

Leadership Styles and Their Impact on Firms' Profits among SMEs: A Moderating Effect of Effective Communication

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Abstract---Purpose: *The purpose of this study is to shed light on the importance of leadership style for the firms' profitability along with the moderating effect of effective communication in the context of Malaysian SMEs.*

Design and Method:

The study adopted a quantitative approach for which the data was gathered from 359 managers of SMEs operating in Kuala Lumpur, Malaysia. The study utilised the SEM technique in order to analyse the moderating effect of effective communication in the relationship between leadership style and firms' performance.

Findings: *There is a positive and significant relationship between effective communication between leadership style and firms' performance. Meanwhile, the moderating effect of effective communication affecting this relationship has also been found as positive and significant.*

Limitations: *The study has focused merely focused on the SME sector of Malaysia meanwhile, the absence of qualitative evidence is some of the limitations of this research.*

Keywords---*Leadership Style, SME profitability, Effective Communication Malaysia*

I. Introduction

Achieving success requires upright leadership, a topic that is widely discussed within organisations' research and addressed through different theories and various authors (Jermisittiparsert & Urairak, 2019; Siriattakul, & Jermisittiparsert, 2019; Hartinah, Suharso, Umam, Syazali, Lestari, Roslina, & Jermisittiparsert, 2020). It is no longer just the good salary that employees crave, but attitudes toward valuing and self-fulfilling in the workplace. An organisation considers itself effective if it finds the balance between various stakeholders (managers, owners, employees, customers) and employee needs (Muenjohn and McMurray, 2016). With the current diversification of types of organisations and the complexity of the teams to be led, organisational leaders gain a major role in the growth of organisations. Understanding how leaders influence the well-being of their employees is a fundamental concern of organisations. The leadership is widely cited as a factor that affects overall performance and growth of SMEs, however, there is no study in case of Malaysian SMEs that identify the leadership styles and relate it with the profitability. Therefore this study fills in this gap by conducting a research that shows leadership styles and shows its impact on profitability (Afriyie, Du, and Musah, 2019).

This study aims to explore the impact of leadership on the profitability of small and medium enterprises (SMEs) in Malaysia. This is the one aspect of the study however, investigating the moderating effect of effective communication in the relationship between leadership style and firm's profits are the other aspects of the study. Effective communication in the organisational context has become more important due to the increased globalisation and workplace diversity (Okoro, 2012). An organisation in the absence of effective communication cannot foster a good working relationship with employees and

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other stakeholders. In this sense, the need for effective communication in exchanging the information and instructions becomes important as it informs the workforce regarding the ongoing and long term strategy of the company. As a result of effective communication, organisations enable themselves to direct the potential and capabilities of the workforce in the right direction which lead to high employee performance and increased profitability of the unit.

This study has used analyses of various theories and authors, as well as, in a more practical way to observe a tire distribution SME, with the sample consisting of individuals from across the company (leaders/managers and subordinates/employees). For this purpose, a questionnaire was used to collect data from leadership in SMEs in Malaysia. The questionnaire was designed to assess the leadership style in Malaysian SMEs. Furthermore, the survey also provided information about the profitability of SMEs to assess the impact of each style of leadership on profitability. The determination of the impact of leadership style on firms' profit is the one major aspect of this study however, the current research also deals in determining the moderating effect of effective communication for this relationship.

II. Research Problem and Gap

It has been discussed that a leadership style plays a pivotal role in inspiring people and introducing those processes and procedures that lead to long-term sustainability of the company. With reference to the findings of Arham (2013), leadership is responsible to inspire people with the long term vision. However, it has also been discussed in the study of Ates (2013), leadership style and approaches in SMEs are difficult to predict. It has been because of the reason that SMEs focused on the short term vision and deals in managing short term goals and objectives. This further implies that the majority of employees and organisational processes are not fully inspired with the leadership attributes and vision. Additionally, effective communication is considered as the key area that helps organisations in maintaining the efficiency and sustainability in its operations. Moreover, it has also been discussed that effective communication also plays an essential role in translating the vision, information to the concerned stakeholders. Likewise, other SME sectors, the effective communication process and practices are not being adequately followed among SMEs which as a result further raises the challenges for the leadership in translating the true vision so that employees can be directed and motivated towards the high performance. Therefore, the following study has been executed in order to minimise the research gap that exists for the studied phenomenon.

Study Objectives

- To shed light on the importance of adequate leadership styles for SMEs.
- To determine the influence of the leadership style on the performance of SMEs.
- To determine the moderating effect of effective communication in the relationship between leadership style and SMEs' performance in the context of Malaysia.

