

# THE EFFECT OF LEADERSHIP BEHAVIOURS ON ENTREPRENEURIAL ORIENTATION – AN ONLINE SURVEY ON MALAYSIAN SMEs

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**Abstract** - Even though much effort has been expended to investigate many aspects of leadership, the results are mixed and inconclusive. In Malaysia, there is still confusion about the best form of leadership for Malaysian SME leaders. This paper contributes to this debate by reporting the results of a study that investigated the impact of transformational and transactional leadership behaviours on entrepreneurial orientation of SMEs in Malaysia. SMEs were chosen for the study as they make a critical contribution to Malaysia's economic wellbeing. Quantitative data from 80 respondents was collected and analysed through an online survey and it was found leadership has significant contribution towards entrepreneurial orientation. Transformational leadership was found to have a greater significant prediction in the variation of entrepreneurial orientation than did transactional leadership.

**Keywords** – transformational leadership, transactional leadership, entrepreneurial orientation, SMEs, online survey

## I. INTRODUCTION

Small and Medium Enterprises (SMEs) are a critical contributor to the growth and development of the economy in Malaysia. According to the National SME Development Council (2010), they represent about 99% of total business establishments and make up 31% of country's Gross Domestic Product (GDP). SMEs account for 56% of total employment and produce 19% to the total exports of the country. However, the contribution of Malaysian SMEs to the economy is still lower, with regard to the GDP and exports, than other developed or developing countries (National SME Development Council, 2010).

Due to the demand to further enhance economic contribution of SMEs to the country, effort has been called to investigate on the variables that are important for entrepreneurs. Research has indicated that leadership behaviour of leaders is an important matter for organisational success (Arham et al., 2012). Scholars also agreed that entrepreneurial orientation (EO) is one of the important strategic resources for entrepreneurial success (Arham and Muenjohn, 2012). Thus, this research intends to analyse the relationship between these two important variables by fulfilling the following purpose: 1) to examine the effect of leadership behaviours towards EO; 2) to investigate the effect of transformational leadership and transactional leadership on EO.

## II. LITERATURE REVIEW

### 1. LEADERSHIP BEHAVIOUR

Leadership is defined as how a person behaves and takes actions to motivate, stimulate and encourage a group of individuals to achieve organisational goals (Arham, 2014). There are various forms of leadership behaviours, but in this paper, transformational and transactional leadership have been chosen as these behaviours reflect the most current

leadership behaviours (Pawar, 2003; Lo et al., 2009; Law, 2011; Judge and Piccolo, 2004).

Transformational leadership is described as the ability of leaders to influence followers to put in extra effort due to their commitment to the leader, their intrinsic work motivation, the level of their development, or having a clear sense of purpose or mission that drives them to excel beyond a standard performance (Bass et al., 2003; Howell & Avolio, 1993), and they also develop followers to take on leadership roles (Bass & Avolio, 1993). Lussier and Achua (2001) described transformational leaders as not afraid to change the *status quo* by informing followers about the problems in the current system and providing a compelling vision of what a better organisation could be. Leaders who display transformational leadership qualities are able to engage employees, gauge their interest and motivation and improve their team commitment; all of these translate into better performance.

There are four factors of transformational leadership. These are idealized influence, inspirational motivation, intellectual stimulation and individualized consideration. Idealised influence involves the leader providing a vision and sense of mission, instilling pride and developing respect and trust among employees (Bass, 1990; Bass & Riggio, 2012). Inspirational motivation involves communicating high expectations and using symbols to focus effort and convey important purposes to employees in simple ways, about what needs to be done (Bass, 1990; 1996; Muenjohn & Armstrong, 2008). Intellectual stimulation involves leaders encouraging intelligence, rationality and careful problem solving (Bass, 1990; Bass & Riggio, 2012). The individualised consideration aspect of transformational leadership means leaders provide personal attention and treat each employee individually (Bass, 1990; Bass & Riggio, 2012).

