

# Factors Influencing Employee Performance in Malaysian SMES: The Mediating of Job Satisfaction and the Moderating Impact of Transformational Leadership

Muhamad Afiq Abd Razak, Noor Fareen Abdul Rahim

Graduate School of Business, Universiti Sains Malaysia, Pulau Pinang, Malaysia

Email: afiqrazakohu@gmail.com

Corresponding Author Email: noorfareen@usm.my

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## Abstract

The purpose of this study is to examine the factors influencing employee performance in Malaysian SMES. According to the SME Performance Report 2021 from the Department of Statistics Malaysia, SME productivity is lower than that of non-SMEs across all economic sectors and industries. The Self-Determination Theory serves as the main conceptual framework for this study. A purposive sampling method was employed, and data were collected from 126 Malaysian SME employees at the executive or managerial level. The data were analyzed using the Partial Least Squares Structural Equation Modelling technique. The results reveal that job autonomy and competency do not have a significant impact on job satisfaction. However, psychological ownership is the only variable that significantly influences job satisfaction. Furthermore, job satisfaction has a significant positive effect on employee performance. Transformational leadership is found to positively moderate the relationship between job satisfaction and employee performance. In terms of mediation, job satisfaction successfully mediates the relationship between psychological ownership and employee performance but fails to mediate the relationship between job autonomy and competency on employee performance. This research focuses on a limited number of variables, such as autonomy, competency, and psychological ownership, while neglecting other potentially influential factors like communication, human capital management, rewards, and perceived support. Future studies should consider expanding the research model to include additional factors that may influence employee performance and job satisfaction, such as incentive packages, communication strategies, and sector-specific considerations. The findings of this study provide valuable insights for SME owners and policymakers in their efforts to enhance employee productivity.

**Keywords** – Job Autonomy, Competency, Psychological Ownership, Job Satisfaction, Transformational Leadership, Employee Performance.

## Introduction

Employee performance plays a crucial role in determining an organization's overall success, as high-performing employees contribute significantly to the achievement of strategic objectives and help maintain a competitive advantage (Lado & Wilson, 1994). Abubakar et al. (2019) define performance as the process of completing tasks and achieving desired outcomes, focusing on what needs to be done and how it should be executed. Similarly, Çetin and Aşkun (2018) describe performance as an individual's capacity to carry out tasks that enhance the organization's key competencies. Effective job performance can lead to both financial and non-financial rewards for employees (VanScotter, Motowidlo, & Cross, 2000). However, as Bakker, Tims and Derks (2012) highlighted, the dynamic nature of the workplace presents numerous challenges that make it difficult for employees to consistently maintain high levels of performance. Moreover, employers often set high standards for employee performance, closely monitoring it through various performance management activities (Camilleri, 2021). In the context of Human Resource Management (HRM), employee performance is typically defined as the outcomes, achievements, and contributions made by employees in alignment with organizational and industry goals. Performance levels may vary, with some being high and others in need of improvement (Khoshnaw & Alavi, 2020). Employee development and job performance are closely interconnected. As a vital component of human resource management, employee development encompasses both personal and organizational growth. When employees develop their skills, it contributes to the success of the organization, leading to enhanced performance. According to Akdere and Egan (2020), employee development involves not only the improvement of individual talents but also the strengthening of organizational capabilities. A well-trained and adequately equipped workforce ensures that companies remain competitive, both in domestic and international markets (Robertson, 2003).

Organizations have recognized that, to succeed in an ever-evolving market environment, they must develop distinctive dynamic capabilities that strengthen their competitive edge. As a strategic move, many have shifted their focus toward optimizing the Human Resource Management function, particularly in the areas of employee performance design and monitoring (Diamantidis & Chatzoglou, 2019). The importance of SMEs in both global and national economies is significant, given their role in job creation and contributions to GDP. According to a World Bank report (2020), SMEs represent 90% of all businesses and generate 50% of global employment (Susanto et al., 2022). The crucial economic role of SMEs has drawn expert attention to the various challenges hindering their growth (Alasadi & Abdelrahim, 2008). SMEs are typically classified into four categories: household businesses with 1-5 employees, small and medium businesses with 6-19 employees, medium businesses with 20-29 employees, and large businesses with more than 100 employees (Susanto et al., 2021). By offering diverse employment opportunities, the SME sector provides a valuable platform for reducing unemployment. The success and performance of SMEs are closely tied to employee contributions. Enhanced employee performance within SMEs can significantly impact business growth and overall success (Rahaman et al., 2021).

