

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

^{1*}Ahmad Fadhly Arham, ^{1*}Helmy Fadlisham Abu Hasan, ^{2*}Abdul Rauf Ridzuan, Norhayati Sulaiman

¹Faculty of Business and Management, Universiti Teknologi MARA

^{2*}Faculty of Communication and Media Studies, Universiti Teknologi MARA

Corresponding Author: email:fadhly9677@gmail.com

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).

Publication History

Manuscript Received : 13 October 2015
Manuscript Accepted : 20 October 2015
Revision Received : 26 October 2015
Manuscript Published : 31 October 2015

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 Öncü (2013), also agreed that transformational leadership is a more appropriate form of leadership behaviour and contributes the most to the entrepreneurial environment.

REFERENCES

- [1] Achanga, P, Shehab, E, Roy, R & Nelder, G 2006, 'Critical success factors for lean implementation within SMEs', *Journal of Manufacturing Technology Management*, vol. 17, no. 4, pp. 460-71.
- [2] Aloulou, W & Fayolle, A 2005, 'A conceptual approach of entrepreneurial orientation within small business context', *Journal of Enterprising Culture*, vol. 13, no. 1, pp. 24-45.
- [3] Arham, Ahmad Fadhly and Boucher, Carlene and Muenjohn, Nuttawuth, Does Leadership Matter? A Case of Malaysian SMEs (2012). 19th International Business Research Conference, Monash University, Melbourne 19-21 Nov 2012.
- [4] Arham, A. F., & Muenjohn, N. (2012). Leadership and Organizational Performance in Malaysian SMEs: The mediating role of Entrepreneurial Orientation. International Conference on Business And Information 2012, Sapporo 3-5 July 2012.
- [5] Arham, A.F., 2014. The Relationships between Leadership Behaviours and Entrepreneurial Orientation towards Organisational Performance in Malaysian Small and Medium Enterprises, RMIT University Melbourne.
- [6] Bass, BM 1990b, 'From transactional to transformational leadership: Learning to share the vision', *Organizational Dynamics*, vol. 18, no. 3, pp. 19-31.
- [7] ---- 1996, 'Is there universality in the full range model of leadership?', *International Journal of Public Administration*, vol. 19, no. 6, pp. 731-61.
- [8] Bass, BM & Avolio, BJ 1993, 'Transformational Leadership: A Response to Critiques', in MM Chemers & R Ayman (eds), *Leadership theory and research: Perspectives and directions*, Academic Press Inc., Sydney.
- [9] Bass, BM & Avolio, BJ 2004, *Multifactor Leadership Questionnaire. Manual and Sampler Set*, 3rd edn, Mindgarden, Redwood City, CA.
- [10] Bass, BM, Jung, DI, Avolio, BJ & Berson, Y 2003, 'Predicting unit performance by assessing transformational and transactional leadership', *Journal of Applied Psychology*, vol. 88, pp. 207-18.
- [11] Bass, BM & Riggio, RE 2012, *Transformational Leadership*, 2nd edn, Taylor & Francis, New Jersey.
- [12] Covin, J & Wales, W 2012, 'The measurement of entrepreneurial orientation', *Entrepreneurship Theory and Practice*, vol. 36, no. 4, pp. 677-702.
- [13] Davis, JLB, R. Greg, Payne, GT & Kreiser, P 2010, 'Entrepreneurial Orientation and Firm Performance: The Moderating Role of Managerial Power', *American Journal of Business*, vol. 25, no. 2, pp. 41-54.
- [14] Fiedler, FE 1996, 'Research on leadership selection and training: One view of the future', *Administrative Science Quarterly*, vol. 41, no. 2, pp. 241-50.
- [15] Howell, JM & Avolio, BJ 1993, 'Transformational leadership, transactional leadership, locus of control, and support for innovation: Key predictors of consolidated business-unit performance.', *Journal of Applied Psychology*, vol. 78, pp. 891-902.
- [16] Judge, T & Piccolo, R 2004, 'Transformational and transactional leadership: a meta-analytic test of their relative validity', *Journal of Applied Psychology*, vol. 89, no. 5, pp. 755-68.
- [17] Law, MJ 2011, 'The study of transformational leadership and leader development of public health directors in the Midwest', PhD thesis, School of Business, Capella University.
- [18] Lo, M-C, Ramayah, T & Hii Wei, M 2009, 'Leadership style and organizational commitment: a test on Malaysia manufacturing industry', *African Journal of Marketing Management*, vol. 1, no. 6, pp. 133-9.
- [19] Lumpkin, GT & Dess, GG 1996, 'Clarifying the entrepreneurial orientation Construct and linking it to performance', *The Academy of Management Review*, vol. 21, no. 1, pp. 135-72.
- [20] Lussier, RN & Achua, CF 2001, *Leadership: Theory, Application, Skill-building*, South-Western College, Cincinnati.

