

Transformational Leadership and Operational Excellence in Small and Medium Enterprises (SMEs) Manufacturing Sectors

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Abstract

This study aims to examine the effect of transformational leadership on operational excellence among Malaysian Small and Medium Sized Enterprises (SMEs) manufacturing sectors. Specifically, the current study examines four dimensions of transformational leadership namely idealized influence, individual consideration, intellectual stimulation and inspirational motivation that can produce positive organizational change and create excellent performance. This study introduces a conceptual framework that encompasses four dimensions of transformational leadership impacting operational excellence. Moreover, this paper adds significant value to the current knowledge base by advancing the conceptual understanding of operational excellence in the context of Malaysian SMEs manufacturing sectors. The practical application of efficient management strategies encompassing transformational leadership among SMEs in Malaysia can substantially enhance the attainment of operational excellence and elevate their overall business performance.

Keywords: Transformational Leadership, Idealized Influence, Individual Consideration, Intellectual Stimulation, Inspirational Motivation, Operational Excellence

Introduction

Globalization of marketplaces, technological advance, difference in customer needs and demographics changing have changed firms to redesigning themselves towards excellence (Saeed, Tasmin, Mehmood, & Hafeez, 2020). The constant and unpredictable shifts in the

environment have a substantial impact on an organization's operations and performance. To sustain their competitiveness, organizations must develop the capacity to effectively respond and adapt to the uncertainties brought about by these changing environmental conditions (Ibrahim, Razak, Wahab, Osman, & Ab Rahman, 2021). In order to remain competitive in today's business landscape, organizations face the challenge of cost reduction while simultaneously maintaining production levels, enhancing quality, and improving customer satisfaction (Abdul Wahab, Ibrahim, Yaacob, Che Cob, & Omar, 2023).

Moreover, organizations must rebuild themselves through innovative strategies to achieve business excellence and gain a competitive edge in the market (Ahmad, Alekam, Shaharruddin, Marchalina, & Fok-Yew, 2018). The pursuit of excellence is essential for navigating market challenges and aligning with organizational objectives (Jaeger, 2017). Excellence fosters continuous improvement, positioning organizations favourably in the competitive landscape (Ekmekci, 2012). To enhance competitiveness and overall performance, organizations must strive for continuous improvement and excellence (Araújo & Sampaio, 2013). Pursuing operational excellence is one method for achieving excellence. Operational excellence is one of the essential components of business excellence that is an element of organizational structure that struggles for improvements in key operational performance metrics (Shehadeh, Zu'bi, Abdallah, & Maqableh, 2016).

In the literature, the investigation pertaining to operational excellence and its theoretical models has surged in significance, capturing the attention of researchers within the community, encompassing both large companies and SMEs in general. However, despite the abundance of studies reported on operational excellence, the operational excellence literature mostly conducted in developed countries (Chakraborty, Sharma, & Vaidya, 2020; Nair & Thomas, 2020; Sartal & Vázquez, 2017) and still lacking in Malaysian SMEs manufacturing industry context (Abdul Wahab et al., 2023; Ahmad et al., 2019; Alkhalidi & Abdallah, 2018). Furthermore, although the effect of transformational leadership on performance has well supported in the literature, past studies have done little research on the relationship of the transformational leadership on operational excellence in Malaysia (Ahmad, Alekam, Shaharruddin, Marchalina, & Fok-Yew, 2018; Wahab et al., 2022).

Therefore, considering the important role of transformational leadership on operational excellence and less attention of the effect of transformational leadership factors on operational excellence study in the Malaysian SMEs context, this study attempts to help to fill the gap by investigating the effect of transformational leadership on operational excellence in Malaysian SMEs sector. Additionally, this study aims to clarify the precise ways in which transformational leadership impacts on operational excellence that might increase the practical understanding of transformational leadership. Thus, this study aims to meet the following objectives:

- To examine the effect of transformational leadership style (idealized influence, individual consideration, intellectual stimulation and inspirational motivation) on operational excellence.

Literature Review

Operational Excellence

Excellence can be defined as an advanced method of managing an organization and attaining outcomes (EFQM, 1999). It encompasses significant enhancements in performance across multiple dimensions, such as operations, and aligns with contemporary sustainability initiatives (Edgeman & Eskildsen, 2014). According to Van Assen (2011), excellence pertains

to strategic methodologies for overseeing both the technical and social facets of organizations to accomplish superior production and delivery systems.

Numerous definitions of operational excellence are available in the literature. "Operational" pertains to the execution of processes to produce and deliver products while "excellence" denotes an objective that must be achieved and consistently maintained for sustained success (Mitchell, 2015). The adoption of operational excellence has garnered attention from international industry professionals aiming to enhance organizational efficiency, productivity, agility, and quality (Elouarat, Saadi, & Kouiss, 2011). Operational excellence places a strong emphasis on both operational performance and the long-term sustainability of organizations. It focuses on improving the quality, flexibility, delivery, productivity, and cost-efficiency of internal operations within a company (Susanti, Dachyar, & Yadrifi, 2015).

