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An Empirical Study of Servant Leadership on the Performance of Small and Medium-sized Enterprises in Malaysia

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ABSTRACT

Although previous studies have addressed the effect of leadership and performance of Small and Medium-sized Enterprises (SMEs), however, little attention has been given by researchers to observe the effect of servant leadership in enhancing SME performance. Thus, the purpose of this study was to examine the theoretical model of servant leadership on the performance of SMEs. The model was grounded in the Revised Servant Leadership Theory and Path-goal Theory. A quantitative approach-based survey was carried out to obtain data from SME employees. A total of 200 companies were surveyed via the convenience sampling technique and only 104 usable data were used in the analysis. The Partial Least Squares Structural Equation Modelling (PLS-SEM) approach was utilized to assess the hypotheses. The results of the study indicate that servant leadership is an important predictor to enhance SME performance. Path analysis confirms that emotional healing, wisdom, and organizational stewardship were significantly related to SME performance. On the contrary, altruistic calling and persuasive mapping were found not to influence SME performance. This study provides a basis for further improvements in the application of the model while companies may focus on the stewardship aspect to ensure that employees are not left behind in achieving success. The theoretical and practical contributions of the study are also discussed, and suggestions are given for future research.

Keywords: Servant leadership; Performance; SME; Partial least squares

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INTRODUCTION

Small and medium-sized enterprises (SMEs) have contributed significantly to the growth of many countries in the world (Al-Tit, Omri, & Euch, 2019; Chong, 2012; Khalique, Isa, Shaari, & Ageel, 2011; Madanchian & Taherdoost, 2017). In Malaysia, the sentiment for the sector still remains positive in recent times since there are a variety of investments poured into the country benefiting several segments such as education, health, and rural infrastructure (Nabilah, 2018; Tahir, Razak, & Rentah, 2018). SME businesses are usually run by middle income owners or young adults who are eager to make their mark in the industry. Even so, the risk of business failure also exists mainly due to the financial factor (Nurulhasanah, Zulnaidi, & Rafisah, 2016; Razali, Saraih, Shaari, Abd Rani, & Abashah, 2018). About 60% of SMEs in Malaysia face difficulties in sustaining competition in the industry (Chong, 2012; Khalique et al., 2011). It is essential to have the right person to guide a newly built company, particularly in the context of SMEs, given the level of practical involvement across multiple areas of responsibility. Therefore, it is crucial for business leaders to have a certain set of leadership skills that could be adopted in accordance with the situation (Lorenzon, 2017). Another important reason for SME closure was due to management issues where SME owners are less aware of the business challenges specifically on the internal aspect (Nurulhasanah et al., 2016). Leadership has proven to be the key ingredient for the success of SME businesses, however with the use of an insufficient and weak leadership approach could result in business failure (Bushe, 2019; Madanchian & Taherdoost, 2017).

Servant leadership shows a promising sign to become the best practice for organizations in time to come. In the context of SME businesses, owners play an integral role in the enterprises by engaging in closer work relationships with their employees. Communication breakdown between them may halt the productivity and consequently lead to poor performance. Servant leadership is commonly described as going beyond one's own self-interest and concern for people's growth and well-being of the people within the organization. According to Greenleaf (1970) it is a philosophy and collection of behaviours that enriches people's lives, develops better organizations, and eventually creates a fairer and more supportive environment. A servant leader is exceptional in a way that noble

values are recognized as the vital component of the leadership process (Northouse, 2016). This study focuses on the five important aspects of the Servant Leadership Theory (SLT) suggested by Barbuto and Wheeler (2006); first, altruistic calling which is described as the desire of leaders to make a positive difference in others' lives. Second, emotional healing refers to leaders' personal concern and well-being of others. Third, wisdom is explained as leaders; being receptive and acutely attuned to his physical, social, and political climate. Fourth, persuasive mapping is defined as the ability to include rational reasoning and intellectual structures to promote others' lateral thought and fifth, organizational stewardship is described as leaders' capacity to empower their teams to make a meaningful difference to the community and society.

