Relationship of Charismatic Leadership and Organizational Change on Business Transformation among Malaysia Small and Medium Enterprises (SMES)

Ng Rui Wei[1*] and Mas Bambang Baroto[2]

[1,2] International Business School, Universiti Teknologi Malaysia, Kuala Lumpur, Malaysia
*ruiweing@yahoo.com

Abstract: Growing challenges in the business environment has required businesses to make faster responses to the rapid changes and undergo business transformation to survive and remain competitive. This study attempts to fill in the gap in examining the business transformation relationship with important determinant from the organization and leadership perspective. Charismatic Leadership has been an important driver in achieving organizational change. However, existing study lacks the research into the relationship between charismatic leadership in organizational change and business transformation, therefore research gap exists in the area in terms of its conceptual testing and theoretical development. Through utilizing charismatic leadership strategy, and developing a relationship with the aspect of organizational change, this study proposes a model that promotes business transformation. This research intends to identify the mediating effect of organizational change in the relationship of charismatic leadership and business transformation. This research intends to prove that charismatic leadership and organizational change has a positive significant relationship with business transformation.

Keyword: Business Transformation; Charismatic Leadership; Organizational Change; Small and Medium Enterprises (SMEs).

1. Introduction

Today's business world is complex and characterized by uncertain global competition (Bititci, 2007), which operates under constant change (Reinstein, 2007). Many businesses have chosen to transform their business operation or business nature, to stay relevant and to survive. Business transformation can assist business to achieve improvements such as higher efficiency, higher market value and financial sustainability through making fundamental changes (Pratono & Mahmood, 2013). Over the last three decades, the primary job of leaders has mainly focus on executing change to maintain and enhance organizational performance (Yukl, 2010).

Private sector has been given larger emphasis with an expected private sector investment amounting up to 92% of the Malaysia's investment (Menon, 2012) under the current administration. To create a successful economic transformation, national policy must facilitate the SMEs (SME Corp, 2013), for their contributions in social economy such as economic growth, jobs creation and poverty reduction (Arinaitwe, 2006). Business transformation can help improve economy performance of a region through improving the business performance of existing businesses (Worall, 2007). The Treasury Board of Canada Secretariat also introduces Business Transformation Enablement Program (BTEP) to assist departments and agencies to achieve business transformation in a more reliable and standardized manner (Treasury Board of Canada Secretariat, 2010).

In the past decades, numerous methods have been developed in supporting business transformation (Kettinger, Teng & Guha, 1997). However, a staggering 70 percent change initiative failed to produce expected outcomes (Higgs & Rowland, 2000), which the underlying factor is attributed to the nature of leadership (Kotter, 1996). In addition, Haug, Graungaard, & Stentoft (2011) pointed out that 40% of IT-enabled business transformation are abandoned while 90% of them do not achieved their goals.

Unsuccessful, large-scale organizational change was mainly due to the fact that organization was unable to establish readiness for change (Kotter, 1996), when the leaders fail to convey the new vision, and the existing fear of change within the organization. Meanwhile, the nature of SME provided that the leader with greater influence over the member of the organization and also the organization as a whole (Baum, Locke, & Smith, 2001), therefore the leadership characteristic would have more influence in SME (Matzler, Schwarz, & Harms, 2008).

The main struggle of business transformation is attracting key components of the organization to venture into a new vision, for which it involved uncertainty and higher risk, thus the leader must be able to steer the transformation through turbulence; on which it must be supported by full faith, trust and commitment of the members (Creamer & Amaria, 2012). Miceski, Nikoloski, & Stojovska (2014) argued that charismatic leadership is the key factor for business success and it is required to lead the employees to achieve mission, vision and goals of SMEs. Charismatic leadership can lead to successful organizational change (Conger & Kanungo, 1998), which could effectively provide the right setting for business transformation. Nevertheless, Parry (2011) also argued that leadership and organizational change are inevitable connected and more research is needed in this area.

Study has also proved that charismatic leadership contributes positive effect within the organization such as employment modes and perceived job security through a moderating effect (Wang, Zhou & Wen, 2014). It is crucial to construct changes in organizational unit's current state towards the desired future state (Ashurst and Hodges, 2010), for which the ability to adept and transform become critical to the organization success. Meanwhile, charisma is proven to have the strongest relationship with leader effectiveness, compare to other leadership dimensions (Lowe, Kroeck & Sivasubramaniam, 1996). Charismatic leaders are able to stimulate followers intellectually and articulate a realistic vision of the future that can shared among followers which become important factors that steer changes of organization (Bass, 1985). Therefore, the logic to study charismatic leadership relationship with business transformation and organizational change as mediator is justifiable; with the attempt to fill in the research gap existed in this area. The objectives of the present study thus are:

(1) *To identify the relationship between charismatic leadership and business transformation.*
(2) *To determine the relationship between charismatic leadership and organizational change.*
(3) *To determine the relationship between organizational change and business transformation.*
(4) *To determine the significance of charismatic leadership on business transformation through the mediator of organizational change.*

This research is expected to contribute significantly in theory and practice with the verification of the few relationships among the variables. This study also includes literature related to the constructs and developed hypotheses, which give some direction to future research.

2. Theoretical Background

A. Business Transformation

In the past decades, business transformation became global phenomenon with researches conducted in many countries such as Korea (Choe & Pattnaik, 2007), United Kingdom (Herbert, 2009), Russia (De Vries, Shekshnia, Korotov, & Florent-Treacy, 2004), and in Hong Kong (Yu, & Kwan, 2015). Business transformation consist of different sets of competitive strategies to improve the business performance of the organization, which includes business process re-engineering, total quality management, organizational development and information technology (McKeown & Philip, 2003). Business transformation can be the answer to the survival in the competitive environment of rapid changes (Uhl & Gollenia, 2012). Business transformation is defined in a two-dimensional concept as: " A fundamental change in organizational logic which resulted in or was caused by a fundamental shift in behaviors (Muzyka , De Koning, & Churchill, 1995).

Firstly, it involves transformation of firm's strategies and management processes. This measure must be based on the introduction of "new concept of opportunity" rather than short-term response measure (Philip & McKeown, 2004) such as cost reduction through reduction in employee, improvement in return of investment, or re-engineer processes through technologies. Secondly, it involves leadership and new vision. Leaders in the organization must be able to lead with new identification and new directions, based on a new perception of the firm's opportunity (Doz, & Kosonen, 2010). Thirdly, it involves fundamental changes. Transformation can only be achieved with fundamental changes to the old perceptions, practices, attitudes and behaviors of the organization (Uhl & Gollenia, 2012). Fourthly, it involves retraining the employees with new skills to address the changes in the new market, new business or new approaches in sustaining competitive advantage (Philip & McKeown, 2004). Finally, a new set of management processes is required to achieve transformation. Proper incentives can encourage employees to participate in the business transformation. For example, better pay or enhanced career opportunity (Philip & McKeown, 2004). Pascale, Millemann & Gioja (1999) suggested that a transformation could only last when individual and organizational activity, creativity and responsibility can be revitalize continuously.

