Small and Medium-Sized Enterprises in the Manufacturing Sector: An Analysis on Transformational Leadership, Involvement Cultural Trait and Job Performance Relationships

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ABSTRACT

This study examines the role of involvement cultural trait approach in the relationship between practice of transformational leadership style and job performance. The survey approach was adapted to fulfill the objectives of this particular study. A hierarchical multiple regression analysis was considered to test the hypotheses in a sample of 168 responses to determine the relationships between these variables using Statistical Package for The Social Sciences software. The results indicated that practice of transformational leadership style has positively related to involvement cultural trait approach which, in turn, determined on the job performance. Findings of this study have provided the evidence that involvement cultural trait approach functions as a mediator between transformational leadership style and job performance. Therefore, the interpretation of this finding does not to conclude that leadership styles are irrelevant in relation to employees’ job performance but relatively to prove that cultural trait approach do emerged as a filtering mechanism and resulting as determinant to the organizational outcomes.

Keywords: Job Performance, Organizational Cultural Trait, SMEs, Transformational Leadership

INTRODUCTION

The Small and Medium-Sized Enterprises (SMEs) are significant in contributing to a country’s economic development and allocating approximately 45 per cent of the employment rate and dedicating towards 40 per cent of national profits (Department of Statistics, 2007). As reported by NSDC (2007) an extensive survey was conducted by National SME Development Council considering almost 500,000 firms in Malaysia and 99.2 per cent are SMEs respectively; therefore SMEs are significant to the Malaysian economic progression. SMEs functioned as an essential part in the economic affair spanning between small enterprises and large corporations. Small firms accommodate various products and provide services to one another as well as to larger business organizations.

As a developing nation, Malaysia realizes the effectiveness in leadership as a strong factor in corporate successes. Business and technological changes are presently threatening the organizations’ stability and modern management are facing tremendous challenges (Kessels & Keursten, 2002; Burchell & Kolb, 2006). The new market entrants and business pressures have led into increased challenges of sustainability to small businesses due to their sizes and limited resources. These challenges are not only originating from their peers but also by large firms and the reliance on domestic markets for business growth performance is an issue of the past for many SMEs.
The Malaysian SMEs have partially contributed into the Malaysian economic growth (www.bnm.gov.my). Organizations are undergoing continuous ruthless pressures and are forced to restructure their business plans and elemental business approaches. Performance is the ability of an organization to fulfil the demands of the investors by assessing the company’s achievements (Joiner, 2007; Limsila & Ogunlana, 2008).

Thus, in effort to fulfil the new technologies and environmental challenges, cultures practiced in organizations as well as leadership are constantly undergoing the process of change. Transformational leadership has become as the most important benchmark in organizations (Levy et al., 2002; Pillai & Williams, 2004). Leadership is a crucial factor in strategizing improvement on corporate members’ behaviours and the ability (i) to motivate, (ii) to guide others in realizing the vision, objectives, mission, (iii) to be creative, innovative and promote new ideas for organizational growth and (iv) adaptable to changes; as well as to acquire the dynamics of culture - to empower and engage members, build teamwork and enhance members’ capabilities.

As Bass & Avolio (1993 cited in Xenikou & Simosi, 2006, p. 568) argued that leadership and culture are proficiently interconnected that it is possible to describe an organizational culture characterized by transformational qualities. Some researchers have asserted that culture is the variable towards familiarity on how leadership styles influence organizational performance.

Culture may be the predominant factor in prescribing the relationship between the styles of leadership and organizational outcomes (Ogbonna & Harris, 2000; Parry & Proctor-Thompson, 2002). Nevertheless, researchers discovered that certain leadership behaviours together with certain organizational cultures can result positively on outcomes of an organization (Bititci et al., 2006; Chung-Wen, 2008).

Although a considerable number of researchers have argued that there is a constant interplay between organisational culture and leadership (Waldman & Yammarino, 1999; Lok & Crawford, 2004), there are limited empirical studies examining the relationship between leadership and culture as well as their joint effect on important organisational outcomes.

An organizational leader or manager needs to possess insight knowledge and grasp of culture in organization in order to allow him or her to convey new vision and to ensure his or her followers effectively execute toward the vision (Schein, 1992 cited in Sharma & Sharma, 2010). Significantly, any leaders play an important role to shape and sustain the culture in organization. Apparently, the process in leadership causes the effect of culture to result as most perceptible (Komin, 2000; Kavanagh & Ashkanasy, 2006). Therefore, leadership and organizational culture are closely linked and share an agreeable relationship.