III. Literature Review

In Malaysia, like any other economy, SMEs has a significant economic role in the growth and development. Being the backbone of any economy, the Malaysian SMEs claim an overwhelmingly large proportion in the economy, with 98.5% of the businesses being categorised as SMEs (Haseeb, et al., 2019). The SME sector contributes towards 36.6% of the gross domestic product (GDP) in 2016. Figure below provides an insight into the performance of SMEs. The research literature indicates that there is lack of studies available on the role played by SMEs and their significance for the Malaysian economy. Drawing on the literature, it can be concluded that only limited literature focusing on relationship between leadership and business performance of SME (Razali, et al., 2019).

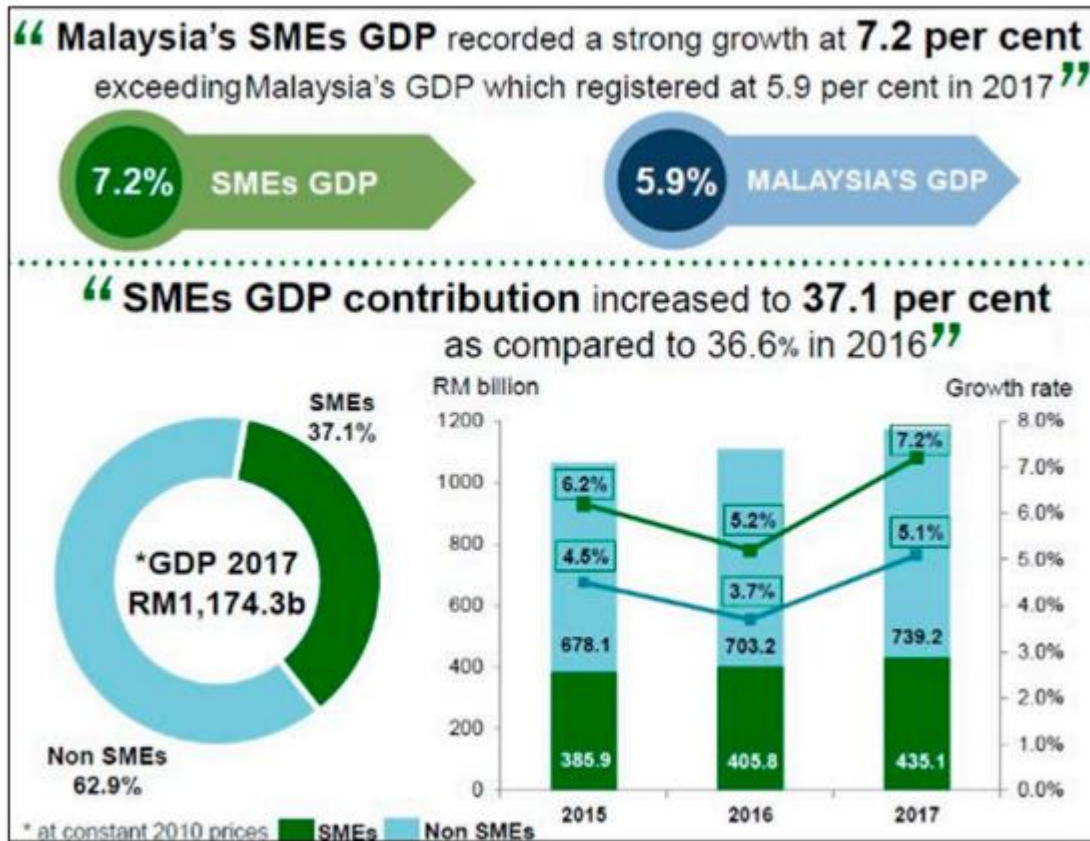


Figure 1: SMEs in Malaysia source (Haseeb, et al., 2019, p.2)

Since there is considerable difficulty in collection of financial data from SMEs, therefore there is only limited literature available on SME performance. In addition, researchers are more focused on assessment of managerial functions such as the impact of management control systems and their impact on performance of Malaysian SMEs based on fragmented evidence available. Majority of the literature regarding performance measurement is focused on large organisations and within the context of the fact that 98% of the businesses in Malaysia are SMEs therefore it is critical to conduct more studies on SME performance (Chin & Lim, 2018).

Modern business community society is populated by large, small, social enterprises and non-profit organisations. An organisation is defined as a group of people working together to pursue goals that would be impossible to achieve if people worked alone (Kautsar, Asandimitra, & Aji, 2018). However, there are several meanings to the word organisation. Chinomona & Mofokeng, (2017) defines organisation as a systematic arrangement of two or more people who fulfil formal roles and share a common purpose, is a structured group of people brought together to achieve a set of goals that an individual alone could not achieve through a set of beliefs, values and behaviours necessary for its functioning, through its own culture and organisational structure

There is huge literature focusing on organisational leadership. Leadership is mainly and broadly defined as the function of leading people in an organisation to achieve the common goals and purposes of the organisation (Yoo, Kang, & Seo, 2016). Alkasim, et al., (2018) argues that there is a wide category of leadership based on style of leadership, characteristics of leadership, behaviour of leadership, etc. In this study the researcher has focused on leadership style as the main

independent variable. The reason to choose leadership style is that it is most commonly used in impact studies and is related to organisational performance and profitability.

