

UNIVERSITI TEKNOLOGI MARA

**THE RELATIONSHIP BETWEEN
TRANSFORMATIONAL AND
TRANSACTIONAL LEADERSHIP
STYLES AND INTENTION TO STAY
IN MALAYSIA MANUFACTURING
SMEs**

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Thesis submitted in fulfilment
of the requirements for the degree of
Master of Science
(Business and Management)

Faculty of Business and Management

March 2024

ABSTRACT

Small and Medium Enterprise (SMEs) in Malaysia specifically in the manufacturing sector has faced a high turnover rate and this has led to difficulty to sustain its competitiveness in the industry. When employees keep on leaving the organization, the organization needs to face with direct and indirect costs and organizational growth will be delayed. At the end, development and contribution of SMEs in Malaysia economy will be affected. In addition, the implementation of good leadership styles is still low in SMEs. Thus, studies regarding leadership styles and employee intention to stay among employee in Malaysian SMEs are indeed needed. The aim of the study is to investigate the relationship between transformational leadership style and transactional leadership style towards employee intention to stay in the manufacturing SMEs in Malaysia. This study was conducted based on perceptions from employees towards their leaders. 384 employees have been selected from 10-15 manufacturing companies to be the respondents of this study. To analyse the data SPSS technique is used in this study. This study has found, both transformational and transactional leader show positive and significant relationship towards intention to stay with transactional leadership showed a much stronger effect than transformational leadership. At the factor level for transformational leadership, only intellectual stimulation gives a positive and significant relationship towards intention to stay. Meanwhile, at the factor level of transactional leadership, contingent reward and management-by-exception active have a positive and significant relationship towards intention to stay.

ACKNOWLEDGEMENT

Firstly, I wish to thank God for giving me the opportunity to embark on my Master and for completing this long and challenging journey successfully. My gratitude and thanks go to my supervisor Prof. Madya Dr. Ahmad Fadhly bin Arham and second supervisor Dr. Rizuwan bin Abu Karim.

I would also like to give special thanks to my husband (Muhammad Azrai bin Zolkefry) and my family as a whole for their continuous support and understanding when undertaking my research and writing my project. Your prayer for me was what sustained me this far.

Finally, this thesis is dedicated to the loving memory of my very dear father and mother for the vision and determination to educate me. This piece of victory is dedicated to both of you. Alhamdulillah.

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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The success and stability of an organization cannot be accomplished without the cooperation and support from its employees. According to Mahadi, et al. (2020), an organization needs its employee to work to the greatest possible advantage in order to achieve the goals and objectives of their organization and employees also are expected to fulfil organizational needs from the first day they report duties. Apart from that, Sanjeevkumar (2012) stated that employees are hard to replicate and in intense competition they are the main competitive advantage for an organization. Thus, to make sure employees remain in the organization, particularly in difficult times, has become particularly important for any organization.

A study conducted by Mercer Webcast Series (2016), the average global turnover is 9.1% and from the same study has found that top five countries with highest turnover rate is Argentina (16.8%), Venezuela (16.7%), Romania (16.5%), Indonesia (15.8%) and Philippines (15.5%). Even though, Malaysia has not been listed in this highest number of turnover rates but, according to a survey conducted by Aeon Hewit in 2015, Malaysia has recorded 9.5% in turnover rate. This has exceeded the average rate of turnover. Moreover, in the year 2017 according to Institute of Labour Market Information and Analysis (ILMIA), the turnover rate number is considered high which resulted in 20% of turnover in Malaysia (Omar, 2018).

The contribution of Small Medium Enterprises (SMEs) in fostering economic growth is clear (Madanchian et al., 2014; Ong & Liaw, 2018). According to the Department of Statistic Malaysia (DOSM) (2016), SMEs contribute to 98.5% business establishment and also 66% job employment in Malaysia. Despite many incentives provided by the government, it is still difficult to retain the employee, since the number of turnovers is high. SMEs are divided into different sector but according to Kassim & Sulaiman (2011) and Edward & Wahab (2017), manufacturing sector has become relatively important in developing economic growth in Malaysia.

Having a low number of employees stay in the organization for a long period of time has bad implication to the organization as well as to other employees (Ahmad et