In addition, study by Block (2003) conclude that organizational employees who rated their immediate supervisor positively as a transformational leader are more likely to perceive their organizational culture as more adaptive, involving, integrating, and standing a clear vision and mission.

The objective of this study is to determine the direction and strength of the relationships between perceptions on transformational leadership, involvement culture trait approach toward betterment in the employees’ job performance due to rapid changes in the economic scenario, particularly the SMEs in Malaysia.
LITERATURE REVIEW

Leadership

Leadership is a key factor in an organization’s performance and achievement indicator. The study of leadership is an active field of inquiry because it has been practiced for a long time and there is a large body of academia pertaining to it (Goleman et al., 2002; Kouzes & Posner (2002); Abbas & Yaqoob (2009); Yukl & Lepsinger (2005) mentioned studies on leadership continue to expand as the number of new theories and models continue to be introduced.

A prevalent recurrence in the study of leadership was the study of leadership styles (Moore & Rudd, 2006, p.6). Casimir (2001) defined styles in leadership as a pattern of emphasis, indexed by the frequency or intensity of specific behaviours or attitudes which a leader demonstrates based on his or her various functions. Research suggests that various leadership styles were applied in different situations (Muller & Turner, 2007). There is no exact style in leadership which is ideal for all situations, since a leader may have limited knowledge and skills to react effectively in a situation but may not emerge as effectively in the other as stressed by Rad & Yarmohammadian (2006).

Various styles are needed in different organizational conditions and leaders need to know the best time to demonstrate the best approach, and how to express their abilities to influence others in respond to shared organizational goals (Armandi et al., 2003; Schaubroeck et al., 2007). This is important for leaders to adjust accordingly in order to fit into the changes in the organizational settings and manage the task force.

Transformational Leadership

Transformational leadership exhibits charismatic skills, develops a desired vision, instils pride, builds respect and trust; provides source of inspiration and promotes motivation by creating high expectations and models appropriate behaviours (Jogulu, 2010). Transformational leaders generate new understanding by enhancing awareness on certain issues; stimulate inspiration and excitement in the process to obtain the set objectives.

The concept of transformational leadership has been further progressed by describing it as a result of an individual’s degree of motivation to display an extra effort in task completion process given to them (Riaz & Haider, 2010). In addition, transformational style in leadership can be applied to all individuals in various organisational positions (Ardichvili, 2011), since it refers to as an influential process.

Organizational Culture

As House et al. (2002) and Javidan et al. (2006) stated that leadership influences on organizational form, culture, and practices. Organizational culture is regard as a shared system practiced by employees. Elements such as behaviour, language, values, symbols and rituals form culture (Ott & Sullivan, 1989 cited in Mehra et al., 2006; Davies et al., 2000). Van Den Berg & Wilderom (2004, p. 578) highlighted, two important distinctions between leadership and culture: (i) leadership denotes behaviour displayed by one or only few individuals, while culture is a collective behavioural phenomenon and (ii) leadership involves a potentially one-sided dependency relations.

Further, culture is a composite structure of norms that emphasises the administrering of individuals (Marsick & Watkins, 2003). Culture is the outcomes due to the routine interactions and negotiations among organizational members through their mutual agreement on the righteous procedure to perform tasks. Sadri & Lees (2001) stated that culture in
organization is governed by several factors namely the background of industry, respective location, previous occurrences, members’ behaviours and interaction styles.

**Involvement Cultural Trait**

Involvement trait is defined as the occurrence of employees’ capabilities, proficiencies and sense of empathy and responsibility (Causan, 2004). It measures the degree to which the organisation inquires to instruct and involve its members. Organisations which are successful empower their members, emphasize on teamwork, and develop capabilities of members’ at various levels in organisation (Hechanova et al., 2006).

The research literature has shown that effective organisations empower and engage their people, build their organisation around teams, and develop human capability at all levels (Kirkman et al., 2004; Denison et al., 2004). Organisational members are committed to their work, and feel a strong sense of ownership. People at all levels feel that they have at least some input into decisions that will affect their work and feel that their work is directly connected to the goals of the organisation.