The business world is increasingly competitive. For a company to be financially successful is crucial that it is efficient and able to adapt dynamically. From an organisational perspective, profitability is an important measure of performance which can be evaluated in various ways (Andersén& Samuelsson, 2016). Other subjective indicators are organisational objectives, interests and values of those performing the analysis. Terms such as effectiveness, performance, and efficiency often create confusion. However, there are differences in their meanings and evaluations methods (Afrifa, 2016). Efficiency is defined by Lamptey, Frimpong, & Morrison, (2017) as a concept that compares inputs to an organisation with its outputs. Resources (including leadership), capital, etc. are some of the inputs and profits, growth, etc. are some of the outputs. Effectiveness is the way in which the goal is achieved or not and the correct one. Performance in general is defined as the degree to which an organisation achieves its goals and objectives or ideally the extent to which they outperform its competitors.

According to Xu& Li, (2019) organisations may have different criteria for measuring performance: ability to achieve the organisation's goals, to harness scarce resources of high value. For Freixanet, Renart, & Rialp-Criado, (2018) flexibility and organisational capacity to leverage resources (internal and external) are performance indicators. Previously, organisational performance is often assessed through measures of financial resource-based performance. Financial ratios are most commonly used such as return on assets (ROA), return on equity (ROE), and return on investment (ROI), sales growth, market share, and profitability. Even though these indicators are still important for measuring organisational performance, in modern organisations they are no longer sufficient (Muneer, Ahmad, & Ali, 2017). However, Anwar, (2018) considers organisational performance is a multidimensional construct and cannot exist without integrating operations, systems, customers, people, management and partners, and importantly with leadership. Hence, Baños-Caballero, García-Teruel, & Martínez-Solano, (2016) recommends that managers must also include non-financial indicators of performance for instance customer satisfaction, innovativeness, employee satisfaction, efficiency of internal business processed, and the performance of intangible assets such as brand equity, leadership quality and effectiveness, etc.

Margaretha & Supartika, (2016) proposed three dimensions for assessing company performance: the first is the financial performance, followed organisational efficiency and business performance. To measure the financial performance the study recommended to use ratios such as is ROA, ROA, and ROE which reflect the profitability of the company. The operational measures indicate the business performance which include market share, the new products development and growth in sales which reflect the current and future growth prospective of the business. Organisational efficiency involves stakeholder-based measures, such as employee satisfaction, quality and social responsibility, which are non-economic aspects of evaluation (Saunila, 2016).

Kitsios& Kamariotou, (2018) consider the assessment of the ability to create Gross Value Added (GVA) important, because it allows measuring the capacity of wealth in a given period of time. In the absence of financial measures to evaluate the performance of the organisation, it is possible to use more subjective measures such as the perception of the elements of the organisation in relation to its organisational performance (Kitsios& Kamariotou, 2018).

Leadership is of great importance, both in personal and organisational life, as it is the starting point for good performance in an organisation. The success of a company is considered to depend on organisational performance. This happens when leadership involves motivation, management, inspiration, compensation, and analytical skills, thereby increasing employee satisfaction, productivity, and profits (Dzomonda, Fatoki, & Oni, 2017). According to Sheshi& Kërçini, (2017) the personality of the leader has significant role in organisational culture because the leadership behaviour is followed and

adopted by the employees. The working values, beliefs, and commitment trigger down from leadership to lower management and employees.

Arman, et al., (2019) stated that changes in the business environment, (globalization of the economy and the global labour and capital markets, and information technologies) demand increasingly higher levels of performance from organisations, making it critical for organisations to achieve competitive advantage in order to survive. Thus, the leader's role, according to Arman, et al., (2019) is to integrate the needs of each individual with the goals of the organisation.

Successful organisations are the result of leadership and effective organisations, i.e. leadership is the starting point for satisfaction, performance and commitment within organisations under construction. The relationship between organisational performance and leadership is considered to be an important determinant for the organisational effectiveness, as the leader is responsible to identify strengths and weaknesses and develop organisational policies, goals and targets that are achievable through using the resources and exploiting the opportunities (Israel, 2018). There is a very critical role for leadership in the organisation because they formulate the strategies and direct the employees and actually lead them in implementation of strategies. One way is to develop long term relationships through effective communication (Hashim, et al., 2018).