Recent studies have revealed that the contribution of leadership has been empirically verified in its relationship to SME performance. The outcome of the literature consistently confirms that transformational leadership is considered to be the preferred approach being practiced by SME leaders (Ahmad Fadhly, Abdul Rahim, Norhayati, Faizal, & Nurliza Haslin, 2016; Arham, 2014). Thus, it is apparent that leadership in general has played a crucial role in improving performance of SMEs. However, minimal attention has been given by researchers in observing the predictive effect of leadership on SME performance in previous studies as they aimed at identifying leadership best practices based on qualitative nature. In addition, Nor Hazana et al. (2014) and Roslan et al. (2013) have attempted to quantify the magnitude of their respective leadership practices but only found that they only account for a moderate impact on SME outcomes. While SME businesses embrace the need for productivity to succeed, until recently there has been lack of reliable evidence that investigated the impact of servant leadership that would enhance SME performance.

Motivated by the above discussions, the main objective of this study was to investigate the relationship between servant leadership and the performance of SMEs. The remainder of the paper includes the literature review, methodology, results and discussions, and conclusions.

LITERATURE REVIEW

This study used two main theories in explaining the relationship between servant leadership and organizational performance. Greenleaf (1970) first introduced the SLT to investigate how a leader's main motivation and role is to serve others and helping them to reach maximum potential. Moreover, this theory accentuates on the engagement of servant leadership, which in turn improves outcomes at the individual, organizational, and societal levels. Thus, servant leadership is explained by five important dimensions as suggested by Barbuto and Wheeler (2006) which consists of altruistic calling, emotional healing, wisdom, persuasive mapping, and organizational stewardship, as the proposed predictors in this study. On the other hand, the Path-goal Theory by House and Mitchell (1975) was used to complement the SLT to support the second part of this study's framework. They asserted that the leader influences the subordinates' perceptions of their goals and clarify the path to achieve the goals. In this study, the path refers to specific behaviour exhibited by leaders, that is, servant leadership will result in a specific outcome or goals in o SME performance. Hence, this study aimed to assess how servant leadership affects the performance of SMEs.

Numerous studies were undertaken to examine the performance of SMEs based on different samples, such as 86 top managers of tech-based companies (Azlin Shafinaz, Amran, Afiza Azura, & Zahariah, 2016), 395 business owners, managers, and employees of manufacturing and service companies (Ahmad Fadhly et al., 2016), 36 manufacturing firms represented by its managers (Nor Hazana et al., 2014), and 375 owners of service SME companies (Roslan et al., 2013). The findings revealed that transformational leadership is the preferred practice among SME leaders in determining company performance. There was an attempt to explore the leadership preference qualitatively via semi-structured interviews and, it was found that SME leaders tend to exemplify to transformational leadership than transactional leadership in order to achieve business success based on the response from top management personnel (Ahmad Fadhly, Boucher, & Muenjohn, 2013). The outcome of these studies confirmed the role of transformational leadership in fostering better performance of SMEs.

This study addressed servant leadership as the predicting factor that would influence SME performance. Previously, the effectiveness of

servant leadership studies was investigated based on different samples. For instance, 227 employees of Takaful operators in Malaysia (Raja Rizal Iskandar, Mohd Rizal, & Wan Aishah, 2016), 270 academicians of private universities in Pakistan (Hashim, Khan, Ullah, & Yasir, 2017), and 155 adult students participating in online learning platform in the United States (Sahawneh & Benuto, 2018). Findings of these studies reported that leaders who exhibited the servant leadership approach by means of being concerned of their followers' well-being would consequently contribute positively to various organizational outcomes (Alafeshat & Aboud, 2019; Brohi et al., 2018; Hashim et al., 2017; Raja Rizal Iskandar et al., 2016; Sahawneh & Benuto, 2018). Thus, based on Barbuto & Wheeler's (2006) suggested servant leadership dimensions, it was hypothesized that:

- H₁: There is a positive relationship between altruistic calling and SME performance
- H₂: There is a positive relationship between emotional healing and SME performance
- H₃: There is a positive relationship between wisdom and SME performance
- H₄: There is a positive relationship between persuasive mapping and performance
- H₅: There is a positive relationship between organizational stewardship and SME performance

METHOD

This study employed convenience sampling technique to distribute 200 questionnaires to the SME companies located in the Central Region of Malaysia (Kuala Lumpur and Selangor). The survey questionnaires were distributed based on the willingness of the participants. The unit of analysis was the employee of each SME company. 109 surveys were successfully collected which garnered a 54.5 percent response rate. Five subjects were excluded from the dataset upon conducting the data screening procedures.

