

# Leadership Behaviour, Entrepreneurial Orientation and Organisational Performance in Malaysian Small and Medium Enterprises

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## Abstract

The purpose of this paper is to discuss the organizational performance and entrepreneurial orientation of Malaysian Small and Medium Enterprises (SMEs). Literature has shown that leadership and entrepreneurial orientation are important for organizational performance but still inadequate. Thus, this investigation hopes to close this gap in the literature and contribute to a new understanding of relationships between leadership and organizational performance, and entrepreneurial orientation served as a mediator. This study comprised a sample of owners or managers in the manufacturing and service sectors of SMEs located in Kuala Lumpur and Selangor, as their largest representation of SME establishments and significant contributions to Malaysia economy. A cross-sectional research design was used to examine the relationships between leadership behavior, entrepreneurial orientation and organizational performance among SMEs. The respondent's lists were sought from the SME Corp. Malaysia at <http://www.smecorp.gov.my> and <http://www.smeinfo.com.my>. Data were gathered based on a mailed questionnaire and personal administered questionnaires. The findings indicate that entrepreneurial orientation acted as a partial mediator in the relationship between leadership behavior and organizational performance. Transformational leadership and transactional leadership were found to have a significant relationship with entrepreneurial orientation and organizational performance of SMEs. An important implication of this research indicated that both transformational and transactional leadership behavior positively increased the individual outcome and lead to higher organizational performance.

**Keywords:** leadership behavior, transformational leadership, transactional leadership, entrepreneurial orientation, organizational performance, SMEs

## 1. Introduction

In Malaysia, SMEs represent as the backbone of the local economies and SMEs be recognized as engines of economic growth behind industrial development (Amin et al., 2016; Abdullah & Rosli, 2016). SMEs accounted for 99.2% of all business establishments, contributed 32% of real gross domestic product (GDP) and 19% of export (Zuraidah & Gerry, 2010; National SME Development Council, 2010). The characteristics and determinants of the performance of SMEs have been a large discussion among scholars (Arham, 2015; McKelvie & Wiklund, 2010). SMEs facing few weaknesses such as insufficient workers, insufficient financial support, lack of educational background and less of expertise and professional management team (Amin et al., 2016; Samad, 2007; Saleh & Ndubisi, 2006; Abu Bakar et al., 2006; Mohd Aris., 2006). To enhance the development of SMEs, full efforts are continuously being made seriously by governments (Al-Dhaafri, Al-Swidi & Yusoff, 2016; Dzomonda et al., 2017; Hayat et al., 2011)

This objective of this research is to examine the impact of SMEs performance in Malaysia from the context of leadership behavior and the entrepreneurial orientation (EO). Leadership and EO are already known as crucial components for organization achievement (Arshad et al., 2016; Gul et al., 2012; Hannay, 2009; Wang, 2008; Yang, 2008). Strategic direction to the workers will motivate them to achieve organizational performances (Luu, 2017).

Leadership is vital to enhance organization achievement as leaders are responsible for strategic firms' goal (Yang,

2016). Hence, top management is accountable to the stakeholders in producing and creating the best products and services through sufficient resources allocated by companies (Madanchian et al., 2016; Ahmad et al., 2014). On the other hand, the organization needs to give full attention to evolving entrepreneurial orientation which portrayed them differently from their rivals in the market.

Leadership and EO are crucial factors that are needed to be upgraded and strengthen the organizational performance and to stimulate entrepreneurs of SMEs for 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 the year 2020.

## **2. Problem Statement**

SMEs play a focal role in the economy and social landscape of Malaysia and are viewed as critical pillars of the country (Radam, Abu & Abdullah, 2008). However, SMEs in Malaysia still faces difficulty such as lack of resources, inadequate knowledge and insufficient of managerial skills (Lim, 2016; Ahmad & Seet, 2009; Alkahtani, Abu-Jarad, Sulaiman & Nikbin, 2011; Hoq, Ha & Said, 2009; Saleh & Ndubisi, 2006). The lack of managerial skills was one of major limitation and reduced the ability of SMEs to improve their productivity and performance of the firm (Abe et al., 2012; SME Corporation Malaysia, 2014). Malaysian SMEs contributed about 32% (NSDC, 2010) only, however, Singapore and Thailand recorded much higher, 49% and 38% respectively. Therefore, there was a challenge for the leaders of SMEs have to equip with a number of expertise such as management and leadership skills to improve the performance and mitigate setbacks and failure.