Transformation source for business organization can potentially come from exogenous changes such as sustainability, technological innovations, globalization, economic conditions and changing nature of the workforce (Arthurs & Busenitz, 2006; Eisenhardt & Sull, 2001). On the other hand, endogenous changes such as product innovation, restructuring and new business model adoption also potentially result in large-scale transformation and eventually causing disruption in the workplace (Eisenhardt & Tabrizi, 1995).

Davenport (1993) and Galbraith (1983) also pointed out that each transformation process is fragmented, consisting of various elements. Feldman & Pentland (2003) described transformation as a meta-routine which representing a set of routines that must be joined in order to function fully. Such assumption is relevant with the idea of dynamic capabilities, which described the set of practices, and processes that can recombine and revitalize the organization (Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece, & Winter, 2009). Thus there is a distinction between managing business transformation and traditional change as the later only focus on behavioral changes and consider only a small sets of clearly defined goals whereas business transformation involves a holistic view of the entire organization, considering complex changes to the business (Uhl & Gollenia, 2012).

Many researchers have suggested different dimensions for business transformation, such as dynamic capabilities (Daniel & Wilson, 2003; Lin and Hsia, 2011), ability to develop organization resources (Barua, Konana, Whinston, & Yin, 2001; Bhatt, 2000; Cohn, Khurana, & Reeves, 2005), alignment of short-term programs with long-term vision (Barua, Konana, Whinston, & Yin, 2001; Lin and Hsia, 2011), and integrated use of change enablers (Lin and Hsia, 2011; Sigala and Marinidis, 2009). Table 1 below is developed to select the dimension use for this research.

Table 1. Business Transformation Dimensions used in various literatures

Dimension	Researchers
Dynamic capabilities	Lin and Hsia (2011)
	Rindova and Kotha (2001)
	Daniel & Wilson (2003)
	Barua, Konana, Whinston, & Yin (2004).
	Safrudin, Recker, & Rosemann (2011)
	Morgan, Cole, Johnson & Johnson (2010)
	Wu, & Hisa (2008).
	Walker (2007)
Ability to develop organization resources	Barua, Konana, Whinston, & Yin (2001)
	Kotter (1995)
	Cohn, Khurana, & Reeves (2005)
	Bhatt (2000)
	Morgan, Cole, Johnson & Johnson (2010)
	Chakrabarti, Vidal, & Mitchell (2011)
Alignment of short-term programs with long-term vision	Lin and Hsia (2011)
	Barua, Konana, Whinston, & Yin (2001)
	Kotter (1995)
	Morgan, Cole, Johnson & Johnson (2010)
	Yu, Strohmaier, & Deng (2006)
	Bosilj-Vuksic, Stemberger, Jaklic, & Kovacic (2002)
Integrated use of change enablers	Lin and Hsia (2011)
	Venkatraman (1994)
	Morgan, Cole, Johnson & Johnson (2010)
	Sigala and Marinidis (2009)
	Linder, Cole, & Jacobson (2002)
	Molla & Bhalla (2006).
	Kumar Basu (2015)
	Safrudin, Recker, & Rosemann (2011)

Source: Developed for this research.

B. Organizational Change

There has been an increasing focus on change in private businesses, while organizational change is largely perceived as a critical factor that contributes to organizational success (Drucker, 1999; Ford & Gioia, 2000; Friedman, 2005; Johansson, 2004; Kuhn, 1970). Organization must make flexible consideration with the unique characteristic of organization in planning for organizational change (Herold & Fedor, 2008, Karp & Helgo, 2008).

Organizational change is mainly attribute to the idea of the change activity from one organization situation to another (King & Anderson, 1995; Burke, 2002). Herscovitch and Meyer (2002) suggested that organization experience changes from time to time and organizational change are mostly unplanned and

evolutionary (Burke, 2013). Planned organizational change involved intentional and purposive activities that are designed to fulfill certain organizational goals while unplanned organizational change comprise of changes in the organizational activities that is beyond organizational control and due to external factor (Child, 1997).

Surprisingly, researches shown that organization change rarely achieve the desired outcome with evidence that the failure rate of change is high (Beer, Eisenstat, & Spector, 1990) with some reported up to 80% to 90% (Burns, 2004; Cope, 2003). Gill (2002) believes that the main reason of high failure rates of organizational change is due to lack of effective leadership. Leaders continue to lack the ability to successfully engage their members in change implementation despite the proliferation of research in organizational change (Armenakis & Harris, 2002). There are two perspectives to look in organizational change, which are the decision triggered by the leaders, and the response of firms to the ever-changing business environment (Chen, Suen, Lin & Shieh, 2001). Leadership behavior is crucial in determining successful organization change as it has direct influence on actions in the organization culture and environment that constitute to the change (Drucker, 1999; Gilley, 2005; Howkins, 2001). Leaders become the agent of change by identifying the needs for change, implementing rules and policies, formulating strategies and leading the organization towards the desirable outcome by creating visions and objectives (Kanter, Stein, & Jick, 1992).

The complexity of organizational change is discussed through the internal and external forces or elements involved during the changes (Tavakoli, 2014; Heller, 1998). Huber, Sutcliffe, Miller & Glick (1993) suggested that the frequency of change in the organization becomes higher when the surrounding environment became more complex and turbulent. Table 2 below included the dimensions used for organizational change in previous researches.

Table 2. Dimensions of Organizational Change

No	Author(s)/Source	Organizational Change Dimension
1	Leavitt (1965)	-People -Structure -Technology -Task
2	Tichy (1983)	-Technical -Culture -Politic
3	Meyer, Brooks & Goes (1990)	-External environment -Internal environment

4	Damanpour (1991)	**Internal environment/contextual variables**
		-Specialization
		-Professionalism
		-Managerial attitude toward change
		-Managerial tenure
		-Technical knowledge resources
		-Slack resources
		Content variables
		-Functional differentiation
		-Formalization
		-Centralization
		-Administrative intensity
		-Vertical differentiation
		Process Variables
		-Internal communication
		-External communication
5	Kelly & Amburgey (1991)	-External environment
		-Age of organization
		-Organizational size
		-Experience in change
		-Changes in product-market strategy
6	Burke & Litwin (1992)	-External environment
		-Mission and strategy
		-Leadership
		-Management practices
		-Work unit climate
		-Task requirement and individual skills
		-Organizational culture
		-Structure
		-Systems
		-Individual and needs and values
		-Motivational Level
		-Individual and organization performance
7	Huff, Huff & Thomas (1992)	-Organization inertia
		-Experience in change
		-Strategy
8	Haveman (1992)	-External environment
9	Sastry (1997)	-Strategic orientation
		-Inertia
		-Perceived performance by top managers
		-Pressure for change
10	Hage (1999)	-Division of labor
		-Organic structure
		-High risk strategy
11	Chen, Suen, Lin, & Shieh (2001)	-Environment
		-Leader
12	Battilana & Casciaro (2012)	-Network closure
		-Divergent from organizational status quo

Source: Developed for this research.