The Malaysian economy experienced significant growth between 2016 and 2021, with SMEs comprising over 97.4% of all establishments in the country (Moin et al., 2023). Small and medium-sized enterprises (SMEs) represent 98.5% of total businesses and play a crucial role in supporting Malaysia's economy. Despite this, Malaysia's global competitiveness in

innovation has recently declined. This decrease is reflected in the country's falling innovation index, particularly in SMEs with lower levels of innovation (Jaish, Murdipi, Razak & Alwi, 2023). Labour productivity among Malaysian SMEs, as measured by value added per employee, saw a slight increase of 0.1% in 2019, following a decline of 6.5% in 2020. This resulted in a productivity value of RM70,827 per employee in 2019 (compared to RM70,723 in 2020). However, productivity levels in 2019 remained lower than in 2018, indicating that the sector had yet to recover to pre-pandemic levels. Moreover, when compared to non-Malaysian SMEs, the labour productivity growth of Malaysian SMEs was slower, recovering to 2.7% from a decline of 4.8% in 2020. Micro, small, and medium enterprises (MSMEs) also reported consistently lower productivity values per employee compared to non-Malaysian SMEs (RM108,921 per employee) and national labour productivity (RM90,697 per employee).

This paper aims to explore the factors influencing employee performance in Malaysian SMEs. In the dynamic landscape of Malaysia's Small and Medium Enterprises (SMEs), optimizing employee performance remains a significant challenge. Although SMEs play a crucial role in the Malaysian economy, their ongoing success is often hindered by various factors affecting employee performance. While the importance of employee performance is widely acknowledged, the specific obstacles faced by Malaysian SMEs in promoting and maintaining high levels of employee productivity have not been adequately addressed. This gap in understanding highlights the need for comprehensive research to identify and leverage the factors that can enhance employee performance within the unique context of Malaysian SMEs. This study seeks to examine the relationship between job autonomy, competency, and psychological ownership in relation to employee performance, with job satisfaction acting as a mediating variable. Additionally, the study will investigate the moderating effect of transformational leadership on the relationship between job satisfaction and employee performance. The theoretical framework is grounded in Self-Determination Theory.

The paper is organized into several sections. It begins with an introduction to employee and SME performance in Malaysia. The next section covers the literature review and hypothesis development, focusing on three variables: job autonomy (to represent the need for autonomy), competency (to reflect the need for competence), and psychological ownership (to address the need for relatedness). These variables are examined in the context of their impact on job satisfaction and employee performance. Transformational leadership is considered as a moderator, enhancing the relationship between job satisfaction and employee performance. The paper then presents the results of the measurement and structural modelling, followed by a discussion of the validity of the findings, hypotheses, implications, and recommendations for future research. The paper concludes with final remarks.

## **Literature Review and Hypothesis Development**

### **Employee Performance**

Job performance, stated by Borman and Motowidlo (1997), has two dimensions: contextual performance and task performance. This study's findings indicate that the contextual scale includes items related to leadership, teamwork, and positive behaviors, aligning with the interpersonal facilitation aspect of contextual performance. The task performance scale, on the other hand, assesses technical knowledge and problem-solving abilities (Carmeli, Gelbard & Reiter-Palmon, 2013). Employee performance represents an individual's effectiveness in

achieving specific organizational goals (Gravina, Nastasi & Austin 2021). Goetz & Wald (2022) suggests that performance is determined by a combination of motivation and an individual's ability to complete a task or job with a given level of commitment. Work performance is the observable behavior demonstrated by employees, reflecting their role within the organization (Weer & Greenhaus, 2020). According to Memon, Kharo, Memon, Memon & Mustafa (2023), high job performance occurs when employees fully commit their motivation and abilities to the task at hand.

While performance evaluation is the foundation of performance management, an organization's success also depends heavily on its policies, procedures, and structural components. This integrated perspective follows a configurational approach to strategic human resource management, which emphasizes that patterns of HR activities, rather than isolated practices, are crucial for achieving organizational goals (Boon, Den Hartog & Lepak, 2019). Employee performance is evaluated not only based on actions but also inactions, as noted by Shahzadi et al. (2014). Factors such as workload, punctuality, availability, and willingness to assist others all play a role in influencing performance.

