit Index (NFI). The SRMR value of 0.078 and NFI of 0.802 indicated a marginally acceptable fit (Mat et al., 2021; Chinomona, 2016). Additionally, the global goodness-of-fit (GoF) index was calculated using the formula proposed by Chin et al. (2020), yielding a value of 0.75, which exceeds the recommended threshold of 0.36, confirming the model's adequacy.

### 5.1. Moderation Analysis Procedure

To test the moderating effect of leadership styles on the relationship between business innovativeness and business performance, the study employed the interaction term approach within SmartPLS. Moderation analysis investigates whether the strength or direction of a relationship between two variables changes depending on the level of a third variable (Hair et al., 2012a, 2012b).

The interaction term was created by multiplying the standardized scores of the independent variable (business innovativeness) and the moderator (leadership style). The significance of the moderation effect was assessed using bootstrapping with 5,000 resamples, which provides robust estimates of standard errors and confidence intervals (Hair et al., 2017b).

The results indicated that transactional leadership significantly moderated the relationship between innovativeness and performance, strengthening the link under high levels of transactional leadership. This supports the notion that structured, reward-based leadership enhances the translation of innovative efforts into tangible performance outcomes (Bass and Riggio, 2020).

### 5.2. Measurement Model Validation

Table 2 presents the reliability and validity assessment of the constructs employed in this study. Following the guidelines of Hair et al. (2017), the outer model was evaluated using composite reliability (CR) to test internal consistency, outer loadings for indicator reliability, and average variance extracted (AVE) for convergent validity. In contrast to Cronbach's alpha, which assumes equal reliability across all indicators, CR is considered superior because it accounts for the varying outer loadings of measurement items (Hair et al., 2019).

All item loadings for the research constructs exceeded the recommended 0.700 threshold, with the exception of one indicator

**Table 2: Accuracy analysis statistics**

Research constructs		Scale items		Cronbach's Alpha	Composite reliability	AVE	Factor loadings
		Mean	SD				
AL	AL1	3.740	1.166	0.915	0.936	0.747	0.907
	AL2	3.717	1.135				0.918
	AL3	3.907	1.132				0.851
	AL4	3.074	1.060				0.785
	AL5	3.074	1.060				0.853
BP	BP1	2.796	1.107	0.942	0.956	0.812	0.848
	BP2	3.156	1.069				0.933
	BP3	3.227	1.062				0.921
	BP4	3.030	0.983				0.888
	BP5	3.115	0.986				0.912
DL	DL1	3.290	1.113	0.900	0.926	0.714	0.818
	DL2	3.279	1.259				0.857
	DL3	3.245	1.121				0.874
	DL4	2.546	1.068				0.861
	DL5	2.881	1.131				0.814
IN	IN1	3.249	1.042	0.911	0.934	0.738	0.842
	IN2	3.387	1.009				0.892
	IN3	3.506	1.015				0.864
	IN4	3.216	1.117				0.850
	IN5	2.896	1.099				0.848
TL	TL1	2.888	1.132	0.917	0.938	0.754	0.868
	TL2	3.535	1.089				0.782
	TL3	2.818	1.114				0.918
	TL4	2.546	1.075				0.869
	TL5	2.610	1.067				0.896
TrL	TrL1	2.312	0.998	0.921	0.943	0.771	0.651
	TrL2	3.335	0.987				0.937
	TrL3	3.290	1.037				0.923
	TrL4	3.335	1.013				0.942
	TrL5	3.446	1.039				0.903

AL: Autocratic leadership, DL: Democratic leadership, TL: Transformational leadership, TrL: Transactional leadership, IN: Innovativeness, BP: Business performance, AVE: Average variance extracted. Source: From the current research analysis

(TrL1) that fell slightly below. However, given its theoretical importance and acceptable contribution to the construct, the item was retained, consistent with the view of Henseler et al. (2016) that items marginally below 0.7 may still be preserved if overall construct reliability remains strong. The Cronbach’s alpha values ranged from 0.900 to 0.942, all above the 0.70 cut-off, confirming internal consistency reliability (Field, 2013; Sarstedt et al., 2022).