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Transactional leadership as according to Bass is an agreed exchange process between the leader and the followers in order to achieve necessary standard of performance. Most transactional leaders are risk averse, and perform well in stable and predictable conditions (Bass, 1990). Transactional leaders provide direction and motivate employees by instituting goals and by clarifying task requirements (Robbins & Coulter, 2005).

There are three factors of transactional leadership. These are contingent reward, management-by-exception (active) and management-by-exception (passive). Contingent reward refers to leaders providing followers with rewards for effort. Leaders promise rewards for excellent performance, acknowledge accomplishments and punish poor performance (Bass, 1996; Muenjohn & Armstrong, 2008). In the management-by-exception (active) mode, leaders act as monitors and search and watch for deviations from rules and standards and take corrective actions (Bass, 1990; 1996; Muenjohn & Armstrong, 2008). In the management-by-exception (passive) mode, leaders only intervene when procedures are not followed and standards are not met (Bass, 1990; 1996; Bass & Riggio, 2012).

## **2. ENTREPRENEURIAL ORIENTATION**

An entrepreneurial firm is the one that involved in product-market innovation, willing to take some risks, and is first to come up with proactive innovations. On the other hand, a non-entrepreneurial firm is characterised by a minimum level of innovations, is not a risk taker, and is a follower rather than a pioneer compared to the competitors (Miller, 1983). Lumpkin and Dess (1996) defined EO as 'the process, practices and decision-making activities that lead to new entry' (p. 771). Wiklund and Shepherd (2005) defined EO as the strategic orientation of a firm that captures specific aspects of entrepreneurial decision-making styles, methods and practices. In this study EO is defined as the inclination of a company's top management to take calculated risks, to be innovative, and to display proactiveness in their approach to strategic decision making (Morris and Paul, 1987).

EO is becoming a popular subject (Wiklund, 1999) and is one of the entrepreneurship research fields where the body of knowledge is expanding (Rauch et al., 2009). Covin and Wales (2012) also recognised that the subject of EO as a driving force behind organisational effort to success has become a central focus of the entrepreneurship literature and the subject of more than 30 years of research. The study of EO is well established in strategy and entrepreneurship research in the US but is still in its infancy in non-US business environments (Runyan et al., 2012).

## **3. LEADERSHIP AND ENTREPRENEURIAL ORIENTATION**

The right leadership behaviour is an important ingredient for good organisational performance and to prevent organisational failures. As Fiedler (1996) recognised, effective leaders are important because they contribute to the success or failure of a group, an organisation and even a whole country. Achanga et al. (2006) conducted a study on the critical success factors for implementing lean production in SMEs. One of the main findings of this research is that to

successfully implement lean manufacturing in SMEs, strong leadership is essential. Sound leadership behaviour facilitates the integration of all structures in the organisation and instils a vision for the organisation, which could lead to improved performance.

The strengthening of entrepreneurship is important for any type of enterprise for developing its responsiveness to a globalised and changing environment (Aloulou & Fayolle, 2005) and EO is considered a key element for a firm's success (Wang, 2008). The form of leadership behaviour being practised by leaders has implications for the level of entrepreneurship in a firm (Morris et al., 2007). In SMEs, the leadership behaviour of top management can have a strong positive impact on the innovativeness and the performance of the firm (Matzler et al., 2008). As business becomes globally competitive, SMEs require a new vision and set of directions to help them to become more competitive and to be able to sustain their business. The leadership behaviour of the CEO or owner plays a major role in ensuring appropriate directions and a clear vision to be shared with employees.

## **III. RESEARCH METHOD**

This study focuses on explaining the contribution made by two forms of leadership behaviours towards EO. Based from the literature, the following hypotheses were proposed:

H1: Leadership behaviours have significant effect on entrepreneurial orientation.

H2: Transformational leadership has stronger significant effect on entrepreneurial orientation than does transactional leadership.

First, SME Corp. Malaysia was contacted to obtain the permission to access into their database. From this database, 1000 potential respondents were selected randomly from manufacturing and services industry. Then, these 1000 potential respondents were contacted through email inviting them to participate in the online survey. Follow-up email was sent after two weeks of the first email invitation. Then, follow-up telephone calls were made to encourage more participation after two weeks notification of the second email.

