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The impact of ethical leadership on leadership effectiveness among SMEs in Malaysia

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Abstract

One of the important sources for economic growth is the development of small and medium enterprises (SMEs). Research has shown that leadership is an important factor for organizational success. But the literature has indicated that leadership research in small businesses, especially SMEs in Malaysia, is still lacking. Thus, this study concentrates on the ethical leadership and leadership effectiveness among SMEs in Malaysia. To achieve this, this study begins by reviewing the literature in the areas of ethical leadership and leadership effectiveness. The quantitative approach is employed for data collection and analysis. To test the hypothesis data were collected from 150 Malaysia' SMEs operating in service sector specifically Information Communication Technology (ICT). Exploratory factor analysis, confirmatory factor analysis and structural equation modelling (SEM) using path analysis were used to test the model and verify the hypothesis on the direct and positive effects of ethical leadership on leadership effectiveness. The findings of this research shows that ethical leadership have direct and positive effect on leadership effectiveness.

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1. Introduction

Nowadays the leadership topic is a major challenge for today's organizations. Based on the leadership literature in Malaysia [1-3], it shows that research on the leadership topic is not a wide phenomenon in Malaysia as it is in Western countries. However, to improve the understanding of leadership performs in Malaysia some challenges made by local and international academic researchers to address the importance of leadership in Malaysia context. Furthermore, those literatures show that very little attempt conducted to examine leaders concerning ethical leadership and effectiveness behavior adopted in Malaysia context [4]. According to Hazlina, Azlan [5] and Madanchian, Hussein [4], there is lack of studies on ethical leadership issues among small firms in Malaysia and to date, work on ethics has been largely concentrated on large firms [6-8]. Therefore, there is an increasing awareness about ethical leadership among SMEs in Malaysia, thereby leading societies to object firms that are found to be ethically ill and irresponsible. Therefore, the main focus of this study is to find the impact of ethical leadership on leadership effectiveness among SMEs in Malaysia context. Specifically, this study examines the relationships between ethical leadership and leadership effectiveness.

2. Role of SMEs in Malaysia

Through the establishment of the National SME Development Council (NSDC) in 2004, the importance of SMEs as the main engine growth of the country's economy was recognized [9, 10]. There is no doubt of the SMEs' contribution to the country growth and economy development which is a crucial feature of economic growth in Malaysia [10-13]. In 2010, SMEs represented about 99.2% of total business establishments and contributed 39.1% of the country's GDP. SMEs provided 59.5% of total employment and contributed 28.4% to the exports of the country in 2010 (NSDC 2015). One of the main purpose of the Eleventh Malaysian Plan (11MP) for the period 2015 to 2020 is to organize and equip SMEs in the country with the required capability and capacity to meet the challenges of an increasingly competitive business environment [14].

3. Ethical leadership and Leadership Effectiveness

Ethical leadership is defined by Brown, Trevino [15] as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making” (p. 120). According to Li [16], ethical leadership has gradually become the focus of most researches nowadays and according to its name, ethical leadership offers more attention to the ethical basics of leadership. Malaysia government's assurance towards promoting ethical practices are made overt in its Vision 2020, in which one of the main thrust is to create a moral and ethical society. The government is seen as an important agent to establish ethical leadership consideration among Malaysian SMEs through various support mechanism including training leaders and managers [17].

For decades, leadership researchers have worked to define leadership effectiveness and understand what components contribute to a leader being effective. The puzzle is that the definition of leader effectiveness, differs among researchers [4, 18]. According to Dhar and Mishra [19] leadership effectiveness is the outcome when individuals in leadership positions are able to influence a group to perform their roles with positive organizational outcomes. As stated by Madanchian, Hussein [10] if a leader is able to influence his/her subordinates or unit in such a way that positive outcomes are realized, the leader can be referred as an effective leader.