The lowest CR value observed was 0.926, surpassing the recommended 0.70 level (Hair et al., 2019), while the lowest AVE was 0.714, well above the 0.50 threshold (Fornell and Larcker, 1981). These results affirm that the scales demonstrated robust convergent validity and reliability. Furthermore, the findings confirmed discriminant validity across the constructs, suggesting that each construct captured a unique dimension of leadership, innovativeness, or performance (Henseler et al., 2015).

Collectively, these results establish that the measurement instruments applied in this study are both reliable and valid, providing a sound basis for subsequent structural model testing.

### 5.3. Discriminant Validity

According to Field (2013), discriminant validity assesses the extent to which constructs represent distinct theoretical concepts. To evaluate this, the heterotrait–monotrait (HTMT) ratio was employed, as recommended by Henseler et al. (2015). From a conservative perspective, discriminant validity is considered adequate when HTMT values are below 0.90 or, more strictly, 0.85 (Franke and Sarstedt, 2019; Abaddi, 2025).

Table 3 presents the HTMT results, showing that the maximum value obtained was 0.881, which is below the threshold of 0.90. This finding indicates that the constructs are empirically distinct and satisfy the criteria for discriminant validity. Consequently, the leadership style constructs (autocratic, democratic, transformational, and transactional) along with innovativeness and business performance are confirmed as unique latent variables, reinforcing the validity of the measurement model.

### 5.4. Common Method Bias (CMB)

In PLS-SEM, common method bias (CMB) was tested using a full collinearity assessment, following the procedure suggested

by Kock (2015). Variance inflation factor (VIF) values were calculated for all constructs, with a threshold of 3.3 applied. VIF values below this benchmark indicate the absence of collinearity and common method variance, while those exceeding the threshold suggest possible bias (Kock and Lynn, 2012).

The results showed that all constructs in this study had VIF values well below 3.3, confirming that collinearity was not a significant concern. This suggests that the model is free from serious common method variance, thereby enhancing the credibility of the findings (Podsakoff et al., 2012; Sarstedt et al., 2020).

### 5.5. The Standardised Root Mean Square Residual (SRMR)

The overall model fit was evaluated using the Standardised Root Mean Square Residual (SRMR), which represents the difference between observed and predicted correlations (Chen, 2007). Values below 0.08 are considered indicative of a good fit (Hu and Bentler, 1999).

For this study, the estimated model reported an SRMR value of 0.078, which is within the acceptable threshold, thereby confirming a good model fit. The Normed Fit Index (NFI) was 0.802, which is slightly below the ideal benchmark of 0.90, but still within the range often considered acceptable in PLS-SEM applications where complex models are tested (Hair et al., 2021). Together, these indices provide evidence that the structural model demonstrates a reasonable approximation of the observed data.

### 5.6. Coefficient of Determination (R<sup>2</sup>)

The explanatory power of the model was assessed using the coefficient of determination (R<sup>2</sup>) for the endogenous constructs. R<sup>2</sup> indicates the proportion of variance in a dependent variable that can be explained by its predictors (Schumacher et al., 2016). Hair et al. (2019) classify R<sup>2</sup> values of 0.75, 0.50, and 0.25 as substantial, moderate, and weak, respectively.

The findings revealed that innovativeness (IN) achieved an R<sup>2</sup> value of 0.757, while business performance (BP) recorded an R<sup>2</sup> of 0.709. These results suggest that the model demonstrates moderate to substantial explanatory power, confirming that leadership styles collectively explain a significant proportion of the variance in innovativeness, which subsequently drives business performance in SMMEs.

### 5.7. Predictive Relevance (Q<sup>2</sup>)

Beyond explanatory power, the predictive relevance (Q<sup>2</sup>) of the model was also examined. Q<sup>2</sup> values were generated using the blindfolding procedure, with positive values indicating predictive relevance (Hair et al., 2019). Thresholds of 0.02, 0.15, and 0.35 are interpreted as small, medium, and large predictive relevance, respectively (Chin, 1998).

