

Transformational leadership style and small business growth

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Abstract. This article starts with the definition of a small business, its several stages of development, and the main behavioral manifestations of transformational leadership style, analyzes and draws a preliminary conclusion that transformational leadership is suitable for the growth of small businesses. Then it tells the story of New Oriental from a training school for studying abroad in Beijing to gradually grow into New Oriental Education Technology Group Co.,Ltd., the leader of China's private education and training industry, which further supports the original conclusion.

Keywords: Small business, Transformational leadership, The New Oriental, Yu Minhong.

1 Definition of a small business

What is a Small Business?

Small businesses are privately owned corporations, partnerships, or sole proprietorships that have fewer employees and/or less annual revenue than a regular-sized business or corporation. From country to country, small business has different definition. Small businesses range from fifteen employees under the Australian Fair Work Act 2009, fifty employees according to the definition used by the European Union, and fewer than five hundred employees to qualify for many U.S. Small Business Administration programs.

In China, the definition of small business is more complex. Businesses are defined as "small" or "large" depending on the size of the industry and its annual revenue. Small industrial enterprises have 20-300 employees and an annual revenue of 30 thousand--20 million yuan.

According to the American Committee for Economic Development, Small business has three characteristics (MelScott,1987):

Firstly, management is independent. Usually the managers are also owners.

Secondly, capital is supplied and ownership is held by an individual or small group.

Thirdly, area of operations is mainly local. Workers and owners are in one home community, but markets need not be local.

Normally there are four types of small business: self-employment, entrepreneurship, startup or small sized business (few employees and may not have the intention to be

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bigger). This article analyzes mainly entrepreneurship and start-ups, that is, the leader himself starts his company and is in the initial stage of wanting to grow. The entrepreneurs of startups typically aim to scale up the company by recruiting employees, seeking international sales etc. Successful entrepreneurs have the ability to lead a business in a positive direction by proper planning, understand their own strengths and weakness and adapt to changing environments(Driessen,2010).

2 Problems that small businesses may encounter at different stages of development

The growth of a small company usually goes through several stages:

2.1 Establish a company with innovative ideas as the driving force

At this stage, business leaders must understand and analyze the market environment, analyze their own strengths and weaknesses, find a niche market, seek funding and resources, and form a team. In order to fully understand the complexity of the industry environment, leaders need to understand consumer needs, obtain support from stakeholders, seek partners, consider various risks and tolerances, and determine their own business goals.

2.2 Appropriately recruit employees and provide training and guidance

If the products of the first stage are recognized by the market and solve the company's basic survival problem, then this stage is the process of gradual formalization of the company. The leader needs to balance the interest relationship with partners, clarify the company's vision and recruit employees who agree with the company's vision and goals, complete the process of socialization of employees through training, and gradually establish a company culture.

2.3 Entrusted authorization stage

The leader cannot do everything by himself. Therefore, at this stage, he must learn to delegate and empower decision-making authorities to his department managers. The leader needs to determine the necessary abilities and qualities of managers, and select those who meet the requirements so that authorized personnel can take on the corresponding responsibilities. It is also necessary to establish a supervision and control system.

2.4 Coordinate and handle conflicts between various departments or personnel

During the formalization of the company, many rules and regulations will be formulated. Employees may be required to fill in KPIs and various reports. Performance evaluation criteria and reward process may be questioned. How to improve efficiency and minimize the company's internal consumption and reduce the company's operating risks are issues to be resolved at this stage. At this stage, the leader may suffer setbacks and failures, which requires a good attitude and resilience.

2.5 Control the growth rate

Is it to expand rapidly in order to obtain higher profits in the short term, or to maintain moderate growth to ensure long-term prosperity? It depends on the leader's values. If partners have the same values, they can work together to achieve a common vision. Otherwise, at this stage, there may be parting ways. No matter what happens, it is necessary to remain humble and friendly. If the passion still exists, you can start again after adjustment.

3 Why are transformational leadership style better suited to small businesses

Classification of skills of transformational leaders is known as the four I's: idealized influence, inspirational motivation, intellectual stimulation and individualized consideration (Bass & Avolio's,1994).

Behaviors related to transformational leaders, including Bass's work, they identified and developed measures for six behaviors known to be associated with transformational leadership (Podsakoff et al. ,1990):

3.1 Identifying and articulating a vision

– behaviour on the part of the leader aims at identifying new opportunities for his or her unit/division/company, and developing, articulating and inspiring others with his or her vision of the future.

