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LEADERSHIP BEHAVIOUR, ENTREPRENEURIAL ORIENTATION AND
ORGANISATIONAL PERFORMANCE IN MALAYSIAN SMALL AND MEDIUM
ENTERPRISES

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ABSTRACT

The purpose of this study was to identify the leadership behaviour, entrepreneurial orientation and organisational performance of Small and Medium Enterprises (SMEs) in Malaysia. Three main constructs were selected namely leadership behaviour, entrepreneurial orientation and organisational performance based on Resource Based Theory (RBT) by Galbreath (2005) and Transformational Leadership Theory by Bass (1985). The research design used in this study was a survey method and data were collected using quantitative approaches. The respondents were 401 owner or manager of SMEs operating in manufacturing and service industries in Kuala Lumpur and Selangor. The respondents were selected using the Stratified Sampling Technique. The study instrument applied was questionnaires. The finding showed that transformational leadership has higher impact towards organisational performance ($\beta=0.257$, S.E=0.055) than transactional leadership ($\beta=0.220$, S.E=0.054). Entrepreneurial orientation also significantly contributed to organisational performance ($\beta=0.199$, S.E=0.054). Furthermore, this study found that entrepreneurial orientation acted as partial mediator between leadership behaviour and organisational performance ($\beta=0.284$, S.E= 0.256). The key implications of this study revealed that transformational leadership proved to be more efficient than transactional leadership in term of leadership behaviour. Thus, the leader of SMEs need to practise and nurture the qualities of transformational leadership, and focus on entrepreneurial orientation in order to achieve better organisational performance. This study also acknowledges the leadership and entrepreneurial orientation as a resource and capability in organisation because the integration of these two elements are the yardstick for SMEs' success in Malaysia.





TINGKAH LAKU KEPIMPINAN, ORIENTASI KEUSAHAWANAN DAN PRESTASI ORGANISASI INDUSTRI KECIL DAN SEDERHANA DI MALAYSIA

ABSTRAK

Tujuan kajian ini ialah untuk mengenalpasti tingkah laku kepimpinan, orientasi keusahawanan dan prestasi organisasi Industri Kecil dan Sederhana (IKS) di Malaysia. Berdasarkan Teori Berasaskan Sumber oleh Galbreath (2005) dan Teori Transformational Kepimpinan oleh Bass (1985), tiga konstruk utama kajian dipilih iaitu tingkah laku kepimpinan, orientasi keusahawanan dan prestasi organisasi. Reka bentuk kajian ini adalah kajian tinjauan dan data dikumpul menggunakan pendekatan kuantitatif. Pemilihan peserta kajian ini adalah dalam kalangan 401 orang pemilik atau pengurus IKS di sektor pembuatan dan perkhidmatan di Kuala Lumpur dan Selangor. Teknik Persampelan Rawak Berstrata digunakan untuk memilih responden. Instrumen kajian yang digunakan adalah soal selidik. Dapatan kajian menunjukkan bahawa kepimpinan transformasional memberi kesan tertinggi kepada prestasi organisasi ($\beta=0.257$, $S.E=0.055$), berbanding kepimpinan transaksional ($\beta=0.220$, $S.E=0.054$). Orientasi keusahawanan pula memberi kesan yang signifikan kepada prestasi organisasi ($\beta=0.199$, $S.E=0.054$). Selain daripada itu, kajian juga menunjukkan bahawa orientasi keusahawanan menjadi pengantara separa kepada hubungan tingkah laku kepimpinan dan prestasi organisasi ($\beta=0.284$, $S.E=0.256$). Implikasi utama dalam kajian ini menunjukkan bahawa kepimpinan transformasional terbukti sebagai bentuk tingkah laku kepimpinan yang lebih efisien daripada kepimpinan transaksional. Sehubungan dengan itu pemimpin IKS di Malaysia perlu memupuk dan mengamalkan kualiti kepimpinan transformasional dan juga memberi tumpuan kepada orientasi keusahawanan untuk mencapai prestasi organisasi yang baik. Kajian ini juga memperakui bahawa kepimpinan dan orientasi keusahawanan sebagai sumber dan keupayaan dalam organisasi kerana integrasi kedua-dua elemen adalah kayu pengukur kejayaan IKS di Malaysia.



