

**EFFECTS OF LEADERSHIP STYLE ON JOB SATISFACTION IN
SMALL AND MEDIUM ENTERPRISES (SMEs) IN MALAYSIA**

(QUANTITATIVE STUDY)

By

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ABSTRAK

Tujuan kajian ini adalah untuk melihat hubungan antara gaya kepimpinan pemimpin dan kepuasan kerja pekerja - pekerja *Small and Medium Enterprises (SMEs)* di Malaysia. Secara khususnya, kajian ini mengenalpasti bagaimana gaya kepimpinan yang diukur oleh *Multifactor Leadership Questionnaire (MLQ)* berkait dengan kepuasan pekerja dari segi gaji, kenaikan pangkat, penyeliaan, faedah sampingan, ganjaran, *operating conditions*, rakan sekerja, *nature of work* dan komunikasi yang diukur oleh *Job Satisfaction Survey (JSS)*. Borang kaji selidik yang digunakan terdiri daripada *MLQ*, *JSS* dan soal selidik demografik telah diedarkan kepada 210 pekerja *SME* di Malaysia. Daripada kaji selidik ini, 175 borang kaji selidik (87.5%) telah dikembalikan dan 169 sah untuk digunakan bagi kajian ini.. Teknik-teknik statistik seperti *descriptive* dan *inferential*, iaitu min, kekerapan, peratusan, *Cronbach alpha*, dan *Multiple Regression* digunakan untuk analisis dengan menggunakan perisian SPSS. Untuk kegunaan pengiraan statistik 0.05 *level of statistical significance* telah ditetapkan. Keputusan menunjukkan bahawa faktor dari gaya kepimpinan transformasi, iaitu tingkah laku *individualized consideration* terbukti menjadi peramal yang paling kerap dan ketara bagi aspek kepuasan kerja pekerja-pekerja *SME* di Malaysia. Walau bagaimanapun, tingkah laku *individualized consideration* dari gaya kepimpinan transformasional gagal meramal dua aspek kepuasan kerja, iaitu ganjaran dan faedah sampingan. Aspek kepuasan kerja, ganjaran berjaya diramal oleh gaya kepimpinan *passive / avoidant* secara songsang. Manakala, aspek faedah sampingan pula diramal oleh gaya kepimpinan transaksional secara positif dan gaya kepimpinan *passive / avoidant* secara songsang.

ABSTRACT

The purpose of this study is to examine the relationship between leader's leadership style and employee's job satisfaction in Small & Medium Enterprises (SMEs) in Malaysia. Specifically, this research identified how the leadership style measured by MLQ relates to employees' satisfaction with pay, promotion, supervision, fringe benefits, contingent rewards, operating conditions, coworkers, nature of work and communication as measured by Job Satisfaction Survey (JSS). Survey packages containing the MLQ, the JSS, and a demographic questionnaire were distributed to 210 employees who had worked in SME in Malaysia. Of these surveys, 175 survey forms (87.5 %) were returned and 169 were valid. Descriptive and inferential statistical techniques, including means, frequencies, percentages, Cronbach's alpha coefficients, and Multiple Regression were used for analysis by using SPSS. The .05 level of statistical significance was set for all statistical computation. The results indicated that sub-variable of transformational leadership style, individualized consideration behavior proved to be the most frequent and significant predictor of facets of job satisfaction of SME employees in Malaysia. However, sub-variables of transformational leadership failed to predict two aspect of job satisfaction, which was contingent reward and fringe benefits. Contingent rewards aspect of job satisfaction were significantly and negatively predicted by passive/avoidant leadership. Meanwhile, fringe benefits aspect of job satisfaction were significantly predicted by transactional leadership positively and passive / avoidant leadership negatively.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Previous research findings reveal that job satisfaction is an important element in influencing a firm's performance. This is because high level of job satisfaction will produce a positive attitude towards job commitment, which in turn can reduce the level of absenteeism, termination of service, negligence at work and increase productivity as well as efforts towards work excellence.