Due to the competitiveness of the global environment companies need to reconsider the leadership role to avoid wasting their resources. Over the past 30 years, a number of surveys have been conducted which found that leadership is directly related to work performance, creativity and organisational citizenship behaviour. In these surveys the focus has shifted from the type of transactional leadership to transformational leadership, with regard to organisational performance (Otinga, et al., 2017). Successful organisations, in addition to being the result of effective leadership, are also the result of organisational culture, strategy and employee involvement. Only by joining these elements is organisational performance possible (Manzoor, et al., 2019).

Transformational leadership must play a positive role and contribute towards organisational performance. They must develop relationships and integrate trust, fairness, and mutual cooperation. Leaders must have agile behaviour that will influence organisational trust and reliability that will ultimately have a significant impact on organisational growth (Kihara, Bwisa, & Kihoro, 2016). According to Aziz, et al., (2017) a set of studies conclude that there is positive impact of transformational leadership style on performance of firms. Furthermore, they also indicate that transformational leaders have the capacity to encourage followers to accomplish the targets and beyond them. They define qualitative and quantitative measures of performance to stimulate employees to develop favourable behaviours towards organisational citizenship. A study by Alhyasat & Sharif, (2018) found that there is a positive relationship between transformational leadership and organisational performance through greater commitment and motivation.

Putra, et al., (2019) conducted an evaluation of how transformational leadership may affect organisational performance by demonstrating dynamic learning capabilities in the organisational and promote innovation. The researchers also studied the relationship between style of leadership and business performance and provided the empirical evidence to support their assertion that transformational style influences the financial performance in a business as compared to other leadership styles such as transactional leadership style. Nonetheless, there are also other comparative studies such as Shao, (2017) that indicate that both the transactional and the transformational styles have similar and equal impact on business performance.

Also Bagheri, (2017) demonstrated that transformational leadership influences organisational outcomes through behaviour, attitudes, and performance. It is a style where the leader plays the model role to inspire the employees and expects them to follow in the challenges that leadership gives them to overcome and achieve higher performance individually and at firm level. It is the leader who communicates with people, delegate's responsibilities, tries to know employees in order to understand their strengths and weaknesses in order to optimize the company's entire performance (Bagheri, 2017). Rahim,

et al., (2016) believe that some leadership styles have quite strong positive correlation with motivation of employees to put in extra effort. They consequently enhance productivity and contribute towards financial performance, show higher satisfaction, reduce absenteeism, and minimise turnover. Effective leadership means the success of the organisation (Rahim, et al., 2016).

Leadership styles demonstrate the leader's behaviour toward his subordinates. The style of leadership is monitored using underlying factors such as the leadership experience, decision making power, and communication, among other factors. It may also depend on a set of leader-related characteristics, such as trust in subordinates (Velu & Manxhari, 2017). Leadership can be divided into different styles, depending on the behaviour the leader decides to use and how he expresses his leadership power. This considers the autocratic or authoritarian style, the democratic style and the liberal style (Zainol, et al., 2018).

The authoritarian leader transmits to subordinates all the tasks they have to perform and in what manner they will be developed without any intervention on their part. With this style, a climate of tension and frustration is generated, limiting the autonomy and freedom of action of subordinates, which leads to lack of initiative, creativity and lack of relationships between group members (Velu & Manxhari, 2017). This kind of leadership can lead to the respect and obedience of the led, but it will not achieve effective leadership as it is an extreme form of leadership where the leader has extreme power over the team which offers little opportunity to say what they think, not actively involving them in the development of the activity (Zainol, et al., 2018).

The democratic leader guides and supports his subordinates. These have autonomy and freedom of action and are called to participate in some decisions, although the voice of the leader predominates. This style develops a good relationship and rhythm of work, promoting friendly relationships among the group members, which leads to the improvement of the tasks developed (Abernethy & Dahlberg, 2018).

The liberal style is also known as the laissez-faire style and is characterized by the leader not interfering with the work of subordinates, giving them complete freedom for group or individual decisions. The leader only comments and participates only when requested by subordinates (Azizan, et al., 2017). With this style there is a lack of organisation and coordination and sometimes a lack of respect among the members of the group, since the leader does not perform his duties or imposes rules, he begins to be disrespected and delimitation of hierarchical levels ceases to exist. Each leadership style has a different impact on organisational performance, some helping organisations to evolve and succeed, others only hinder their development and are a source of dissatisfaction and motivation (Syed, Blome, & Papadopoulos, 2019).

The study of García-Carbonell (2016), suggested that communication plays a key role in aligning human resource and organisational processes with the organisational vision and mission. Meanwhile, communication is also considered to be essential in deploying and implementing effective strategies that can contribute to organisational success. The study of Mayfield (2015), has also suggested that communication helps in translating the vision and mission of the organisation to different internal and external stakeholders. This suggests that the use of effective communication strategies become evident while supporting leaders and managers in translating and directing their approaches to employees and other stakeholders. The notion of effective communication becomes important from all aspects of the organisation as it not merely assist leaders in directing and educating the workforce from their strategies however, it is considered to be an essential element in the workplace environment by which employees foresee how they can contribute to the organisational success.