Even though researchers and practitioners have a great discussion and interest in the topics of leadership and EO (Arshad et al., 2016; As-Sadeq & Khoury, 2006; Ling et al., 2008; Lo et al., 2010, James et al., 2016; Moreno & Casillas, 2008; Rauch et al., 2009; Wiklund, 1999), the arguments have to be liable in considering closely whether there is a relationship between leadership and EO on the one hand and organisational performance on the other hand. A very few studies have been focused and conducted to investigate the relationship between the three variables simultaneously (Arham, 2014; Yang, 2008; Todorovic & Schlosser, 2007). Thus, the investigation of an entrepreneurial orientation as a mediator in the leadership-performance relationship will contribute to a new understanding of relationships between leadership and organizational performance of SMEs in Malaysia.

Previous studies found that SMEs in Malaysia still lack or limited understanding of leadership (Rahim et al., 2016; Abdul Aziz et al., 2013; Mohd Sam et al., 2012; Hashim et al., 2012). Thus, this investigation of the forms of leadership behavior in SMEs in Malaysia hopes to close this gap in the literature on SMEs.

## **3. Literature Review and Hypotheses Development**

### **Transformational leadership and Organisational Performance**

Previous researchers have displayed the existing of a strong correlation between transformational leadership and organizational performance. This strong correlation was proved by Avolio (1999) and Bass (1998) with numerous different measures. However, Dvir et al. (2002) suggested a better achievement from followers comes from transformational leaders than other types of leadership. Ramey (2002) agreed that a positive and moderate correlation was found between transformational leadership and the job satisfaction. A study in Pakistan found a positive correlation between the transformational leadership style and SMEs performance and a weak positive correlation between transactional leadership style and SMEs performance (Naeem & Tayyeb, 2011). Zumitzavani and Udchachone (2014) claimed that a transformational leadership style has a positive relationship with organizational performance in the hospitality industry in Thailand.

*H1: Transformational leadership has a significant effect on Organisational Performance.*

### **Transformational Leadership and Entrepreneurial Orientation**

Past studies reveal that innovativeness, risk-taking, and proactiveness are the main traits of entrepreneurial or intrapreneurial (Miller, 1983; Shirokova et al., 2016). Moriano et al., 2014 urged that the managers who possess a high level of transformational leadership traits led to an increase of the employees' level of intrapreneurial activities. Politis and Harkiolakis (2008) stated that transformational leadership is strongly positively related to the innovation dimension of entrepreneurial orientation compared to transactional leadership. In addition, it was found that transformational and transactional leadership equally affected the risk-taking and proactiveness dimensions.

*H2: Transformational leadership has a significant effect on the entrepreneurial orientation*

### **Transactional Leadership and Organisational Performance**

Amirul and Daud (2012) examined the relationship between transactional leadership and leadership outcomes in 325 companies in the context of SMEs in Malaysia. The result stated that transactional leadership is positively related to organizational performance. Arham (2014) also found that transactional leadership has a positive relationship with organizational outcomes in Malaysian SMEs manufacturing and service sector. This is in line with a study done by Abdul Aziz et al. (2013) urged a significant relationship between transactional leadership and performance in the service sector.

*H3: Transactional leadership has a significant effect on organizational performance*

### **Transactional Leadership and Entrepreneurial Orientation**

Kwasi (2015) remarks that transactional leaders are more task-or goal-oriented than people-oriented. On that note, transactional leaders define objectives and set expectations from each employee prior to the execution of the task (Martin, 2015). Businesses in this 21st century are exposed to a plethora of challenges such as stiff competition, short product life cycles among others all emanating from globalization. According to Panagopoulos and Avlonitis (2010), leadership style is a crucial requirement if a firm attempted to adopt an EO strategy successfully. A study by Nahavandi (2006) indicated that a transactional leader creates an EO atmosphere in the organization through the concept of exchange.