Organisations appreciate high involvement from their employees and control them implicitly (Bozionelos, 2004). Organisations which are successful empower their members and rely on non-bureaucratic control (Elmes et al., 2005; Walton, 2005). Rather, the members are encouraged to develop self-control and not rely heavily on external control (Denison & Mishra, 1995).

**Performance**

The most significant factor which matter in the business industry and organization psychology is job performance. The engagement of employees’ behaviour at their workplace leads toward their job performance. According to Visweswaran & Ones (2000), the individual work performance is important in various employment relations research. Organizations acquire highly performing human capital in order to achieve their business objectives, to disseminate their specialized products and services as well as to accomplish potential benefits.

Performance is also important to individual whereby accomplishing tasks and performing well can be a source of satisfaction, with feelings of mastery and pride. Job performance is categorized into two elements namely: task performance and contextual performance. Task performance is referred to configurations of behaviours that implicate production of goods or services or any processes that afford circuitous aid for company’s innermost technical series of actions (Kahya, 2007).

On the other hand, contextual performance is related to efforts undertaken by individuals that are not related to his or her main job function, however it is significant due to organizational design or structure, social and psychological context that render as a catalyst for operational activities and processes (Kim, 2005).

**RESEARCH METHODOLOGY**

This study attempts to determine the relationships among practice of transformational leadership style, involvement cultural trait approach, and job performance. A survey questionnaire was employed to collect data on organizational members’ perceptions of the selected variables and to test the validity of the model and research hypotheses developed as represented in Figure 1.
The hypotheses were constructed as follows:

Ha1: Practice of transformational leadership significantly determines the job performance outcomes.

Ha2: Practice of transformational leadership significantly determines the involvement cultural trait approach.

Ho3: Involvement cultural trait approach functions as a mediator between practice of transformational leadership and the job performance outcomes.

Survey Procedure and Sample

The manufacturing line staffs with a minimum of Diploma qualification in the Malaysian SMEs manufacturing related services constituted the target response group. This study employs a random sampling method to select 20 firms listed in the SME Corporation (SMECORP) Malaysia Website (www.smecorp.gov.my). The author distributes 200 questionnaires to be completed by the manufacturing line staffs through the HR department of the selected SMEs. A total of 176 responses were received, 8 are considered as incomplete. The remaining of 168 returned questionnaires are valid and complete and were then quantified. It represents a useable response rate of 84.0%.

The average Cronbach’s alpha was 0.70, indicating that there is an acceptable consistency among the respondents. The Cronbach alpha functions in assessing the reliability of the constructs to indicate the sufficiency the items in complementing to one another (Sekaran & Bougie, 2010). In this relation, Field (2005) stated that a value of 0.7 above is an acceptable value of Cronbach’s Alpha and considered as reliable.

Instruments

The survey items were adapted from existing instruments used in past research. Measures assessing transformational leadership style were adapted from Bass & Avolio (1997), known as Multifactor Leadership Questionnaire (MLQ) 5X. The Denison & Mishra (1995) dimensions for culture involvement trait were adapted as well as job performance measurement by Coleman & Borman (2000) were tested. All independent and dependent variables were anchored by five-point Likert –style responses ranging from “strongly disagree” to “strongly agree”.

ANALYSIS OF DATA

This study was guided by Baron & Kenny’s (1986) procedure to analyse the mediating effect of involvement cultural trait between practices of transformational leadership and job performance. The procedures are represented as in Figure 2 as follows:
The path coefficients \((a, b, c')\) estimate the strength of the hypothesized causal relations as estimated by unstandardized regression coefficient analysis (eg Figure 2). The \(c'\) coefficient estimates the strength of the direct effect of transformational leadership on job performance. In other words, the process is represented as \(X \rightarrow M \rightarrow Y\) relationship which is referred as “mediation” or “indirect effect” of \(X\) on \(Y\) through \(M\) (MacKinnon et al., 2002; MacKinnon, 2008).

**Regression Coefficient Estimation**

The regression analyses are conducted in order to obtain estimation of the path coefficients by referring to the steps recommended by Baron & Kenny (1986) as follows:

**The First Step of Analysis**

A regression was performed to determine \(Y\) (job performance or JP) from \(X\) (transformational leadership or TLS). The unstandardized regression coefficient corresponds to path \(c\). Table 1 represents the regression coefficients as part of the output. This is where the unstandardized regression coefficient for the prediction of \(Y\) (JP) from \(X\) (TLS) is \(c = 2.882\) and statistically significant, \(t = 6.651, p < .001\).