Moreover, the importance of the operational excellence to the organizations has been acknowledged in the literature. According to Treacy and Wiersema (1997), operational excellence represents one of the disciplines and value propositions that organizations can adopt to compete effectively within the business environment. Operational excellence entails a management and strategic approach aimed at augmenting operational profits by consistently achieving excellence in production and delivery systems. This, in turn, enables organizations to provide customers with the optimal value for their products and services. Organizations that actively pursue operational excellence can deliver value to their customers by combining factors such as speed, price, quality, and ease of purchase, thus setting themselves apart in the competitive market landscape Van Assen (2011).

Transformational leadership

Leadership has been discussed and recognized as important factors that drive organizational change, effective performance and organizational access. Effective leadership is the driving force behind an organization's highest levels of performance (Zairi, 1999). Leadership involves the dual responsibility of fostering change while maintaining operational excellence and stability. Leaders are required to establish structures, plan for improvements, organize activities, institute routines, demonstrate care for personnel, facilitate communication, offer coaching, provide support, and motivate employees. Leadership plays a pivotal role in guiding followers toward the achievement of organizational objectives. Leaders shoulder the responsibility of effectively managing communication, organization of employees, financial matters, and marketing efforts, all while fostering unity among personnel within the organization (Friedli, Basu, Bellm, & Werani, 2013).

According to Bass (1999), leadership is divided into transformational, transactional leadership and passive leadership ('laissez-faire'). Transformational leadership could be described as the leader that transforms the follower from their own self-interest through idealized influence (charisma), inspiration, intellectual stimulation or individualized consideration. It increases the follower's maturity level and concerns on the achievement, self-actualization, and the well-being of others, the organization, and society. Transformational leaders transform followers' attitudes, beliefs and values by motivating them to attain performance (Rafferty & Griffin, 2004). Literature has identified four dimensions that summaries the transformation leadership construct namely inspirational motivation, idealized influence (charisma leadership), intellectual stimulation, individualised consideration.

Idealized influence

The idealized influence refers to the leader provides vision and a sense of mission, instills pride, gains respect and trust and increases optimism (Bass, 1999). According to Metwally, El-Bishbishy and Sabri Nawar (2014), idealized influence refers to leaders who serve as exemplary role models for their subordinates, owing to their extraordinary capabilities and unwavering commitment to ethical and moral principles. Idealized influence encompasses two aspects: firstly, idealized influence behaviour, which involves the charismatic actions of the leader that reflect their values, beliefs, sense of purpose, and ethical and moral orientation. Secondly, idealized influence attributed, which relates to the attributes ascribed to the leader by their followers, encompassing how the leader is perceived as both confident and powerful (Antonakis, Avolio, & Sivasubramaniam, 2003).

Idealized influence leadership has been identified as an important component of transformational leadership and strongly related to firm's ability to accomplish business goals (Rowold & Heinitz, 2007). The idealized influence leadership plays an important role in forming transformational leadership which in turn directly impacts the operational excellence. The idealized influence leadership conveys the core values of the organization, the purpose and importance of the organization's mission to other members (Antonakis et al., 2003). The abilities of the leader to influence the minds and hearts of followers in gaining respect, pride, trust, enthusiasm and loyalty will affect the employee to work wholeheartedly. Idealized influence leaders will be examples and role models to the followers. A study by Waldman, Javidan and Varella (2004) was confirmed this relationship.

Individual Consideration

The individualized consideration refers to the leader has a developmental orientation and displays individualized attention towards followers needs and supports and coaches the development of their followers (Bass, 1999). The individualized consideration leadership behaviours that provide individuals with advising, supporting and pay attention to each individual's need for achievement and growth by acting as a coach or mentor will allow them to develop a higher level of potential thus improving the business performance (B. Bass & Riggio, 2006).

The significant effect of individualized consideration to the organizations has been acknowledged in the literature. For example, a study by Abdullah, Shamsuddin and Wahab (2012) and Yew and Ahmad (2014) who examined the role of individualized consideration on innovation performance and operational excellence. They showed that firms were able to achieve the excellent results through displaying individual consideration leadership behaviours. The findings also support to the study by Ristow, Amos and Staude (1999) who reported that individualized consideration was effects and closely related to business performance.

Intellectual Stimulation

The intellectual stimulation is concerned with the role of leaders to challenge creativity and innovation among followers; the leader stimulates followers to explore new ways of doing things, opportunities to learn and finding solutions to difficult problems (Hater and Bass, 1988). Intellectual stimulation promotes intelligence, rationality and careful problem solving. An individual consideration is the degree to which a leader pays attention to employees' needs, acts as a mentor to employees and responds to employees' problems (Judge and Piccolo, 2004).

The intellectual stimulation has found as a significant dimension of transformational leadership in previous studies which found intellectual stimulation have a significant relationship with innovation performance and firm performance (Abdullah et al., 2012; B M Bass, Avolio, & Pointon, 1990; Northouse, 2001; Rafferty & Griffin, 2004; Yew & Ahmad, 2014). Additionally, intellectual stimulation leaders also encourage their followers to take on more responsibilities and autonomy. Bass and Avolio, 1997) claimed that by encouraging employees to think critically and involving them in decision making process, the leaders would inspire loyalty and organizational commitment (Walumbwa & Lawler, 2003).