*H4: Transactional leadership has a significant effect on entrepreneurial orientation*

### **Entrepreneurial Orientation and Organisational Performance**

The measurement of EO commonly used by scholars was developed by Covin and Slevin (1989), based on the research done by Khandwalla (1977) and Miller (1983). This scale, which consists of three dimensions, innovation, proactiveness, and risk-taking. The measurement of EO was adopted by numerous studies (Becherer & Maurer, 1997; Dickson & Weaver, 1997; Naman & Slevin, 1993; Steensma et al., 2000). Lumpkin and Dess (1996) added another two dimensions; competitive aggressiveness and autonomy, in the existing of measurement of EO. However, this study used three dimensions of entrepreneurial orientations; proactiveness, innovativeness, and risk-taking based on Covin and Slevin (1989). Lumpkin and Dess (2001) demonstrated that the dimensions of EO led to market growth. Past studies at empirical level have shown a positive relationship between entrepreneurial orientation and firm performance, e.g. a longitudinal study has found that entrepreneurial orientation to have a long-term effect on growth and financial performance of small businesses (Wiklund & Sheperd, 2003).

Therefore, it is suggested that firms may gain benefit from adopting an EO. Such firms innovate frequently while taking risks in their product market strategies (Miller & Friesen, 1978). Efforts to anticipate demand and aggressively position new product/service offerings often result in a strong performance (Ireland et al., 2003). Hence, the study of EO especially on Covin and Slevin (1989) dimensions, needs more studies to prove there is a relationship between EO and business performances.

*H5: Entrepreneurial orientation has a significant effect on organisational performance*

### **Entrepreneurial Orientation, Transformational Leadership and Organizational Performance**

Transformational leaders discover and expand shared values and empower others (Owen et al., 2004; Ozaralli, 2003), influenced subordinates to produce better quality and quantity of work, and being a creative problem solver of employees (Limsila & Ogunlana, 2008). This is a procedure for improving and changing employees by increasing motivation, building commitment, and empowering them to achieve organizational performance (Yulk, 2010). In other words, transformational leaders have the ability to boost the commitment of employees through shared values and shared vision (Sadler, 2003). Transformational leaders change things by crafting the vision and by influencing followers to buy into the vision (Lussier & Achua, 2007). In addition, transformational leaders focus on the organization and direct follower commitment toward organizational goals.

Studied by Arham (2014) involved 390 respondents from service and manufacturing SMEs in Malaysia also found that transformational leadership has a significant relationship with EO that related to growth and profitability of the organization. Hassim et al. (2011) proposed that appropriate behavior of the leaders is an important factor of a firm's strategy for enhancing its entrepreneurial stance.

*H6: Entrepreneurial orientation has mediates the relationship between transformational leadership and organizational performance*

### **Entrepreneurial Orientation, Transactional Leadership and Organizational Performance.**

Transactional leadership suggested that a leader has to observe behavior which seeks to supervise subordinates to assure strength in the workplace and to assure the management procedures are followed by subordinates (Bass,

1985). There are mixed findings on leadership behavior and EO in previous research. Yang (2008) stated that transactional leadership has a small positive relationship with EO. Contrary, a study was done by Eyal and Kark (2004) found that there is no significant relationship between transactional leadership and EO. They declared that managers or leaders practice or adopt transactional leadership behavior are less inclined to be more proactiveness or innovativeness.

Meanwhile, Jung et al. (2008) insisted that leaders have a direct influence on organizational performance through their characteristics and behavior and indirect influence through the strategic choices they make. EO is essential elements as a firm's strategic choice that captures the specific entrepreneurial aspects of decision-making styles, methods and practices (Wiklund & Shepherd, 2005) and it is a key to enhance organizational performance (Covin & Slevin, 1989; Lumpkin & Dess, 1996). In the context of SMEs in Malaysia, Arham et al. (2015) demonstrated that transactional leadership has a significant relationship to EO, and EO has a direct significant relationship to growth and profitability in manufacturing and services sector.

*H7: Entrepreneurial orientation has mediates the relationship between transactional leadership and organizational performance.*

#### **4. Methodology**

A cross-sectional research design was employed in this study where a data was collected at a given point of time (Sekaran & Bougie, 2013; Kumar et al., 2013). A quantitative research approach was applied which commonly used in social sciences studies (Keng et al., 2013; Shukri & Mahmood, 2014). Manufacturing and services sector located in Kuala Lumpur and Selangor were considered as a population of this study. Simple random sampling was employed and the sample size of 384 is enough for population up to 1 million were used (Sekaran & Bougie, 2010). The unit of analysis for this study is at the organizational level which involved the entire SMEs owners or managers. The data collected were analyzed and interpreted using the Statistical Package for Social Science (SPSS) to analyze the demographic profiles of the respondents meanwhile, and Structural Equation Modelling (SEM)-AMOS 22.0 software package to test the inter-relationships between constructs of the hypothesized model.