IV. Theoretical Framework

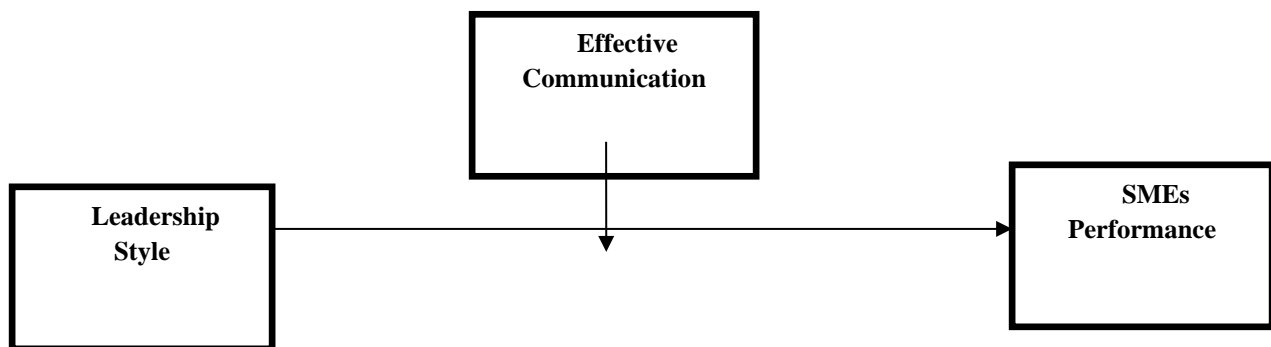
The following theory that is the analysis of the influence of leadership style on SMEs' performance with the moderating effect of effective communication can be supported with the behavioural theory of leadership. The theory believes that leaders are those who alter their approaches with changing conditions. More specifically, the theory suggests that leaders

can be made meanwhile, the attributes of successful leadership are defining and learning behaviour of the leadership. The behavioural theory specifically deals with the study of the behaviour of leadership. Therefore, in the context of this research, the theory can be applied to overcome the changing needs and demands of SME which can consequently drive the high performance.

The behavioural theory can also support the communication aspect being studied in the study. The behavioural theory of leadership also states that this theory of leadership forms the basis of learning ideas through the provided conditions. Moreover, it also states that conditioning occurs from interacting with the environment thereby suggesting responses of the leadership to the environmental stimuli alters our actions. In this sense, it can be articulated that the leadership influence becomes dependent on one of the environmental stimuli and that is effective communication in order to significantly influence the firms' performance.

V. Conceptual Framework

On the basis of the discussion made above, the conceptual framework has been designed as follows where the independent construct is leadership style, moderating variable is effective communication and the dependent construct is SME performance:



Considering the variables and relationships, the following hypotheses have been constructed:

H₁: Leadership style has a significant and positive relationship with the firms' profits.

H₂: Effective communication positively and significantly moderates the relationship between leadership style and firms' profits.

VI. Methodology

Population and Sample Size

The following study is based on the SME sector of Malaysia. With reference to the findings of Madanchian (2015), the SME sector of Malaysia contributes to the major share in the country's GDP. This not merely justify the importance of the sector meanwhile, it also suggests how the abundance of SMEs in the country. In this sense, the researcher has intended to provide a survey questionnaire to the 359 SMEs operating in Kuala Lumpur. However, it is important to determine whether the decided sample size of 359 is appropriate and adequate in examining this particular research phenomenon.

The expression suggested by Denscombe (2014), is important in determining the adequate sample from the concerned population. The study suggested that the sample size of 384 is required to enhance the data gathering process for the particular research. According to him, the sample size of 384 is adequate while considering the research sample size. The expression is as followed:

$$n = \frac{z^2 \times p \times (1 - p)}{e^2}$$

In the above-mentioned expression, z denotes the critical value at 95% confidence and has been computed as 1.96. Moreover, p expresses the variability proportion of the population which is assumed as 50% (0.5). Further, the error of 5% (0.05) is also supposed during

Where z is the critical value at 95% confidence level (1.96), p is the variability proportion in population which is 50% (0.5). Moreover, the error is supposed to be 5% (0.05). Upon putting values, the sample size of 384 has been computed as the adequate sample size.

$$n = \frac{(1.96)^2 \times 0.5 \times (1 - 0.5)}{(0.05)^2} = 384$$

However, the researcher considered the response rate issue for which the researcher planned to provide a questionnaire to a relatively greater number of SMEs. However, in the current study, the survey questionnaire obtained in the acceptable form was 359. The researcher questionnaire to 390 managers of SMEs from which the 359 have been used in this study. In this sense, the response rate can be obtained as 92.05%

Sampling Technique

The sampling technique that has been followed in the current study is the non-probability convenience sampling technique. The researcher planned to adopt the information from the selected city Kuala Lumpur. The non-probability convenience sampling technique has mainly been followed because of the accessibility and convenience factor that the researcher required during the data collection process.