With shed light on the relationship between ethical leadership and leadership effectiveness, leader's behaviour researchers had argued that leader behaviours contribute to explaining the effectiveness of a leader. Several studies have associated leader effectiveness to ethical leadership behaviours [20]. Also, Brown, Trevino [15] proposed ethical leadership theory consistent with ethical dimension and explained ethical leadership to be related to leader effectiveness. Many researchers concluded that ethical leadership was positively related to leader effectiveness [4, 20-26]. Therefore, based on the literature there is a positive relationship between ethical leadership and leadership effectiveness.

4. Measurements of Ethical Leadership and Leadership Effectiveness

Ethical leadership has been conceptualized by Brown, Trevino [15] as a unidimensional construct measured by their Ethical Leadership Scale (ELS), whereas De Hoogh and Den Hartog [24] formulated ethical leadership as a three dimensional construct measured by three behavioural scales (fairness, power sharing, and role clarification). Kalshoven and Den Hartog [25] measured ethical leadership following both approaches by leveraging the ELS as well as all three of the De Hoogh and Den Hartog behavioural scales. Due to inconsistent results between the three ethical leadership dimensions in De Hoogh and Den Hartog's study, this study followed the approach established by Brown, Trevino [15] and formulated ethical leadership as a unidimensional construct as implied by the unidimensional results of factorial analysis of the ELS. This approach seems to provide for a clearer focus on ethical leadership constructs in this study.

The conceptualization of leader effectiveness is challenging. While researchers have attempted to solve the puzzle of what is leader effectiveness and how it should be measured, the theories, empirical research, and resulting conclusions are numerous and diverse [27]. Dhar and Mishra [19] noted that efficient and effective group management can have a direct effect on outcomes by facilitating timely and quality decisions and direction by the leader or indirect outcomes as the leader's actions positively influence group behaviour and dynamics. Therefore, this study, used Dhar and Mishra [19] measure of leader effectiveness in service organizations. Dhar and Mishra's assessment asks the leader's subordinate to evaluate the effectiveness of the leader, so, this study adopted four dimensions of their assessment based on the leader's ability to inspire, facilitate, motivate and influence the performance of subordinates.

5. Research Framework

The research framework of this study is present in Figure 1. According to the discussed literature, ethical leadership directly influences the leadership effectiveness.

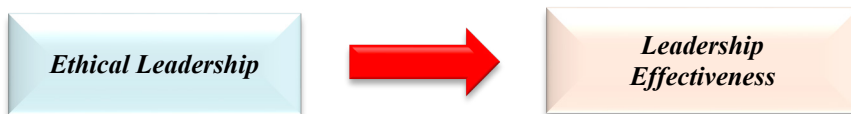


Fig. 1. Research Framework.

Regarding to ethical leadership, several studies have associated leader effectiveness to ethical leadership behaviors [20]. In addition, Brown, Trevino, et al. (2005) proposed ethical leadership theory consistent with ethical dimension and explained ethical leadership to be related to leader effectiveness. Many researchers concluded that ethical leadership was positively related to leader effectiveness [4, 20-26]. Therefore, there is relationship between ethical leadership and leadership effectiveness. The main objective of this study is to examine the relationship between ethical leadership and leadership effectiveness and the research question is that is there any relationship between ethical leadership and leadership effectiveness? According to Brown, Trevino [15], studies on leader behaviour has argued that leader behaviour has an important contribution to explain the leadership effectiveness. Kalshoven, Den Hartog [28] , confirmed there is positive relationships between ethical leadership and leader effectiveness by presenting a significant contribution of ethical leadership behaviours and leader effectiveness. Therefore, this study seeks to provide support for the degree to which ethical leadership contributes to predicting leadership effectiveness. Consequently, based on these arguments, the following hypothesis is proposed:

H: Ethical leadership is significantly and positively related to Leader Effectiveness.