The survey questionnaire was designed into three major sections, namely Section A, Section B, and Section C. Section A was divided into five sections that comprised of the servant leadership scales; altruistic calling, emotional healing, wisdom, persuasive mapping, and organizational

stewardship. The scales were adopted from Barbuto and Wheeler (2006). Section B addressed performance scales which consisted of a total of six items adjusted from (Wang, Chich-Jen, & Mei-Ling, 2010). Section C described the respondents' demographic information, such as gender, age, race, work experience, and position in the company.

The data were analysed in two phases. Firstly, the preliminary analysis was conducted using the IBM Statistical Package for Social Science (SPSS) prior to hypothesis testing. Secondly, assessing for the study's research model (Figure 1), this study employed the Partial Least Square (PLS) technique via the Smart-PLS 3.2.7 software (Ringle, Wende, & Becker, 2015). Two main procedures were undertaken; first, the measurement model which included testing of reliability and validity; and second, the structural model using the Bootstrapping Technique to determine the significance level of path coefficients (Hair et al., 2017; Henseler et al., 2009; Wong, 2013)CA", "title": "A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM).

RESULTS AND DISCUSSIONS

The demographic profile indicated that a majority of respondents who participated in this survey were male employees (51 percent), aged between 21 to 29 years old (72.1 percent) with mostly made up of Malay respondents (88.5 percent), employees who have been working for about 1 to 2 years (43.3 percent), and a majority of them were holding non-executive positions (55.8 percent).

Using a self-administered survey as the main source of gathering data, the common method bias analysis was necessary to ensure that there is no systematic bias that could influence the data and subsequently affect the accuracy of the results. Employing the collinearity assessment approach by Kock (2015), this study performed the Variance Inflation Factor (VIF) analysis across all constructs in the research model by observing for any potential of pathological collinearity. The results showed that the VIF values for all constructs were below than 3.3 (Kock, 2015). Thus, it was confirmed that method bias was not a concern in this study and further analyses continued.

Measurement Model

This stage aimed to evaluate the measurement model in terms of its reliability and validity of the developed constructs. The assessments included criteria such as internal consistency reliability, indicator reliability, convergent validity, and discriminant validity. Table 1 displays the results of the reliability and convergent validity of the constructs. The composite reliability indicates values of more than 0.70 (Hair, Hult, Ringle, & Sarstedt, 2014), which suggested that all the constructs were reliable. The outer loadings achieved the threshold of at least 0.50 (Ramayah, Cheah, Chuah, Ting, & Memon, 2016), while two items (SLC2 and SLE5) were deleted due to low loading values. The results confirmed that each item loaded adequately in its respective constructs. The average variance extracted (AVE) for all constructs remained more than 0.50, indicating that it fulfilled the acceptable standard of convergent validity (Henseler et al., 2009).

Table 1 :Results of Indicator Loadings and Reliability

Constructs	Indicator	Loadings	Composite Reliability	AVE
		(≥ 0.70)	(≥ 0.70)	(≥ 0.50)
Altruistic Calling	SLA1	0.775	0.909	0.669
	SLA2	0.715		
	SLA3	0.869		
	SLA4	0.866		
	SLA5	0.852		
Emotional Healing	SLB1	0.758	0.877	0.591
	SLB2	0.835		
	SLB3	0.810		
	SLB4	0.822		
	SLB5	0.591		
Wisdom	SLC1	0.850	0.907	0.711
	SLC3	0.892		
	SLC4	0.845		
	SLC5	0.782		
Persuasive Mapping	SLD1	0.838	0.859	0.552
	SLD2	0.763		
	SLD3	0.726		
	SLD4	0.702		
	SLD5	0.674		

Organizational Stewardship	SLE1	0.880	0.921	0.745
	SLE2	0.879		
	SLE3	0.879		
	SLE4	0.812		
SME Performance	OP1	0.779	0.885	0.564
	OP2	0.805		
	OP3	0.633		
	OP4	0.713		
	OP5	0.836		
	OP6	0.722		

Determining the discriminant validity requires the constructs to be distinct from one another. Conventionally, this is achieved when the squared root of AVE value is higher than the correlation between other constructs (Fornell & Larcker, 1981; Hair, Ringle, & Sarstedt, 2011) SEM is equivalent to carrying out covariance-based SEM (CB-SEM. The Fornell-Larcker criterion has also been criticised as the cross-loadings are unable to fully detect discriminant validity (Henseler, Ringle, & Sarstedt, 2015). Therefore, the Heterotrait-monotrait (HTMT) was employed to establish discriminant validity. Table 2 shows the HTMT values for each construct were less than 0.85 (Clark & Watson, 1995; Hair et al., 2017), affirming that discriminant validity for all the constructs were established.

