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Leading with relationships: a small firm example

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Leading with relationships: a small firm example

Abstract
Purpose – For the continued vitality and success of small businesses, it is important to gain a deeper understanding of the effective behaviors of small business owners. The main purpose of this paper is to further the understanding of the relational leadership framework as used by a successful small business owner.

Design/methodology/approach – Data on the small business owner participating in this study were gathered via formal and informal interviews.

Findings – Results of this paper suggest that the profit potential of an organization as well as employee retention can be improved through leadership that embraces the five key components of the relational leadership framework: inclusiveness, empowerment, purposefulness, ethics, and process-orientation.

Practical implications – Given the challenges of owning and operating a small firm in today’s competitive business climate, it is worthwhile for entrepreneurs to use this case study as an example in effectively managing their organizations.

Originality/value – An important contribution of this paper is the identification of strategies related to the relational leadership framework as applied to the small business environment.

Keywords
Leadership, Small enterprises, United States of America

Disciplines
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Abstract

Purpose For the continued vitality and success of small businesses, it is important to gain a deeper understanding of the effective behaviors of small business owners. The main purpose of this paper is to further the understanding of the relational leadership framework as used by a successful small business owner. Method Data on the small business owner participating in this study was gathered via formal and informal interviews. Findings Results of this paper suggest that the profit potential of an organization as well as employee retention can be improved through leadership that embraces the five key components of the relational leadership framework: inclusiveness, empowerment, purposefulness, ethics, and process-orientation.

Implications Given the challenges of owning and operating a small firm in today’s competitive business climate, it is worthwhile for entrepreneurs to use this case study as an example in effectively managing their organizations. Value An important contribution of this study is the identification of strategies related to the relational leadership framework as applied to the small business environment.

Key Words: Small business, Relational leadership, Case study

Classification: Research paper

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In 2005, there were approximately 25.8 million small businesses in the United States (U.S. Small Business Administration, 2005). More than 70 percent of those currently involved in the creation of a start-up business employ at least one person (Minniti & Bygrave, 2003). The importance of new firm formation is well recognized as an important source of job creation and economic development. For the continued vitality and success of small businesses, it is important to gain a deeper understanding of the effective behaviors of small business owners. Given the concentration between leader and follower relationships in recent leadership literature (Hunt & Dodge, 2000), the organizational dynamics within small firms as it relates to the leadership characteristics of the owner/manager will be the primary focus within this study.

As stated by Senge (1990), the leader's role in a learning organization is that of a designer, teacher, and steward who can build shared vision and challenge prevailing mental models. The leader is responsible for building organizations where people are continually expanding their capabilities to shape their future. Leaders of organizations can learn to enable successful knowledge management environments. Deakins and Freel (1998) stated that the learning process in small and medium sized firms is a crucial part of the evolution and growth of firms and that the entrepreneur, through experience, acquires the ability to learn. Levinthal (1996) stressed the adaptive role of the entrepreneur: that many small firm owners adjust to their environment, learn from experience, and as a result, change their behavior. Entrepreneurial leading is necessary in order for businesses both large and small to be competitive in the global economy. It is argued that the organizational archetype of the future will be entrepreneurial (Fernald, Solomon, & Tarabishy, 2005). The successful characteristics and strategies of entrepreneurial firms are considered vital for success for large and small transnational and international companies.
Organizations are increasingly functioning as interwoven network systems with indistinct boundaries (Seufert, von Krogh & Bach, 1999). According to knowledge management scholars, in today’s organizational environment, “the focus shift from products and firms as units of analysis to people, organizations, and the social processes that bind together in ongoing relationships” (Webster, 1992, p. 10). Within organizations, knowledge management of people and resources can be enabled by creating environments that foster autonomy, commitment, respect, and self-control (von Krogh, Ichiji & Nonaka, 2000). Prior studies have mentioned that effective knowledge management promotes competitive advantages of firms, including, improving organizational performance across the value chain (Danskin, Englis, Solomon, Goldsmith, & Davey; 2005), providing kinds of personal knowledge to be used in the workplace (Ortrun, 2005); and enhancing value to selling activity (Sanderson, Nixon, & Aron, 2000). Managing knowledge is a critical capability for small to medium-sized enterprises (SMEs) to master because it helps them leverage a key resource (Desouza & Awazu, 2006). Yet, knowledge management efforts are often seen as being more prevalent in larger firms.