Data Collection Instruments

Data collection instrument utilised in this study was a questionnaire survey. The researcher followed the self-administered approach while formulating the survey questionnaire. The questionnaire was formed on the five-point Likert scale including the questions related to the dependent, independent and moderating variable and were extracted from the literature findings.

Data Analysis Technique

The data analysis technique which the researcher has used in the current study is the structural equation modelling (SEM). SEM is considered as an effective statistical analysis technique which is preferably followed in determining the moderating effect. Meanwhile, the study of Nitzl (2016), suggested that SEM is also an essential technique in executing the detailed analysis of the factors involved in the study. Here it becomes important to mention that SEM forms the basis on two analysis. One is identified as confirmatory factor analysis (CFA) while the other is concerned with the path analysis. The CFA involves validation of the constructs or variables while the path analysis is concerned with the investigation of direct effect and moderating effect.

VII. Analysis and Results

The study deals with the analysis of the influence of moderating effect of effective in the relationship between leadership style and firm's profit. In realisation of this, the researcher has adopted the SEM technique. As already discussed, the SEM technique is based on two analysis CFA and Path analysis. With regards to the findings of Marsh (2014), the CFA involve factor loading, reliability, convergent validity and discriminant validity. In the below-mentioned table (Table 1), the demonstration for factor loading, reliability and convergent validity has been demonstrated.

Factor loading is the one component for CFA that helps in determining the variance explained by factors from its variables. Moreover, the study of Henseler (2015), has also suggested that the threshold for factor loading is considered as 0.6 thereby indicating the factor loading of constructs must be greater than or equal to 0.6. In the below table (Table 1), the lowest value for factor loading has been computed as 0.604 and is accepted because of its threshold. This suggests that all the factors are explained from their variables. Determining reliability is also another aspect of CFA which determines whether the constructs in a variable are reliable. The Cronbach's Alpha and composite reliability help in determining reliability. The study of Wong (2013), has suggested that Cronbach's Alpha and composite reliability have a threshold of 0.6. The values of Cronbach's Alpha for the variables effective communication, leadership style and firms' profit have been obtained as 0.7474, 0.742 and 0.846 respectively. Moreover, the values for the same variables have been obtained as 0.841, 0.837 and 0.896 respectively. This confirms the variables are reliable as the values have been computed lesser than 0.6. With reference to the findings of Afthanorhan (2013), the convergent validity of latent constructs is determined through AVE which has the threshold of 0.5. By considering the values of 0.527, 0.567 and 0.638, it can be stated that all the variables possess convergent validity because the threshold has been obtained greater than 0.5.

Table 1: Factor Loading, Reliability and Convergent Validity

Latent Constructs	Indicator	Factor Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Effective Communication	EF1	0.657	0.747	0.841	0.572
	EF2	0.787			
	EF3	0.819			
	EF4	0.752			
Leadership Style	LS1	0.604	0.742	0.837	0.567
	LS2	0.847			
	LS3	0.811			
	LS4	0.725			
SME Performance	SMEP1	0.764	0.846	0.896	0.683
	SMEP2	0.823			
	SMEP3	0.882			
	SMEP4	0.832			

Moreover, discriminant validity is also considered as an important aspect of CFA which is concerned with testing the distinct nature of variables against each other. With reference to the findings of Kock (2015), discriminant validity is denoted

as HTMT whose threshold is considered to be as 0.9. While referring to the table below (Table 2), it can be stated that all the variables are distinct as the highest computed value has been obtained as 0.708 which is still lesser than the threshold of 0.9.

Table 2: Discriminant Validity

	Effective Communication	Leadership Style
Leadership Style	0.708	
SME Performance	0.697	0.578

The path analysis is assumed as the most important aspect of SEM which is executed after executing the CFA or once it is confirmed that variables are valid. The following table (Table 3) is concerned with the analysis for path analysis. Here it becomes important to mention that path analysis involves consideration of Path Coefficient and p-values that determine whether the relationship or effect is positive/negative and significant/ insignificant. Moreover, the study of Peeters (2016), has also suggested that p-values are assumed to be the threshold which helps in determining the significance of results. In the following analysis, the threshold has been set as 0.05 thereby suggesting values are significant at 0.05 confidence level.