Table 2: Results of HTMT Correlations

	1	2	3	4	5	6
Altruistic Calling						
Emotional Healing	0.804 (0.683,0.895)					
Wisdom	0.495 (0.260,0.679)	0.268 (0.149,0.444)				
Persuasive Mapping	0.658 (0.490,0.795)	0.560 (0.381,0.706)	0.755 (0.609,0.860)			
Organizational Stewardship	0.522 (0.359,0.670)	0.351 (0.208,0.526)	0.606 (0.447,0.732)	0.554 (0.389,0.710)		
SME Performance	0.416 (0.244,0.597)	0.386 (0.229,0.570)	0.576 (0.393,0.731)	0.490 (0.322,0.637)	0.631 (0.435,0.790)	

Note: Confidence interval (CI) ranged between 2.5% and 97.5% respectively.

Structural Model

Upon successfully validating the research model, the next stage aimed to evaluate the hypotheses of the study. The evaluations included assessing the model's explanatory power by examining the level of coefficient of determination (R^2) and effect size (f^2) of the model. The R^2 indicates the model's explained variance by its predictors whilst f^2 measures the extent of a predictor's effect towards the target construct and then, the assessment of the model's predictive power based on path coefficient estimates and predictive relevance (Q^2). The path coefficient estimates followed the guideline of corresponding t -value via the bootstrapping procedure which was greater than 1.96 and the Stone-Geisser Q^2 test assessing the model's predictive relevance using the blindfolding procedure (Hair et al., 2017; Henseler et al., 2009; Raja Rizal Iskandar et al., 2018; Ramayah et al., 2016). The results are specified in Table 3.

Table 3: The results of Hypotheses Testing

Hypothesis	Relationship	Coefficient	t -value	Supported	f^2	R^2	Q^2
H_1	AC → OP	-0.068	0.623	No	0.004		
H_2	EH → OP	0.226	2.160	Yes	0.044		
H_3	WSD → OP	0.253	2.072	Yes	0.054	0.398	0.200
H_4	PM → OP	0.042	0.364	No	0.001		
H_5	OS → OP	0.338	3.225	yes	0.119		

Note: $t = 1.96, p < 0.05$; $t = 2.58, p < 0.01$; $t = 3.29, p < 0.001$

AC – Altruistic Calling; EH – Emotional Healing; WSD – Wisdom; PM – Persuasive Mapping; OS – Organizational Stewardship; OP – SME Performance

The R^2 for SME performance is 0.398. This means that servant leadership had explained 39.8 percent of the variance in the performance of SMEs. The result explained that the strength of the model is moderate. The f^2 showed that organizational stewardship has the largest effect size (0.119) contributing to the variance of SME performance. The results of path coefficient estimates displayed that emotional healing ($\beta = 0.226, t = 2.160$), wisdom ($\beta = 0.253, t = 2.072$), and organizational stewardship ($\beta = 0.338, t = 3.225$) had a positive effect on SME performance. This gives support for H_2, H_3 , and H_5 . Conversely, altruistic calling ($\beta = -0.068, t = 0.623$) and persuasive mapping ($\beta = 0.042, t = 0.364$) were insignificant to SME performance. Hence, H_1 and H_4 are not supported. The values of Q^2 is 0.200, above the minimum zero value which justified that the research model has good predictive relevance.

