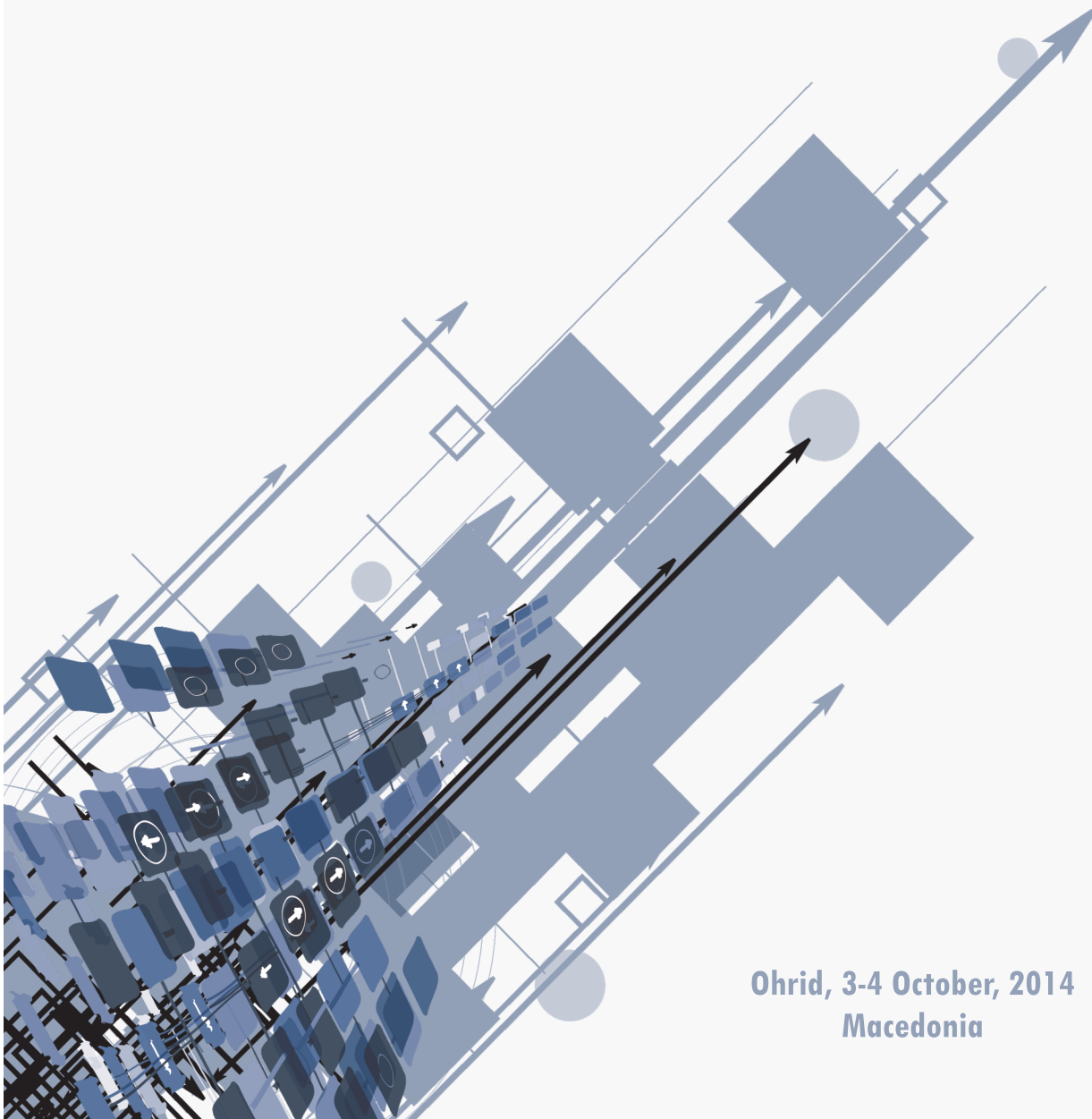




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Ohrid, 3-4 October, 2014
Macedonia