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LIST OF ABBREVIATIONS

ACT	Management-by-exception (Active)
AMOS	Analysis of Moment Structure
CEO	Chief Executive Officer
CFA	Confirmatory factor analysis
CON	Contingent reward
EO	Entrepreneurial orientation
GDP	Gross domestic product
GDP-PPP	Gross domestic product – Purchasing power parity
GLCs	Malaysian Government Linked Companies
GLOBE	Global Leadership and Organisational Behavior Effectiveness
GRW	Growth
IDC	Individual Consideration
IM	Idealised Motivation
INS	Idealised influence
INO	Innovativeness
IS	Idealised Stimulation
MLQ	Multifactor Leadership Questionnaire
NSDC	National SME Development Council
PAS	Management by exception (passive)
PRO	Proactiveness





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PRF	Profitability
RBT	Research Based Theory
RISK	Risk Taking
SEM	Structural Equation Modelling
SMEs	Small and Medium Enterprises
SMIDEC	Small and Medium Industries Development Corporation
SPSS	Statistical Package for the Social Sciences



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CHAPTER 1

INTRODUCTION



1.1 Introduction

The performance of Small and Medium Enterprises (SMEs) is creating a vast amount of discussion among practitioners, researchers, educators and policy makers in developing countries (Abdullah Al Mamun et al., 2018; Ruo & Ortiz, 2017; Noraini & Nurul, 2016). The characteristics and determinants of the performance of SMEs have been focus of debate and interest for many parties (Abu Bakar Sedek et al. 2018; Azlin et al, 2016; Belgacem, 2015; Ahmad Fadhly, 2015; Arslan & Staub, 2013; McKelvie & Wiklund, 2010), due to the constraints and limitations faced such as having a limited number of employees, challenges of obtaining loan, being able to attract or retain





talents, unclear tax policy and being slow to adopt new technologies (Chua et al, 2018). Some SMEs have also been hesitant to step out of their comfort zone (Fadda , 2018; Amin et al., 2016). Therefore, more efforts are continuously being made to understand how the performance of SMEs could be increased, as the SMEs is recognised as one of the important engines of growth for a country's economy (Fakhrul, 2018; Al - Dhaafri & Yusoff, 2016; Dzomonda et al., 2017; Hayat et al., 2011; Abu Kassim & Sulaiman, 2010).

The focus of this research is to examine the impact on the performance of SMEs in Malaysia from the perspectives of leadership behaviour and the entrepreneurial orientation in organisations. This is done through the quantitative research and analysis of previous research. Leadership and entrepreneurial orientation are acknowledged as



essential elements for organisational success (Arshad et al., 2016; Hanafiah et al., 2016; İşcana et al., 2014; Gul et al., 2012; Hannay, 2009; Wang, 2008). An effective leadership provides a sound strategic direction and encourages the motivation of employees (Luu, 2017; Zehir et al., 2016; Hashim et al., 2012).

Leadership is essential for enhancing organisational performance since leaders are responsible for the attainment of strategic organisational goals (Soomro et al., 2018; Yang, 2016). Thus, leaders are accountable to the stakeholders of their organisations for creating the best possible products and services through optimum utilisation of the limited resources available (Usai et al., 2018; Madanchian et al., 2016; Ahmad et al., 2014; Gul et al., 2012). Entrepreneurial ventures, on the other hand, need to focus on developing entrepreneurial orientation, which serves as a strategic orientation that can set them apart from their competitors.





Both factors are needed to improve and sustain business performance and allow entrepreneurs in Malaysia to better equip and well prepared to be more competitive in order to transform Malaysia to become a high income developed nation with a knowledge-based economy by year 2020.

After this introduction, section 1.2 discusses the background of the study. Section 1.3 presents the problem statement and Section 1.4 highlights the objectives , section 1.5 highlights the research questions and section 1.6 details scope of this study. Section 1.7 presents the hypotheses of the study and section 1.8 explains the research of framework. Section 1.9 deliberates the definition of variables, section 1.10 highlights the theoretical foundation and framework of the study, section 1.11 provides the significance of the study. Section 1.12 highlights definition of key terms. Finally, section



1.13 conclude this chapter.

1.2 Background of Study

Small and Medium Industries are crucial pillar of Malaysia's economy, forming 98.5 % of the total establishments in the country. According to 11th Malaysia Plan 2016-2020, SMEs are expected to contribute up to 41% of the country's GDP by 2020, and approximately 32 initiatives will be intensified to develop resilient and sustainable SMEs (SMEs Annual Report 2017/2018).





