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### Influence of Leadership Style on Performance: A Study in Labor Export Enterprises in Vietnam

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#### Abstract

Labor export is a potential and long-term development industry in Vietnam. Labor export activities are greatly affected by the socio-economic situation in the world. Therefore, managers of labor export enterprises always have to change, find new directions, and develop new operating processes for their enterprises. The manager's style will affect how the manager runs the business and achieves the business's goals. The author conducts research in

Vietnamese labor export enterprises, with 125 questionnaires sent to 125 labor export companies in the first quarter of 2023. The author uses PLS-Smart to process the collected data, and the results show that democratic and liberal leadership styles have a positive impact on business performance, while the impact of autocratic leadership styles is not statistically significant.

**Keywords:** Leadership Style, Performance, Labor Export

#### 1. Introduction

Labor export is considered a potential industry with long-term development in the future, so between labor export enterprises, there is always competition to win and dominate the labor export market. However, it can be seen that this is a profession that is heavily influenced by the socio-political and economic situation in the country and around the world. Facing this situation, the managers themselves always have to deal with the uncertainty of the future and the context of constantly integrating into the world economy. The continuous changes in the needs of workers and changes occurring in the Vietnamese labor market have forced the managers of labor export enterprises to always find new directions, expand the market, and give way to new methods and systems. At this point, leadership styles that increase business efficiency and manage business innovation and change processes have become a necessity.

The importance of leadership styles is reflected in the considerable amount of research that has been done on leadership styles in developed and developing countries (Babatunde, 2015; Iqbal, *et al.*, 2015)<sup>[2, 4]</sup>. Different managers will have different styles. Some people are charismatic, friendly, and laid-back; some people are quiet; some people prefer to use their time to communicate with people, and others prefer to use written reports. The manager's style will affect how the manager runs the business and achieves the business's goals. A study by Daniel Coleman looked at and analyzed more than 3,000 middle managers to identify specific leadership behaviors and their impact on profitability. The results show that a manager's leadership style is responsible for 30% of the company's final profits. This shows that, in the context of high competition and unpredictable changes in the socio-economic situation, the style of managers has a significant impact on the business results of each enterprise.

This article aims to understand the influence of leadership style on corporate performance in labor export enterprises in Vietnam. Thereby, making suggestions to help businesses operate effectively in the unpredictable competitive environment in the current labor export market.

#### 2. Literature Review

##### 2.1 Management Style

Tannenbaum, Weschler, and Mussarik (2013)<sup>[17]</sup> define leadership as "interpersonal influence exercised in a situation and directed, through the process of communication, towards the achievement of one or more specialized goals". Therefore, leadership means directing a group of people to accomplish a set goal. In the same vein, Yukl (2008)<sup>[19]</sup> defines leadership as a process in which one person intentionally influences a group of people in an organization through relationships, structure, and direction. Leadership, as defined by Gharibvand (2012)<sup>[5]</sup>, is the way a leader communicates in general and with people,

the way in which the leader motivates and trains the followers and the way in which the leader directs their group to perform their task.

Usually, subordinates' management styles reflect what they perceive from their superiors, and superiors' management styles are derived from executives. There are many different management styles. Some are charismatic, friendly and laid-back; some people are quiet; some people prefer to use their time to communicate with people and others prefer to use written reports. An autocratic leadership style is achieved by the manager often making decisions on his own without consulting his subordinates or anyone else. Therefore, employees will not be able to consider or give their own opinions before performing the tasks assigned by their superiors. It can be seen that this is an effective style when applied in a corporate environment where most workers need a lot of supervision and have little or no experience. Democratic leadership is considered the most effective leadership style, according to Lewin's research. According to the theory, leaders using this style often encourage team members to voice their opinions but still have the power to make the final decision. The liberal leadership style is a way of managing people through an empowering approach. Employees not only make the decision to act on their own but also take the main responsibility for the end result.

## 2.2 Business Performance

Corporate performance can be described as a summary of the achievements of a business or departmental unit. The results of the business activities of enterprises are expressed by a system of measurement indicators. Based on the performance evaluation, enterprises can clearly understand the status of their business operations and financial potential and make necessary adjustments to improve business performance in the future. Hult *et al.* (2008) [13] argue that there are two types of performance results used: financial performance and operation performance.