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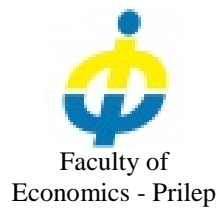
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**CHARISMATIC LEADERSHIP AS MAJOR SOURCE OF
COMPETITIVE ADVANTAGE FOR SMALL AND MEDIUM
ENTERPRISES**

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Abstract

Today's global business conditions expressed through strong and relentless market competition, technological, information and communication advances and changing consumer behavior, are making difficult the market fight of small and medium enterprises (SMEs).

In such difficult conditions for business operation, tangible resources (financial, technological, physical and organizational) are increasingly losing their primacy compared to the invisible (human resources, innovation, reputation) ones. Among invisible, human resources are becoming more important for the survival, growth and development of these enterprises.

In order to be a major source of competitive advantage, human resources need to be proactively managed. This points out the need for a leader with charisma, knowledge, skills and abilities in order to lead the employees in achieving the mission, vision and goals of the enterprise. In this point of view, charismatic leader is one that has influence, inspires, motivates and instills confidence among followers.

The charismatic leader, thanks to the characteristics that he possesses and which differ him from other leaders, is the key factor for the business success of SMEs.

Keywords: leader, charisma, competitive advantage, small and medium enterprises

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INTRODUCTION

Competitive advantage refers to the strategy i.e. the combination of resources, activities and policies that differentiate the enterprise from other enterprises and that also provide its survival and competitiveness on the market. To create competitive advantage, the enterprise must first conduct an analysis of the external (political, economic, social and technological factors) and internal environment (own abilities and resources) through PEST and SWOT analysis. Depending on the potential impact on the operation of the enterprise, these analyzes classify external factors into opportunities and threats, while internal factors in strengths and weaknesses of the enterprise. The final result is a combination of strategies that provide:

- Taking advantage of enterprise's own strengths and market opportunities;
- Transformation of enterprise's own weaknesses into strengths and market threats into market opportunities (if it is possible) and
- Avoid, overcome or minimize the impact of enterprise's own weaknesses and market threats.

From economic aspect, the enterprise should choose one strategy that allows the achievement of maximum results with minimum resources spent. In today's turbulent environment this means the enterprise to choose the strategy that will provide the fastest, most efficient and most innovative way to adapt to daily changes in the environment and thus will be able to maintain and strengthen its competitive position on the market. For this purpose, every enterprise needs a leader who will properly guide employees towards achieving the vision and mission.

THE SIGNIFICANCE OF THE SMALL AND MEDIUM ENTERPRISES IN MACEDONIA

The importance of the small and medium enterprises (SMEs) for socio-economic growth and development of every country is already widely recognized. Globally, SMEs account for 90% of all companies. At regional level, particularly in the European Union, SMEs account for 99.8% of all businesses providing two out of three jobs in the private sector and contributing more than half of the total value created by businesses (Eurostat, 2013). In Macedonia, the economic impact of SMEs is also significant. The share of SMEs in the total number of businesses over the last five years is presented in Table 1.

Table 1: Small and medium enterprises in Macedonia in the period 2009-2013

Year Enterprise	2009	2010	2011	2012	2013
Micro	38.107	39.999	46.322	53.117	49.935
Small	31.873	34.702	25.984	20.341	20.241
Medium	533	584	607	631	683
SMEs	70.513	75.285	72.913	74.089	70.859
Total	70.710	75.497	73.118	74.424	71.290
SMEs (%)	99,72	99,72	99,72	99,55	99,40

Source: State Statistical Office of Macedonia

The share of SMEs in Macedonia is 99% of the total number of active economic entities, contributing 68% to GDP and providing two thirds of the jobs. Because of their

significant contribution to economic growth and development, it is necessary to identify all sources of competitive advantage of these enterprises. As one of them appears charismatic leadership.