Despite the need for effective leaders within all types of organizations, some authors state that there is a conceptual difference between leaders and entrepreneurs. In a content analysis of 26 seminal books and articles concerning the topics of entrepreneurship and leadership, The Council for Excellence in Management and Leadership found that entrepreneurs were more closely identified with notions of business start-up, whereas leaders were perceived as facilitators of communication and team-building within organizations (Perren, 2005). Another suggestion is that entrepreneurs are preoccupied with doing things the right way, whereas leaders are focused on doing the right thing (Gardner, 1990; Zaleznik, 1977).
An emphasis on forming meaningful relationships with subordinates has become increasingly more significant as leaders attempt to enhance both employee effectiveness and organizational performance (Hunt & Dodge, 2000). Furthermore, while many researchers, scholars, and policy makers have noted leadership traits among owners and managers of larger firms employing more than 500 employees, few have examined the leadership behaviors of owner/managers of small firms (Cavallo & Brienza, 2005).

In a definition of entrepreneurship, Kuratko and Hodgetts (2004) write, “Entrepreneurship is a dynamic process of vision, change, and creation. It requires an application of energy and passion towards the creation and implementation of new ideas” (p. 30). This definition mentions only the creative energy needed to implement new ideas, but fails to mention any leadership qualities needed to sustain the organization. In many small firms entrepreneurs often perform multiple roles within an organization, handling both the business creation as well as the day-to-day operations of the business including people management (Dawson, Breen, & Sayten, 2002). There is often an overlap in the functions associated with the owner/entrepreneurial creator and the manager of the small firm. It is thus fitting that entrepreneurs who also perform managerial tasks such as resource allocation and organizing systems be effective leaders within their organizations. The purpose of this paper is to present a research based case study of the successful leadership characteristics of one small business owner who has realized great success with employee retention and business growth.

**Leadership**

Leadership has been defined as “the behavior of an individual…directing the activities of a group toward a shared goal” (Hemphill & Coons, 1957, p. 7). This agrees with Matusak (1996) who states that the leadership process entails “initiating and guiding and working with a
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The role of the leader is critical to the effectiveness, growth, and well-being of an organization. Under the influence of good leadership, organizational missions are established, goals are reached, problems are addressed through innovative and creative means, and the growth and development of individuals within the organization is nurtured. In short, without good leadership, organizations falter in their progress (Collins, 2001).

Effective leadership is required in all types of organizational structures, whether they are political, economical, or social; encompassing both large and small businesses, families, and informal groups (Galbraith & Schvaneveldt, 2005; McColl-Kennedy & Anderson, 2002; Morris, 1998). In order to attain the goals of a firm, leaders of both large and small organizations attempt to maximize followers’ performances using a variety of techniques and styles (McColl-Kennedy & Anderson, 2002).

**Relational Leadership**

According to Burnier (2003), Mary Parker Follett, an early twentieth century political scientist, was the first business thinker to focus on relational practices between leaders and subordinates within governmental and business realms. Follett believed in the care perspective, which as reported by Burnier (2003) emphasizes “…values such as attentiveness, responsibility, competence and responsiveness; respect for people and their understandings of their situations; and the importance of relationships and emotional connection” (p. 535). Through her teachings, Follett encouraged administrators to learn from subordinates as well as the larger community, while maintaining multiple perspectives when tackling different situations and problems (Burnier, 2003).