According to Hult *et al.* (2008) [13], to measure financial results, the most popular are the revenue target (44%) and the ratio of return on total assets (ROA) (40%); to measure performance, the most popular is the market share indicator (47%); and to measure aggregate results, the most popular is the reputation indicator (30%). Hult *et al.* also reported that up to 44.8% of the studies focused on using and surveying data at the enterprise level and using financial indicators to measure business performance.

However, the financial aspect only reflects a part of the performance of the business; in many cases, the existence and long-term development of the business lie in the satisfaction of customers, the development of the skills of the employees, or the improvement of internal management processes. Therefore, in modern management, measuring performance on non-financial aspects is increasingly focused both in theory as well as in practical application. Examples include the introduction of the balanced scorecard model of Kaplan and Norton (1996) [7] and the pyramid model of Lynch and Cross (1991). Specifically, Kaplan and Norton (1996) [7] use a combination of four aspects, namely customer, financial, internal process, and development learning, to reflect the performance of the business. The combination of financial results with non-financial results will help businesses operate more stably in the long term as well as better implement strategic business plans.

## 2.3 Impact of Leadership Style on Business Performance

Ojokuku *et al.* (2012) [15] conducted a study on the impact of leadership style on organizational performance: A Nigerian Bank Case Study in Nigeria. The study included 20 randomly selected banks in Ibadan, Nigeria. A structured questionnaire was used to collect data directly from the head of accounting, the head of operations, and the branch manager. Inferential statistical tools were used, and a hypothesis was formulated to analyze the data. Regression analysis was used to study aspects of the significant influence of leadership style on subordinates and performance. The results show that there is a positive and negative correlation between performance and leadership style. Ojokuku *et al.* (2012) [15] concluded that autocratic and democratic leadership styles have a positive impact on both performance and are encouraged for banks, especially in a globally competitive environment.

In a study conducted at manufacturing companies, Noruzy *et al.* (2013) [14] found that autocratic leadership style has a positive impact on business performance. In a study conducted in companies in Malaysia, Samad (2012) concluded that autocratic leadership has a positive impact on business performance. In a study conducted in small businesses in Nigeria, Obiwuru (2011) [16] found that democratic leadership has a positive and significant impact on business performance. However, the influence of autocratic leadership on business performance is not significant. Accordingly, Obiwuru (2011) [16] believes that democratic leadership is the most suitable leadership style in small-scale enterprises. In a study conducted by Koech and Namusonge (2012) [8] in public companies in Kenya, the relationship between "autocratic leadership" and "business performance" is very broad and positively significant, while the relationship between "democratic leadership" and "business performance" is very narrow and has a positive meaning. And in this study, a significant relationship between "Laissez-faire leadership style" and business performance was not observed. In a study conducted in banks in Nigeria by Ojokuku *et al.* (2012) [15], it was found that "autocratic leadership" and "democratic leadership" have a positive and significant impact on business performance. In this study, it was also revealed that while "charismatic leadership" and "bureaucratic leadership" had a significant and negative effect on business performance, "democratic leadership" and autocratic leadership" has no meaningful effect on business performance.

Accordingly, it can be affirmed that "leader style" is a decisive factor in business performance and has a positive impact on business performance. Therefore, the following hypothesis has been proposed:

- H1: Democratic leadership style positively affects business performance
- H2: Autocratic leadership style positively affects business performance
- H3: Laissez-faire leadership style positively affects business performance

## 3. Research Method

With the aim of studying the influence of leadership style on the performance of labor export enterprises in Vietnam, the author uses quantitative research with the PLS-SEM model. According to Henseler & Chin (2010) [12], when applying PLS-SEM, the research model is evaluated through two

steps: the evaluation of the measurement model and the structural model. The measurement model is evaluated through evaluating the reliability, convergence value and discriminant value of the measurement concepts in the model. Next, the structural model is evaluated through the coefficient of determination R2, the path coefficient. According to Schumaker and Lomax (1996), the bootstrapping test method is a suitable method to evaluate the reliability of the estimates in the analysis of linear structural models.

Data for the study were collected within 3 months from January 1, 2023 - March 31, 2023. After that, the research began to classify and clean the data. In the end, 125 questionnaires were retained while 15 were not valid. The author builds a questionnaire on Google Forms, send it to accountants and business managers via email using a convenient sampling method, and send it to friends, relatives, and partners.