#### **Measurement**

All variables were measured using 10 points Likert scale ranging from 1 (Strongly Disagree) to 10 (Strongly Agree) because having more scale points able to reduce skewness, and has the smallest kurtosis and close to normal. (Leung, 2011). Section 1, contains the measurements for leadership behavior that were adopted from the Multifactor Leadership Questionnaire (MLQ) developed by Bass and Avolio (2004). The researchers have obtained the questionnaire from Yogeswaran (2015) with a permission from Mind Garden to use the MLQ Leader 5X short form that consists of 45 items. However, only 32 items representing transformational and transactional leadership were included in the questionnaire.

Section 2, measured the EO construct which in this study comprises the initial factors developed by Miller (1983); innovativeness, pro activeness and risk-taking. The measurement of these factors was adopted from Covin and Slevin (1989) and Wang (2008). The EO scale that consists of these three factors is the most widely used measure of EO in entrepreneurship literature (Runyan et al., 2012). Four items measured innovativeness, four items measure proactiveness, and three items measure risk-taking. Section 3 measures the organizational performance construct through growth and profitability, which was adopted from Matzler et al. (2008), Tan (2007), and Arham (2014). Section 4, asked for demographic information and business background of the respondents.

#### **Global Fitness of Indexes**

The global fitness index can be determined by the absolute, incremental, and parsimonious fit; factor loading can be assessed by the value of standardized estimates, and construct correlations was identified by the value of standardized correlations. The recommended value for the factor loadings is 0.60 (Hair et al., 2010; Awang, 2015; Ali et al., 2018). Meanwhile, the recommended value for the construct reliability is 0.70 (Hair et al. 2010; Nunally & Bernstein, 1994).

Hair, Babin & Barry (2017) suggested the study should report at least one index from the category of Absolute Fit, Incremental Fit, and Parsimonious Fit in order to validate construct validity. From Table 1, all fitness indexes have achieved the required level. Thus the measurement model has achieved the construct validity (Awang, 2015).

Table 1. Global Fitness of Indexes

Name of category	Name of index	Index value	Comments
Absolute fit	RMSEA	0.032	The required level is achieved
Incremental fit	CFI	0.966	The required level is achieved
	TLI	0.964	The required level is achieved
	IFI	0.966	The required level is achieved
Parsimonious fit	Chisq/df	1.403	The required level is achieved

5. Result

In this study, a total of 1,700 questionnaires were distributed to the respondents via postal mail and they were given two months to complete and return the questionnaires to the researcher. From the questionnaires distributed, only 435 (25.58%) were received and 401 (23.58%) set of questionnaires are used for further analysis. The 34 questionnaires were not used because they were incomplete. The profiles of the respondents based on gender, age, race, industry, level of education, the tenure of business, a total of employees and total of sales turnover were illustrated in Table 2.

Table 2. Profiles of Respondents

		Frequency	Percent
<b>Industry</b>	Manufacturing	146	36.4
	Service & Other Sectors	224	55.9
<b>Gender</b>	Male	218	54.4
	Female	183	45.6
<b>Education Level</b>	Secondary Education	30	7.5
	Certificate/Diploma	37	9.2
	Degree	232	57.9
	Master	60	15.0
	PhD/Doctorate	39	9.7

Pooled Confirmatory Factor Analysis (CFA)

The pooled CFA is regarded as the method of choice when assessing the measurement model because it can avoid the identification problem if construct contains less than four items per construct. Apart from that, the demonstration results from pooled CFA is seemed more comprehensive than the other ones since it considered all constructs in one model (Kashif et al., 2015; Awang, Afthanorhan & Asri., 2015). Figure 1 below, shows the results of factor loadings, construct correlations and fitness indexes. By inspecting the results of fitness indexes, all fitness indexes are satisfied since the parsimonious fit ( $Chisq/df = 1.378 < 3.0$ ); absolute fit ( $RMSEA = 0.031 < 0.08$ ); and incremental fit ( $CFI = 0.967$ ,  $IFI = 0.967$ , and  $TLI = 0.965 > 0.90$ ). The factor loading also was satisfied since its value is greater than the recommended value of 0.6. However, only one item (JJ8) from transformational leadership was detected carried poor factor loading (0.43).