This research has selected the dimensions from Burke & Litwin (1992) model as it is a comprehensive diagnostic model and has been used intensively for measuring organizational change (Alexander Di Pofi, 2002; Armenakis & Bedeian, 1999; Filej, Skela-Savič, Vicic & Hudorovic, 2009; Martins & Coetzee, 2009). This model differentiates transformational change and transactional change, which can be use in the research of business transformation (Safrudin & Recker, 2014). Transactional capabilities is more important, and being the fundamental for business transformation (Aspara, Lamberg, Laukia, & Tikkanen, 2011), while transactional capabilities also support transformational capabilities, therefore transactional capabilities can independently exist without the need of transformational capabilities. This research uses the dimensions of transactional organizational change (Martins & Coetzee, 2009) such as: (1) structure; (2) management practices; (3) systems; (4) work unit climate; (5) task requirements and individual skills; (6) individual needs and values; (7) motivation.

C. Charismatic Leadership

Leadership has long been studied and proved closely related to the success of organizational strategy and performance (Ireland & Hitt, 1999). Theories focus on exceptional leaders has been widely studied under different references such as "charismatic", "transformational", "visionary" and "inspirational" (Shamir, House & Arthur, 1993). Many researches have included the topic of charismatic leadership in the management literature since some 20 years ago (Bass, 1985; Burns, 1978; House, 1976; Shamir, House & Arthur, 1993; Yukl, 1998).

Charismatic Leadership theory is mainly divided into two major categories whereby consisted of "Charismatic Theory" introduced in the 1970s and "Neo-Charismatic Leadership" introduced in the 1980s (Higgs, 2002). The first category of charismatic theory constructed leadership towards the focus on the ability to transform organization through the ability and charismatic behaviors of leaders (Burns, 1978; Bryman, 1992; Conger & Kanungo, 1988; House, 1976). While on the Neo-Charismatic Leadership, distinct leadership from the management whereby required leaders to have more than charisma alone, and needed also a transformational focus, that include sets of characteristics and behaviors (Alimo-Mecalfe, 1995; Avolio & Bass, 1995; Bass, 1985; Bennis & Nanus, 1985; Conger & Kanungo, 1988; Shamir, 1992). Charisma is regarded more as a form of influence rather than official authority (Weber, 1924), which originated from the subordinates acknowledgement towards their leader's outstanding ability.

Starting the 1980s, a more generalize origin of leader's charisma has been widely accepted arising from earlier discussion, which is from the process of interaction between the leader and followers (Bass, 1985; Conger & Kanungo, 1987; Trice & Beyer, 1993; Willner, 1984). Charisma is considered as part of transformational leadership as suggested by Bass (1985). Charisma is identified as the most important element of leaders' behavior in transformational leadership (Lowe, Kroeck & Sivasubramaniam, 1996).

House (1976) viewed that charisma is the extraordinary capability in leader, for their ability to garner loyalty amongst the followers with unconditional devotion and sacrifices in attending the vision of their leaders. The immense psychology impact permits the leaders to effectively initiate a societal change. House (1976) theoretical framework, which covers the area of leaders characteristic, behavior, influence and settings; proposed that: (i) Charismatic leaders must possess quality leadership character that command confident in their followers with their decision making skill, for it is the decision made by the leaders that influence the outcome of the organization; (ii) Charismatic leader must demonstrate external qualities and leadership behavior which include impression management, goal articulation, role modeling, expressing strong expectation and confident in followers and motive arousal; and (iii) Charismatic leader's influential effect on followers.

Bass (1985) introduced transactional leadership and transformation leadership that based on Burns (1978) model of transforming leadership. In the study of Multifactor Leader Questionnaire (MLQ), Bass (1985) proposed that transformational leadership are constructed by 4 major elements: (1) Idealized

influence - leader act as role model to their followers; (2) Individualized consideration - leaders treat each follower individually; (3) Inspirational motivation – leaders articulate vision, appeal and inspire the followers; (4) Intellectual inspiration – Leaders encourage followers to innovate for new ideas and be creative by questioning the existing theory, norms and beliefs.

Shamir, House and Arthur (1993) contributed to the explanation on how charismatic leaders motivates and bring changes to the followers' values, goals, needs and aspirations from self-interest to collective interest. Motivation drives followers to be highly committed to the leader's mission, to make significant personal sacrifices and perform for the duty. Charismatic leadership effects are: (1) Emotional attachment to the leader on the part of follower; (2) Emotional and motivational arousal of the followers; (3) Enhance of follower valences with respect to the mission articulated by the leader; (4) Follower self-esteem, trust and confidence in the leader; (5) Follower values; (6) Follower intrinsic motivation.

Conger & Kanungo (1998) review the origin of charismatic leadership theory and identified that in answering to the discussion of charisma origin, some researchers attributed it to the society and history, of promoting its existence. Willner (1984) stated that it should be attributed to the interaction between leaders and followers. It is the followers' acceptance of leaders ability that creates charisma. The table 3 below provides the summary of dimensions from Charismatic Leadership literatures.

Table 3. Summary of the dimensions of Charismatic Leadership

Author	Personal Risk	Sensitive to environment	Sensitive to members' need	Unconventional behavior	Articulate Vision	Empower followers	Self confidence	Encouraging
House (1976)					X		X	X
Bass (1985)			X		X	X		X
Bass & Avolio (1993)			X	X	X		X	X
Shamir, House & Arthur (1993)					X	X	X	X
Conger & Kanungo (1988)	X	X	X	X	X	X		X

Source: developed for this research.

Based on the dimension available from charismatic leadership literature, Conger & Kanungo (1998) scale (C-K Scale) is selected as it has proven to be a valid measure of charismatic leadership in other research and has been widely used (Conger and Kanungo, 1998; Halverson, Murphy & Riggio, 2004; Rowold & Kersting, 2008). Yukl (1999) through comparison among charismatic leadership model suggested that the C-K scale based on Conger and Kanuno (1998) having good support for overall measurement of charismatic behavior and the validation indicated that the correlation of subscale in C-K scale is much lower than other model such as MLQ model by Bass (1985). Therefore the dimensions that are selected for the measurement of the charismatic leadership construct are as such: (i) Sensitivity to environment: (ii) Strategic vision and articulation; (iii) Personal risk; (iv) Unconventional behavior; (v) Sensitivity to member's needs

D. Conceptual Framework

As mentioned earlier, charismatic leadership is found to be influential in business transformation. Numerous researches prove that charismatic leadership is the most influential component among other leadership dimensions in a transformational process (Avolio, Bass, & Jung, 1996; Bass, 1985; Bass & Avolio, 1993; Lowe, Kroeck, & Sivasubramaniam, 1996). Business transformation required the capability of the leader in the opportunity discovery, and preparing against threat (Pratono & Mahmood, 2013). There are research linking successful transformation process to the forces of leadership that exhibits inspiration, implementing creative approaches to shape a vibrant and proud organization culture and its performance success (Appelbaum, Berke, Taylor & Vazquez, 2008; Griffith-Cooper & King, 2007).

