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THE IMPACT OF ENTREPRENEURIAL ORIENTATIONS AND TRANSFORMATIONAL LEADERSHIP ON MSMEs PERFORMANCE

Hatinah Abu Bakar¹ *

*Faculty of Business and Management, Universiti Teknologi MARA Cawangan Kelantan, Kelantan, Malaysia
hatin463@uitm.edu.my*

Wan Marhaini Wan Omar²

*Faculty of Business and Management, Universiti Teknologi MARA Cawangan Kelantan, Kelantan, Malaysia
whaini299@uitm.edu.my*

Che Mohd Syaharuddin Che Kob³

*Faculty of Business and Management, Universiti Teknologi MARA Cawangan Kelantan, Kelantan, Malaysia
syaha793@uitm.edu.my*

Mas Ayu Diana Mohd Fauzi⁴

*Faculty of Business and Management, Universiti Teknologi MARA Cawangan Kelantan, Kelantan, Malaysia
masayu@uitm.edu.my*

Nurul Indarti⁵

*Faculty of Economics and Business, Universitas Gadjah Mada, Indonesia
nurulindarti@ugm.ac.id*

Abstract: This study was conducted on MSMEs in Kelantan assessing the impact of entrepreneurial orientation and transformational leadership on MSMEs business performance. Entrepreneurial orientation, characterized by innovation, proactivity, and risk-taking, is essential for MSMEs' adaptability and growth in dynamic markets. Similarly, transformational leadership, which inspires and motivates employees through vision, support, and intellectual stimulation, plays a critical role in enhancing organizational performance. Quantitative research design was employed, and data were collected from 146 MSMEs, and analyzed using the PLS-SEM technique. The finding indicates that entrepreneurial orientation has a significant influence on MSMEs business performance. However, transformational leadership does not have any significant influence on business performance. The study concludes that fostering entrepreneurial orientation within MSMEs can significantly enhance their performance, offering valuable insights for business owners, policymakers, and stakeholders aiming to promote the success of micro, small and medium enterprises.

Keywords: Entrepreneurial Orientation, transformational leadership, business performance.

1.0 Introduction

In Malaysia, 97% or 1.2 million registered businesses are MSMEs, and contribution of MSMEs to the GDP also increased to 38.4% in 2022 compared to 37.4% in 2021 ("Malaysia's MSME," 2023). By 2025, Malaysia's digital economy, which has been booming, is anticipated to account for 22.6% of the country's gross domestic product (GDP) and generate 500,000 employment opportunities (Yeong et al., 2023). With rapid developments that fundamentally alter how business is performed, the digital business revolution has made the industry environment more competitive and challenging for MSMEs.

Entrepreneurial orientation is an attempt to create value through business opportunities, appropriate risk-taking management, and management communication skills to mobilize human, financial and other raw materials or other available resources to obtain benefits and value from

¹ * Corresponding author: Arshad Ayub Graduate Business School, Universiti Teknologi MARA Cawangan Kelantan Kampus Kota Bharu, Kelantan, Malaysia, hatin463@uitm.edu.my

business opportunities. (Lin, 2012). Besides that, leadership is considered as a key factor in directing all organizational components towards the effective achievement of organizational goals and it needs to provide interaction between all members of the organization (Suwanto et al., 2022). An organization's ability to survive depends on its leaders' capacity to continue being effective, and their willingness to fulfill the organization's goals, which are fulfilled with the help of effective leadership.

Transformational leadership will more likely make employees motivated and keep them moving ahead of their own interest to achieve organizational goals (Qomariah et al., 2023).

2.0 Literature Review

2.1 Business Performance

Business performance has been defined as a continuous and flexible process involving managers, partners and persons who run the business which reflect the result of business activities and strategic management process (Yusrinadini et al., 2019). A recent literature has revealed that due to the relevance of SMEs in the world economy, they need specific treatment around knowledge of performance management to address their development and generate improvements (Ximena et al., 2020). The factor for SME business performance is significant to be addressed so that performance management can always be on the right track.