Employee performance is vital to an organization's success, as it aids in the development and growth of its workforce. Additionally, it helps the organization understand how excellent facilities and effective employee engagement contribute to overall success. Understanding organizational needs is key to creating policies that enhance employee effectiveness. Individual job performance is often influenced by a combination of ability, effort, and opportunity (Abdirahman et al., 2018). Employees generate commercial value, enabling businesses to remain competitive. As Rahaman et al. (2021) point out, employees are viewed as crucial assets that help organizations achieve their objectives through job performance.

### **Job Autonomy**

Job autonomy is defined as the extent to which a job allows employees significant freedom, independence, and discretion in organizing their work schedules and determining the methods to accomplish tasks (De Spiegelaere et al., 2016). By providing autonomy, employees are empowered with greater control, which fosters a sense of responsibility and encourages voluntary, extra-role behavior beyond what is formally required (Alpkan et al., 2010; Hennessey & Amabile, 2010). Employees with higher job autonomy are afforded more decision-making authority, which can stimulate creativity by instilling a sense of ownership and responsibility for their work (Alpkan et al., 2010). In the workplace, job autonomy refers to an employee's ability to make work-related decisions and determine the timing and methods for completing assigned tasks without interference (Rahaman et al., 2021). Additionally, Nicholson (1984) describes job autonomy as giving employees discretion in setting their own work goals (De Spiegelaere et al., 2016).

Job autonomy enhances the meaningfulness of work by helping employees recognize the value of their efforts (Oldham, Hackman & Pearce, 1976). When employees identify with their work and see how it contributes to organizational objectives, they are more likely to be engaged (Anand et al., 2012). While the positive effects of job autonomy on individual employee outcomes have been widely researched, its impact on organizational-level performance has not received as much attention. Although existing literature suggests that job autonomy may positively affect organizational outcomes like sales and profitability, empirical evidence supporting this idea remains limited (Preenen et al., 2016).

### Competency

The term "competency" is often used to describe an individual's full range of skills, attitudes, and knowledge, all directed toward achieving effective performance in a specific work environment. Competencies can be classified as either hard or soft skills. Professional competency, however, is linked to organizational performance. Competency encompasses an employee's personal attributes and behaviors that are essential for high job performance, whether they are professional, social, or conceptual (Kolibáčová, 2014).

Vitello, Greatorex And Shaw (2021) expanded the definition of competence beyond a combination of ability and motivation to perform a task, describing it as a set of options including general knowledge, motives, traits, social functions, or skills. Each of these elements is tied to the need to demonstrate high performance. This suggests that a competent individual should be able to apply their skills and abilities effectively in a work setting (Moore et al., 2002). Similarly, Martini, Supriyadinata, Sultrisini, & Sarmawa (2020) define work competency as an individual's core attributes, including knowledge, skills, and attitudes, that have a direct impact on job performance or exceptional work effectiveness. Competency also plays a critical role in effective communication and task completion (Dewi & Fitrio, 2022). Human resource strategies often address conceptual and technical skills, as well as interpersonal abilities (Kamoche, 1996; Vrontis et al., 2023). Competency also plays a key role in the development of human resource planning documents (McCartney et al., 2021).

### Psychological Ownership

Van Dyne and Pierce (2004) describe psychological ownership as a psychological state in which an employee develops a sense of possessiveness toward organizational goals. These goals can include personal or group attachments, workplace resources, and individual contributions within the organization (Maier & Brunstein, 2001). Dittmar (1992) explains that it is natural for people to mentally associate themselves with various objects of possession, such as homes, cars, spaces, and even relationships with others (Pierce et al., 2003). While psychological ownership is believed to positively influence pro-organizational attitudes like affective commitment and job satisfaction, more research is needed to fully understand the conditions that foster these associations (Dawkins et al., 2017). Pierce et al. (2003) suggest that the feeling of ownership is a fundamental human experience. Psychological ownership can extend to both tangible and intangible targets, and individuals who experience it often exhibit significant emotional, attitudinal, and behavioral changes. In conclusion, psychological ownership has the potential to be an important construct for understanding employee motivation and fostering a positive organizational environment (Avey et al., 2009).