Charismatic leaders quality such as greater accountability through expectations, building competencies for taking responsibility for change (Bass & Stogdill, 1990; Rost, 1993), ability to see the need to change (Kotter, 2008) and creating open dialogue (Barrett, Thomas & Hocevar, 1995) all contribute to create the right climate for transformation process. Furthermore the participants of transformational process required inspiration besides financial motivation (Tennant & Roberts, 2003). Business transformation requires strong leadership not only in leading the change but instills "the need to change" (McKeown & Philip, 2003) with charismatic leadership through its vision articulation that is highly discrepant from status quo but achievable (Yukl, 1998). Therefore this study proposed that there is a significant positive relationship between charismatic leadership and business transformation.

On the other hand, Nadler and Tushman (1989) have already put forward the relevance of charismatic leadership and organizational change where he positioned the charismatic leadership after the anticipatory strategic re-orientation as the fundamental factor to achieve organizational change. Organizational change required the participation from the member (Jex & Britt, 2014), for which are led by the leader. Researchers also linked leadership to the success of organizational change efforts (Herold & Fedor, 2008; Herzig & Jimmieson, 2006; Karp & Helgo, 2008). Charismatic leaders also proved to be able to induce organizational change through creating a more committed workforce (Kahtani, 2013).

Meanwhile, Cannella & Monroe (1997) identified that charismatic relationship of the leader and followers can promote the effective implementation of strategic decision initiated by top management. Therefore, there are strong indications of the relationship between charismatic leadership towards the organization change. Besides, Charismatic Leader is able to provide new idea to the existing practices and inspire the followers to make changes in order to achieve goals (Bass, 1991). Charismatic leadership is also capable to deliver remarkable changes in the organization systems such as operation (Kakavogianni, 2009).

Research suggested that members of the organization experienced feeling such as anxiety, uncertainty and job insecurity during organizational change (Jex & Britt, 2014). A large-scale organizational change can also affect the psychological and physical well being of its member (Pollard, 2001). Lamm and Gordon (2010) found that empowerment given by leader helped reduce the stress level of organization member during organizational change. Research suggested that charismatic leader is found to be able to make the followers to trust in them and want to be identified with the leader (Bass, 1991; Judge & Piccolo, 2004). Charismatic leadership is also related with the positive work organizational citizenship behavior and perception of job security (Wang, Zhou & Wen, 2014). Charismatic leadership nevertheless can contribute positively to the followers' sense of work-group collective identity (Conger, Kanungo, & Menon, 2000).

More importantly, researcher also pointed out that charismatic influence can be more significant in a smaller organizational context, with which leader are able to yield greater impact on the organization members (Lubatkin, Simsek, Ling, & Veiga, 2006). Therefore it is reasonable to research influence of charismatic leadership on organization among SMEs and this research propose that there is a significant relationship between charismatic leadership and organizational change.

Under the current business environment development, business transformation can only be achieved when the condition towards organization change is fulfilled (Weerakkody, Janssen, & Dwivedi, 2011).

Researchers suggested that for a business transformation through e-business to be successful, organization must undergone radical organizational change in core process (Kim, Pan & Pan, 2007; Weerakkody & Dhillon, 2008). Lin & Lee (2005) also indicated that organizational change factors such as organizational learning and knowledge management process is closely related to the level of e-business transformation.

Moreover, business transformation involved radical change that creates new and different way of working (Herold and Fedor, 2008). Empirical study suggest that such transformational change process requires strong and effective charismatic leadership (Avolio, Bass, & Jung, 1996) to deliver successful transformation through organizational wide collaborative process which involve stuff from all members of organization (Crawford, Cooke-Davies, Hobbs, Labuschagne, Remington, Chen, 2008). In addition, previous literature found evident that there is a positive direct relationship between charismatic leadership quality and transformational process (Appelbaum, Berke, Taylor & Vazquez, 2008; Griffith-Cooper & King, 2007). With this, the researcher propose that organizational change mediates the relationship between charismatic leadership and business transformation. Based on the literature review this study proposed hypothesis as below:
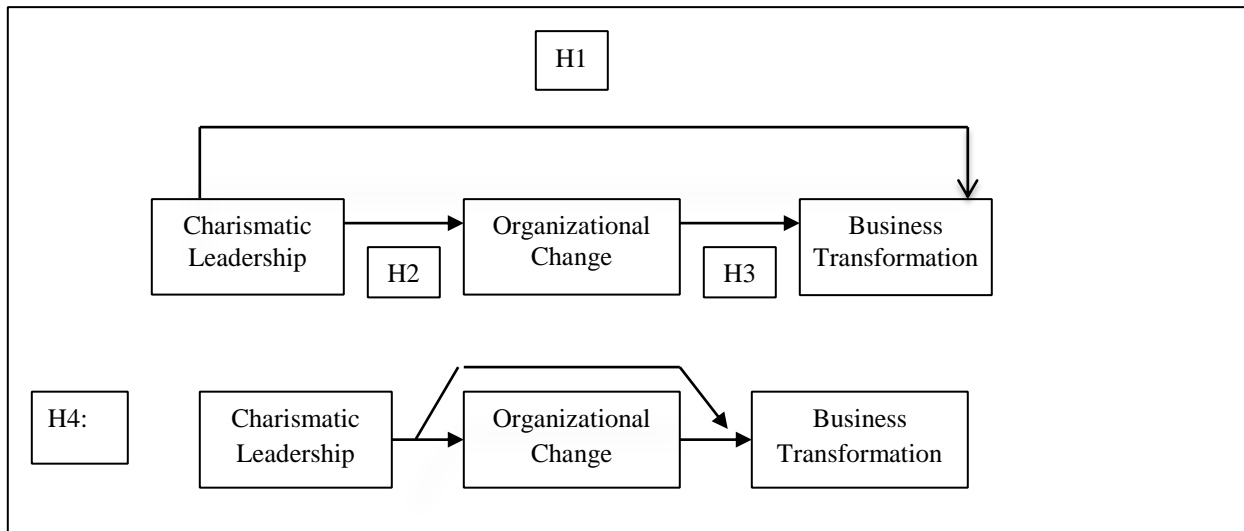
H1: There is a significant relationship between Charismatic Leadership and Business Transformation.
H2: There is a significant relationship between Charismatic Leadership and Organizational Change.
H3: There is a significant relationship between Organizational Change and Business Transformation.
H4: Organizational Change mediates the relationship between Charismatic Leadership and Business Transformation.