2.2 Entrepreneurial orientation and Business Performance

Entrepreneurial orientation (EO) has emerged as one of the most studied constructs in entrepreneurship and management literature for more than three decades (Covin et al., 2019; Gupta, 2015). Findings from past studies show that entrepreneurial orientation influences SMEs' performances (Amin, 2015; Amin et al., 2016). Moreover, EO can help to achieve growth in the market (Adomako et al., 2021) and the performance of an organization (Hossain & Asheq, 2020). A study done by Titi et al. (2020) found a positive relationship between entrepreneurial SMEs performance. Therefore, this hypothesis is proposed:

H₁: Entrepreneurial orientation is positively related to business performance.

2.3 Transformational Leadership and Business Performance

In transformational leadership, leaders have relation-oriented behaviour and change-oriented behaviour (Yukl & Gardner, 2019). Based on Siangchokyoo et al. (2020), transformational leadership can transform followers' attitudes and behaviour toward achieving higher organizational performance levels. Moreover, Naderi et al. (2019) asserted that transformational leadership has a positive connection with the performance of social enterprise. However, Sattayaraksa and Boon (2018) raised a debate whether transformational leadership is associated with either subunit performance or only overall performance in organization. Therefore, this hypothesis is proposed:

H₂: Transformational leadership is positively related to business performance.

2.4 Research Framework

In this study, the proposed research framework in Figure 1 shows that entrepreneurial orientation and transformational leadership are independent variables while business performance is a dependent variable.

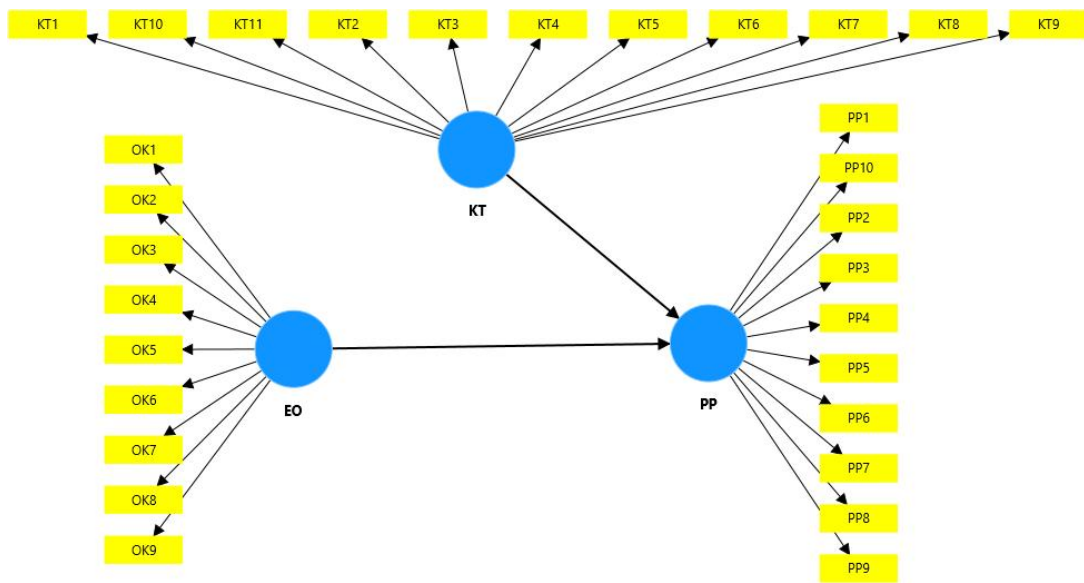


Figure 1: Research Framework

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3.0 Methodology

The questionnaires were given to MSMEs in Malaysia's Kelantan districts. Owners and managers were singled out since they are the primary sources of information about the company and typically participate in the day-to-day operations of the businesses. A total of 146 questionnaires were returned and usable for the final analysis using the structural equation model partial least square (SEM-PLS 4.0). The questionnaires were adopted and adapted from a few selected established questionnaires and measured with 5-point Likert-scale ranging from strongly disagree to strongly agree. Transformational leadership is measured from a study by Bass and Avolio (2004) whereas the measurement items of entrepreneurial orientation were based on Miller and Frisen (1982) and business performance was based on Wiklund (1999).

4.0 Result

Hair et al. (2011) highlighted the importance of assessing the quality of the measurement model through convergent validity, which considers factor loadings, average variance extracted (AVE), and composite reliability (CR).