### Job Satisfaction

Fisher (2000) defines job satisfaction as employees' emotions and attitudes toward their work and its various aspects. Ellickson and Logsdon (2002) further emphasize this perspective, describing job satisfaction as the extent to which individuals value their jobs. Cinque, Askun and Napierala (2021) highlights that job satisfaction relates to a person's non-cognitive and affective attitude towards different components of their job. In essence, job satisfaction reflects the contentment and fulfillment an individual derives from all aspects of their work (Binu Raj et al., 2023). Van Praag et al. (2003) suggest that an individual's overall happiness is influenced by satisfaction in multiple areas of life, such as employment, housing, finances, leisure, and the environment, with each area shaped by specific explanatory factors. Job satisfaction encompasses evaluations and attitudes towards various aspects, including work



itself, compensation, opportunities for advancement, supervision, and relationships with colleagues (Issa et al., 2022). It can also refer to an overall assessment of the job as a whole (Judge et al., 2001). Previous studies indicate that while economic incentives and high-value rewards can enhance job satisfaction, employee recognition and intellectual benefits also play a significant role (Koo et al., 2020). Robbins, Judge and Millet (2015) describes job satisfaction as an attitude toward one's job, which reflects the gap between the rewards employees receive and the rewards they believe they deserve. Job satisfaction plays a crucial role in driving overall productivity across industries, benefiting both employers and employees. Numerous studies have demonstrated that satisfied employees tend to be more productive, which ultimately leads to significant advantages for employers (Memon, et al., 2023).

### **Transformational Leadership**

Transformational leadership involves actions that elevate employees' values and standards, motivating them to pursue organizational goals that surpass their personal interests (Bass & Steidlmeier, 1999). This leadership style consists of four key dimensions: idealized influence, inspirational motivation, individualized consideration, and intellectual stimulation (Cetin & Kinik, 2015). Over the past two decades, transformational leadership has been widely discussed as a framework for understanding effective leadership. Burns introduced the concept in 1978, explaining that transformational leaders enhance the needs and motivations of their followers while driving significant changes at the individual, group, and organizational levels. A transformational leader fosters self-confidence, awareness, and a collective focus within both individuals and groups, redirecting subordinates' attention toward achieving higher performance goals (Mangkunegara & Mifathuddin, 2016). This type of leadership encourages employees to commit to the pursuit of "higher-level" objectives that go beyond their immediate self-interest. Consequently, organizations must ensure that their employees are motivated to reach their full potential. In recent years, leadership has gained increasing importance as an effective approach to managing both people and organizations (Nasir et al., 2022).

### **Self-Determination Theory**

Self-determination theory suggests that individuals exhibit varying levels of motivation in the workplace. Research indicates that autonomous regulation, which leads to better outcomes such as improved well-being and performance, is more beneficial than controlled regulation (Manganelli et al., 2018; Ryan & Deci, 2000; Gagné & Deci, 2005). It is important to understand the different reasons people invest effort into their work. According to Ryan and Deci (2000), those who are intrinsically motivated display the highest level of self-determination, engaging in activities that hold personal significance and provide inherent satisfaction.

Autonomous motivation is a key predictor of job outcomes in self-determination theory, encompassing both intrinsic motivation and well-internalized extrinsic incentives. The theory posits that individuals who recognize the value and significance of their work are more likely to demonstrate higher levels of motivation. In addition to autonomous and controlled motivation, self-determination theory highlights the importance of satisfying psychological needs for competence, autonomy, and relatedness as predictors of work outcomes. Research shows that fulfilling these needs leads to reduced fatigue and decreased organizational deviance (Jiang et al., 2021). Studies on workplace factors affecting motivation often focus on employees' perceptions of their managers as being autonomy-supportive or need-supportive. Key managerial behaviors include respecting employees' perspectives, offering choices,

providing meaningful feedback, encouraging initiative, setting appropriately challenging tasks, and explaining the rationale behind specific requests (Deci et al., 2017).

To meet the need for autonomy, individuals must be able to act according to their values and have control over how their work is performed. The need for competence involves believing that one's work is valuable and yields meaningful results, while the need for relatedness reflects the desire to form meaningful connections with others (Manganelli et al., 2016; Ryan & Deci, 2000). Therefore, this study focuses on the three variables of autonomy, competence, and relatedness.

