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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's 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 Eleven 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 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.
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