The direct effect of leadership style on SME performance has been obtained as positive and significant. It has been because of the values $B=0.246$, $p=0.000<0.05$. This suggests that leadership style has a positive and significant impact on firms' performance. The moderating effect of effective communication can also be discussed from the below-mentioned table. The direct effect of effective communication with firms' performance can also be determined. The values for this relation have been obtained as $B=0.447$, $p=0.000<0.05$. This suggests that effective communication establishes a positive and significant relationship with the dependent variable. Moreover, to determine the moderating effect of effective communication in the relationship between leadership style and firm performance is the fundamental aim of this study. The values for this relation have been obtained as $B= 0.074$, $p=0.033<0.05$. This suggests that effective communication significantly moderates the relationship between leadership style and the firm's profits operating in the SME sector of Malaysia.

Table 3: Path Analysis

Path	Path Coefficient	T Statistics	P Values
EF*LS -> SME Performance	0.074	2.133	0.033
Effective Communication -> SME Performance	0.447	8.404	0.000
Leadership Style -> SME Performance	0.246	4.846	0.000

While executing SEM, it also becomes important to evaluate the quality of the model on which findings of the study are based on. With reference to the findings of Ringle (2015), in order to determine the quality of the model, the R-square and Adjusted R-square are considered. The variance in leadership style and the moderating effect of effective communication explains 37.68% variance to the dependent variable (SME performance). Moreover, with the adjustment of errors, the variance has been computed as 37.16%.

Table 4: Quality of the Model

	R Square	R Adjusted	Square
SME Performance	37.68%	37.16%	

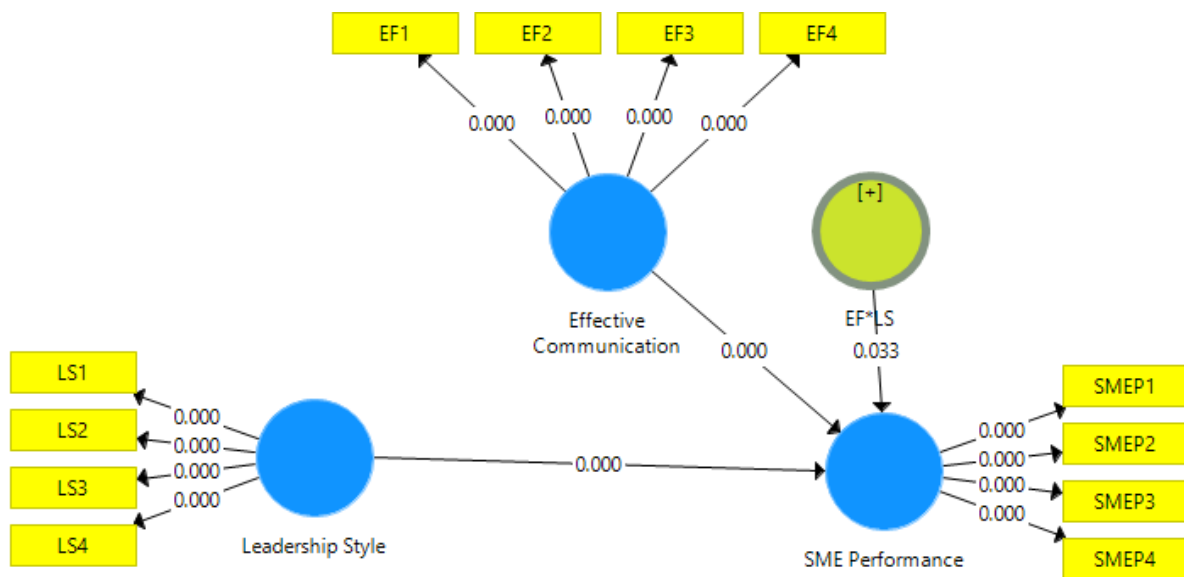


Figure 2: Model After Bootstrapping

VIII. Summary of Hypothesis

In the following section, the summary of the hypotheses have been presented

S. No.	Statement	Results
H1	Leadership style has a significant and positive relationship with the firms' profits.	Accepted
H2	Effective communication positively and significantly moderates the relationship between leadership style and firms' profits.	Accepted

IX. Conclusions

Today's business environment is highly dynamic and competitive, requiring organisations to respond quickly and effectively through high-quality performance, which has increased the pressure on organisations' leaders, enabling

companies to survive and continuously develop, and to reorganisation of business structures taking advantage of their human capital. This is only achieved through effective leadership. Leadership and its practice are today factors of enormous impact on organisational life, being crucial for the performance and effectiveness of organisations and the achievement of defined goals.