## **Hypothesis Development**

### **The Relationship Between Job Autonomy and Job Satisfaction**

Job autonomy refers to the extent to which a job grants individuals significant freedom, independence, and discretion in scheduling their work and determining how to complete it (Saragih, 2011). Employees with greater job autonomy tend to develop more positive attitudes and perceptions towards their responsibilities. Joo, Jeung, and Yoon (2010) also found a positive correlation between job autonomy and workplace performance (Rahaman et al., 2021). Similarly, Tufail et al. (2017) identified job rotation, job expansion, and job enrichment (which includes autonomy) as key aspects of job design that enhance productivity, learning, autonomy, and performance. A notable finding is the strong link between job autonomy and job satisfaction across five key measures. As job satisfaction increases, so does an employee's control over how tasks are completed. The difference in satisfaction between having less freedom and no freedom in a job is especially pronounced, particularly in terms of job satisfaction, opportunities for advancement, and job challenges (Davidescu et al., 2003). Job autonomy is considered a critical factor influencing job satisfaction. Higher autonomy is often associated with greater job satisfaction, as employees have more control over their tasks and the ability to prioritize their work (Alegre et al., 2016). Research indicates that job autonomy positively affects employee motivation, skill development, job satisfaction, and individual performance, while it is negatively associated with stress, burnout, turnover, and psychological contract breach. Several mechanisms may explain these outcomes. For instance, increased job autonomy can provide greater control over the work environment and improve work-life balance, leading to reduced absenteeism and higher job satisfaction and performance (Preenen et al., 2016). Thus, the hypothesis is proposed:

*H1: Job autonomy has significant and positive relationship with job satisfaction.*

### **The Relationship Between Competency and Job Satisfaction**

Competency refers to an individual's abilities and key attributes essential for effective job performance (June et al., 2013). In academic literature, competencies are often categorized as either hard or soft skills. Professional competency, in turn, is shaped by organizational performance. It encompasses an employee's personal traits and behaviors, which are necessary for achieving high work standards and may be professional, social, or conceptual in nature (Kolibacova, 2014). Kotalbe and Murray (2004) notes that in a globally competitive environment, every organization must be prepared to compete effectively to ensure its long-term sustainability. To meet this challenge, enhancing employee quality through capacity building in knowledge, skills, and well-being becomes crucial. By doing so, organizations motivate employees to perform at their best and fully contribute to achieving organizational goals (Tamsah et al., 2023). Research shows that employee competency in the Health Office of West Sulawesi Province has a significant and positive impact on job satisfaction. This implies

that fostering competency among employees can lead to increased job satisfaction (Alshammari & Alenezi, 2023). Thus, the hypothesis is proposed:

*H2: Competency has significant and positive relationship with job satisfaction.*

### **The Relationship Between Psychological Ownership and Job Satisfaction**

Psychological ownership is a cognitive-affective concept that reflects individuals' possessive feelings and psychological attachments to both tangible and intangible assets (Olckers, 2013). Research in the hotel industry has highlighted the significance of positive psychological states, such as emotions and feelings, in predicting job satisfaction (Karatepe & Karadas, 2015). Additionally, psychological ownership is valuable for understanding employees' commitment and overall happiness (Avey et al., 2009). It is a distinct concept with the potential to forecast various outcomes, including job satisfaction, organizational commitment, intent to stay, and citizenship behaviors (Zeinabadi, 2010). According to Akram, Ishak and Arshad (2015), employees' sense of psychological ownership enhances their job satisfaction. Employees who feel a strong sense of psychological ownership tend to be more satisfied, which reduces their dissatisfaction with certain aspects of their job and motivates them to perform better. For hotel middle managers, developing a sense of ownership towards their organization is associated with higher levels of overall contentment, which positively affects their job satisfaction (Wood et al., 2021). Based on this discussion, the following hypothesis is proposed.

*H3: Psychological ownership has significant and positive relationship with job satisfaction.*

### **The Relationship Between Job Satisfaction and Employee Performance**

The relationship between job satisfaction and employee performance is an extensively studied topic in human resource management (Davidescu et al., 2020). Job satisfaction refers to an employee's emotional state and serves as a measure of how content they are with their job. Satisfied employees are more likely to be punctual, perform tasks efficiently and accurately, adhere to rules, and have fewer absences. Consequently, job satisfaction can enhance both the quality and quantity of employee performance. This concept is widely discussed in organizational literature due to its inherent value and its correlation with various workplace behaviors, including job performance (Bayona et al., 2023). Employees who take pride in their achievements are more motivated to contribute to organizational goals (Susanto et al., 2022). Research consistently shows a positive impact of job satisfaction on job performance (Susanto et al., 2022; Abdirahman et al., 2020).