- [21] Matzler, K, Schwarz, E, Deutinger, N & Harms, R 2008, 'Relationship between transformational leadership, product innovation and performance in SMEs', *Journal of Small Business and Entrepreneurship*, vol. 21, no. 2, pp. 139-52.
- [22] Miller, D 1983, 'The correlates of entrepreneurship in three types of firms', *Management Science*, vol. 29, no. 7, pp. 770-91.
- [23] Morris, MH & Paul, GW 1987, 'The relationship between entrepreneurship and marketing in established firms', *Journal of Business Venturing*, vol. 2, pp. 247-59.
- [24] Morris, MH, Coombes, S, Schinddehutte, M & Allen, J 2007, 'Antecedents and outcomes of entrepreneurial and market orientations in a non-profit context: Theoretical and empirical insights', *Journal of Leadership & Organizational Studies*, vol. 13, no. 12, pp. 11-39.
- [25] Muenjohn, N & Armstrong, A 2007, 'Transformational leadership: The influence of culture on the leadership behaviours of expatriate managers', *International Journal of Business and Information*, vol. 2, no. 2, pp. 265-83.
- [26] National SME Development Council (2010). *SME Annual Report 2009/2010: Transformation to the New Economic Model*. Kuala Lumpur: National SME Development Council.
- [27] Nunnally, JC 1967, *Psychometric Theory*, McGraw-Hill, New York.
- [28] Öncer, AZ 2013, 'Investigation of the effects of transactional and transformational leadership on entrepreneurial orientation', *International Journal of Business and Social Research*, vol. 3, no. 4, pp. 153-66.
- [29] Pawar, BS 2003, 'Central conceptual issues in transformational leadership research', *Leadership & Organization Development Journal*, vol. 24, no. 7, pp. 397-406.
- [30] Rauch, A, Wiklund, J, Lumpkin, GT & Frese, M 2009, 'Entrepreneurial orientation and business performance: An assessment of past research and suggestions for the future', *Entrepreneurship Theory and Practice*, vol. 33, no. 3, pp. 761-87.
- [31] Robbins, SP & Coulter, M 2005, *Management*, 8th edn, Prentice Hall, Upper Saddle River, NJ.
- [32] Roomi, MA & Harrison, P 2011, 'Entrepreneurial leadership: What is it and how should it be taught?', *International Review of Entrepreneurship*, vol. 9, no. 3, pp. 1-44.
- [33] Runyan, RC, Ge, B, Dong, B & Swinney, JL 2012, 'Entrepreneurial orientation in cross-cultural research: Assessing measurement invariance in the construct', *Entrepreneurship Theory and Practice*, vol. July, pp. 819-36.
- [34] Tejada, MJ, Scandura, TA & Pillai, R 2001, 'The MLQ revisited: Psychometric properties and recommendations', *The Leadership Quarterly*, vol. 12, pp. 31-52.
- [35] Wang, CL 2008, 'Entrepreneurial orientation, learning orientation, and firm performance', *Entrepreneurship Theory and Practice*, vol. 32, no. 4, pp. 635-57.
- [36] Wiklund, J & Shepherd, D 2005, 'Entrepreneurial orientation and small business performance: A configurational approach', *Journal of Business Venturing*, vol. 20, no. 1, pp. 71-91.
- [37] Yang, C-W 2008. The relationships among leadership styles, entrepreneurial orientation, and business performance. *Managing Global Transitions*, vol. 6, pp. 257-275.

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: R² = 0.357; Adjusted R² = 0.340 (N=80, p = 0.000)