As a small or startup business, after the leader has figured out the opportunity in the environment and the niche market, making a clear vision, objective and strategy is very critical. The leader has to make all these clear and let partners know and accept. There are high requirements for the leader's characteristics, such as wisdom, foresight, and self-confidence.

3.2 Provide an appropriate role model

-The leader sets an example for employees by his own behavior, consistent with the values advocated by the leader.

In order for newly hired employees to agree with the company's vision, mission and strategy, the leader must set an example for them and ensure that words and deeds are consistent. People learn from one's actions rather than words. A leader with idealized influence is a "example" to his followers, that is, followers try to imitate his leader. This process requires the courage, decision-making ability and action of the leaders, communication skills, empathy and the ability to inspire others, through which the leaders will eventually establish a trusting relationship with team members. Providing an appropriate model.

3.3 Motivate team members to achieve company goals

–The behavior of the leader is to promote cooperation between team members and guide them to work hard to achieve common goals.

This behavior includes showing positivity, optimism, self-confidence and wisdom in front of team members, clarifying the company's strengths and achievable goals, and enabling them to achieve positive results through detailed efforts. Before authorization,

leaders must determine whether the authorized person has qualified qualities and abilities, and let them know the connection between completing the task and achieving the team goal, as well as the rewards that can be obtained for completing the task effectively, emphasizing that achieving the team goal is to follow The meaning of the people themselves stimulates their inner motivations, and thus assumes corresponding responsibilities. It is vital to convince subordinates that the goal achieved is the common goal of everyone. Effectively motivating the team requires leaders to have high emotional intelligence and insight.

3.4 High performance expectations and intellectual stimulation

-This behavior shows the leader's expectations for followers to pursue excellence, quality and/or high performance, and motivates team members to re-examine certain assumptions about their work and think about how to improve (Podsakoff,1990).

As companies become more and more formalized, leaders should pay more attention to performance improvement and build a high-performance team. Due to differences between employee personal goals and department goals, and between different department goals, various conflicts are inevitable. This requires leaders to take actions to coordinate various relationships and conflicts, balance their interests, and lead everyone to strive to improve performance, such as matching personnel and positions, redesigning positions, establishing reasonable performance standards and fair incentives System to stimulate the potential of employees and enable them to realize personal value while achieving high company performance.

Provide personalized support

-This behavior of the leader shows that he/she respects the followers and pays attention to the personal feelings and needs of the followers.

Small businesses will encounter various difficulties as they grow up. If employees do not agree with the company's vision and goals, they may leave at any time, which may be a loss for the company. In order to retain outstanding employees, leaders must understand their needs, provide them with personalized care, understand their values and capabilities, and provide a platform for their growth. The more leaders pay attention to the interests of their subordinates, the more they can gain their respect and trust (Bass & Avolio, 1994). When employees realize that the development of the company is closely related to their personal growth, they can feel the support of the organization, increase organizational commitment, show better performance and ultimately help achieve organizational goals. Providing individualized support.

Kurt Matzler (2008) argued that transformational leadership has a positive direct impact on innovation, growth and profitability. Let's use the story of New Oriental to analyze the relationship between the growth of small businesses and transformational leadership styles.

4 A real case——new oriental education & technology group and Michael Yu

New Oriental Education & Technology Group Co.,LTD., Founded by Yu Minhong. It used to be known as Beijing New Oriental Education & Technology Co., LTD., (since 2001) ,Beijing New Oriental School(since 1996), was listed on the New York Stock Exchange on September 7, 2006.

As the largest provider of private educational services in China, New Oriental offers education for a lifetime, teaching skills that give students a crucial competitive advantage in the workplace and help improve their quality of life.

The development history of New Oriental is a typical growth history of small business from single-owner business, partnership to cooperation and finally successfully listing. The following is an analysis of Yu Minhong's leadership style as the leader of the company.

4.1 Single-owner business: Encountering a teacher crisis (1993-1995)

-Find a way to identify business opportunities based on the understanding of the environment and establish a single-owner business. During this period, only Yu Minhong's wife and mother were his helpers, and the company was like a family workshop.

In order to make money to study in the United States, in 1993, Yu Minhong gave up her job as a teacher at Peking University and opened New Oriental School, specializing in English training for studying abroad. In the 1990s, Sino-US relations were good, the Chinese government encouraged students to study abroad, and young people showed great enthusiasm for receiving English training outside of school. Yu Minhong's ability to grasp business opportunities in a timely manner reflects his wisdom and creativity.