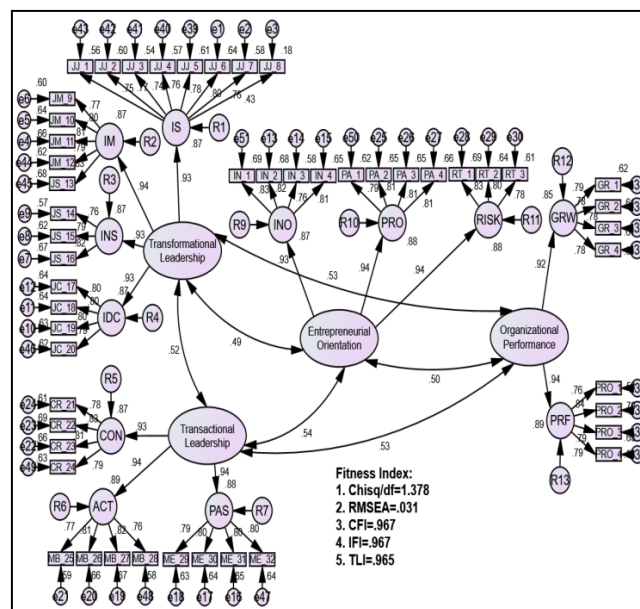


Figure 1. First Model

### Reliability and Validity

In terms of construct reliability and validity, this model was determined by the Composite Reliability (CR) and Average Variance Extracted (AVE) as shown in Table 3. The Composite Reliability (CR) and Average Variance Extracted (AVE) are satisfied in that above 0.70 and 0.50 respectively (Nunnally & Bernstein, 1994; Lowry & Gaskin, 2014)

Table 3. Composite Reliability and Average Variance Extracted Results

	CR	AVE
<b>Transformational Leadership</b>	0.964	0.870
IS	0.899	0.614
IM	0.888	0.614
INS	0.805	0.580
IDC	0.856	0.597
<b>Transactional Leadership</b>	0.955	0.877
CON	0.865	0.616
ACT	0.854	0.594
PAS	0.862	0.610
<b>Entrepreneurial Orientation</b>	0.955	0.877
INO	0.866	0.619
PRO	0.869	0.624
RISK	0.819	0.601
<b>Organizational Performance</b>	0.928	0.865
GRW	0.847	0.581
PRF	0.864	0.613

*Note.* IS=Idealised Stimulation, IM = Idealised Motivation, INS = Idealised Influence, IDC = Individual Consideration, CON = Contingent Reward, ACT=Management-by-exception (active), PAS =Management-by-exception (passive), INO = Innovativeness, PRO = Proactiveness, RISK= Risk Taking, GRW=Growth, PRF = Profitability

### Discriminant Validity

Based on Table 4, it is observed that the correlation between all constructs is less than 0.85 (Hair et al. 2010; Kline, 2015). Moreover, the value of AVE squared (bold value) is higher than the correlation construct in its row and column (Fornell & Larcker, 1981). Therefore, it is concluded that the discriminant validity of the model is satisfied, and all constructs remain in the model suitable for the estimation.

Table 4. Discriminant Validity Results

Construct	Transformational Leadership	Transactional Leadership	Entrepreneurial Orientation	Organizational Performance
Transformational Leadership	<b>0.933</b>			
Transactional Leadership	0.52	<b>0.936</b>		
Entrepreneurial Orientation	0.49	0.54	<b>0.936</b>	
Organizational Performance	0.53	0.53	0.50	<b>0.930</b>

### Assessment of Normality

Table 5 below shows the assessment of normality distribution. The measure of skewness reflects the normality assessment for every item. The absolute value of skewness 1.0 or lower indicates the score is normally distributed (Awang, 2015). However, the absolute value of skewness below than 1.5 is still acceptable (Hair et al. 2010). Therefore, it can be concluded that the normality test is achieved. Moreover, the critical ratio of skewness is suggested valid when the value is below than 8.0. As is shown in the table, the value of the critical ratio of skewness is acceptable. Other than that, the multivariate of kurtosis also can be determined to assess the normality distribution. According to Awang (2015), the acceptable results for multivariate is under 50. In this case, multivariate of kurtosis is satisfied and suitable for the parametric method as a covariance-based Structural Equation Modelling.