THE NECESSITY OF TRANSFORMING THE TRANSACTIONAL IN CHARISMATIC LEADERSHIP AS A SEGMENT OF TRANSFORMATIONAL LEADERSHIP

In terms of intense competition, changing external environment and limited resources, SMEs are faced with the challenge of transforming the transactional in charismatic leadership in order to survive or improve their competitive position on the market. This cannot be achieved without recognizing the fact that although the reasons for most problems come from external factors, the solutions lie within the enterprise, particularly in motivation, efficiency and commitment of human resources in achieving the vision set by the leader.

The fact is that small and medium enterprises, as well as large enterprises, are primarily focused on survival. But what differs these types of enterprises is that SMEs do not use leadership ie laissez-faire leadership or apply transactional leadership which means focusing on short term results, following strict rules, procedures and standards, preferring certainty and consistency, focusing on efficiency (cost reduction), motivating employees through reward and punishment, dominance of mind in decision making. This means that the competitive advantage of these enterprises is based on the basic functions of management, planning (short term), organization and control.

The use of laissez-faire or transactional leadership is effective in cases where the internal and external factors affecting the operations do not change over time, the problems that appear are simple, well known and there are clearly defined ways for solving them (Smith). However, this is not a feature of today's business environment. On the contrary, daily changes in the external environment require appropriate changes by the enterprise in order to maintain or improve its competitive position on the market. Every change begins with the initiative by the leader. Because transaction leader does not want changes, this style proves to be ineffective in today's conditions for business operating of SMEs. Any attempt to change the transaction in transformational or charismatic leader is very difficult and often ends in failure because involves changing the characteristics of the leader as a person, but they are often difficult to change or unchangeable variables (Nikezić, Dašić and Bojić, 2012). Numerous theoretical and empirical research show that the effectiveness of the enterprise largely depends on the model of leadership implemented. Thus, most of the conducted studies show that there is a greater relationship between transformational leadership and performance of the enterprise whether the goals are set at organizational or individual level (Lowe et al., 1999) compared with transactional leadership. In terms of effectiveness, satisfaction and supernormal effort, laissez-faire model proves to be the least effective and because of that it should be used rarely, the next model is transactional leadership based on passive leaders who intervene after the occurrence of deviations. Namely, this model is useful for large enterprises where the leader controls many followers, but, causes anxiety, hostility and stress if it is used in great extent. Because of this, we recommend its use in combination with transformational leadership as dominant. Transactional leadership based on corrective measures can provide positive performance in situations where risk can be predicted. This can be achieved through constant monitoring of activities that could have a negative impact and their comparison with previously established standards (Bass, 1998).

Studies also show that the turbulent business environment increases the probability of developing transformational leadership because in such rapidly changing environment leader is able to identify the possibility to change the existing situation and create a vision that will

be followed by followers. This means that transformational leadership is applicable in organic type of enterprises that are not highly structured, where there is a strong ethical culture and absence of routine tasks. In contrast, transactional leadership is characteristic for stable business environment where the factors of influence are constant or change over long time, which means it is efficient in highly structured enterprises where tasks are routine. Although turbulent business environment and crises are important factors for the emergence of transformational leadership, this does not mean that they automatically activate charisma, on contrary, characteristics, values and ideals of the leader are the main sources of charisma (House, 1977).

THE CHARISMATIC LEADER AS A KEY SOURCE OF COMPETITIVE ADVANTAGE OF SMES

As a term, charismatic leadership is mentioned in 1947 when Weber speaks of charismatic leader as leader with superhuman, supernatural and heroic attributes (Weber, 1947). Unlike Weber who talks about "revolutionary" charisma, later theorists define charisma on a "peaceful" way. Thus, according to Conger and Kanungo (1998) and Sashkin (1998) charismatic leaders are idealized by followers thanks to their numerous features: the ability to inspire, motivate, respect and understand the needs of followers by showing emotions; commitment in achieving the vision; courage to change the state status-quo; implementation and use of ethical standards and social responsibility. In essence, charisma means the ability of the leader to inspire, motivate and support the employees, who in turn attain supernormal results neglecting personal goals, problems and difficulties in operation. Charisma means emotional expression, self-esteem, confidence, determination, internal stability, intellectual stimulation, passion and commitment to his own vision. Charismatic leaders know who they are and what they believe in and have the power to convey confidence in their own vision to the followers.