Prior research has demonstrated that leadership is a key determinate of job satisfaction (Mowday, Porter, & Steers, 1982). In particular, there is considerable research suggesting that leadership is positively associated with job satisfaction in a variety of organizational settings and cultures (Avolio, Zhu, Koh, & Bhatia, 2004; Rad & Yarmohammadian, 2006). Leadership is a management function and has been defined as the process of influencing people so that they will achieve the goals of the organization (Watson, 1983). Leadership has also been defined as "the process of influencing the activities of an organized group toward goal achievement" (Rauch & Behling, 1984). Therefore, the success of an organization in achieving its goals and objectives is highly dependent on leaders and their leadership style. By using appropriate leadership styles, leaders can influence employee's job satisfaction, commitment, and productivity. Studies have described relationships between job satisfaction and leadership styles (Wilkinson & Wagner, 1993). Wilkinson and Wagner (1993) found that elements of a

supervisory leadership style are significantly related to job satisfaction of state vocational rehabilitation agency counselors in Missouri. For example they found that both a leader's support ($r = .418, p < .001$), and a leader's coaching are related to job satisfaction ($r = .502, p < .001$). Moss and Rowles (1997) demonstrated that for nurses, leadership styles that were participative resulted in improved job satisfaction. Similarly, Packard and Kauppi (1999) studied the impact of the leadership styles of school principals on teachers' job satisfaction and found that the leadership styles of supportiveness and consideration contribute to job satisfaction.

According to the Census of Establishments and Enterprises (2005), there are a total of 548,267 establishments of Small Medium Enterprises (SMEs) in the manufacturing, agricultures and services sectors in Malaysia. From the above total 39,373 (7.3%) enterprises are in the manufacturing sector, 474,706 (86.9%) in services and 34,188 (5.8%) in the agriculture sector. Astonishingly, SMEs account for 98.8% or 516,855 of all enterprises enumerated. In the services sector, SMEs make up 99.4% or 449,001 of all service enterprises whereas in manufacturing they account for 96.6% or 37,865 establishments. As for the agriculture related activities, 92.6% or 29,985 enterprises exist in the agriculture sector. Their contributions can be assessed in terms of their numbers, economic output, employment opportunities provided and assisting large companies (Hashim, 2005). As mentioned by Hashim and Wafa (2002), in year 2000, SMEs contributes about 22.2 percent of total economic output and accounted for 17.9 percent of the total employment opportunities in the manufacturing sector. Based from SME Master Plan, the forecast for 2020 GDP contribution of SMEs in Malaysia is expected to reach 41% as compared to 31.9% currently, employment is expected to

increase by 3% to 62% and exports from 19% to 25% by 2020. Hence, the figures indicate the importance and the vital role of SMEs in the country's future economy prospect.

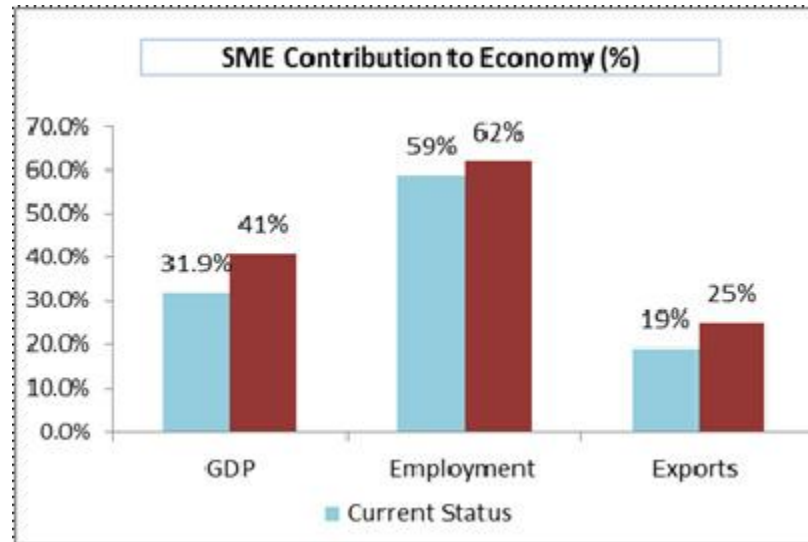


Figure 1.1: SME Contribution to Malaysian Economy

Source: SME Corp. Malaysia & Department of Statistics, Malaysia

The SME's organizational structures are different from large firms. A leader is the primary soul of any enterprise. The leader's leadership style could directly affect subordinates' working attitude, total production, and enterprise's success. Therefore, the leaders in Malaysian SME's are not only required to formulate detailed plans, create efficient organizational structures, and oversee day-to-day operations, they are also required to have effective leadership skills. Leadership plays a vital role in an organization. Beaver (2003) found the primary cause of small business failures in the United States was management incompetence as leaders. Traditional methods of