Table 5. Normality Results

Variable	Min	max	skew	c.r.	kurtosis	c.r.
IN_1	2.000	8.000	-.161	-1.313	.091	.372
PA_1	2.000	8.000	-.180	-1.469	-.042	-.173
CR_24	2.000	8.000	.056	.461	-.044	-.181
MB_28	2.000	7.000	.057	.470	-.127	-.519
ME_32	2.000	8.000	.071	.579	.050	.203
JC_20	1.000	6.000	-.121	-.989	-.243	-.995
JS_13	2.000	8.000	-.217	-1.770	.080	.327
JM_12	1.000	8.000	.106	.863	.321	1.311
JJ_1	2.000	8.000	-.138	-1.126	.334	1.366
JJ_2	1.000	8.000	.045	.367	.237	.970
JJ_3	3.000	9.000	-.073	-.593	-.188	-.767
JJ_4	3.000	9.000	-.005	-.041	-.055	-.225
JJ_5	2.000	8.000	-.094	-.772	.008	.031
GR_1	3.000	9.000	.051	.413	.014	.057
PRO_1	2.000	7.000	-.006	-.052	-.107	-.437
PRO_4	1.000	6.000	.099	.806	-.209	-.853
PRO_3	1.000	7.000	.294	2.405	.239	.978
PRO_2	3.000	10.000	.141	1.152	.202	.825
GR_4	1.000	8.000	.069	.565	.083	.341
GR_3	1.000	8.000	.093	.761	.130	.533
GR_2	2.000	8.000	.016	.128	.976	3.988
RT_3	2.000	8.000	.167	1.368	.076	.313
RT_2	2.000	8.000	-.120	-.977	-.080	-.328
RT_1	3.000	6.000	-.201	-1.646	.114	.465
PA_4	2.000	7.000	-.062	-.510	-.190	-.775
PA_3	1.000	5.000	-.146	-1.197	-.214	-.873
PA_2	1.000	5.000	-.137	-1.119	.250	1.022
CR_21	3.000	8.000	.029	.234	-.262	-1.071
CR_22	2.000	8.000	.058	.477	.017	.069
CR_23	2.000	8.000	.156	1.276	.125	.510
MB_25	2.000	7.000	.161	1.319	-.250	-1.023
MB_26	3.000	8.000	.075	.611	-.269	-1.099
MB_27	2.000	6.000	.072	.588	.037	.150
ME_29	3.000	9.000	-.020	-.163	-.193	-.789
ME_30	4.000	9.000	.254	2.078	-.344	-1.407
ME_31	1.000	8.000	-.155	-1.268	.271	1.109
IN_4	1.000	5.000	-.109	-.889	-.038	-.157
IN_3	3.000	9.000	.000	.001	.008	.034
IN_2	2.000	7.000	-.168	-1.373	-.234	-.958
JC_17	3.000	7.000	.031	.252	.304	1.244
JC_18	2.000	8.000	-.056	-.459	.089	.362
JC_19	1.000	6.000	-.085	-.692	-.231	-.943
JS_14	1.000	7.000	-.108	-.884	.049	.199
JS_15	1.000	6.000	-.218	-1.781	.049	.198
JS_16	1.000	7.000	-.240	-1.959	.540	2.209
JM_9	1.000	7.000	-.113	-.926	-.064	-.263
JM_10	3.000	9.000	.134	1.099	-.200	-.819
JM_11	1.000	8.000	-.245	-2.003	.263	1.077
JJ_7	2.000	8.000	-.133	-1.088	.140	.573
JJ_6	2.000	8.000	-.121	-.987	.073	.299
<i>Multivariate</i>					7.259	1.008

**Testing Mediation**

Figure 2 shows the standardized results. The standardized often used in assessing the mediation effect and measurement model during performing the pooled CFA. This is because the standardized estimates help the researchers to make interpretation easily. The value from standardized estimates would fall in the range value between 0 to 1, which making it easy for comparison purpose.