Since the late 1970s, a grouping of leadership theories have emerged that focused on the relational and reciprocal nature of the leader-follower interaction (Blake & Mouton, 1978;
Greenleaf, 1977). These theories emphasized the mutual goals and motivations of both followers and leaders. The more well known styles of this form of leadership are transformational and transactional (Burns, 1978). The end goal of transformational leadership is that both leaders and followers raise each other to higher ethical aspirations and conduct. Transactional leadership appeals to the self-interest of followers since it is based on an exchange of valued things (Burns, 1978).

These relational and reciprocal leadership theories have been the underpinnings of research exploring organizational growth and employee satisfaction and performance. Bass (1999) identified transformational leaders as those who are able to “…uplift the morale, motivation, and morals of their followers…” (p. 9). As reported by Bass (1999), transformational leadership is increasingly more significant to job satisfaction as leaders encourage greater subordinate autonomy and higher performance expectations, as well as a more collective dedication to the firm. Related to the care perspective, participants of transformational teams tend to care about each other, express their empathy and emotions, and inspire and intellectually stimulate one other more than non-transformational groups, resulting in higher-performing teams and organizations (Wang, Law, Hackett, Wang, & Chen, 2005).

McColl-Kennedy and Anderson (2002) noted a direct positive relationship between employee perceptions of a leader and level of optimism within the firm, in addition to an indirect positive relationship on employee job performance. As reported by the authors, a transformational leader “evidences personal attention to the subordinate, emphasizes use of the subordinate’s intelligence, increases the subordinate’s level of enthusiasm, and transmits a sense of mission” (p. 555). Also noteworthy was that employees who perceived superiors to demonstrate few transformational leadership traits were more frustrated with their work
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environment, which arguably, could lower overall job performance over time (McColl-Kennedy & Anderson, 2002). Humphrey (2002) noted the importance of empathy in promoting optimism and reducing frustration within the organization. According to Humphrey (2002), transformational leaders possess both task and emotional leadership traits by emotionally involving followers in planning, organizing, and making decisions.

Relational Leadership Framework

The transformational and transactional leadership theories are closely related to the relational leadership framework developed by Komives, Lucas, and McMahon (1998). These authors describe leadership as a process that meaningfully engages leaders and participants and values the contributions of followers. The relational leadership framework is not a theory in itself, however, but a framework that connects five key components that can serve as a responsive approach to leadership. According to Komives et al. (1998), relational leadership is “inclusive of people and diverse points of view, empowers those involved, is purposeful and builds commitment toward common purposes, is ethical, and recognizes that all four of these components are accomplished by being process-oriented” (p. 68). These core components are reflected in a leader’s knowledge of self, beliefs and attitudes, as well as actions. Within the framework proposed by Komives et al. (1998), “leadership is a relational process of people together attempting to accomplish change or make a difference to benefit the common good” (p. 89).

As reported by Wheatley (1992), “leadership is always dependent on the context, but the context is established by the relationships we value” (p.144). Defining leadership as a process indicates that it is not a linear one-way occurrence but rather an interactive event (Northhouse, 2001). It implies that leadership is not an intrinsic trait or talent, but is something that can be
developed. This is important in organizations and businesses, because fostering learning
environments can help employees and managers achieve sustainable objectives, both for
themselves and for the communities in which they participate. Originally designed using college
students as the sample, the framework has been used for leadership training on several college
and university campuses (Renn & Bilodeau, 2003), but has been less utilized in developing and
fostering leaders within entrepreneurial settings. Most importantly, the relational leadership
framework provides a frame of reference or approach to leadership in contemporary
organizations (Komives, et al., 1998).

Inclusiveness, the first component, means understanding, valuing, and actively engaging
diversity in views, approaches, styles, and aspects of individuality that add multiple perspectives
to a group’s activities. Within relational leadership, the purpose, the vision, and the values of the
group are embodied as each individual member applies them. Variations and differences among
participants are valued as bringing creativity and energy to web-like groups of organizations.
Inclusiveness demands the developing of the strengths and talents of group members so that they
can contribute to the groups’ goals (Komives, et al., 1998).