Understanding the strength of the connection between job satisfaction and job performance is a crucial aspect of workplace psychology. Numerous studies have examined this relationship, confirming that job satisfaction significantly influences employee performance (Judge et al., 2001). Experimental research has explored the effects of job satisfaction on performance, indicating that job satisfaction is a vital factor that positively affects job performance (Katebi, 2022). Thus, we propose:

*H4: Job Satisfaction has significant and positive relationship with Employee Performance.*

### **The Mediating Role of Job Satisfaction**

Job satisfaction is often considered a precursor to employee dedication, with the idea that content employees are more likely to be committed to their work (Halim et al., 2021). For managers to effectively enhance motivation, it is essential to understand the factors that influence it and to implement strategies that support autonomous regulation. According to



Self-Determination Theory, fulfilling three basic psychological needs—competence, autonomy, and relatedness—is crucial for optimal workplace functioning (Ryan & Deci, 2000). Since its introduction, research has focused on the link between psychological empowerment and job performance, with the ultimate aim of improving performance. However, findings on how psychological empowerment affects job performance remain mixed (Sun, 2016). Research has shown that psychological empowerment is positively related to job satisfaction, with components such as meaning, autonomy, and self-efficacy contributing to greater work happiness (Matthew & Nair, 2022). Additionally, job satisfaction has been found to moderate the effects of role conflict and role ambiguity on various forms of organizational commitment. Employees experiencing high levels of role conflict and ambiguity tend to report lower job satisfaction and are less likely to remain with the organization, particularly if they have limited alternative job options (Ibrahim et al., 2023).

Nalla, Akhtar and Lambert (2020) argue that job satisfaction, as a precursor to commitment, benefits from the evolving impacts of work and increasing commitment. This aligns with the findings of Li et al. (2018), who identified an indirect positive link between physicians' emotional intelligence and job performance through job satisfaction. They suggested that physicians with higher emotional intelligence tend to outperform those with lower emotional intelligence, partly because they experience greater job satisfaction, which enhances their performance. Additionally, evidence shows that job satisfaction mediates the relationship between emotional intelligence and performance-related outcomes (Alonderiene and Majauskaite, 2016). Based on this body of research, we propose in this study that job satisfaction is good mediating variable between job autonomy, competency, psychological ownership and job performance. Based on these insights, the following hypotheses are proposed.

H5: Job Satisfaction mediates the relationship between job autonomy and employee performance.

H6: Job Satisfaction mediates the relationship between competency and employee performance.

H7: Job Satisfaction mediates the relationship between psychological ownership and employee performance.

### **Moderating Role of Transformational Leadership**

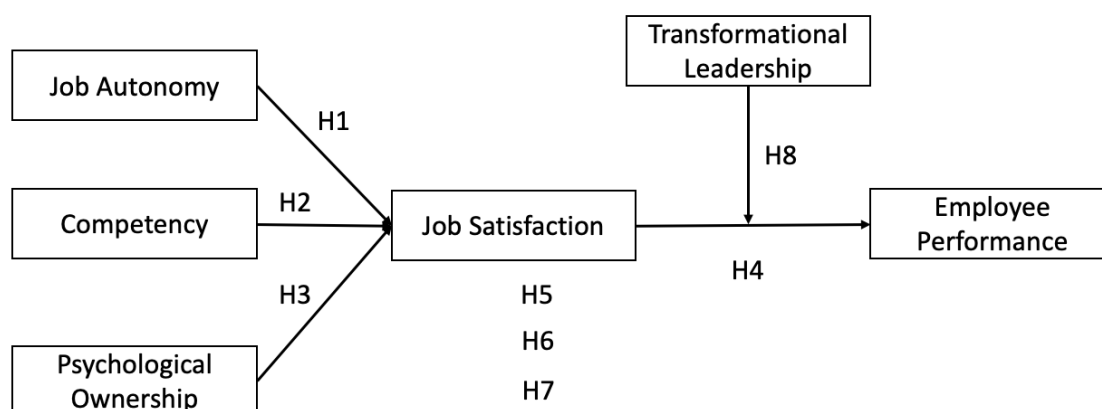
Transformational leadership was selected for its proven ability to stimulate creativity and innovation. According to Bass et. al, (1999), transformational leaders inspire their teams to surpass their limits and achieve exceptional results (Nasir et al., 2022). These leaders motivate and guide employees to drive innovation and contribute to the organization's long-term success (Hoch et al., 2018). Jaroliya and Gyanchandani (2022) describe it as a leadership style that manages organizations around a purpose, inspiring and advancing employees' aspirations.