Figure 1. Path Diagram of Conceptual Framework
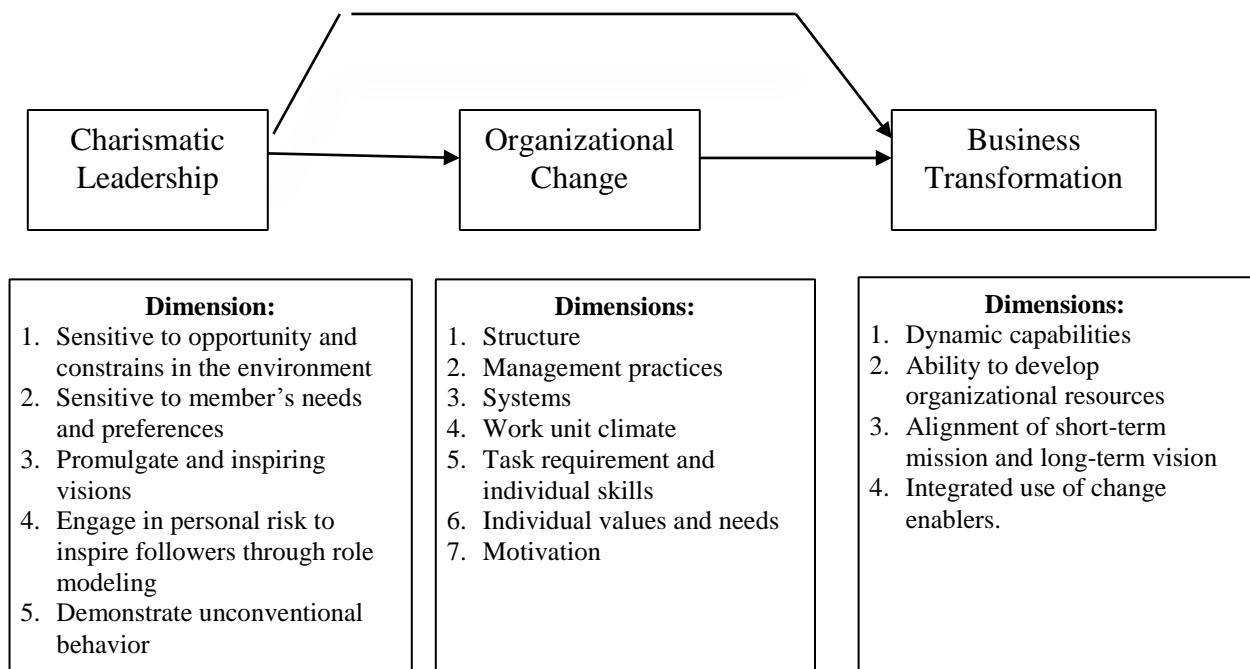
Source: Developed for this study.

Figure 2. The Proposed Hypotheses among the Study Variables

Source: Developed for this study.

3. Conclusion

From the above discussion, it is logical to conclude that charismatic leadership is significantly related to organizational change and business transformation. The mediating effect of organizational change also exists in the relationship of charismatic leadership and business transformation. Various literatures have supported the existence of such relationship however contextual validation is needed to verify the conceptual framework.

Typically charismatic leadership are very effective in delivering changes thus enabling organizational change, which construct the basis towards achieving business transformation. At the meantime, Malaysia SMEs are in a critical state whereby the country's economy is shaded by negative prospects and much challenges await ahead. It is therefore crucial for SMEs to move quickly in adopting business transformation and better positioned in confronting future challenges. This research will not only fill in the research gap exist in the theoretical and managerial aspects, but also shed some lights on the business transformation study, which are hoped to help provide some ground knowledge and information to the SMEs practitioners. It is hoped that this research not only served to add on to the current literature but it also helps lay the foundation for future research to be conducted.

References

Alexander Di Pofi, J. (2002), "Organizational diagnostics: integrating qualitative and quantitative methodology", *Journal of organizational change management*, *15*(2), 156-168.

Alimo-Metcalfe, B. (1995), "An investigation of female and male constructs of leadership", *Women in Management Review*, MCB, Bradford.

Appelbaum, S., Berke, J., Taylor, J., Vazquez, J.A. (2008), "The role of leadership during large scale organizational transitions: lessons from six empirical studies", *The Journal of American Academy of Business*, 13 (1), 16–24.

Arinaitwe, S.K. (2006), "Factors constraining the growth and survival of small scale businesses. A developing country analysis", *Journal of American Academy of Business*, 8(2).

Armenakis, A. A., & Bedeian, A. G. (1999), "Organizational change: A review of theory and research in the 1990s", *Journal of management*, *25*(3), 293-315.

Armenakis, A. A., & Harris, S. G. (2002), "Crafting a change message to create transformational readiness", *Journal of Organizational Change Management*,*15*(2), 169-183.

Arthurs, J. D., & Busenitz, L. W. (2006), "Dynamic capabilities and venture performance: The effects of venture capitalists", *Journal of Business Venturing*, *21*(2), 195-215.

Ashurst, C., & Hodges, J. (2010), "Exploring Business Transformation: The Challenges of Developing a Benefits Realization Capability", *Journal of Change Management*, 10(2), 217-237.

Aspara, J., Lamberg, J. A., Laukia, A., & Tikkanen, H. (2011), "Strategic management of business model transformation: lessons from Nokia", *Management Decision*, *49*(4), 622-647.

Avolio, B. J. & Bass, B. M. (1995), "Individual consideration viewed at multiple levels of analysis: A multi-level framework for examining the diffusion of transformational leadership", *Leadership Quarterly*, 6, 199–218.

Avolio, B.J., Bass, B.M., & Jung, D.I. (1996), *Replicated confirmatory factor analysis of the Multifactor Leader Questionnaire (Form 5X)*, Binghamton: State University of New York at Binghamton, Center for Leadership Studies.

Barrett, F. J., Thomas, G. F., & Hocevar, S. P. (1995), "The central role of discourse in large-scale change: A social construction perspective", *The Journal of Applied Behavioral Science*, *31*(3), 352-372.

Barua, A., Konana, P., Whinston, A. B., & Yin, F. (2001), "Managing e-business transformation: Opportunities and value assessment", *Sloan Management Review*, *43*(1), 36-44.

Bass, B. M. (1985), *Leadership and performance beyond expectations.* New York: Free Press.

Bass, B. M. (1991), "From transactional to transformational leadership: Learning to share the vision", *Organizational dynamics*, *18*(3), 19-31.