Empowerment, the second component of the model, has two aspects according to
Komives et al. (1998), including the sense of self that claims ownership and expects to be
involved, and a set of environmental conditions that promote the full involvement of participants.
Empowering environments allow for failures and mistakes. Murrell (1985) presents six methods
through which empowerment occurs in organizations: “the sharing of information and
knowledge; inspiring, rewarding, and directing; structuring or creating processes and policies
that encourage personal, individual and internalized learning; providing resources to accomplish
tasks; mentoring relationships; and actualizing or claiming power for self-fulfillment” (pp. 36-
According to Shertzer and Schuh (2004), students identified as leaders on one college campus exhibited traits of empowerment, including confidence and optimism regarding opportunities available to them. As reported by the authors, an environment providing support and encouragement can be worthwhile in nurturing effective leaders (Shertzer & Schuh, 2004).

Purposefulness, the third component of the relational leadership framework, indicates a commitment to a goal or an activity. It is also the ability to work toward a common purpose or a vision for the group. Within the relational leadership framework, vision is built among group members. Being purposeful within a group’s vision helps an organization set priorities and make decisions congruent with that dream. Vision guides action and inspires energy and purpose (Komives, et al., 1998).

The relational leadership framework emphasizes ethical and moral leadership that is driven by values and standards and leadership that is good, or moral in nature. The actions of leaders and participants emanate from a set of values or guiding principles with respect to the personal and social ends desired (Komives, et al., 1998).

Process, the last component of the framework, refers to how the group goes about being a group, remaining a group, and accomplishing a group’s purposes. It refers to the recruitment and involvement of members, decision making processes of the group, and how the group handles the tasks related to its mission and vision. Several key processes are essential to the relational leadership framework. These processes include cooperation and collaboration, reflection, feedback, civil confrontation, community building, and reflection (Komives, et al., 1998).
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Method

Sample

This paper is based on research data from one case study. This case was part of a larger study exploring the role and impact of lifestyle entrepreneurship on life quality for individual business owners, their families, and communities (Marcketti, Niehm, & Fuloria, 2006). The participant was selected for further analysis because in previous conversation he expressed a strong desire to serve as an effective leader as well as the entrepreneur/manager of his small firm.

From a research perspective, this project subscribed to a case study design (Eisenhardt, 1989). Case studies typically examine the dynamic interplay of variables in order to provide as complete an understanding of an event or situation as possible. The case study format has been used in previous studies related to small business success strategies (Dawson, et al., 2002; Deakins & Freel, 1998; Nelson & Ratliff, 2005). Data on the small business owner participating in this study was gathered via formal and informal interviews. This research provides a description of relational leadership and examines the characteristics of a small business owner that practices relational leadership. The case provides detail-rich material for understanding and applying the relational leadership framework to a small business setting.

Instrument

The data collection instrument included a demographic questionnaire and a series of in-depth semi-structured interview questions. The goal of the interviews was to explore the topic of small business ownership and leadership styles openly, allowing the informant to freely express ideas in his own words. This style of method is often used for exploratory research because this technique may uncover new variables relating to small firms and leadership styles that were
previously unknown. In-depth interviews have the advantage of providing information at a level of depth not captured by questionnaires (Nelson, & Ratliff, 2005).

The personal and business demographics section included questions regarding business venture start-up, statement of business motivations, strategies and intentions, and amount of time spent related to the business. Ten open-ended questions concerning the key components of relational leadership were also included. The five components of relational leadership as outlined by Komives et al. (1986), inclusiveness, empowering, purposeful, ethical, and process-oriented, provided structure for the interviews. The Human Subjects Review Board at the principal researcher’s university approved this study. With the informant’s consent, the interviews were audio-taped to ensure accuracy in transcription.