Inspirational motivation

Inspirational motivation: refers to the way leaders motivate and inspire their followers to reach ambitious goals and view the future with optimism. These leaders are also able to help followers experience the same passion and motivation to fulfil goals. They encourage them to achieve levels of performance beyond their own expectations. Leaders with inspirational motivation have a collective vision that they are able to articulate to followers (Bass, 1985). Inspirational motivation aims to create a desire for excellence and an acceptance of change with enthusiasm and trust (Sitkin and Pablo, 2005).

The previous studies also found that the inspirational motivation had a significant effect in forming transformational leadership. For example, Bass & Avolio (1990) and Northouse (2001) found that inspirational motivation as significant factors in transformational leadership. Similarly, previous studies conducted in other settings found that leaders who demonstrate inspirational motivation behaviours were contributed to the superior performance (Bass & Riggio, 2006; Avolio et al., 1991). Additionally, inspirational motivation was found as a critical component to sustain firm strategic competitive advantage and affect the firm performance. The findings imply that leaders behave in ways that motivate and inspire those around them by providing meaning and challenge to their followers' work (Abdullah et al., 2012; Kissi et al., 2013; Yew & Ahmad, 2014).

Transformational Leadership and Operational Excellence

Leadership style has been recognized as an important element in the organization. Leadership plays a very important role in fostering the change through leading their followers to attain the organizational objectives (Friedli et al., 2013). The leadership style has been found to be one of the factors and it positively influences the operational excellence. Previous studies have shown the effect of the leadership on the performance and operational excellence (e.g. (Fok-yew, 2018; Hines & Yu, 2009; Jaeger, 2017; Ojha, 2015; Seidl, 2007; Susanti et al., 2015).

Moreover, this study following Bass (1999) transformational leadership is referred to the leader transforms the follower from their own self-interest through idealized influence (charisma), inspirational motivation, intellectual stimulation and individualized consideration. These four elements of transformational leadership style are well recognized in previous studies (Avolio et al., 1999; Bass, 1999; Carless et al., 2000; Rafferty & Griffin, 2004; Rowold & Heinitz, 2007; Schein, 2004). On the basis of the above literature, the transformational leadership is expected that it will influence the operational excellence. The framework for this study is presented in Figure 1 below that shows the relationship between dependent variable operational excellence and four transformational leadership style domains as independent variables.

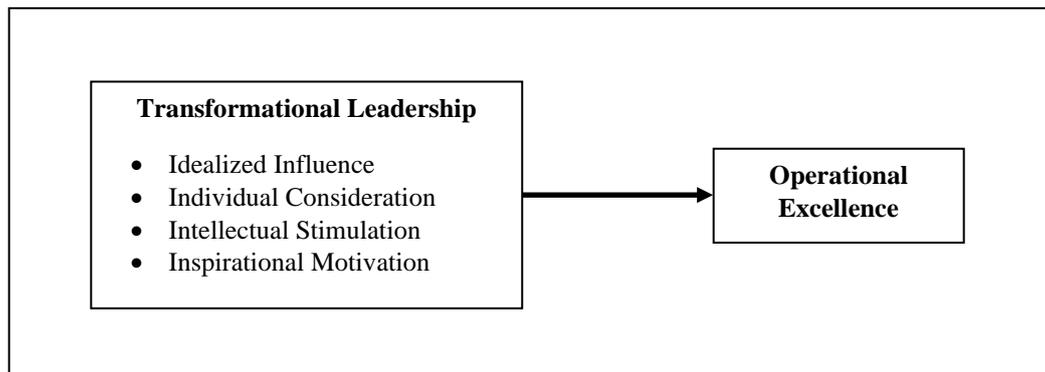


Figure 1: Conceptual Framework

Conclusion

In conclusion, this study contributes to the body of knowledge concerning the important factors that influence operational excellence. This study provides a conceptual understanding of the effect of the transformational leadership style on operational excellence. Specifically, the current study aims to examine the impact of four dimensions of transformational leadership: idealized influence, individual consideration, intellectual stimulation, and inspirational motivation. The study focuses on the impact of the transformational leadership style on operational excellence in the Malaysian SMEs manufacturing sector. Moreover, this study is significant and valuable to researchers and practitioners because it identifies the critical factors that influence operational excellence to enhance the organizational performance of SMEs in the manufacturing sector. The findings suggest that the Malaysian SMEs manufacturing sector will achieve operational excellence by emphasizing the development of a transformational leadership style.

Furthermore, this paper makes a significant contribution by developing a conceptual model that determines the relationships between transformational leadership style and operational excellence in the Malaysian SMEs context. The study adds value to the knowledge of operational excellence practices in the context of the SMEs manufacturing sector. Although the literature on operational excellence is growing, the discussion in the Malaysian SMEs manufacturing sector often lacks in this area. Hence, this study has contributed to the knowledge that enhances the understanding of the linkage between transformational leadership style and operational excellence. The findings of this paper will help the Malaysian SMEs manufacturing sector to identify operational excellence practices in order to improve performance.

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