SMEs create employment opportunities, stimulate entrepreneurial capabilities and innovation, and contribute significantly to the Gross Domestic Product (GDP) (Abu Bakar et al., 2016). According to the SME Annual Report (NSDC, 2018), SMEs contributed 37.1% of the Malaysia's GDP. SMEs also provided 59.5% of the total employment and contributed 28.4% of the total exports.

It has been recognised that SMEs is important in promoting sources of growth and strengthening the infrastructure for accelerated economic expansion and development in Malaysia due to the total number, the size and the nature of their operations (Ahmad Fadhly, 2016). The government has continuously allocated large amounts of funds through various sources and programs to assist SMEs to become more competitive in the market. However, the contributions of Malaysian SMEs are still lower in regard to the contribution to national GDP and exports than those of some other developed and developing countries (NSDC, 2018).

Despite various types of support from the government, SMEs in Malaysia still face challenges and difficulties in business operations. Some of the problems were lack of capabilities and resources, shortage of skilled workers, low technology, poor management, strong competition and international economic factors (Madanchian et al., 2017; Amin et al., 2016; Hatinah et al., 2016; Hashim, 2000; Saleh & Ndubisi, 2006). These factors have affected SMEs performance and to the country's economy in general. Thus, to overcome these challenges, good leadership and entrepreneurial attitudes need to be developed. These two factors have been identified as crucial elements that could drive the success of SMEs in the future (Okeyo & K'Obonyo, 2016 ; Abdul Aziz, 2013; Abdul Razak, 2010).





Every organisation needs sound and effective leadership. Acknowledging the important links between leadership and organisational performance, many organisations are focusing on developing effective leaders in their organisations (Yozgat & Kamanli, 2016; Hashim et al., 2012). Most of the leadership research has focused on the impact of a leader's behaviour on followers' individual performance (Lawal et al., 2014; Podsakoff et al., 1996), motivation (Papalexandris & Galanaki, 2009) and satisfaction (Tsai, 2008), rather than examining firm performance, even though many scholars believed that the most important effects of leadership are on organisational performance (Kihara, et al., 2016; Elenkov, 2002).

Notably, there is still a lack of understanding about leadership in SMEs (Abdullah et al., 2018; Chua, 2018; Akbari, 2016; Chua Özera & Tinaztepe, 2014; Wang & Poutziouris, 2010). These authors claimed that studying leadership in the SME environment may result in a better understanding of the organisational performance of SMEs. These researchers further argued that small businesses with strong leadership have better performance than businesses with weak or uncertain leadership. In the context of leadership in Malaysia, the literature also claimed that very little effort has been made to examine leaders and leadership behaviour (Fakhrul, 2018; Ezanee, 2017; Ahmad Fadhly, 2016).

On the other hand, entrepreneurial orientation is becoming a popular subject in entrepreneurship literature (Rezaei & Ortt, 2018; Hooi et al., 2016; Rodríguez-Gutiérrez, 2015; Wiklund, 1999; Rauch et al., 2009). Studies in the field of entrepreneurship have indicated that the better the entrepreneurial orientation of SME, the better the performance of the firm (Shathees et al., 2018; Luu, 2017; Ruo et al.,





2016; Swierczek & Thanh Ha, 2003b; Rauch et al., 2009). Entrepreneurial orientation is regarded as a strategic orientation of the firm (Mohamed Elias et al., 2017; Covin & Slevin, 1989; Lumpkin & Dess, 1996) and a source of competitive advantage (Lumpkin & Dess, 1996).

With relatively limited resources and capabilities, entrepreneurial orientation is a survival kit and a key for outperforming SME competitors in global markets (Kantur, 2016; Knight, 2000). Regarding in Malaysian SMEs, Rosmelisa (2018) and Abdul Razak (2011) and claimed that entrepreneurial orientation is critical in directing strategic entrepreneurial activities and to achieve better productivity.

Thus, the ability of SMEs in Malaysia to possess and exercise entrepreneurial orientation is central for entrepreneurial success. However, due to mixed results in the previous research, the role of entrepreneurship and the impacts of entrepreneurial orientation on SMEs in developing countries are not well understood. (Kajalo & Lindblom, 2015; Fairoz et al., 2010). Therefore, the purpose of this study is to test the theoretical framework and hypotheses that represent the relationships between leadership, entrepreneurial orientation and organisational performance in SMEs in Malaysia.

By providing empirical evidence, the research should provide a better understanding of the contributions of leadership and entrepreneurial orientation to the performance of SMEs in Malaysia and possibly also those in similar developing economies.