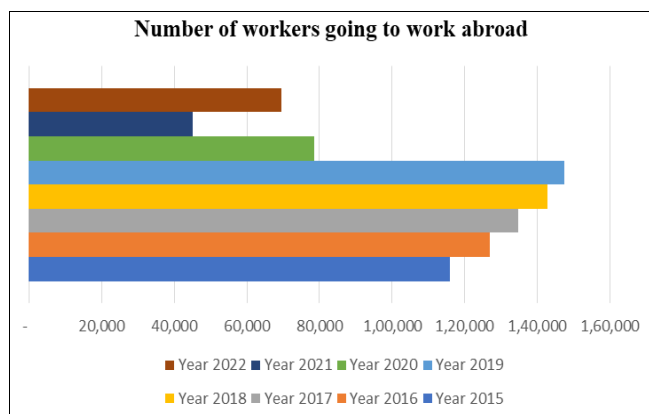
Based on different studies done before, several variables were applied in this study to measure the impact of leadership style on performance. Democratic leadership style was accepted as an independent variable with 4 observed variables (Advice, Decision making, Shared, and Consultation) (Iqbal, Haider, and Anwar, 2015) [4]. The autocratic style is also accepted as an independent variable with 4 observed variables (Assessed by leader, Policies, Orders and procedures, Refuses to explain his/her actions) (Akor, 2014; Iqbal, Anwar và Haider, 2015 [4]). The laissez-Faire leadership style is also accepted as an independent variable with 3 observed variables (Freedom, Communicate properly, Stays out of the way) (Wang & Huynh, 2013) [20]. Operational efficiency is a dependent variable with 4 observed variables (Sales growth, Market share, ROA, ROE) (Govindarajan và Fisher, 1990; Hoque, 2004; Afonina, 2015) [6, 11, 1].

**Table 1:** Scale description table

S. No	Factor	Code	No. Variables
1	Democratic Leadership	DL	4
2	Autocratic Leadership	AL	4
3	Laissez-Faire Leadership	LF	3
4	Performance	EP	4

**4. Results**

**4.1 Statistics of Vietnamese Laborers Working Abroad Under Contract**



Source: Ministry of Labor, War Invalids and Social Affairs

**Fig 1:** Statistics of Vietnamese laborers working abroad

Implementing the Party's policy, especially since the 2006 Law on Vietnamese workers working abroad under contracts, the number of service enterprises and the Vietnamese labor force that go to work abroad every year have grown steadily. According to the Department of Overseas Labor, Ministry of Labor, War Invalids, and Social Affairs, Vietnamese workers going to work abroad are mainly in the manufacturing and manufacturing sectors (mechanics, textiles, footwear, leather, etc.), construction, agriculture, fisheries, and services (caring for the elderly, sick, and domestic help). Employers in the receiving markets have assessed Vietnamese workers as skillful, hardworking, able to grasp jobs quickly, eager to learn, work productively and with quality. Up to now, there have been more than 40 markets receiving Vietnamese workers. The new markets are all high-income countries with good working conditions, such as Germany, Poland, and the Czech Republic. As for the traditional markets, such as Taiwan (China), Korea, and Japan, the number of workers going to work here is increasing every year.

**4.2 Measurement Model Analysis**

Hair *et al.* (2014) [9] suggest that the outer loading factor needs to be greater than or equal to 0.708 for the observed variable to be quality. According to the survey results, 14 observed variables have a loading system of more than 0.708, and 1 observed variable is LF3 with a loading coefficient of 0.273. Therefore, the variable LF3 was excluded, and the remaining 14 observed variables were evaluated as having quality to be included in the next analysis.

**Table 2:** Outer Loadings

	AL	DL	EP	LF
AL1	0.902			
AL2	0.828			
AL3	0.823			
AL4	0.772			
DL1		0.742		
DL2		0.785		
DL3		0.827		
DL4		0.723		
EP1			0.802	
EP2			0.737	
EP3			0.860	
EP4			0.770	
LF1				0.864
LF2				0.930

After the observed variables were evaluated for quality, the author assessed the reliability of the scale. The reliability of the variables in the measurement model is assessed through two main indicators Cronbach's Alpha and Composite Reliability. Many researchers, such as Hair *et al.* (2010) and Bagozzi & Yi (1988) [3], agree that 0.7 is an appropriate threshold. The values of Cronbach's Alpha and Composite Reliability in this study on management style and business performance are both higher than 0.7. Therefore, the research scales ensure reliability.