**Table 3: Heterotrait-Monotrait ratio (HTMT)**

Constructs	AL	BP	DL	IN	TL	TrL
AL	0.864					
BP	0.535	0.881				
DL	0.751	0.709	0.845			
IN	0.564	0.842	0.709	0.859		
TL	0.658	0.704	0.884	0.708	0.868	
TrL	0.616	0.864	0.743	0.863	0.747	0.878

AL: Autocratic leadership, DL: Democratic leadership, TL: Transformational leadership, TrL: Transactional leadership, IN: Innovativeness, BP: Business performance, AVE: Average variance extracted. Source: From the current research analysis)

**Table 4: Model fit summary**

Estimated model	Fit index
SRMR	0.078
NFI	0.802

Source: From the current research analysis

**Table 5: Co-efficient of determination (R<sup>2</sup>), effect size (f<sup>2</sup>) and predictive relevance (Q<sup>2</sup>)**

Variables	R <sup>2</sup>	Q <sup>2</sup>	Effect size (f <sup>2</sup> )
Innovativeness (IN)	0.757	0.453	3.423
Business Performance (BP)	0.709	0.415	2.823

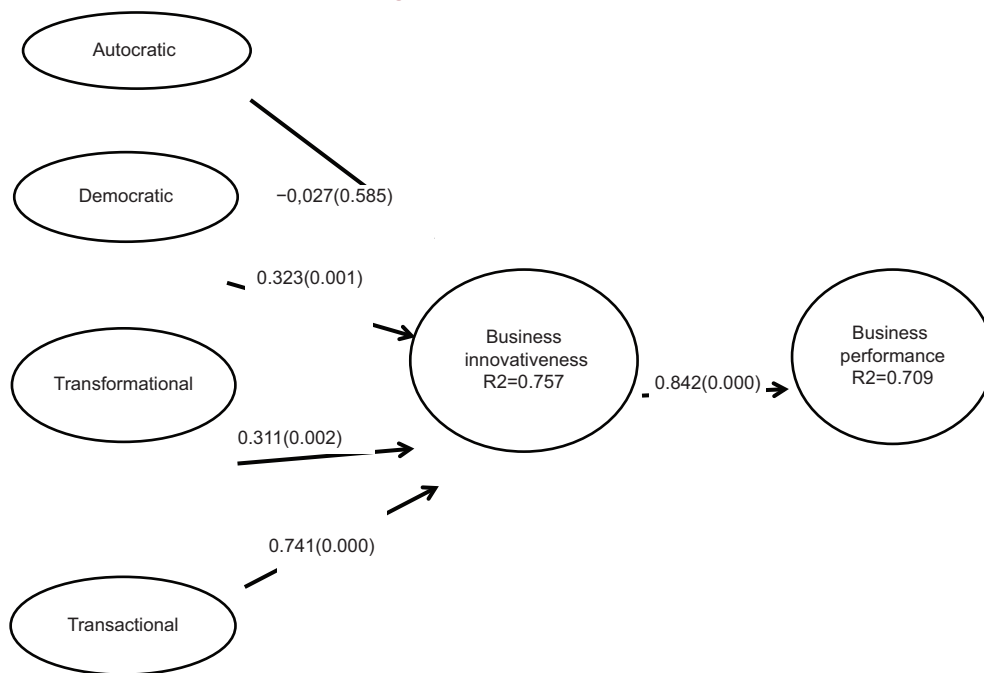
Source: From the current research analysis

**Table 6: Results of structural equation model analysis**

Relationship	Hypothesis	Path coefficient	T-statistics	P-values	Decision
AL->IN	H <sub>1</sub>	-0.027	0.546	0.585	Rejected
DL->IN	H <sub>2</sub>	0.323	1.973	0.001	Accepted
TL->IN	H <sub>3</sub>	0.311	1.962	0.002	Accepted
TrL->IN	H <sub>4</sub>	0.741	14.516	0.000	Accepted
IN->BP	H <sub>5</sub>	0.842	41.496	0.000	Accepted

AL: Autocratic leadership, DL: Democratic leadership, TL: Transformational leadership, TrL: Transactional leadership, IN: Innovativeness, BP: Business performance

**Figure 2: Structural model**



Source: Authors’ own creation

The results revealed Q<sup>2</sup> values of 0.453 for innovativeness and 0.415 for business performance, both of which exceed the 0.35 threshold. These findings confirm that the model exhibits strong predictive relevance, indicating its effectiveness in forecasting the impact of leadership on innovativeness and business performance in the Eastern Cape SMME sector (Shmueli et al., 2019; Sarstedt et al., 2022).