With regard to this study, all indicator loadings exceeded the threshold of 0.5, indicating that each item reliably measures its intended construct. Additionally, AVE values ranged from 0.633 to 0.740, exceeding the recommended threshold of 0.5, suggesting that the constructs capture more variance than measurement error. Furthermore, CR values ranged from 0.944 to 0.962, surpassing the threshold of 0.7, indicating high internal consistency. These results collectively demonstrate strong convergent validity, indicating that this measurement model effectively measures the intended constructs

Table 1: Cronbach's Alpha, average variance extracted (AVE), and composite reliability (CR).

Constructs	Cronbach's Alpha	Composite Reliability	AVE
Entrepreneurial Orientation	0.938	0.944	0.675
Transformational Leadership	0.941	0.950	0.633
Business performance	0.961	0.962	0.740

4.1 Discriminant Validity

According to Henseler et al. (2015), the measurement model's discriminant validity is assessed using the heterotrait-monotrait (HTMT) ratio of correlations. This method compares the correlations between different constructs (heterotrait) to the correlations within the same construct (monotrait). A threshold value of less than 0.85 has been suggested in the literature (Clark & Watson, 1995; Kline, 2011) to determine discriminant validity. When HTMT is higher than this threshold of 0.85 (Kline, 2011) or 0.90 (Gold et al., 2001), there is evidence of a lack of discriminant validity. Based on the results obtained in Table 2, the HTMT correlation scores obtained are less than 0.85 as per the threshold recommended by Kline (2011). As such, there is no discriminant validity issue for the research. In this study, the HTMT ratios presented in Table 2 are all below the recommended thresholds, indicating strong discriminant validity. This suggests that the constructs in the measurement model are distinct from each other and are measuring different underlying concepts.

Table 2: Heterotrait-monotrait Ratio (HTMT)

	ATT	EI	RT	SN
Entrepreneurial Orientation (OE)				
Transformational Leadership (TL)	0.541			
Business Performance (BP)	0.795	0.431		

4.2 Hypotheses Testing and Discussion

Based on Hair et al. (2011), path analysis was conducted to assess the structural model, with R^2 values and the significance of path coefficients serving as primary evaluation criteria. According to Cohen (1988), a good model should have an R^2 value of over 0.26 for endogenous latent variables. In this study, the R^2 value was found to be 0.575, indicating the variance in the dependent variable is explained by the independent variables. Another 42.5% could be explained by other variables such as innovation, digital adoption, learning orientation etc.

Table 3: Result of Direct Effect

Direct Relationship	Beta	Standard deviation	T statistics	P values	Results Hypotheses
EO-> BP (H1)	0.737	0.055	13.319	0.000	Supported
TL->BP (H2)	0.405	0.065	9.597	0.551	Not Supported

*Entrepreneurial Orientation (OE), Transformational Leadership (TL), Business Performance (BP)

The significance of hypotheses was assessed using path coefficients and the bootstrapping technique. The results revealed that the relationship between entrepreneurial orientation and business performance is significant ($\beta=-0.737$, $t=13.319$, $p < 0.00$), while the relationship between transformational leadership and business performance is not significant ($\beta=0.405$, $t=9.597$, $p > 0.00$). Therefore, H1 is supported and H2 is not supported.

5.0 Conclusion

This study significantly expands the insight of how significant entrepreneurial orientation and transformational leadership influence business performance. Entrepreneurial orientation fosters a dynamic and adaptive approach to market opportunities and challenges, enabling businesses to stay competitive and thrive. As stressed by Brown and Smith (2024), businesses that prioritize entrepreneurial orientation are more likely to experience sustainable growth and superior performance. Transformational leaders effectively inspire and motivate their teams, fostering an environment conducive to innovation and high performance. However, in this study, the result found

transformational leadership was not significant. As claimed by Olawale and Garwe (2010), small businesses frequently focus on short-term survival due to limited resources and market pressures, which can restrict their ability to engage in visionary or transformational leadership approaches. The challenges MSMEs face are due to resource constraints and market demands, focusing on how these pressures lead to an emphasis on day-to-day survival rather than transformational changes (Fatoki, 2014). Transformational leadership raises employee engagement and productivity by encouraging a collaborative atmosphere and coordinating personal aspirations with corporate aims. In addition to producing better operational results, this alignment helps the company become more flexible in a market that is changing quickly (Smith & Jones, 2024).

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