**Table 3:** Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
AL	0.857	0.960	0.900	0.693
DL	0.775	0.808	0.854	0.594
EP	0.804	0.815	0.871	0.630
LF	0.764	0.818	0.892	0.806

To evaluate the convergence, the author relies on the average variance extracted index (Ave) (Average Variance Extracted). Hock & Ringle (2010) [10] suggest that a scale achieves convergent value if the AVE is 0.5 or higher. The measurement model analysis shows that, the AVE values of the leadership styles are all greater than 0.5 (Table 3). Thus, the convergence of the variables is accepted.

Next, the author uses the Fornell-Larcker Criterion to test the discriminant validity of all measurement models. Fornell and Larcker (1981) recommend that discriminability is guaranteed when the square root of the AVE for each latent variable is higher than all correlations between the latent variables. Table 4 shows that all measurement models in the study ensure discriminant validity.

**Table 4:** Fornell-Larcker Criterion

	AL	DL	EP	LF
AL	0.833			
DL	0.116	0.770		
EP	0.287	0.476	0.793	
LF	0.499	0.273	0.415	0.898

With the HTMT index, Henseler *et al.* (2015) suggest that if this value is below 0.9, discriminant validity is guaranteed. Table 5 shows that all HTMT indexes are less than 0.9. Therefore, all variables have discriminant values.

**Table 5:** Heterotrait-Monotrait Ratio (HTMT)

	AL	DL	EP	LF
AL				
DL	0.154			
EP	0.307	0.571		
LF	0.608	0.329	0.514	

**4.3 Structural Model Analysis**

Before conducting structural model analysis, the author checks and evaluates the phenomenon of multicollinearity between latent variables. According to Hair *et al.* (2019), if the VIF is from 3 onwards, the model has a very high probability of having multicollinearity. The analysis results show that the VIF coefficients are all less than 3, so there is no multicollinearity in the research model.

**Table 6:** Inner VIF Values

	AL	DL	EP	LF
AL			1.332	
DL			1.081	
EP				
LF			1.419	

The results of the structural model analysis show that the P Values of the effects of DL and LF on EP are all < 0.05, so these effects are statistically significant. Particularly, the impact of AL on EP is 0.150, greater than 0.05, so this relationship is not statistically significant. Specifically, the results of PLS-Sem confirm that democratic leadership style

has a positive impact on the performance of labor export enterprises ( $\beta=0.394$ ,  $P<0.050$ ), supporting hypothesis H1. The results of PLS-Sem confirm that the liberal leadership style has a positive impact on the performance of labor export enterprises ( $\beta=0.250$ ,  $P<0.050$ ), supporting hypothesis H3.

**Table 7:** Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
AL -> EP	0.116	0.128	0.081	1.440	0.150
DL -> EP	0.394	0.400	0.062	6.348	0.000
LF -> EP	0.250	0.247	0.080	3.130	0.002

To evaluate the impact of one or more independent variables on a dependent variable in the SEM model, the author uses the adjusted R-squared index. The adjusted R squared of EP is 0.308, so the independent variables affecting it including DL and EP explained 30.8% of the variation (variance) of the EP variable.

**Table 8:** R Square

	R Square	R Square Adjusted
EP	0.325	0.308

**5. Conclusion**

Research results have shown that there is a relationship between leadership style and business performance. Specifically, democratic and laissez-faire leadership styles have a positive impact on the performance of enterprises, while there is no statistical relationship between autocratic leadership styles and performance. This result is quite similar to that of Obiwuru (2011) [16]. This is also consistent with the operating characteristics of the labor export industry. With a democratic leadership style, all employees in the company are involved in contributing ideas. At that time, employees will be more enthusiastic and engaged in their work, which is suitable for the constantly changing environment of the labor export industry and the characteristics of this industry.

In the context of high competition and unpredictable changes in the socio-economic situation, and the research results showing that the democratic and liberal style of the administrator has a significant impact on the business results of each enterprise of labor export, the author makes some suggestions to improve the performance of enterprises. From the business side, (1) It is necessary to focus on and encourage communication within the organization to promote information exchange, support each other's work between departments, and create favorable conditions for the successful completion of the work towards the common goals of the business; (2) It is necessary to build a working environment of harmony, cooperation, mutual respect, and willingness to share experiences and support each other when necessary in the collective of employees to create the highest consensus. On the part of business managers, (1) Need to know how to take advantage of each employee's strengths to arrange suitable jobs and create opportunities for them to develop; (2) Know your staff to manage; (3) There should be advice and feedback between superiors and subordinates in time for assigned tasks so that when subordinates face difficulties they cannot handle, they will



receive timely guidance from their superiors to help them improve and do a better job.

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