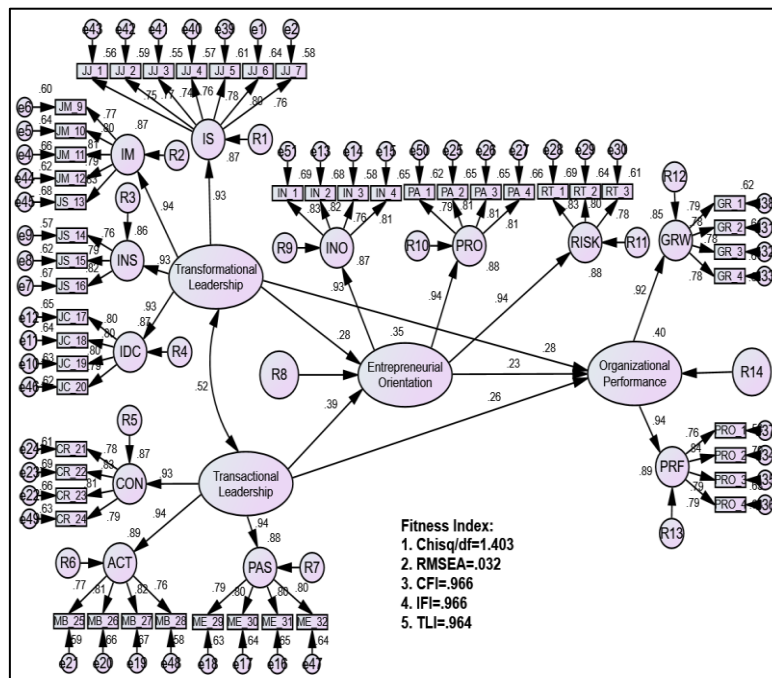


Figure 2. Standardized Estimates

**Regression Weight**

Table 6 shows the regression weight for each path analysis that has been proposed in the research hypotheses. From the table, it is clearly shown that all constructs have a significant contribution towards its respective endogenous constructs. By looking at the estimated value, transformational leadership has the highest positive contribution towards the organizational performance followed by transactional leadership and EO. Specifically, the interpretation for each effect as follows:

Table 6. Regression Weight

			Estimate	S.E.	C.R.	P	Result
Entrepreneurial Orientation	<---	Transformational Leadership	.288	.059	4.864	***	Significant
Entrepreneurial Orientation	<---	Transactional Leadership	.376	.059	6.430	***	Significant
Organizational Performance	<---	Entrepreneurial Orientation	.199	.054	3.678	***	Significant
Organizational Performance	<---	Transformational Leadership	.257	.055	4.686	***	Significant
Organizational Performance	<---	Transactional Leadership	.220	.054	4.057	***	Significant

**Bootstrapping Approach**

The use of a mediation model with bootstrap is available in AMOS software. This study used bootstrap Maximum Likelihood Estimator with 1,000 replications to produce consistent and unbiased results (Bollen & Bainter, 2014). The result for bootstrapping estimates and p-value was obtained by the application of Amos output. From the Table 7, the regression weight estimate for indirect effect is 0.063. The probability of getting a bootstrap p-value for indirect effect is 0.001. What it means is that the regression weight for EO as mediator construct is significant at 0.001 level, hence, the hypothesis (H6) that EO has mediates the relationships between Transformational Leadership and Organizational Performance is duly supported.



Table 7. The result of Direct and Indirect Effect (Transformational Leadership, Entrepreneurial Orientation, and Organizational Performance)

	Indirect Effect	Direct Effect
Bootstrapping Estimate	0.063	0.284
Bootstrapping P-Value	0.001	0.002
Result	Significant	Significant
Type of Mediation	<b>Partial Mediation</b>	

Table 8. The result of Direct and Indirect Effect (Transactional Leadership, Entrepreneurial Orientation and Organizational Performance)

	Indirect Effect	Direct Effect
Bootstrapping Estimate	0.088	0.257
Bootstrapping P-Value	0.001	0.002
Result	Significant	Significant
Type of Mediation	<b>Partial Mediation</b>	

The result for bootstrapping estimates and p-value was obtained by the application of Amos output. From the Table 8, the regression weight estimate for indirect effect is 0.088. The probability of getting a bootstrap p-value for indirect effect is 0.001. What it means is that the regression weight for EO as mediator construct is significant at 0.001 level, hence, the hypothesis (H7) that Entrepreneurial Orientation has mediates the relationships between transactional leadership and organizational performance is duly supported. Further, to explain more about the type of mediation, the result for direct effect is examined. The regression weight for direct effect is 0.257. The probability of getting bootstrap p-value for direct effect is 0.002 ( $p\text{-value} < 0.05$ ). Therefore, it can be concluded that the type of mediation for this model is Partial Mediation because the significant effect existed in the direct effect.