6. Methodology

In order to test the proposed hypothesis and to provide answer to the research question this study used quantitative data collection and analysis. Malaysia realized the importance of ICT as well as SMEs to the current and future development and growth of the country. Therefore, ICT companies in service sector of SMEs which are medium and small sized enterprise in Malaysia is considered as the population of this study. To examine the relationships of ethical leadership and leader's effectiveness, the managers and employees of SMEs in Malaysia context were selected as the intended sample of the population. The managers and employees as a followers were selected to be the respondents of this study in order to evaluate their leader's effectiveness and ethics.

Moreover, this study used maximum probability estimation in SME, based on the requirement for SME sample size [3], which this study used 150 ICT companies among SMEs in Malaysia. Ethical leadership is measured using a ten-item scale established by Brown et al. (2005) which after content validity only two items was remained. The scale was composed to measure one's perceived ethical behaviours of his/her leader. To assess leader effectiveness, the study is used follower's assessment of leader effectiveness using Dhar and Mishra [19] measures of leader effectiveness for leaders in a service organisation. This study used four dimensions (leader's ability to inspire, facilitate, motivate and influence) adopted from Dhar and Mishra a leader's effectiveness assessment using 5 point Likert Scales [29]. In order to validate content of the survey instruments, content validity was employed to extract the exact questions. After conducting pilot test the convergent validity and discriminant validity of the constructs has been done. To confirm the factor structure of a set of observed variables and also to test and verify the proposed hypothesis the Confirmatory Factor Analysis technique is applied, then Structural Equation Modeling (SEM) is used to evaluate the acceptability of a hypothesized model [30] using LISREL software.

7. Data Analysis

In order to collect data the researcher conducted an online survey. Data were collected from ICT companies in service industry of SMEs context in Malaysia. From distributed questionnaires through the website, 280 were responded. After data collection, data were filtered and inappropriate responses were removed. Therefore, the remaining data was 230 valid responses which were taken as the sample of study. In order to test and evaluate the proposed model, Path Analysis was performed using Maximum Likelihood (ML) method and IBM SPSS AMOS version 22 was employed, to fit a structural equation model to the values of a sample, the dataset used was extracted from analysis results after the CFA performed.

7.1. Exploratory Factor Analysis

Exploratory Factor Analysis (EFA) was conducted to assess the variances and covariance associated with the set of variables and the factor validity of the data set for the utilized measurement scales [31]. Two statistical measures support the assessment of factorability of the data, the Bartlett's test of sphericity [32] and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy [33]. For the factor analysis to be considered appropriate the following values are recommended, the Bartlett's test should be significant at $p < .05$ and the KMO index should range between 0 to 1, with .6 considered to be the minimum value of appropriate factor analysis [34, 35]. The KMO values for each measurement scale were greater than .7 and thus exceeded the recommended minimum value for factor analysis. The Bartlett's test for sphericity indicated statistical significance, which supports the factorability of the correlation matrix.

Table 1 demonstrates the measurement scale for ethical leadership indicated values of KMO measure of sampling adequacy and Bartlett's test were regarded as suitable for factor analysis. The statistical value for KMO measure of sampling adequacy was .814, which was beyond the recommended value of .70, hence the sample was adequate for factor analysis. The value for the Chi-square of Bartlett's test was 1341.423 and a significance value of $p < .05$. The principal component analysis revealed one extracted factor with eigenvalues > 1.00 accounting for 84.37% of the variance.

Table 1. EFA output for Ethical Leadership Items.

Ethical Leadership Items	Factor Loading	Communalities
1	0.915	0.853
2	0.933	0.898
KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.814
Bartlett's Test of Sphericity	Approx. Chi-Square	1341.423
	Df	6
	Sig.	.000

Table 2 demonstrates the measurement scales for leadership effectiveness indicated values of the KMO measure of sampling adequacy and Bartlett's test were regarded as suitable for factor analysis. The statistical value of the KMO measure of sampling adequacy was .904, which was beyond the recommended value of .70 [35]. The value for the Chi-square of Bartlett's test was 4036.401 and a significance value of $p < .05$. The principal component analysis revealed one extracted factor with eigenvalues > 1.00 accounting for 69.35% of the variance.

