

The Influence of Strategic Leadership on the Performance of Small and Medium-Sized Enterprises in the State of Kelantan, Malaysia

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Abstract: This research is on the influence of strategic leadership on the performance of small and medium-sized enterprises (SMEs). Specifically, the nature of the relationship between SMEs' performance and strategic leadership in Kelantan, Malaysia, is investigated to fill existing gaps in theory and practice. A research model was developed to test the hypothesized relationships. This study used a cross-sectional research using the quantitative and descriptive method, with a survey to collect data. Partial Least Squares-Structural Equation Modeling (PLS-SEM) was used to test the hypothesis in this study. The results show that SMEs' performance has a positive relationship with strategic leadership. The study can be used as a reference for future research on the effect of strategic leadership on the SMEs' performance, covering a wider scope and a different sample.

Keywords: Strategic Leadership (SL), Performance (PE), Small and Medium-Sized Enterprises SME.

I. INTRODUCTION

Small and medium-sized enterprises (SMEs) have traditionally played an important role and become a vital part in the development of Malaysia's economy (Abdul-Halim *et al.*, 2021). It is said that 98.5% of businesses in Malaysia are SMEs (Yusoff *et al.*, 2018), and this sector currently employs 5.7 million Malaysians, accounting for 70 percent of the country's employment (Malay Mail, 2019). This sector is critical now and, in the future, because it provides job opportunities for the tens of thousands of people who enter the labor force each year

(AlQershi, 2021; OECD, 2017; Aga *et al.*, 2015). In addition, the SME sector generates income, increases wealth and reduces poverty of people (Stonehouse *et al.*, 2002).

In Malaysia, the SME sector is the engine that drives economic development and domestic investment. According to the 2020 statistics, SMEs in Malaysia produced 38.2 percent of the country's gross domestic product (GDP) and 48 percent of total national employment in the country (Department of Statistics Malaysia website, 2021). Clearly, by making a major contribution to the Malaysian economy, SMEs play a role in helping to accomplish the National Entrepreneurship Policy 2030 (DKN 2030) for Malaysia to achieve the status of a developed and prosperous country (Schaper, 2020). As SMEs play an important role by contributing significantly to the country's GDP and shaping the Malaysian economy, they must be very resilient and agile in order to remain adaptive and relevant in today's fast-changing and dynamic business world. Thus, it is essential for the leaders of SMEs to acquire specific skills and behavior that are focused on management and leadership, in order to boost organizational performance while mitigating setbacks and failure (Özer *et al.*, 2014).

Despite being the major contributor to the Malaysian economy, many of these SMEs have been unable to survive in the long-run and encounter problems and even failure within the first five years. One of the main reasons is due to not practicing any form of strategic planning (Perera, 2016). In addition, Noudoostbeni *et al.* (2010) stated that poor planning and lack of management skills are among the reasons why SMEs have been unable to sustain their business. This problem has also been highlighted by SMECorp. (2018), that SMEs' productivity and growth are

typically held back by a number of problems, including lack of managerial skills, as well as lack of innovation, scale, market accessibility and financing.

According to Rahman *et al.* (2016), it is crucial for SMEs to be equipped with management skills to propel the SMEs to greater heights. One of the most crucial management tools is the ability to lead others, because leaders must collaborate with others in order to get the best possible outcome for the business with the least amount of input and resources (Franco *et al.*, 2013). This is supported by Albert and Olivia (2015) that leadership is the process of persuading people to undertake certain duties in order to achieve a defined organizational objective. They further stated that with the right leadership style and behavior, SME leaders can get the most out of their subordinates' skills. Therefore, they need to transform their mindset and equip themselves with a strategic leadership so that they can inspire and support, and be a source of continuous encouragement for all members under their leadership.

According to Tuan Luu (2017), leaders who convey and integrate a strategic stance will bring about more favorable outcomes for their company. It has been evinced that it is important to have strategic leadership to successfully navigate the company and to ensure its survival, so that it continues to thrive and create more value. According to Ireland *et al.* (1999), strategic leadership refers to a leader's ability to manage, organize, influence, motivate, and increase the performance of team members under his or her leadership so as to accomplish organizational goals.

Therefore, the objective of this research is to identify the influence of strategic leadership on the performance of SMEs. It is important for SME leaders to have strategic leadership as it can determine the strategic direction of the company and shape its identity. It is hoped that the findings of this research can benefit various agencies, such as the Ministry of Entrepreneurial Development and Cooperatives of Malaysia (MEDAC) and the Small and Medium Enterprise Corporation (SMECorp), in terms of helping them to design training programs on developing the right managerial skills. Such training programs can help current and future leaders of SMEs to develop the right strategic leadership to navigate the SME, and help it to be competitive in the current borderless business landscape. When strategic leaders can improve the productivity of SMEs, it will in turn help enhance Malaysia's economic growth.