In order to attract students, Yu Minhong adopted a low-price strategy. He hired 10 teachers and paid twice the market price to ensure the quality of teaching. One of them, as the only teacher who taught mathematics&logic, asked to double his salary, Yu Minhong did not agree. The teacher resigned very quickly, Yu Minhong had to return the tuition fees to the students. Later, he quickly hired three math&logic teachers at the fastest speed, and this kind of thing never happened again. The teacher's crisis caused Yu Minhong to think about the vision of running a school, not only to make money, but also to help young people like him "find hope from despair" and realize their life dreams. In 1995, Yu Minhong traveled to North America for two months and visited his old classmates Wang Qiang and Xu Xiaoping of Peking University. After earning enough money to study abroad, he gave up his dream of studying in the United States and replaced it with a new dream: to build New Oriental into a school with free will and spiritual inspiration as its core values. Wang Qiang and Xu Xiaoping were attracted by his dream and returned to China to become his business partners.

4.2 Partnership stage- Encountering an employment crisis(1995-2000)

-Old classmates from Peking University returned to China to join, Wang Qiang was in charge of oral English, Xu Xiaoping was in charge of visa consultation, Yu Minhong was in charge of examinations, and New Oriental became a partnership company.

"If you want the company to grow, you must find someone better than yourself to cooperate." Yu Minhong said. Since 1996, the school has become more diversified with the addition of Xu Xiaoping and Wang Qiang, the elites studying abroad. The pursuit of freedom, talent and spiritual satisfaction were their common values. "A local tortoise leads a group of overseas returnees", New Oriental has gradually become the overlord of the study abroad training industry. It not only provided English training, but also provided overseas visa consultation. During this period, as the leader of the three-person team, Yu Minhong's communication skills, humility and tolerance helped to gather the strength of the team members. Everyone cooperated sincerely, and the company developed rapidly. However, because Yu Minhong's wife, mother and brother-in-law, as well as some relatives of his middle school classmates all work in the company, internal management was difficult, and there were problems with unclear property rights. Xu Xiaoping and Wang Qiang proposed to terminate the "family workshop." Since Yu Minhong's family was involved in

the founding of New Oriental to some extent, Yu Minhong found it difficult to let them leave, but after careful consideration, he made a difficult choice: persuaded all relatives to leave New Oriental within half a year, and gave them resettlement fees. Seeing the boss set an example, relatives of his middle school classmates also left New Oriental, and the management of New Oriental gradually got on track. By 2000, New Oriental had trained 200,000 students, accounting for 80% of the Beijing study abroad training market and 50% of the country.

4.3 Limited liability company stage: escalation of conflict (2001-2005)

-Honesty, consistent words and deeds, and abiding by values and bottom lines are the key elements to resolve conflicts and win trust. During this period, Yu Minhong established a corporate culture of "Integrity, Respect, Cooperation, and Innovation".

In 2001, through the shareholding system reform, New Oriental changed from a partnership company to a limited liability company. When allocating the shares, everyone agreed with Yu Minhong's 55% stake (because he is the leader, and others did not invest a penny in New Oriental), and the other 45% of the stake were distributed among Xu Xiaoping, Wang Qiang and others who joined later. After discussing and determining the shares of each partner for many times, Yu Minhong proposed to give out 10% of his shares to talents who might join New Oriental in the future. Although Yu Minhong was the controlling shareholder, his leadership and management abilities had been questioned. Due to different understandings of modern management systems, the contradiction between local turtles and returned overseas talents was escalating. Xu Xiaoping and Wang Qiang teamed up to remove Yu Minhong from the board. Wang Qiang became the chairman of New Oriental Education Technology Co., Ltd., and Yu Minhong was also barred from attending the principal's office meeting. After Yu Minhong was expelled from the board of directors, he did not speak ill of them behind his back, nor did he do anything unfavorable to other shareholders of New Oriental. He insisted on his values and bottom line, and finally won the respect of everyone with honesty, integrity and humbleness, and resolved this crisis of trust. Both Wang Qiang and Xu Xiaoping realized that this was Yu Minhong's New Oriental. Feeling too tired, Wang Qiang returned the chairman position to Yu Minhong. Based on the friendship established in college and Yu Minhong's tolerant personality, the conflict between the three was gradually suppressed under the "common values", and everyone began to solve the specific problems of the company's operations. Although there were still constant quarrels, no one really gave up. Finally, the three of them worked together to solve important issues such as corporate governance structure, equity distribution and incentive systems, and New Oriental continued to move in the right direction. But perhaps because one mountain cannot accommodate three tigers, Wang Qiang and Xu Xiaoping left New Oriental to start their own businesses, but the three are still good friends. Wang Qiang once described Yu Minhong as "tolerant, and have a resilience", with full of respect.