### **1. MEASUREMENTS, QUESTIONNAIRE COLLECTION AND DATA ANALYSIS**

There were three sections in the survey questionnaire. The first part covered questions relating to the demographic characteristics of the respondents. The second part covered questions relating to the leadership behaviours of leaders. There are two forms of leadership behaviours measured namely transformational and transactional leadership. There are four factors of transformational leadership and three factors for transactional leadership. The third part covered questions relating to EO which consists of innovativeness, proactiveness and risk-taking. The second and the third part are based on Likert 5-point scales, ranging from strongly disagree (0) to strongly agree (4).

The instruments used to measure leadership behaviours were adopted from the Multifactor Leadership Questionnaire (MLQ) by Bass and Avolio (2004). MLQ is the most commonly used instrument for measuring transformational and transactional leadership behaviour (Tejeda et al., 2001;

Muenjohn & Armstrong, 2007). EO was measured by using instruments adopted from Covin and Slevin (1989) and Wang (2008).

Through the recruitment approach adopted, there were 103 responses out of 1000 email invitation. Of these, 23 were not usable either because they were categorised as micro-SME (which was not included in the target sample) or they were incomplete.

Nunnally (1967) suggested that the reliability should be at least 0.7. However, she also stated that reliabilities of  $\alpha = 0.50$  to  $\alpha = 0.60$  are sufficient for the early stage of basic research. The Cronbach alpha of each variable in this questionnaire is above 0.7 (transformational leadership  $\alpha = 0.897$ ; EO  $\alpha = 0.715$ ) except for transactional leadership ( $\alpha = 0.60$ ). Given that the measures of transactional leadership have also been used in other well-validated research, a decision was made to retain this construct.

#### IV. RESEARCH RESULTS

To test H1 and H2, a standard multiple regression was performed to analyse the significant effect of leadership behaviours on EO. Table 1 shows the ANOVA results obtained on the effect of leadership behaviours on EO. By using the enter method, a significant model emerged ( $F_{2, 77} = 21.359$ ,  $p < .001$ ). Altogether, leadership behaviour predicted about 34% (adjusted  $R^2$ ) of the variability in EO. The result demonstrates that leadership behaviour has a significant effect on EO and thus shows full support for H1.

The result also indicated that, both forms of leadership behaviours are significant predictors towards EO, with transformational leadership has stronger unique contribution to explaining EO than does transactional leadership. Thus H2 is fully supported.

#### V. CONCLUSION AND SUGGESTIONS

This study was intended to examine the effect of leadership behaviours on EO. These two variables are considered as essential variables for organisational success. The results indicated that the model of this study which includes the transformational and transactional leadership behaviours explains 34% of the variance in EO. Thus it is suggested that entrepreneurs to develop and improve their leadership behaviours in order to provide significant effect on their entrepreneurial approach. The result also suggests that, between the two forms of leadership behaviour, transformational leadership predicts more significantly the variation in EO. Thus, it is suggested that SME Corp. Malaysia to ensure that the knowledge and understanding about this form of leadership to be taught and shared with entrepreneurs during entrepreneurial development programs that they conducted. Entrepreneurs also are encouraged to learn and practice this form of leadership behaviour as it has statistically been proven to provide effect towards their entrepreneurial activities. Previous scholars like Morris et al. (2007), Yang (2008), Roomi and Harrison (2011) and Öncer (2013), also agreed that transformational leadership is a more appropriate form of leadership behaviour and contributes the most to the entrepreneurial environment.

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**Table 1: Regression Results of Leadership Behaviours on Entrepreneurial Orientation**

Dimensions	B	SEB	β
Transformational Leadership	0.611	0.093	0.713***
Transactional Leadership	-0.446	0.127	-0.382**

Notes: R<sup>2</sup> = 0.357; Adjusted R<sup>2</sup> = 0.340 (N=80, p = 0.000)