leadership are not sufficient to satisfy the needs of employees (Matrunola, 1996). The turmoil in today's work environment has left employees scared and continually striving to protect their own interests rather than considering the long-term interests of their company. To achieve satisfaction, employees need to feel connected to something more permanent. Harris and Brannick (1999) agreed by stating that more stable leader-employee connections are needed. To achieve this stability, Katz and Kahn (1978) state that the organizational position of people, such as leaders, shapes the expectations within an organization and that it defines the meanings for work behaviors and relationships

1.2 Problem Statement

Leadership and job satisfaction are recognized as fundamental components influencing the overall effectiveness of an organization (Kennerly, 1989). In addition, Packard & Kauppi (1999) mentioned that a leader's style has a definite influence on an employee's job satisfaction. However, employees are no longer satisfied with traditional leadership practices (Matrunola, 1996). Therefore recognizing, adopting and practicing the appropriate leadership styles are vital for future leaders as it effects on employees job satisfaction, commitment and productivity. For instance, in public sector in Malaysia, research has showed that transformational leadership style has a strong relationship on job satisfaction of employees (Voon, Lo, Ngui, & Ayob, 2011).

Lin (2003) who conducted a research to examine the perception of leaders leadership style and the employees' job satisfaction among the employees at SMEs in Taiwan found that overall perceived leadership style emerged as the significant predictor of the employees job satisfaction whereby transformational leadership style significantly

and positively predicted job satisfaction where else transactional and laissez-faire leadership style significantly and inversely predicted overall job satisfaction.

Thus, for SMEs in Malaysia to continue as an important contributor to the country's economy, Hashim (2005) the most significant leadership style which has the highest impact on the job satisfaction of employees in SMEs has to be identified.

Nonetheless, in Malaysia, research on job satisfaction has been carried out in on various industrial sectors. Dawal and Taha (2006) reported that job factors such as age, work and marital status and environmental factors such as surroundings, context dependence and the building's function, affecting job satisfaction in two automotive industries in Malaysia. Lew and Liew (2006) explored the antecedents of needs and job satisfaction among employees of a leading bank in Malaysia and the implications for the management of bank employees. Santhapparaj and Shah (2005) reviewed job satisfaction among women managers in Malaysian automobile sector and Santhapparaj et al. (2005) studied the job satisfaction among academic staff in private universities in Malaysia. Voon, Lo, Ngui and Ayob (2011) found that transformational and transactional leadership styles have significant relationships with employees' job satisfaction in the public sector organizations in Malaysia. Research was also conducted to hypothesize the direct impact of mentoring on employees' job satisfaction among Malaysian SME, where a positive relationship was shown between career mentoring and job satisfaction (May-Chiun & Ramayah, 2011). Another research on leadership styles and job satisfaction among the SME employees in Malaysia by Hashim (2008), found significant positive relationships between perceptions toward transformational and transactional leadership styles and job satisfaction among employees in Malaysian SMEs. Finally, a research on understanding

how fostering niches is influenced by organizational commitment, leadership, and organizational culture, towards job satisfaction among employees in Malaysian SME's found leadership and organizational culture considerably have an influence on job satisfaction (Gallato, Rashid, Suryasaputra, Warokka, Reamillo, & Abdullah, 2012) .

However, a review of Malaysian literature has indicated that there are a limited number of studies available on research pertaining to the relationship between leadership style and job satisfaction in SMEs in Malaysia. This study will contribute to partially filling this gap.

1.3 Purpose of the Study

The primary purpose of this study is to describe and examine the employee's perception of leader's leadership style on the job satisfaction at SMEs in Malaysia. Specifically, this research would identify whether Full Range of Leadership (FRL) model which consist of transformational, transactional and passive/avoidant leadership styles which is measured by the Multifactor Leadership Questionnaire (MLQ), predicts employees' job satisfaction, as measured by Job Satisfaction Survey (JSS). Both the instruments are widely used to measure leadership styles and job satisfaction. Similar research was conducted by (Lin, 2003) in Taiwan and found significant relationship between leadership style and job satisfaction among the SME employees in Taiwan.