Bass, B.M., & Avolio, B.J. (1993), "Transformational leadership: A response to critiques", In M.M. Chemers & R. Ayman (Eds*.), Leadership theory and research: Perspectives and directions*, 49-80. New York: Academic Press.

Bass, B. M., & Stogdill, R. M. (1990), *Handbook of leadership: Theory, Research & Managerial Applications*, *3*, The Free Press: NY.

Baum, J. R., Locke, E. A., & Smith, K. G. (2001), "A multidimensional model of venture growth", *Academy of management journal*, *44*(2), 292-303.

Beer, M., Eisenstat, R. A., & Spector, B. (1990), *Why change programs don't produce change*, Harvard Business Review, 68(6), 158-166.

Bennis, W. & Nanus, B. (1985), *Leaders, The Strategies for Taking Charge*, New York: Harper and Rowe.

Bhatt, G. D. (2000), "A resource-based perspective of developing organizational capabilities for business transformation", *Knowledge and Process Management*, 7(2), 119.

Bititci, U. S. (2007), "An executive's guide to business transformation", *Business Strategy Series*, *8*(3), 203-213.

Bosilj-Vuksic, V., Stemberger, M. I., Jaklic, J., & Kovacic, A. (2002), "Assessment of e-business transformation using simulation modeling", *Simulation*, *78*(12), 731-744.

Bryman, A. (1992), *Charisma and Leadership in Organisations*, Sage, Santa Monica CA.

Burke, W. W. (2002), *Organization change: Theory and practice*, Sage Publications.

Burke, W. W. (2013), *Organization change: Theory and practice*, Sage Publications.

Burke, W. W., & Litwin, G. H. (1992), "A causal model of organizational performance and change", *Journal of management*, *18*(3), 523-545.

Burns, B. (2004), *Managing change*, Upper Saddle River, NJ: Prentice Hall.

Burns, J. M. (1978), *Leadership*, New York, NY: Harper & Row.

Cannella, A. A., & Monroe, M. J. (1997), "Contrasting perspectives on strategic leaders: Toward a more realistic view of top managers", *Journal of Management*, *23*(3), 213-237.

Chakrabarti, A., Vidal, E., & Mitchell, W. (2011), "Business transformation in heterogeneous environments: The impact of market development and firm strength on retrenchment and growth reconfiguration", *Global Strategy Journal*,*1*(1-2), 6-26.

Chen, J. M., Suen, M. W., Lin, M. J., & Shieh, F. A. (2001), "Organizational Change and Development", *Organization Science*, 12, 1-13.

Chesbrough, H. W. (2006), *Open business models: How to thrive in the new innovation landscape*, Harvard Business School Press. ISBN13: 978-1-4221-0427-9.

Child, J. (1997), "Strategic choice in the analysis of action, structure, organizations and environment: retrospect and prospect", *Organization studies*, *18*(1), 43-76.

Choe, S., & Pattnaik, C. (2007), "The Transformation of Korean Business Groups after the Asian Crisis 1", *Journal of Contemporary Asia*, *37*(2), 232-255.

Cohn, J. M., Khurana, R., & Reeves, L. (2005), "Growing talent as if your business depended on it, *Harvard Business Review*, 83(10), 62.

Conger, J. A., & Kanungo, R. N. (1987), "Toward a behavioral theory of charismatic leadership in organizational settings", *Academy of Management Review*, 12, 637-647.

Conger, J. A. & Kanungo, R. N. (1988), "The empowerment process: Integrating theory and practice", *Academy of Management Review*, 13, 471-482.

Conger, J. A., & Kanungo, R. N. (1998), *Charismatic leadership in organizations*, Sage Publications.

Conger, J. A., Kanungo, R. N., & Menon, S. T. (2000), "Charismatic leadership and follower effects", *Journal of organizational behavior*, *21*(7), 747-767.

Cope, M. (2003), *The Seven C's of Consulting* (2nd ed.), Upper Saddle River, NJ: Financial Times/Prentice-Hall.

Creamer, W. P., & Amaria, P. (2012), "The Effect of Business Transformation and Innovation Economics on Sustainable Corporate Competitive Advantage", *Research in Business and Economics Journal*, *6*(1).

Crawford, L.H., Cooke-Davies, T.J., Hobbs, J.B., Labuschagne, L., Remington, K., Chen, P., (2008), "Situational Sponsorship of Projects and Programs: An Empirical Review", *Project Management Institute*, Newtown Square, PA.

Daniel, E. M., & Wilson, H. N. (2003), "The role of dynamic capabilities in e-business transformation", *European Journal of Information Systems*, *12*(4), 282-296.

Davenport, T. H. (1993), *Process innovation: reengineering work through information technology*, Harvard Business Press.

De Vries, M. K., Shekshnia, S., Korotov, K., & Florent-Treacy, E. (2004), "The New Global Russian Business Leaders: Lessons from a Decade of Transition", *European Management Journal*, *22*(6), 637-648.

Doz, Y. L., & Kosonen, M. (2010), "Embedding strategic agility: A leadership agenda for accelerating business model renewal", *Long range planning*, *43*(2), 370-382.

Drucker, P. (1999), *Management challenges for the 21st century*, New York: Harper Collins.

Eisenhardt, K. M., & Sull, D. N. (2001), "Strategy as simple rules", *Harvard business review*, *79*(1), 106-119.

Eisenhardt, K. M., & Tabrizi, B. N. (1995), "Accelerating adaptive processes: Product innovation in the global computer industry", *Administrative science quarterly*, 84-110.

Feldman, M. S., & Pentland, B. T. (2003), "Reconceptualizing organizational routines as a source of flexibility and change", *Administrative Science Quarterly*,*48*(1), 94-118.

Filej, B., Skela-Savič, B., Vicic, V. H., & Hudorovic, N. (2009), "Necessary organizational changes according to Burke–Litwin model in the head nurses system of management in healthcare and social welfare institutions—The Slovenia experience", *Health policy*, *90*(2), 166-174.

Ford, C., & Gioia, D. (2000), "Factors influencing creativity in the domain of managerial decision making", *Journal of Management*, 26(4), 705–732.

Galbraith, J. R. (1983), "Designing the innovating organization", *Organizational dynamics*, *10*(3), 5-25.

Gill, R. (2002), "Change management--or change leadership?". *Journal of change management*, *3*(4), 307-318.

Gilley, A. (2005), *The manager as change leader*, Westport, CT: Praeger

Govindarajan, V., & Trimble, C. (2005), "10 Rules for strategic innovators: from idea to execution", *Harvard Business School Press*, Boston, Massachusetts. ISBN1-59139-758-8.

Griffith-Cooper, B., & King, K. (2007), "The partnership between project management and organizational change: integrating change management with change leadership", *Performance Improvement* ,46 (1), 14–20.