II. LITERATURE REVIEW

A. Strategic Leadership and Performance

Strategic leaders are a group of Chief Executive Officers (CEOs) who set the overarching policy for the organization's acquisition and integration of resources (Jaleha and Machuki, 2018). According to the authors, strategic leadership is concerned with the ability to develop a sense of purpose and direction, which is a fundamental enabler for interacting with important internal and external stakeholders in the quest for

high performance. The strategic leadership perspective focuses on strategic visionary thinking and competencies in order to create a dynamic organization.

Organizational performance is a critical factor for determining the success of a company (Alqershi *et al.*, 2019). Organizational performance is described as an organization's capacity to achieve goals, such as high profitability, high quality products, a big market share, solid financial outcomes, and a sustainable competitive advantage, through the implementation of feasible and applicable strategies (Khin *et al.*, 2019). According to Alqershi *et al.* (2020), performance is defined as a record of results achieved over a period of time on a specific job function or activity.

The ability of an organization to fulfil its objectives by utilizing resources efficiently and effectively is also referred to as organizational performance. Attaining great organizational performance is not a matter of chance, but rather a result of strategic leadership. According to Jaleha and Machuki (2018), organizational performance is also defined as a combination of the financial and non-financial constructs that enable strategic leaders to analyse the degree to which the corporate objectives have been met. Scholars are still debating how to measure organizational performance in light of its complexity and diverse characteristics.

The term, "organizational performance", can be construed in various ways. It refers to finance, product market, and investor returns in a restricted sense, but organizational efficiency, which is a broader notion, includes both financial and non-financial indicators, like customer satisfaction, operational efficiency, and corporate social responsibility (García-Sánchez *et al.*, 2018). An organization's primary objective is to improve its performance in order to remain competitive in the marketplace. Furthermore, organizational leaders strive to develop the organization and reach the maximum possible level of planned performance (Gomez and Bernet, 2019).

Similar research on strategic leadership has been conducted in Indonesia to explore the impact of strategic leadership qualities on a business' dynamic capacities and performance (Mui *et al.*, 2018). Özer *et al.* (2014) conducted a study on strategic leadership in Turkey, where strategic direction, human capital, ethical practices, and organizational control, were utilized as the variables. The findings show that strategic leadership has a significantly positive impact on the performance. According to Alqershi (2020), the majority of research findings in extant literature have indicated that leadership styles have a significant association with business success, and different leadership styles may have mixed results when organizational performance is studied.

According to Avolio *et al.* (2004), when leaders demonstrate behavioral integrity by ensuring that their acts and ideals are consistent, their followers develop a strong emotional tie and sense of identification with them. Furthermore, leaders with strong ideals are more consistent in their ethical and moral behaviour than leaders with a weak idealized influence (van

Kleef *et al.*, 2021). These characteristics make such leaders deserving of being regarded as role models by those who like and trust them. Risk-takers and enthusiasts are described as idealized influence leaders (van Kleef *et al.*, 2021). Since they are not afraid of change, this explains their ability to create, plan, and implement change in the organization. Their enthusiasm motivates their supporters to hope for a better future and to welcome change rather than status quo. Leaders with a risk-taking nature are better able to weather storms and build the organizational resilience required for survival.

According to the strategic leadership theory, inspirational motivation is another crucial trait of an inspired leader. Leadership is good for presenting a clear vision of the company, setting high standards, and sending positive messages, all of which can boost confidence and create a sense of excitement among co-workers (Campbell and Fuhr, 2004). Persuasion strategies that are both effective and communicative result in leadership and inspirational motivation.

Campbell and Fuhr, (2004) stated that leaders can inspire people to go above and beyond their own self-interest by becoming role models and symbols of bravery. Followers become inspired to convey their unique thoughts and inner feelings when leaders assist them by encouraging them to openly express new ideas.

According to Langat *et al.* (2019), idealized influence leadership is positively associated with performance. leadership entails boldly and positively communicating a vision, as well as demonstrating energy and enthusiasm in order to develop an engaging and convincing vision. strategic leadership is examined in this study as an independent variable that influences SMEs’ performance relationship through the following hypothesis:

H1: There is significant relationship between strategic leadership and SMEs’ performance in Malaysia.

III. METHOD

A total of 156 questionnaires were distributed to SMEs account using the explorative approach to fine-tune our hypotheses and to establish a relationship to the context. Of these, 89 were retrieved and 63 were deemed useable for data analysis. The questionnaire was analysed using Partial Least Squares-Structural Equation Modelling (PLS-SEM). The quantitative investigation was supported by standardized cognitive tests that were administered online (Alqershi *et al.*, 2021). The present study employed a sampling method to obtain data and make inferences from the whole target population. The study’s target population is manufacturing SMEs in Kelantan. Also, this study employed the stratified random sampling design (Alqershi *et al.*, 2020), and the unit of analysis is small and medium firms in Kelantan. Responses were collected at the organizational level from the general manager of these firms. Measurement items in the questionnaire were adopted from past studies, in particular Vera and Crossan (2005) for strategic leadership (SL); and Alqershi *et al.* (2021) for performance (PE).