Table 2. EFA output for Leadership Effectiveness Items

Leader Effectiveness Items	Factor Loading	Communalities
1	0.797	0.634
2	0.798	0.602
3	0.879	0.773
4	0.823	0.693
KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.904
Bartlett's Test of Sphericity	Approx. Chi-Square	4036.401
	Df	55
	Sig.	.000

7.2. Model Testing Result

For models with good fit, the ratio of chi-square to the degree of freedom (χ^2/df) should be less than 3, others refer that it should be less than 5 [36, 37]. Using this test criteria, the value of 1.84 ($p < 0.001$) for this model indicates a good fit. The Goodness-of-Fit Index (GFI) indicates the overall degree of model fit. The GFI should be greater than .90 [38] and the Adjusted Goodness of Fit Index (AGFI) preferably greater than .80 [29, 39] In this case, GFI is 0.914 and AGFI 0.902 and indicating that the model fits the sample data reasonably well. Therefore, it can be concluded that the measurement model has a good fit with the data collected.

Figure 2 shows the results of structural equation modeling analysis. The factor of all measures on their latent construct was estimated above 0.60. This is the minimum amount accepted for convergent validity [38]. The model indicates that 'Ethical leadership' has a significant effect on "Leadership Effectiveness" ($\beta = 0.388$, $p < .05$), and this supports the hypothesis of the study.

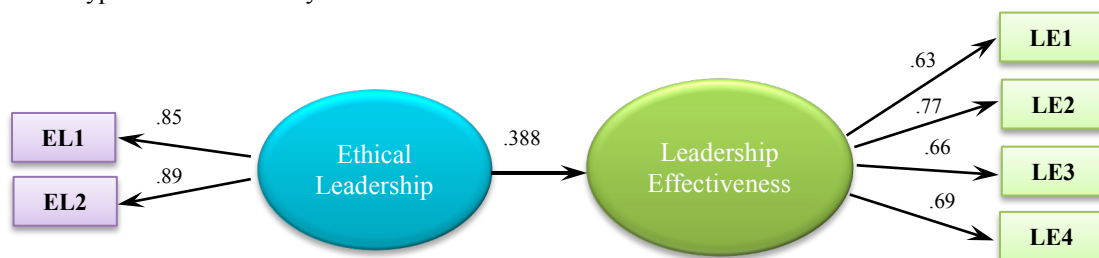


Fig. 2. Path Model of Ethical Leadership and Leadership Effectiveness.

8. Conclusion

The major theoretical contribution of this study was proved that ethical leadership and leadership effectiveness have positive relationships. This study makes contribution to the field of ethical leadership and leadership effectiveness in the context of a developing country such as Malaysia. The findings and results of this research provide evidence that ethical leadership is an important element for SMEs that have positive and significant effects on leadership effectiveness. The quantitative results showed that leaders of SMEs in Malaysia via ethical also can be more effective in their firms. The main objective and goal of conducting this research is to provide results which might be valuable and helpful for both practitioners of SMEs in service industries context and researchers who are interest in the field of leadership. The outcomes of this study show that the ethical leadership behavior of CEO are significant variables that have effect on leadership effectiveness and its dimensions. The study concludes that leaders of SMEs in Malaysia using ethical and effective leadership behavior in their firms. Furthermore, according to results of this research leaders of SMEs in Malaysia are encouraged to further develop their understanding of ethical and effective leadership behavior and attempt to learn and develop their skills and knowledge in regard to these forms of leadership behavior which may benefit them and their organizations. In sum up, this research provides contributions according to framework and findings for understanding ethical and effective leadership behavior in SMEs context in Malaysia.

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