The summary of hypotheses testing as shown in Table 9.

Table 9. Summary of Hypotheses Testing

RESEARCH HYPOTHESES	RESULTS
H1 : Transformational leadership has a significant effect on organizational performance	Supported
H2 : Transformational leadership has a significant effect on entrepreneurial orientation	Supported
H3 : Transactional leadership has a significant effect on organizational performance	Supported
H4 : Transactional leadership has a significant effect on entrepreneurial orientation	Supported
H5 : Entrepreneurial orientation has a significant effect on organizational performance	Supported
H6 : Entrepreneurial orientation has mediates the relationships between transformational leadership and organizational performance	Supported
H7: Entrepreneurial orientation has mediates the relationships between transactional leadership and organizational performance	Supported

## 6. Discussion and implications

This study was to investigate the relationship between Transformational Leadership, Transactional Leadership, Entrepreneurial Orientation and Organizational Performance of SMEs in the manufacturing, and service & other sectors in Malaysia. The results revealed that more male (54.4 %) than female (45.6%) respondents participated in this study. The majority of the respondents had degree education at 57.9%, and in the age group of 31 to 40 years at 38.7%. The results indicated that respondents possessed higher education has displayed leadership behavior and tend to achieve better performance in business. This is in line with a study done by Karadag (2017) highlighted that education level of owner/managers has affected the financial performances of the business in SMEs. Matama (2016) also stated the levels of education had a significant relationship with financial performance, as more small business owners advanced in education, the more of financial worth was observed in small business firms. The small business owners who had university degrees had more financial knowledge compared to those with secondary and lower education levels (Matama, 2016). This could be attributed to the fact that owners that attained college education may able to understand and analyzing the financing documentation especially the loan contracts and the associated risks unlike the owners with secondary education and below.

The results indicated that the transformational leadership has a significant effect on the organizational performance of SMEs. This is in line with previous studies by Arham (2014), Lim (2016), and Abdul Aziz et al. (2013). Therefore, the entrepreneurs in Malaysia is suggested to practice both forms of leadership behavior and this consistent with the suggestion made by Abdul Aziz et al. (2013) and Ismail et al. (2010). They stated that the leaders that practiced both transformational and transactional leadership behavior effectively will increase positive individual outcomes and lead to increase the organizational performance.

The result of this study also found that entrepreneurial orientation also partially mediates the relationship between leadership behavior and organizational performance. This signifies that the development of entrepreneurial orientation is the important elements besides leadership behavior in order to increase the organizational performance.

### Managerial Implications

The key objective of this study is to show the consequences which can benefit and practical for SMEs in the manufacturing and service industries. Effective leadership behavior of owners and top managers and entrepreneurial orientation are essential elements that affected the growth and profitability of the firms. Moreover, leaders of SME establishments in these industries are encouraged to understand the complex interaction between their leadership behavior and the level of entrepreneurial orientation practiced in their organization.

### Theoretical Contributions

Modification version of the Questionnaire (MLQ) for the transformational leadership construct also indicate that the factor structure for the transformational leadership construct of the MLQ cannot be retained. Due to low factor loadings and cross-loading resulting in the removal of the individualized influenced factor (I specifically mentioned the importance of having a strong sense of purpose). Other scholars, Arham (2014) and Ozaralli (2003) had to removed factor idealized consideration from the final analysis as well.

### 7. Conclusion

Every study has the limitation. Among the limitations facing when conducting the study was time and situational constraints. This study relied on self-reported data from single informants which may exaggerate their assessment and judgment of their leadership behavior, firms' EO, and organizational performance.

In conclusion, the managers or owners of the business must understand the leadership behavior they display and practice has significant direct and indirect (through EO) contributions to organizational performance. This study doesn't have any intention or suggestion that leaders should practice a particular form of leadership behavior, but empirical findings indicate that when transformational leadership is practiced, it exerts stronger effects on EO and organizational outcomes than transactional leadership does.

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