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(B)</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>10.698</td>
</tr>
<tr>
<td>TLS</td>
<td>2.882</td>
<td>.578</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: Job Performance*

**The Second Step of Analysis**

The next regression analysis was considered to determine the mediating variable (\(M\), involvement cultural trait or ICT) from the causal variable (\(X\), TLS). The outcome of this process shall provide the path coefficient denoted \(a\) (eg Figure 2). The hypothetical data, the unstandardized \(a\) path coefficient was 1.548, with \(t = 3.635, p = .001\). The coefficient of this regression is presented in Table 2.
Table 2. Regression coefficient to predict M from X

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>78.653</td>
</tr>
<tr>
<td></td>
<td>TLS</td>
<td>1.548</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Involvement cultural trait

The Final Step of Analysis

In this section, a regression has taken place in order to predict the outcome variable Y (JP) from both X (TL) and M (Involvement cultural trait or ICT). This analysis has provided an estimation of the unstandardized coefficients for path b as well as path c' (the direct effect of X on M when the mediating variable has been included). Tables 3, 4 and 5 represent the analyses of this final section.

Table 3. The model summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.843</td>
<td>.692</td>
<td>.668</td>
<td>36.774</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Involvement cultural trait, Transformational leadership

Table 4. ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>80887.133</td>
<td>2</td>
<td>41444.076</td>
<td>31.140</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>37350.738</td>
<td>166</td>
<td>1350.287</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>118237.872</td>
<td>168</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Involvement cultural trait, Transformational leadership
b. Dependent Variable: Job Performance

Table 5. Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-29.167</td>
</tr>
<tr>
<td></td>
<td>TLS</td>
<td>2.266</td>
</tr>
<tr>
<td></td>
<td>ICT</td>
<td>.515</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Job Performance
RESULTS

As stated in Table 5, it has resulted that unstandardized coefficient for path $b = .515$, $t = 2.768$, $p = .017$; on the other hand, the path $c' = 2.266$, $t = 4.651$, $p < .001$. These unstandardized results for the path coefficients are adapted to indicate the paths of causal model as shown in Figure 3. The values are also used to determine on the null hypothesis $H_0$: $ab = 0$.

![Figure 3. Unstandardized path coefficients](image)

In relation to this, the standardized path coefficients also known as beta coefficients is also presented to determine the regression analysis as shown in Figure 4, whereby the $R^2 = .843$, the adjusted $R^2 = .692$ in which statistically significant, $F = 31.140$ and $p < .001$.

![Figure 4. Standardized path coefficients](image)

The overall results as presented (eg Figure 4) has shown that the two variables; transformational leadership style and involvement cultural trait have predicted the variance of job performance through the analyses conducted as well as the null hypotheses are rejected.

CONCLUSION

This study expects to discover the link between leadership-culture and how it affects SME employees’ performance in the rapid changes and ever demanding business scenario. Organizational culture helps to shape employees’ experiences which take effect on their behavior, and understanding the cultural boundaries of leadership due to a business world has become. Past studies have examined on the relationship between leadership and performance (e.g. McColl-Kennedy & Anderson, 2002; Dionne et al., 2004); culture and performance (e.g. Jean-Fraçois, 2006; Lee & Yu, 2004); leadership and organizational culture (e.g. Ruchlin et al., 2004; Ke & Wei, 2008) and the association of the three components such as in Parry & Proctor-Thomson (2002); Xenikou & Simosi (2006).

However, in comparison to previous studies which focuses on a direct link analysis, this study has intended to examine on the causal effect with the inclusion of involvement cultural
trait as the mediator. The interpretation of this finding does not to conclude that leadership styles are irrelevant in relation to employees’ performance but relatively to prove that cultural practices do emerged as a filtering mechanism and resulting as main predictor to the organization members’ performance outcomes.

Importantly, organizational culture establishes an organization (Denison et al., 2004; McLean, 2005). Leaders regulated the uniqueness of culture in the organizational system, structures and policies. It is within these policies and organization structures that shape organizational behaviors as a whole. It is essential that leaders and managers to advocate on the importance of culture in the organization’s operational activities and to discover the types of culture that are favorable to an organization’s development as well as to focus on strengthening positive work culture among the employees.

REFERENCES