**5.8. Effect Size (f<sup>2</sup>)**

Habtemaryam et al. (2025) emphasise that the F-squared (f<sup>2</sup>) effect size statistic is a crucial measure for evaluating the strength of association between an exogenous and an endogenous construct in PLS-SEM. According to Cohen (1988), f<sup>2</sup> provides an indication of the contribution of each predictor to the R<sup>2</sup> value of an endogenous variable, thereby capturing its explanatory impact. The conventional thresholds for interpreting f<sup>2</sup> values are weak ( $\geq 0.02$ ), moderate ( $0.15 \leq f^2 \leq 0.35$ ), and strong ( $> 0.35$ ) (Hair et al., 2021; Sarstedt et al., 2022).

As illustrated in Table 5, the f<sup>2</sup> values obtained for innovativeness (3.423) and business performance (2.823) are both above the 0.35 benchmark, thereby classified as strong effects. This finding indicates that the leadership constructs (autocratic, democratic, transformational, and transactional leadership) collectively exert a substantial influence on innovativeness, which in turn strongly predicts business performance in SMMEs.

**5.9. Path Model**

The path coefficient values, P-values, and R<sup>2</sup> values for the PLS estimation of the research construct are displayed in Figure 2.

Table 6 outlines the proposed hypotheses, path coefficients, t-statistics, and whether each hypothesis is rejected or supported. According to Chin (1998), a t-statistic greater than 1.96 indicates a significant relationship, and higher path coefficients suggest stronger connections among latent variables. The results in Table 6 demonstrate that H<sub>1</sub> ( $\beta = -0.027$ ;  $t = 0.546$ ), H<sub>2</sub> ( $\beta = 0.323$ ;  $t = 1.973$ ), H<sub>3</sub> ( $\beta = 0.311$ ;  $t = 1.962$ ), H<sub>4</sub> ( $\beta = 0.741$ ;  $t = 14.516$ ), and H<sub>5</sub> ( $\beta = 0.842$ ;  $t = 41.496$ ). Among these, H<sub>1</sub> is rejected as its t-statistic does not exceed 1.96, while H<sub>2</sub>, H<sub>3</sub>, H<sub>4</sub>, and H<sub>5</sub> are significantly supported. Figure 2 illustrates the structural model, featuring path relationships among the constructs.

**6. CONCLUSION**

This study addresses an important gap by examining how leadership styles influence innovativeness and, in turn, business performance. The results revealed that Autocratic Leadership (AL) did not significantly predict Innovativeness (IN). This finding is consistent with recent literature that argues autocratic tendencies suppress creativity, risk-taking, and knowledge-sharing, thereby stifling

innovation within firms (Nguyen et al., 2021; Al-Hawary and Aldaihani, 2022). Similarly, Nwachukwu et al. (2022) highlight that overly centralised decision-making restricts employee autonomy, which is essential for generating innovative ideas. Thus, the rejection of  $H_1$  demonstrates that in modern organisational contexts, autocratic approaches may act as a barrier to innovation.

Conversely, Democratic Leadership (DL) was found to positively and significantly impact Innovativeness (IN). This result aligns with recent studies that emphasise the importance of participatory leadership in encouraging employee engagement and creativity (Alrowwad et al., 2020; Choi et al., 2022). Democratic leaders empower employees to contribute ideas and share responsibility, which directly stimulates organisational innovativeness (Miao et al., 2023). Therefore, the acceptance of  $H_2$  highlights the role of inclusivity and collaboration in fostering innovation-driven performance outcomes.