Halverson, S. K., Murphy, S. E., & Riggio, R. E. (2004), "Charismatic Leadership in Crisis Situations A Laboratory Investigation of Stress and Crisis", *Small Group Research*, *35*(5), 495-514.

Haug, A., Graungaard, P. S., & Stentoft, A. J. (2011), "IT readiness in small and medium-sized enterprises", *Industrial Management & Data Systems*, 111(4), 490-508.

Helfat, C. E., Finkelstein, S., Mitchell, W., Peteraf, M., Singh, H., Teece, D., & Winter, S. G. (2009), *Dynamic capabilities: Understanding strategic change in organizations*, John Wiley & Sons.

Heller, F. (1998), "The levers of organizational change: facilitators and inhibitors", *Handbook of work and Organizational Psychology*, *4*, 229 – 253.

Herbert, I. (2009), "Business transformation through empowerment and the implications for management control systems", *Journal of Human Resource Costing & Accounting*, *13*(3), 221-244.

Herold, D.M., Fedor, D.B. (2008), "Change the Way You Lead Change. Leadership Strategies that Really Work", *Stanford University Press*.

Herscovitch, L., & Meyer, J. P. (2002), "Commitment to organizational change: extension of a three-component model", *Journal of applied psychology*, 87(3), 474.

Herzig, S.E., Jimmieson, N.L. (2006), "Middle managers' uncertainty management during organizational change", *Leadership and Organisation Development Journal*, 27 (8), 628–645.

Higgs, M. (2002), "Do leaders need emotional intelligence?: A study of the relationship between emotional intelligence and leadership of change", *International Journal of Organisational Behaviour*, *5*(6), 195-212.

Higgs, M. J. & Rowland, D. (2000), "Building change leadership capability: The quest for change competence", *Journal of Change Management*, 1(2), 116-131.

House, R. J. (1976), "A theory of charismatic leadership", In J. G. Hunt & L. L. Larson (Eds.), *Leadership: The Cutting Edge* (pp. 189–204). Carbondale, IL: Southern Illinois University Press.

Howkins, J. (2001), *The Creative Economy*, New York: Penguin Books

Huber, G. P., Sutcliffe, K. M., Miller, C. C., & Glick, W. H. (1993). Understanding and predicting organizational change. *Organizational change and redesign: Ideas and insights for improving performance*, 215-54.

Ireland, R. D. & Hitt, M. A. (1999), "Achieving and maintaining strategic competitiveness in the twenty-first century: The role of strategic leadership", *Academy of Management Executive*, 13(1): 43–57.

Jex, S. M., & Britt, T. W. (2014), *Organizational Psychology: A Scientist-Practitioner Approach*, John Wiley & Sons.

Johansson, F. (2004), *The Medici effect: What Elephants and Epidemics Can Teach Us About Innovation*, Boston: Harvard Business School Press

Judge, T. A., & Piccolo, R. F. (2004), "Transformational and transactional leadership: a meta-analytic test of their relative validity", *Journal of applied psychology*, *89*(5), 755.

Kahtani, A. A. (2013), "Leader Charisma, Employee Organizational Commitment, and Organizational Change: A Proposed Theoretical Framework", *International Journal of Academic Research in Business and Social Sciences*, 3(5), 377-399.

Kakavogianni, D. (2009), "Charismatic Leadership and its emergence under crisis conditions: A case study from the airline industry", *The York Management School Working*, Number: 1743 – 4041, pp. 45- 31

Kanter, R. M., Stein, B. A., & Jick,T. D. (1992), *The challenge of organizational change: How companies experience it and leaders guide it*, New York: Free Press.

Karp, T., Helgo, T.I.T. (2008), "From change management to change leadership: embracing chaotic change in public service organizations", *Journal of Change Management,* 8 (1), 85–96.

Kettinger, W. J., Teng, J. T. C., & Guha, S. (1997), "Business Process Change: A Study of Methodologies, Techniques, and Tools", *Management Information Systems*, 21(1), 55-80.

Kim, H., Pan, G., & Pan, S. (2007), "Managing IT-enabled transformation in the public sector: A case study on e-Government in South Korea", *Government Information Quarterly*, 24, 338–352.

King, N., Anderson, N. (1995), *Innovation and Change in Organizations*, Thomson Press.

Kotter, J. P. (1995), "Leading change: Why transformation efforts fail", *Harvard business review*, *73*(2), 59-67.

Kotter, J. P. (1996), *Leading Change*, Harvard Business Press.

Kotter, J. P. (2008), *A Sense of Urgency*, Harvard Business Press.

Kuhn, T. S. (1970), *The structure of scientific revolutions* (2nd ed.), Chicago: University of Chicago Press.

Kumar Basu, K. (2015), "The Leader's Role in Managing Change: Five Cases of Technology-Enabled Business Transformation", *Global Business and Organizational Excellence*, *34*(3), 28-42.

Lamm, E., & Gordon, J. R. (2010), "Empowerment, predisposition to resist change, and support for organizational change", *Journal of Leadership & Organizational Studies*.

Lewin, K. (1947), "Frontiers in group dynamics II. Channels of group life; social planning and action research", *Human relations*, *1*(2), 143-153.

Lin, H. F., & Lee, G. G. (2005), "Impact of organizational learning and knowledge management factors on e-business adoption", *Management Decision*, *43*(2), 171-188.

Lin, L. M., & Hsia, T. L. (2011), "Core capabilities for practitioners in achieving e-business innovation", *Computers in Human Behavior*, *27*(5), 1884-1891.

Linder, J. C., Cole, M. I., & Jacobson, A. L. (2002), "Business transformation through outsourcing", *Strategy & Leadership*, *30*(4), 23-28.

Lowe, K. B., Kroeck, K. G., & Sivasubramaniam, N. (1996), "Effectiveness correlates of transformational and transactional leadership: A meta-analytic review of the MLQ literature", *The Leadership Quarterly*, *7*(3), 385-425.

Lubatkin, M. H., Simsek, Z., Ling, Y., & Veiga, J. F. (2006), "Ambidexterity and performance in small-to medium-sized firms: The pivotal role of top management team behavioral integration", *Journal of management*, *32*(5), 646-672.

Martins, N., & Coetzee, M. (2009), "Applying the Burke-Litwin model as a diagnostic framework for assessing organisational effectiveness: original research", *SA Journal of Human Resource Management*, *7*(1), 1-13.

Matzler, K., Schwarz, E., Deutinger, N., & Harms, R. (2008), "The Relationship between Transformational Leadership, Product Innovation and Performancein SMEs", *Journal of Small Business & Entrepreneurship*, *21*(2), 139-151.

McKeown, I., & Philip, G. (2003), "Business transformation, information technology and competitive strategies: learning to fly", *International Journal of Information Management*, *23*(1), 3-24.

Menon, J. (2012), "Malaysia's investment malaise: What happened and can it be fixed?", *Asian Development Bank Economics Working Paper Series*, (312).