1.4 Research Objectives

The objectives of this study are as per followings:

1. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of pay.
2. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of promotion.
3. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of supervision
4. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of fringe benefits
5. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of contingent rewards
6. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of operating conditions
7. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of coworkers
8. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of nature of work
9. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of communication

1.5 Research Questions

Based on the purpose of the study, these research questions are as developed:

1. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of pay?
2. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of promotion?
3. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of supervision?
4. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of fringe benefits?
5. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of contingent rewards?
6. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of operating conditions?
7. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of coworkers?
8. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of nature of work?
9. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of communication?

1.6 Scope of the Study

This study examines the relationship between the employees' perception of the leader's leadership style and its relationship with job satisfaction of the employees at SMEs in Malaysia. Unit of analysis are Malaysian SME employees. Three sets of questionnaires, including MLQ, Job Satisfaction Survey (JSS) and Demographics were distributed for data collection.

1.7 Significance of the Study

This study is significant because it contributes to an expansion of the knowledge base related to the relationships between job satisfaction and perceived leadership styles within the SMEs in Malaysia. More specifically, this study has the potential to identify which leadership style has an impact on employees' satisfaction in relation to their job. Consequently, if employees are satisfied, it reduces absenteeism, excessive employment turnover, lack of initiative and lack of support. Therefore, it encourages motivation, innovative culture, productivity and ultimately growth and profitability. This research also contributes towards understanding, that type of leadership styles plays an important role towards organizational performance via-a-via job satisfaction. This study will contribute to a better understanding of the leadership styles currently being used by leaders with specific information provided on what leaders are doing well so these practices can be reinforced. Furthermore, this study could identify the gaps which may produce opportunities for future improvements.

1.8 Definition of Terms

Small and Medium Enterprises (SMEs): The definitions for Small and Medium Enterprises (SMEs) in Malaysia as adopted by National SME Development Council and SMECorp which was subsequently adopted by various government agencies and private enterprises to include the two main categories as follows:

1. Manufacturing (including agro-based) and manufacturing-related services enterprises with full-time employees not exceeding 150 or with annual sales turnover not exceeding RM25million.
2. Service, primary agriculture and information and communication technology (ICT) with full-time employees not exceeding 50 or annual sales turnover not exceeding RM5 million.

Leadership: Leadership is the ability to inspire confidence and support among the people who are needed to achieve organizational goals (DuBrin, 1998). “Leadership is the influence, especially influence of the behavior and thoughts of others. Leadership is defined as "the art of mobilizing others to want to struggle for shared aspirations (Kouzes & Posner, 1997)."

Leadership Style: The relatively consistent pattern of behavior that characterizes a leader (DuBrin, 1998). “Styles reflects the process by which the leader interacts with others to get the job done” (Rosenbach & Taylor, 1989).

Job Satisfaction: Job satisfaction refers to the extent to which employees' expectations are being met in relation to their jobs (Loscocco & Bose, 1998). Job satisfaction is the attitude that individuals have about their job within their work environment. The attitude is based on the perceptions of their surrounding work environment, which includes the

leadership, opportunities for growth, policies and procedures, working conditions, co-worker, and supervisor relationship and fringe benefits (Gibson, 2003).

Transformational Leadership: Transformational leadership entails raising the level of motivation of their followers beyond exchange values and thus achieves a higher level of performance and followers self-actualization (Burns, 1978). Transformational leadership is development oriented for the purpose of change (Bass, 1985).

Transactional Leadership: Transactional leadership motivates followers by appealing to their self-interest and it is based on exchange relationship, whereby follower compliance is exchanged for expected rewards (Burns, 1978). Transactional leadership entailed the exchange value of things with no mutual pursuit of higher order purpose or just enough to produce minimum organizational production. Transactional leadership is generally sufficient for maintaining the status quo (Bass, 1985).

Laissez-faire Leadership: This refers to the absence of leadership. A person in a leadership role that avoids making decisions and carrying out their supervisory responsibilities exemplifies it. They are not reactive or proactive, but inactive and passive in their leadership role (Bass & Avolio, 1994).

1.9 Organization of Remaining Chapters

Chapter 1 renders an overview of the present study. The purpose and the research objectives have been put forth to steer the direction of the present study. The importance of the present study is addressed to provide readers the rationale of conducting the study.

Chapter 2 is on the background theories and model being studied in the study. It will discuss the theories involved with job satisfaction and the leadership model used in the