Data Analysis

The development of themes derived from the conceptual framework of relational leadership. Independently, each researcher marked lines of text that clustered around specific descriptive and patterned ideas (Miles & Huberman, 1994). Descriptive codes included statements such as ‘beliefs concerning owner’s leadership style’. Patterned codes were inferential and explanatory such as the ‘relationship between the vision and mission statement and the perceived impact on employee-entrepreneur relationships’. Researchers extracted meaningful quotes that exemplified the small business owner’s perceptions of his leadership style. Consensus was obtained between researchers concerning the conclusions drawn about the quotes. Researchers utilized the technique of check-coding to aid definitional clarity and reliability (Miles & Huberman, 1994). According to Miles and Huberman (1994), the reliability of codes equals the number of agreements between researchers divided by the total number of agreements and disagreements. Based on this criterion 98% reliability of coding was achieved.
Examples of the associations between relational leadership components and case study evidence are presented in table 1.

“Take in Table 1”

Findings

Larry – Leading with Relationships

The following case vignette, based on research into small businesses, illustrates the concept of relational leadership and its potential role in the leadership of small firms. Influenced by the café culture of Vienna, Austria, and buoyed by his father’s experiences as a small business owner, Larry and his wife Pamela opened a small coffee shop in a Midwestern-university town in 1991. Since that time, the couple expanded their offerings to include a coffee roasting business opened in 2002 and two gas stations with attached convenience stores and cafes, opened in 1995 and in 1998. Since the time of the first interview in 2003 to the second interview in late 2005, Larry’s sales nearly doubled and the sales force expanded from 10 full-time employees and 25 part time employees to 10 full-time employees and approximately 40 to 45 part-time employees. In the initial interview in 2003, Larry recognized the importance of financial profitability, yet stressed that, “the only bigger success would be that we have happy employees who like working here and that they would want to have a lifetime career with our company” (Marcketti, et al., 2006, p. 253). In the follow-up interview, Larry expanded on some of the ways in which he creates a working environment that facilitates owner and employee satisfaction. A discussion of Larry’s beliefs, strategies, and skills used in his businesses are categorized under the headings of the relational leadership components.
Inclusiveness

The relational leadership framework stresses the importance of inclusiveness within organizations. Inclusiveness does not mean to overcome the variations and differences among participants, but rather to view these differences as bringing creativity and energy to the building of a shared purpose. When contemplating lessons learned from his small business ownership, Larry stated, “First, I understand that I don’t know everything. I learn all of the time from my employees; in areas where I am not strong my team fills in for me.” In this statement, Larry stresses one of the most important aspects of knowledge management strategies: knowledge must be shared in order for it to create value for an organization. To share knowledge among employees and customers, Larry provides twice a month roasting classes and invites academics from the local university to explain everything from the chemical complexities to the medicinal values of coffee. The shop also financially assists employees in attending conferences and seminars regarding coffee roasting techniques. Explaining the benefits of developing the talents of his employees, Larry stated, “We provide opportunities for our employees to continue to grow, learn about, and hopefully love what they are doing. This benefits the employees; they continue to grow as people, as well as our customers. The more the employees know about coffee, the more information they can share with our guests.” Larry is inclusive of others’ current abilities but is mindful to provide opportunities to further develop employee talents.

Empowerment

Larry’s interest in providing opportunities for his employees to grow does not end with coffee. Believing everyone has something to offer, Larry commented, “I want our employees to really have ownership in the business and in the decision making process. We use the word we a lot. We interview as a team. We make decisions as a team. It means that we are all on board and
are signing off on things together.” Larry views the extra time it takes to interview as a team necessary especially since this process allows for more unity and feelings of ownership within the businesses. These sentiments mirror knowledge management strategies that stress knowledge may be enabled in organizations that foster respect and commitment for fellow employees as well as the organization (von Krogh, Ichijo, & Nonaka, 2000). The team approach may be one of the many factors contributing to Larry’s high employee retention.