Miceski, T., Nikoloski, K., & Stojovska, N. (2014, October 3-4), "Charismatic leadership as major source of competitive advantage for small and medium enterprises", Paper presented at the *International Conference on SMEs Development and Innovation: Building Competitive Future of South-Eastern Europe* (pp. 545-550).

Molla, A., & Bhalla, A. (2006), "Business transformation through ERP: a case study of an Asian company", *Journal of information technology case and application research*, *8*(1), 34-54.

Muzyka, D., De Koning, A., & Churchill, N. (1995), "On transformation and adaptation: Building the entrepreneurial corporation", *European Management Journal*, *13*(4), 346-362.

Nadler, D. A., & Tushman, M. L. (1989), "Organizational frame bending: Principles for managing reorientation", *The Academy of Management Executive*, *3*(3), 194-204.

Parry, K.W. (2011), "Leadership and Organization Theory", In: Hughes, M. (2015). Leading changes: Why transformation explanations fail, *Leadership*, 1-21.

Pascale, R. T., Milleman, M., & Gioja, L. (1999), "Surfing the edge of chaos", *Creative Management and Development, 3.*

Philip, G., & McKeown, I. (2004), "Business transformation and organizational culture: The role of competency, IS and TQM", *European management journal*,*22*(6), 624-636.

Pollard, T. M. (2001), "Changes in mental well-being, blood pressure and total cholesterol levels during workplace reorganization: The impact of uncertainty", *Work & Stress*, 15(1), 14-28.

Pratono, A. H., & Mahmood, R. (2013), "SME Transformation: The Mediating Effect of Marketing Capability on the Relationship among Entrepreneurial Orientation, Social Capital and Firm Performance", *Social Transformation toward Sustainable Society*, 65.

Reinstein, D. (2007), "Results matter: unlocking value through Avaya's business transformation", *Organization Development Journal*, *25*(4), 55.

Rindova, V. P., & Kotha, S. (2001), "Continuous "morphing": Competing through dynamic capabilities, form, and function", *Academy of Management Journal*, *44*(6), 1263-1280.

Rost, J.C. (1993), *Leadership for the Twenty-first Century*, Praeger, Westport, CT.

Rowold, J., & Kersting, M. (2008), "The assessment of charismatic leadership: Validity of a German version of the Conger-Kanungo Scale (CKS)", *European Journal of Psychological Assessment*, *24*(2), 124.

Safrudin, N., & Recker, J. (2014), *The Waves in Business Transformation Management: A Conceptualization of how IT-Enabled Business Transformations Unfold*, In Wang, William & Pauleen, David (Eds.) Proceedings of the 25th Australasian Conference on Information Systems, Association for Information Systems, Auckland, New Zealand.

Shamir, B. (1992), "Attribution of influence and charisma to the leader", *Journal of Applied Social Psychology*, 22(5), 386-407.

Shamir, B., House, R. J., & Arthur, M. B. (1993), "The motivational effects of charismatic leadership: A self-concept based theory", *Organization science*, *4*(4), 577-594.

Sigala, M., & Marinidis, D. (2009), "Exploring the transformation of tourism firms' operations and business models through the use of web map services", In *European and Mediterranean Conference on Information Systems,* 1-13.

SME Corp. (2013b), "SME Masterplan 2012-2020", *National SME Development Council*. Retrieved May 4th, 2015 from http://www.smecorp.gov.my/vn2/sites/default/files/SME%20Masterplan%202012-2020%20%28booklet%29_0_0.pdf

Tavakoli, M. (2014), "A Cognitive Model of Positive Organizational Change", *Journal of Management*, *2*(1), 11-25.

Tennant, C. & Roberts, P. (2003), "Managing knowledge through Hoshin Kanri", *Industry and Higher Education* 17(1), 59-66.

Treasury Board of Canada Secretariat (2010), "Business Transformation Enablement Program". Retrieved May 25, 2015 from http://www.tbs-sct.gc.ca/it-ti/itr-rti/bte-fto-eng.asp

Trice, H. M., & Beyer, J. M. (1993), *The Cultures of Work Organizations*, Prentice-Hall, Inc.

Uhl, A., & Gollenia, L. A. (2012), *A Handbook of Business Transformation Management Methodology*. Gower.

Venkatraman, N. (1994), "IT-enabled business transformation: from automation to business scope redefinition", *Sloan management review*, *35*, 73-73.

Walker, L. (2007), "IBM business transformation enabled by service-oriented architecture", *IBM Systems Journal*, *46*(4), 651-667.

Wang, S., Zhou, H., & Wen, P. (2014), "Employment Modes, Charismatic Leadership and Organizational Citizenship Behavior: Explanations From Perceived Job Security", *Pak. J. Statist*, *30*(5), 827-836.

Weber, M. (1924), "The Theory of Social and Economic Organization", In Deluga, R. J. (2001), American presidential Machiavellianism: Implications for charismatic leadership and rated performance. *The Leadership Quarterly*, *12*(3), 339-363.

Weerakkody, V., & Dhillon, G. (2008), "Moving from e-Government to t-Government: A study of process re-engineering challenges in a UK local authority perspective", *International Journal of Electronic Government Research*, 4(4), 1–16.

Weerakkody, V., Janssen, M., & Dwivedi, Y. K. (2011), "Transformational change and business process reengineering (BPR): Lessons from the British and Dutch public sector", *Government Information Quarterly*, *28*(3), 320-328.

Willner, A.R. (1984), *The Spellbinders*: *Charismatic Political Leadership*, New Haven: Yale University Press.

Worrall, L. (2007), "Transforming regional economic performance through business transformation", *International Journal of Management Practice*, 2(4), 324-344.

Wu, J. H., & Hisa, T. L. (2008), "Developing e-business dynamic capabilities: an analysis of e-commerce innovation from I-, M-, to U-commerce", *Journal of Organizational Computing and Electronic Commerce*, *18*(2), 95-111.

Yu, F. L. T., & Kwan, D. S. (2015), "Coevolution of Culture and Technology: The Business Success of Lee Kum Kee", *Global Business Review*, *16*(1), 182-195.

Yu, E., Strohmaier, M., & Deng, X. (2006, October), "Exploring intentional modeling and analysis for enterprise architecture", In *Enterprise Distributed Object Computing Conference Workshops, 2006. EDOCW'06. 10th IEEE International* (pp. 32-32). IEEE.

Yukl, G. (1998), *Leadership in organizations.* (4th ed.), Englewood Cliffs, NJ: Prentice-Hall.

Yukl, G. (1999), "An evaluation of conceptual weaknesses in transformational and charismatic leadership theories", *The leadership quarterly*, *10*(2), 285-305.

Yukl, G. (2010), *Leadership in Organisations* (7th ed.), Prentice Hall: Upper Saddle River, NJ.