The essence of the charismatic leader is set by Weber (1968), which continues to be supported and strengthened by later authors. It is about three key elements:

- 1) The existence of vision and mission - Without this element leader cannot be considered as charismatic, regardless of the personal qualities that he possesses (Bryman, 1992 p.41)
- 2) Possession of outstanding and exceptional qualities, which means confidence, dedication, moral values, faith in its own beliefs (House and Howell, 1992)
- 3) The power to influence followers, which includes the ability to gain their support and commitment (Conger, 1999)

In 1998, Conger and Kanungo have developed a scale of charismatic leadership consisting of 20 elements. The reliability and validity of the scale have been confirmed by several studies. In fact, the scale includes five factors that determine the extent to which leaders:

- 1) Recognize and respond to the opportunities and constraints in the environment (eg, recognition of the skills and abilities of employees in the enterprise)
- 2) Show sensitivity to the needs and desires of the team members (eg, impact on others through the development of mutual respect and understanding),
- 3) Spread inspiring vision (eg, setting motivating organizational purposes)
- 4) Take a personal risk, in part because of inspiring followers through personal example and
- 5) Show unconventional behavior (eg, use of non-traditional means of achieving organizational goals).

These five elements are included in the three phases of this leadership style:

First phase, examining and identifying the opportunities and threats in the environment, as well as the needs and desires of employees,

Second stage, creating and spreading a vision that matches determined possibilities and preferences and

Third stage, implementing the vision taking personal risk and unconventional behavior in order this example to be followed by the followers.

As factors that reinforce the benefits of charismatic leaders appear:

Crises - Charismatic leadership is particularly effective after accidents in the workplace. Employees like more leaders that set, monitor and disseminate inspiring vision than leaders that seek and integrate the views of all staff and managers.

Uncertainty - The effectiveness of charismatic leadership is greater when the environment is variable and uncertain (strong market competition, frequent changes in legal regulations). In such cases, promoting inspiring vision for the future that will inspire all employees increases the connection between employees and reduces the feeling of insecurity (De Hoogh, et al., 2004). In terms of turbulent environment, the implementation of charismatic leadership by setting guidelines has positive impact on profitability, and thus on the competitive advantage of the enterprise (Waldman, Ramirez, House and Puranam, 2001).

Need for belonging - The introduction of charismatic leadership is effective in enterprises where there is no cooperation between employees ie they are not related to each other and do not follow rules (Den Hartog, De Hoogh and Keegan, 2007).

These factors are characteristic of today's turbulent business conditions expressed by strong competition, information, communication and technological development, changing consumer needs and demands, which points out the need for development of charismatic leadership as a precondition for greater efficiency, productivity and profitability, ie for maintaining and strengthening the competitive position of all enterprises, especially of small and medium ones considering the fact that they are generators of economic growth and development of any country.

CONCLUSION

Leader with charisma emerges as an imperative for the competitiveness not only for large, but also for small and medium enterprises. The challenges brought by globalization require better, faster and more efficient response of all enterprises in order to preserve and enhance their competitive position. In this regard, the employees, especially the leader, have become a key source of competitive advantage for enterprises. The leader with charisma is the person who has the ability to create a strong belief in his own vision among employees.

According to our research, transformational leadership and transactional leadership based on awards and praise have a positive impact on the effectiveness of the enterprise, while transactional leadership based on preventive corrective measures or interventions after the occurrence of deviations have a negative impact, especially in small and medium enterprises. This suggests the need for a gradual acceptance and implementation of transformational and charismatic leadership to a greater extent by these enterprises.

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