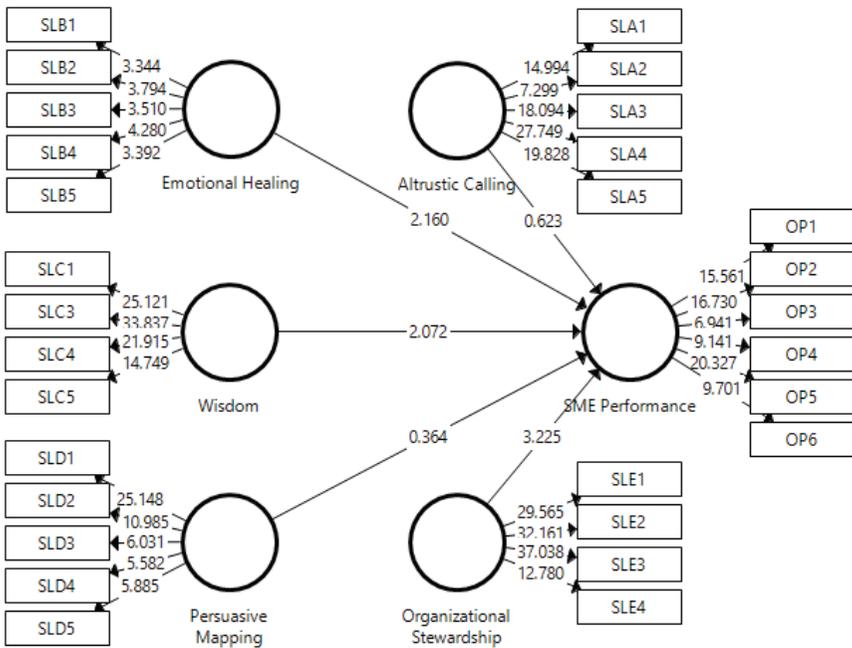


Figure 1: Structural Model

Importance-Performance Map Analysis (IPMA)

This study extended the analysis by employing a post-hoc IPMA using SME performance as the outcome variable. The analysis aimed to observe predictors that have a relatively high importance to the target variable, but also those with a relatively low performance (Ringle & Sarstedt, 2016) drawing on the IPMA module implemented in the SmartPLS 3 software, illustrates the results generation and interpretation. Design/methodology/ approach – The explications first address the principles of the IPMA and introduce a systematic procedure for its use, followed by a detailed discussion of each step. Finally, a case study on the use of technology shows how to apply the IPMA in empirical PLS-SEM studies. Findings – The IPMA gives researchers the opportunity to enrich their PLS-SEM analysis and, thereby, gain additional results and findings. More specifically, instead of only analyzing the path coefficients (i.e. the importance dimension. As shown in Table 4 and depicted in Fig. 2, the results revealed that organizational stewardship (0.270) is the most important predictor in

influencing SME performance. However, its performance value did not reflecting its importance. Instead, wisdom indicates the highest performance reading. On the other hand, altruistic calling stated the lowest reading of its importance (-0.060) compared to other predictors while emotional healing recorded the lowest performance (50.797) reading. Hence, based on IPMA findings, altruistic calling and emotional healing are underperforming and need further improvement.

Table 3: Results of IPMA

Variables	SME Performance	
	Total Effect (Importance)	Index Value (Performance)
Altruistic Calling	-0.060	57.962
Emotional Healing	0.172	50.797
Wisdom	0.222	71.870
Persuasive Mapping	0.038	68.073
Organizational Stewardship	0.270	71.078

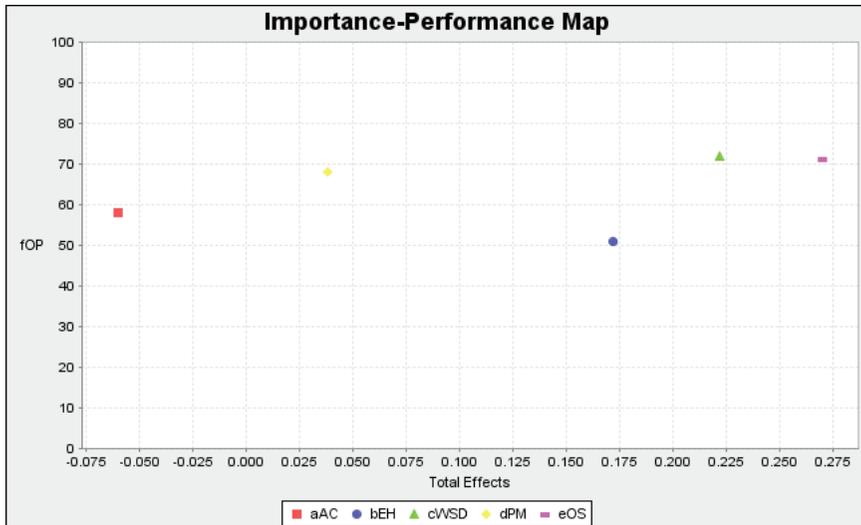


Figure 2: IPMA for SME Performance

The outcomes of this study supported the research model presented in Fig. 1 as well as the directional linkage hypotheses. The model’s explanatory power suggests that servant leadership contributes 39.8 percent to the