Today, organisational development and effectiveness are dependent on leadership development. Leadership is undoubtedly one of the indispensable tools for organisational success. Thus, the present study aimed to make an analysis of leadership styles and its impact among on SMEs of Malaysia with regards to their profitability. The predominant features of autocratic style is that decision making process is quick and time-efficient and the leader has almost complete power to direct the followers (Mihai, Schiopoiu Burlea, & Mihai, 2017). However, the main weaknesses in the autocratic leadership style are that it curtails innovativeness, employee engagement, and creativity, due to which the competitive advantage of the firm is compromised. It also undermines the use of human resources, particularly the intellectual resources of the firm. In contrast, the democratic leadership style offers the benefits of innovation and creativity and more effective use of human and intellectual resources. This also seems consistent with results of this study as it can be observed that SMEs that have democratic leadership show higher profitability than those who have autocratic or laissez-faire leadership style. In addition, the study further concluded that the moderating effect of effective communication was significant and this stresses on the implementation of such strategies that promote effective communication within the organisation especially between the leadership and employees. Overall this study concludes that leadership shows a significant positive impact on Malaysian SMEs' profits.

X. Recommendations

Based on the results above, the following recommendations have been proposed for SMEs managers in Malaysia:

1. Promote appropriate and suitable leadership style in the firm by enhancing effective communications and devolution of decision making to lower levels. By achieving better communications and relationships with employees SME managers can identify new and innovative ideas for business growth and solutions to business problems. However, as Dyczkowska, (2018) warned, democratic leaders must ensure that the overall decision-making process remains time and resource-efficient while also respecting opinions of the entire group.
2. In addition, this study also recommends that SME managers in Malaysia should not only change their leadership style but also adopt the change process in order to remain flexible with the dynamic external environment forces. Since SMEs has limited resources as compared to large organisations, therefore it is critical for them to be able to ensure organisational agility (Okunbanjo, 2017). The leaders must constantly look for new sources of competitive advantages through employee consultation. For example, employees could provide new and innovative ideas about new products, marketing, process changes, cost efficiency and provide useful insights about changes in customer behaviour (Basit, Sebastian, & Hassan, 2017).
3. This study also recommends that in order to adopt a democratic leadership style SME managers should consider radical change in organisational structure and hierarchy. Typically autocratic leadership style promotes tall organisational structure (Adom, 2017) and democratic leadership style requires flat organisational structure (Abernethy& Dahlberg, 2018). Through flatter structure the managers can promote autonomy, freedom to make decision, and employee ownership to organisational goals and objectives (Adom, 2017). However, Miya, (2017) warned that democratic leaders must remain cautious of the fact that they are not absent from decision making process, otherwise they will transform into laissez-faire leaders (which has negative impact on profitability and

organisational performance). This balance, according to Ingley, Karoui, & Khlif, (2016) can be achieved by having rigorous internal control and governance mechanisms. The idea is to hold decision-makers accountable for their decisions so that rogue/risky managerial behaviour can be prevented.

Future Research Implications

Although this study provides statistically reliable results, yet the applicability and generalisability of the results are limited. This is because the sample size is 359 only which is only a very small portion of the target population. Therefore large scale studies are required to gain more reliable insights. In addition, the evidence reported in the results has been gathered from SME managers only and thus lacks input from employees and other stakeholders which is also very valuable to explore SMEs leadership in much depth. Therefore, future researchers are encouraged to conduct studies involving employees and understand how they perceive leadership style in SMEs in Malaysia and its impact on firm profitability.

Limitation of the Study

The study is purely based on the quantitative analysis which has been constructed by acquiring the survey responses collected from the SMEs operating in Malaysia. However, the inclusion of the qualitative evidence might have helped the researcher in reaching more in-depth and critical findings which the research lags. It has been because of the reason that by conducting interviews, the researcher might have been able to accurately state in what particular SMEs, the particular leadership style is being followed. Moreover, another limitation is concerned with the generalisability. Since the findings of this study are purely based on the SME sector of Malaysia, therefore the findings of this research cannot be applied to other sizes of organisations.

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XI. 13. Appendix

S.NO	Questions	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Leadership Style					
01	Autocratic leadership style provides greater authority to the leader thereby decision is more influenced by the leader.					
02	The democratic leadership style provides freedom and autonomy to employees which can result in innovation and creativity.					
03	Laissez Fair takes consideration of other ideas however, the authority to make decisions is dependent to the leadership.					
04	The appropriate leadership style that is aligning with the environment lead to high performance and profitability.					
	Effective Communication					
05	Effective Communication is vital for translating the leadership vision to concerned stakeholders.					
06	Effective Communication helps in reducing the redundancies and complexities in an organisation.					
07	The creativity and innovation is dependent to the effective communication.					
08	Effective communication ensure the provision of employee feedback and autonomy.					
	Firms' Profits					
09	Leadership style directly effect performance of an individual employee thereby influencing the overall performance of SME.					

10	Employee involvement in the decision making has increased the innovation and productivity of SME.					
11	Adequate leadership along with the effective communication contribute to the high performing organisation.					
12	The profitability of SME has increased due to appropriate mix of leadership style and effective communication.					