**Purposefulness**

Larry’s main goals are to provide a place where his employees can have a home within his businesses and for his employees to make a living wage. In order to accomplish these goals, Larry utilizes a two-prong approach. First, Larry seeks out ways to improve the profitability of his businesses. Methods have included the setting up of systems with efficiency and simplicity so that these efforts can be duplicated. For his situation, this means the expanding of the low-overhead coffee roasting business, the “guerrilla” marketing of his coffees to the local media, and the development of bulk wholesale accounts to national grocery chains. To support and help grow the people of his businesses, Larry tries to provide an environment that is flexible and meaningful. Larry shared that just weeks before our interview, the maintenance man changed a customer’s tire for over an hour. Since his businesses can not offer the same benefits as a university or some larger corporations, Larry feels that this level of flexibility and autonomy creates a rewarding working environment in other, albeit less tangible ways.

**Ethical Leadership**

The relational leadership framework emphasizes ethical and moral leadership that is driven by values and standards. For their continued success, Larry wishes his businesses to remain profitable. Larry cautions, however, that the need to be profitable can lead one to take
advantage of situations and people. To hamper any feelings of greed, Larry reminds himself that competitors help him identify ways to improve his products, develop the niche parts of their businesses, and to strengthen customer service. By creating a culture that views competition as an opportunity to grow and improve, Larry demonstrates the knowledge management strategy of building networks across organizations to create value (Seufert, von Krogh, & Bach, 1999). By viewing and learning from other coffee houses in the area, Larry has solidified the values and standards of his company. Larry stated, “We offer an experience here; we are not going to be price driven but value driven.”

Process

For Larry, the biggest challenge of business ownership has been relational; dealing with customer and employee complaints and problems. Because Larry views his organization as web-like, he believes these dilemmas can be addressed successfully, particularly by helping others learn to communicate in healthy ways. Larry takes a hands-on approach with customers and employees who behave poorly. He states, “You deal with employees and help them figure out ways things could have been done differently. We are a family here and you have to address these things, you can’t run away from it.” By assisting his employees in the coordination of strategies to deal with complaints and personal issues, Larry teaches two of the pillars of knowledge management strategy: learning from mistakes and learning how to communicate (Deakins & Freel, 1998; Foss, 2001).

Summary and Conclusions

The process of operating a small business is difficult and at times disheartening. When Larry and Pamela first opened their café in 1991, Larry worked 17-hour days fulfilling all aspects of the business from cashier to accountant to marketing agent. Through trial and error,
Larry gained an understanding of business practices such as gross margin and net profit, as well as the relationship between product cost and labor expenses. Through experience, Larry gained an appreciation for the pressure and stress that small business ownership can place on family and work relationships. Modeling his leadership style on successful business owners whom he respects, Larry created a business environment that fully embodies the five components of the relational leadership framework.

Through words and actions, Larry is inclusive of diverse views, he empowers employees to grow as people, he is purposeful to develop meaningful working environments, his businesses and leadership style is driven by ethical values and standards, and the business environment is process-oriented. It is evident from conversations with Larry as well as through employee retention, that Larry is committed to fostering a caring working atmosphere. In his businesses, employees are motivated to be socially responsible and share a common vision of success.

Given the challenges of owning and operating a small firm in today’s competitive business climate, it is worthwhile for owners to use Larry as an example in effectively managing subordinates to cultivate greater employee retention and satisfaction.

An important contribution of this study is the identification of leadership strategies related to the relational leadership framework as applied to a small business environment. Although limitations of this study include the possible existence of self-serving attribution bias and the limited generalizability of this study’s results, there is no reason to believe that the strategies cited in this paper could not be used successfully in other geographical areas and in other types of small businesses. The case example utilized in this article exemplifies a basic tenet of the relational leadership framework: organizations are most effective when they are learning environments. By internalizing the key aspects of the relational leadership framework,
entrepreneurs and managers can foster an inclusive, empowering, purposeful, ethical, and process-oriented environment. As illustrated in this case study, this relational leadership model proved to be extremely successful for profit growth and employee and customer satisfaction as demonstrated by retention. Further, this study confirms that the relational leadership framework can be linked with knowledge management strategies.
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