cause of SME performance, inferring that servant leadership is able to explain a high proportion of SME companies' performance variation. The finding is similar to earlier studies like Alafeshat & Aboud (2019), Brohi et al. (2018), Hashim et al. (2017), Raja Rizal Iskandar et al. (2016), and Sahawneh & Benuto (2018) the relationship between servant leadership and student satisfaction in an online environment had not yet been understood at the level of the individual instructor. The purpose of this quantitative, correlational study was to evaluate the relationship between online students' perception of their instructor's servant leadership style and the student's satisfaction with the online instructor. We selected 155 online students at a major community college in the south-central United States to complete the Servant Leadership Questionnaire and the Student Evaluation of Teaching survey online. We examined the relationships between each of the five facets of perceived servant leadership style (altruistic calling, emotional healing, wisdom, persuasive mapping, and organizational stewardship). This confirms the predictive ability of servant leadership as an important determinant to enhance the performance of SMEs. With all being equal, leaders who prioritize their employees' well-being especially in a demanding industry like the small-medium business, would prove to be a valuable asset for business productivity.

Looking into the specific hypotheses of the study, emotional healing, wisdom, and organizational stewardship were found significant in predicting SME performance with its effect seeming to be consistent with previous studies like Raja Rizal Iskandar et al. (2016) on accountability practice, Hashim et al. (2017) on employees' loyalty, and Sahawneh & Benuto (2018) on student satisfaction. From this finding, servant leaders who exhibit sensitivity to their employees' concerns, have a high sense of awareness to the surroundings, and the ability to unite the team would strengthen the relationship among colleagues which in turn, produce decent performance.

Conversely, altruistic calling and persuasive mapping were not able to significantly affect SME performance. This finding can possibly be ascribed to the notion that focusing too much on employees' interests than the company's own might not be able to cope with the demand of the industry of which, SME companies usually struggle to sustain due funding or capital constraints. Also, employees are expected to carry out their tasks independently rather than being instructed often on what to do by their superiors due to the nature of SME business itself.

CONCLUSION

This study aimed to examine the impact of servant leadership towards SME performance. It can be asserted that servant leadership serves as an important predictor in enhancing SME performance in an organization. The results showed that organizational stewardship has a dominant effect in influencing performance. On other hand, altruistic calling and persuasive mapping were not significantly related to improving SME performance.

This study provides two contributions: theoretical contribution and practical contribution. Theoretically, this study utilized the SL dimensions by Barbuto and Wheeler (2006), complemented by the Path-goal Theory from House and Mitchell (1975), justified the role of servant leadership dimensions as predictors to the performance of SMEs. Hence, the proposed model renders meaningful contribution in the servant leadership literature, specifically within the context of small and medium-sized enterprises. Practically, the research outcome could provide valuable input to business owners or managerial personnel in dealing with employees who usually run operations on a day-to-day basis. The finding showed that a manager should focus on bringing his employees to the same page by aligning their attention to the company's strategic direction for success. On the other hand, IPMA findings highlighted that leaders' altruistic calling and emotional healing need to be addressed, therefore it is vital for SME companies to start addressing the importance of servicing the employees' interest or at least listening to them. This is because when employees feel valued by their superiors, they will boost their drive to expedite the completion of tasks and indirectly increase productivity.

The study is not without limitations. It may influence the interpretation of its findings which should be taken into consideration when inferring the results or applying the methods of this study in other research settings. Firstly, this research was conducted cross-sectionally and measured the relationships at one point of time, which makes it less generalizable as compared to a longitudinal study. Secondly, the inability to use appropriate sampling techniques such as random sampling due to the reluctance of company representatives to accommodate the distribution of the questionnaires. With regard to the research model, it including organizational trust as the intervening factor might provide a different dynamic that would

further improve organizational performance which should be attended to by future research.

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