The results further demonstrate that Transformational Leadership (TL) significantly predicts Innovativeness (IN). This supports the findings of Khan et al. (2021) and Saleem et al. (2022), who confirmed that transformational leaders inspire vision, intellectual stimulation, and intrinsic motivation that enhance innovation outcomes. According to Alzghoul et al. (2023), transformational leaders cultivate a culture of openness and adaptability, allowing employees to challenge existing norms and propose new solutions. Thus, the acceptance of  $H_3$  strengthens the theoretical position that transformational leadership behaviours are critical drivers of innovativeness in rapidly changing environments.

Transactional Leadership (TrL) also displayed a strong and significant relationship with Innovativeness (IN). This outcome aligns with evidence by Liphadzi et al. (2021) and Tummers and Bakker (2022), who argue that contingent reward and structured task management can channel employees' efforts towards innovative performance. Moreover, transactional leadership provides clear goals and performance incentives that directly translate into innovative practices (Chaudhry et al., 2023). Consequently, the strong support for  $H_4$  confirms that transactional approaches, when appropriately applied, can serve as effective mechanisms for motivating innovation.

Finally, Innovativeness (IN) was shown to have a powerful positive effect on Business Performance (BP). This finding is consistent with recent empirical studies emphasising that firms with high levels of innovation achieve superior competitiveness, profitability, and sustainability (Iqbal et al., 2021; Kafetzopoulos and Gotzamani, 2022). In the South African context, Marnewick and Marnewick (2023) observed that innovativeness significantly enhances SME resilience and growth despite environmental uncertainty. Similarly, Khalil and Seleim (2024) highlight that innovation-driven firms adapt more effectively to market dynamics, ensuring long-term performance advantages. Therefore, the acceptance of  $H_5$  provides strong evidence that innovativeness is a crucial mediator linking leadership to sustainable business success.

Collectively, these findings underscore the central role of leadership in shaping innovativeness, which in turn drives

business performance. The evidence confirms that participatory (democratic), inspirational (transformational), and structured (transactional) leadership styles foster innovation, while autocratic tendencies hinder it. This aligns with the growing body of leadership and innovation literature, which stresses that leadership approaches must evolve to accommodate employee creativity, collaboration, and adaptability in order to sustain competitive performance in volatile business environments (Lee et al., 2023; Prasad and Junni, 2024).

### 6.1. Implications of the Study

This study enhances our theoretical understanding of how leadership styles influence innovativeness and, ultimately, business performance. By confirming the strong predictive power of Democratic, Transformational, and Transactional Leadership, the research supports the leadership–innovation–performance nexus highlighted in contemporary theory. These findings reinforce the position that leadership behaviours act as critical antecedents of innovativeness, which, in turn, serves as a decisive factor in driving sustainable performance outcomes. The results provide additional empirical support for leadership and innovation theories, particularly within the context of SMEs operating in emerging economies.

The study further contributes to theory by demonstrating that autocratic leadership does not significantly predict innovativeness. This divergence strengthens the argument that rigid and centralised leadership structures are misaligned with the requirements of today's dynamic business environment, where innovation is a key driver of competitiveness. By combining insights from leadership and innovation scholarship, this study enriches the conceptual framework for understanding how leadership behaviours affect enterprise performance through innovativeness.

Practically, the findings highlight the importance of cultivating leadership approaches that empower, inspire, and motivate employees. SME managers and entrepreneurs are encouraged to adopt democratic and transformational practices to stimulate idea generation, collaboration, and adaptability. Equally, transactional practices, when carefully applied, can provide structure and incentives that channel employees' efforts towards innovative outcomes. Training and development programs aimed at SME leaders should therefore emphasise participatory decision-making, vision-building, and balanced reward systems.

The study also stresses the necessity of embedding innovation practices into business processes. Policymakers and support institutions should create targeted initiatives—such as innovation hubs, incubators, and leadership coaching platforms—that equip entrepreneurs with both the leadership competencies and the innovation capabilities required to thrive in turbulent markets. By fostering an enabling environment that prioritises innovation-led leadership, businesses can enhance their resilience, competitiveness, and long-term sustainability.