"Several people working together must develop an incentive system. First, divide the shares, and then establish a mechanism so that the best performers have the opportunity to gain share growth." Yu Minhong said, and he made it happen.

4.4 New York stock exchange listed company stage: business model crisis (2005-)

--New Oriental's new vision: to be an excellent, respectable and culturally valuable educational institution in China. New Oriental values: integrity and responsibility, sincere love and care, studious and diligent, ambitious and far-sighted.

The shareholders of New Oriental were unsatisfied that they were unable to cash in their shares and their annual salary was reduced. Coupled with the intensification of external competition, conflicts arising from the company's internal structure became increasingly obvious. Although it was not easy to accept external supervision and maintain an annual growth rate of 20-30%, Yu Minhong decided to start preparing for New Oriental's listing on the New York Stock Exchange in 2005.

By then, small class teaching and full-subject training became more and more popular in the market, which was completely different from the original business model of New Oriental. In order to attract students, New Oriental also began to change from single subject teaching to full subject teaching, from large class teaching to small class teaching, and later with the rise of online education, it also opened online large class courses. Class sizes decreased, teachers' responsibilities increased, but salaries reduced, morale within the company begun to decline, so that some people begun to consider leaving. Yu Minhong did not prevent or even supported some teachers from leaving New Oriental to start their own businesses. New Oriental had never initiated a non-compete agreement. With the free will, enterprising and adventurous spirit cultivated by New Oriental, almost all entrepreneurs who left New Oriental achieved good results and became leaders in investment, mobile phones, Bitcoin and other industries. Yu Minhong continued to create a good working environment for the remaining employees and new employees, supported their learning and growth, and constantly stimulated their creativity. In 2006, New Oriental listed on the New York Stock Exchange, and its share price rose from \$20 to \$170 today. Yu Minhong, a rural child who was admitted to Peking University for the third time after failing the college entrance examination twice, is now the chairman of China's largest and most respected overseas listed company in education and training industry. Yu Minhong told his own inspirational stories to every employee and student through speeches and lectures, inspiring them to realize their dreams through unremitting efforts.

In any period small business growth and profitability will depend on the firm's operating environment, its initial market position and its choice of business strategy. Entrepreneurial vision towards growth is important. Yu Minhong started his own small business New Oriental and established a vision, through Idealized Influence "Find hope from despair, life will be brilliant" he passed the New Oriental spirit to the recruited teachers and trained them to be as good English teachers as himself. Then he used Inspirational Motivation to invite former classmates of Peking University return to the country to form a partnership enterprise, persuaded them to agree with their school goals, and worked together to achieve their mutual goals. During establishing the New Oriental Education&Technology Group Corporation, in accordance with the modern corporate system to formalize operations, Yu Minhong used Intellectual Stimulation to guide everyone to contribute their own wisdom and talents, finally made his company listed on the New York Stock Exchange in the United States. Yu Minhong also gave Individual Consideration to subordinates and employees, supported them to grow in New Oriental or even Began their own business with entrepreneurial aspirations to realize their dreams. In all, Yu Minghong's transformational leadership style was reflected in all stages of the development of his small business into a big corporation.

Under the influence of Yu Minhong's transformational leadership style, The New Oriental values of "honesty and responsibility, sincere care and love, learning and diligence, lofty ambition" has been passed on and formed its culture. With Yu Minhong's sincere encouragement and support, the small training business has grown from a small training school to a company with total number of face-to-face students 30 million. In the 1990s, 70% of the students who went to study in the United States came from New Oriental. While helping young people grow up, New Oriental has also developed into a an idealistic learning organization, a training company that practices Yu Minhong's ultimate values.

When the personal growth of employees is closely related to the development of the company, employees can focus on their work and achieve better performance. Yu Minghong gave up his unfulfilled dream of studying in the United States, in turn, he has helped countless young people realize their studying abroad dream. "Mr. Yu changed my life." many students from New Oriental said. Yu Minhong has established his education and training empire, which is ranked number one in China, and became a life mentor for young people.

Yu Minhong, who is honest, confident, intelligent, humble, responsible, empathetic, innovative and resilient, and knows how to motivate others, is a typical leader with a transformational leadership style. The growth story of New Oriental shows that the transformational leadership style is most suitable for growing small businesses.

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