IV. RESULTS

This study obtained the internal consistency reliability of the measurements using composite reliability coefficient. This is because the commonly and extensively utilized Cronbach’s alpha tends to over or under-estimate the scale’s reliability. However, notwithstanding the employed reliability coefficient, internal consistency value should be more than 0.70 to be deemed as model satisfactory. Values that is lower than 0.60 are deemed to be insufficient for this reliability criterion (Alqershi *et al.*, 2020). The values of loadings for composite reliability and average variance extracted (AVE) are tabulated in Table I. On the basis of Henseler *et al.*’s (2009) rule of thumb, composite reliability coefficient should be 0.70 or over for a distinct construct to be sufficient. The values in Table I indicate that the composite reliability coefficient values range from 0.793 to 0.831, which means the model’s measures have sufficient internal consistency reliability.

TABLE I: COMPOSITE VALIDITY AND RELIABILITY

Construct	Cronbach’s Alpha
SL	0.831
PE	0.793

Consistent with the hypothesis, the study examined the strategic leadership-performance relationship of SMEs in Kelantan-Malaysia. This study found a significant correlation between the two constructs ($\beta = 0.358$, $t = 4.601$, $p < 0.02$), which indicates the creation and accumulation of strategic leadership’s role in the performance of Malaysian SMEs. Table II presents the results of the model’s direct relationships.

TABLE II: THE HYPOTHESIZED RELATIONSHIPS

Constructs	Std. Beta	Std. Dev	T-Values	P-Values	Decision
SL -> Per	0.583	0.098	2.008	0.004	Supported

V. DISCUSSION AND CONCLUSION

Our main contribution in this study is firstly, we explore SMEs’ performance in Kelantan. Secondly, we determine the relationship between SMEs’ performance and strategic leadership. This study tested the hypothesis to investigate the relationship between SMEs’ performance and strategic leadership. There is a significant relationship between SME’s performance and strategic leadership. This study conducted the relationship regression analysis between the dependent variable (DV) and independent variable (IV). The dependent variable is SMEs’ performance, and the independent variable is strategic leadership.

In terms of the precise hypotheses’ one, H1 suggests that there is a significant influence of strategic leadership on SMEs’ performance ($\beta = 0.358$, $t = 4.601$, $p < 0.02$). This result is

supported by Langat *et al.* (2019), that there is a positively significant relationship between the two variables. The previous study has found that when leaders exhibit behavioural integrity by being consistent in their actions and values, their followers form a strong emotional bond and a sense of identification with them. Furthermore, leaders with a high idealized influence are more ethical and morally consistent than those with a low idealized influence (McColl-Kennedy and Anderson, 2002), when the leaders idealized influence, employees are encouraged to be involved in their work because they are glad to be connected with the leader because the leader acts as their role model. Employees may have a specific belief about these leaders as a result of their idealized influence. As a result, followers identify with the leaders and align their hopes and objectives with those of the leaders. Idealized influence occurs when employees share their experiences and best practices, as well as when they follow the examples of leaders. Followers trust such leaders, emulate their behaviour, assume their values, and commit to achieving organizational goals. Because of their followers' adoration, respect, and trust, leaders with strong idealized influence act in ways that allow them to serve as role models (Ogola *et al.*, 2017).

In addition, according to Wang *et al.* (2011), persuasion strategies that are both effective and communicative, result in inspirational motivation. This practice highlights the importance of leaders setting high expectations for their personnel to inspire and encourage them, by providing meaning and challenge so that the organization can establish a shared vision. Although leadership is included in transformational leadership, few scholars have looked into the implications of inspirational leadership.

The strategic leadership in this study is based on idealized influence and inspirational motivation. According to Alqershi (2020), as opposed to transactional leadership, which prefers to maintain status quo, transformational leadership is the most successful leadership style for achieving desired change in the business. The findings of this study show that to increase the SMEs' performance or organizational performance, the employees must have idealized influence and inspirational motivation in their life. These two things in strategic leadership behavior are very important in the organization. It is important to have this unique leadership style in the organization (Salas-Vallina and Fernandez, 2017).

This research identifies the extent to which strategic leadership affects the performance of SMEs in Kelantan. The research reflects a positive relationship between strategic leadership and overall organizational performance.

While strategic leadership embraced by SMEs' top management is viewed as a competitive advantage in order to compete with other industry competitors, they should also adopt more strategic leadership dimensions, such as individualized consideration, intellectual stimulation, management by exception, and contingent reward, in order to remain relevant in an uncertain and turbulent business climate. Thus, it would be meaningful in the future to conduct new empirical research using different constructs and variables that might also be

important to explain the relationship with organizational performance. For this study, we primarily focused on SMEs in Kelantan to describe the broader view of the correlation between strategic leadership and organizational performance. Thus, future empirical studies could increase the sample size by focusing on more SMEs in other states to support and validate the results of the study. Government agencies also can expand this study by focusing on strategic leadership behaviour of civil servants and its effect on job performance.

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