### 6.2. Limitations and Directions for Future Research

While this empirical study provides valuable insights, certain limitations constrain the breadth and generalisability of the

findings. A primary limitation lies in the sample scope, which was restricted to a specific population of enterprises. This reduces the extent to which the results can be generalised across broader sectors and geographical contexts. Future research should therefore include diverse industries and regions to improve the representativeness and applicability of the results.

Another limitation relates to the exclusive focus on leadership styles and innovativeness as predictors of business performance. Although these constructs capture essential dynamics, other factors such as market orientation, technological adoption, and external environmental pressures may also play significant roles. Future studies could integrate these variables into extended models to provide a more holistic understanding of SME performance.

The study also employed a purely quantitative methodology, which, while valuable for establishing relationships, does not fully capture the nuanced experiences of leaders and employees in innovation processes. A mixed-methods approach combining surveys with qualitative interviews or case studies could provide richer insights into how leadership behaviours translate into innovative practices and business performance.

Lastly, the geographical scope of the study may restrict its transferability. Conducted in a specific regional context, the results may not fully reflect the dynamics of SMEs in other parts of South Africa or in different emerging economies. Future research should seek to replicate this study in varied cultural, institutional, and economic contexts to test the robustness and consistency of the findings. Such comparative studies would contribute significantly to advancing the global discourse on leadership, innovation, and enterprise performance.

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## APPENDIX

### Appendix 1

Variable	Indicators	Sources
Autocratic Leadership	<ul style="list-style-type: none"> <li>• My boss makes decisions without explaining the reasoning behind them</li> <li>• I am not given the freedom to make decisions or take actions</li> <li>• My boss does not solicit feedback or input from team members</li> <li>• Decisions are imposed on me without consideration of my thoughts or opinions</li> <li>• My boss micromanages my work and tasks</li> </ul>	Sadeghi & Pihie, 2020; Kumar & Kumar, 2021)
Democratic Leadership	<ul style="list-style-type: none"> <li>• My boss involves me in goal-setting processes</li> <li>• I am encouraged to participate in team meetings and discussions</li> <li>• My boss seeks my input on important decisions</li> <li>• I am given autonomy to make decisions and take actions</li> <li>• My boss fosters an open and inclusive team culture.</li> </ul>	Gok & Toker, 2021; Zohar & Luria, 2020)
Transformational	<ul style="list-style-type: none"> <li>• My boss motivates me to achieve exceptional performance</li> <li>• My boss encourages me to think outside the box and challenge assumptions.</li> <li>• My boss provides a clear and compelling vision for the future</li> <li>• My boss empowers me to take ownership of my work</li> <li>• My boss leads by example and demonstrates integrity</li> </ul>	Bass & Riggio, 2020; Judge & Piccolo, 2021).
Transactional Leadership	<ul style="list-style-type: none"> <li>• My boss sets clear goals and expectations for me</li> <li>• I receive regular feedback and coaching from my boss.</li> <li>• My boss recognises and rewards my achievements publicly.</li> <li>• My boss provides opportunities for growth and development</li> <li>• My boss conducts regular performance evaluations</li> </ul>	Bass & Riggio, 2020; Judge & Piccolo, 2021).
Business Innovativeness	<ul style="list-style-type: none"> <li>• Our organisation encourages calculated risk-taking.</li> <li>• We collaborate with external partners to stay ahead of the curve</li> <li>• Our organisation has a dedicated innovation team or department</li> <li>• We invest in employee training and development programs</li> <li>• Our organisation has a culture of continuous learning</li> </ul>	Richard et al., 2019; Kotler et al., 2019)
Business Performance	<ul style="list-style-type: none"> <li>• Our organisation's customer satisfaction ratings have improved</li> <li>• We have increased our revenue growth rate</li> <li>• Our organisation's employee turnover rate has decreased.</li> <li>• We have improved our operational efficiency and productivity</li> <li>• Our organisation's market value has increased.</li> </ul>	Richard et al., 2019; Kotler et al., 2019)