Transformational leaders aim to enhance their team's skills and knowledge while raising their ambitions and expectations. This approach fosters a unified team with shared goals and values. Research has shown a positive relationship between company success and employee performance (Rubera & Kirca, 2012; Nasir et al., 2022). Studies consistently support the positive impact of transformational leadership on task performance (Dumdum et al., 2013; Piccolo & Colquitt, 2006; Judge & Piccolo, 2004; Lowe et al., 1996). Additionally, perceptions of flexible working hours and supportive supervision have been linked to job satisfaction and performance among medical professionals (Susanto et al., 2022; Dousin et al., 2019). This

theory will be further examined. Furthermore, Ayoko and Callan (2010) highlight the importance of effective conflict management by leaders in fostering high performance. Leaders play a crucial role in bridging team members and improving performance. Employee reactions to conflict underscore the role of leadership as a moderator between conflict and performance. Strong leadership can positively influence both employees and their work environment, suggesting that leaders can transform their followers and the challenges they face (Haryanto et al., 2022). Based on these insights, the following hypothesis is proposed.

*H8: Transformational leadership moderates the relationship between Job Satisfaction and Employee performance.*

### Conceptual Framework



### Methodology

#### Sample and Data Collection

This study targets employees working at SME companies in Malaysia. Given that one of the independent variables is job autonomy and the moderator is transformational leadership, the sample will be restricted to individuals at the managerial and executive levels. These employees are more likely to experience job autonomy and have leadership responsibilities, whereas top management and non-executive workers do not fit this profile. The research will employ purposive sampling to select participants from Malaysian SMEs. The unit of analysis for this study is individual employees at the executive or managerial level, as defined by Sekaran (2003). According to a G power calculation with a statistical power of 80%, a sample size of 109 respondents is required. Sekaran (2003) suggests that a sample size between 30 and 500 is generally suitable for most research. Consequently, this study gathered 124 responses from SME employees across Malaysia.

#### Instrument and Measurement

Data collection for this study was carried out using an online questionnaire distributed via Google Forms. This method allows for efficient data gathering by using a set of carefully formulated questions to capture responses from participants. According to Sekaran (2003), questionnaires are effective for data collection when researchers have a clear understanding of the required information and how to measure it. The first page of the questionnaire included a cover letter explaining the study's purpose and requesting the participants' cooperation. It also assured respondents of the confidentiality of their answers.

The questionnaire was distributed to SME companies through email and WhatsApp, targeting the Human Resource teams from a database of SMEs sourced online. Participants were invited to complete the survey via a personalized email and an internet link. The aim of the study, which was to evaluate factors influencing employee work performance in SMEs, was clearly stated.

The questionnaire comprised 47 questions divided into several sections. Initially, respondents answered a filter question to confirm their eligibility as executive or managerial level employees currently working in Malaysian SMEs. Following this, Sections B and C included questions related to each variable in the theoretical framework. The final section gathered demographic information. Sections B to D utilized a 5-point Likert scale, ranging from "strongly disagree" to "strongly agree," to measure responses. Factor analysis was used to group variables, with a factor loading threshold set at 0.3 for minimal, 0.4 for essential, and 0.5 for significant. Items with a factor loading greater than 0.5 were retained, as per Hair et al. (2014).

### **Respondent Profile**

The study analyzed a total of 124 responses. Among these respondents, 56.5% were male and 43.5% were female. Ethnically, the majority were Malay at 90.3%, followed by 6.5% Chinese, 1.6% Indian, and 1.6% from other ethnic groups. Age-wise, most respondents were between 25 and 34 years old, comprising 66.9% of the sample. The next largest group was aged 35 to 44 years, making up 20.2%, while those aged 24 to 28 years represented 7.3%. The smallest group was those aged 45 and above, at just 5.6%. Regarding educational qualifications, 74.2% of respondents held a bachelor's degree, and 18.5% had a master's degree. Since the target respondents were at the executive and manager levels, the majority had 2 to 5 years of work experience (35.5%), followed by 5 to 10 years (31.5%). Additionally, 17.7% of respondents had 16 years or more of experience. There was a higher proportion of respondents at the executive level (64.5%) compared to the manager level (35.5%). A detailed demographic breakdown of all respondents is provided in Table 1 below.

Table 1  
Respondent Profile

| Characteristic                             | N   | Valid<br>Percentage (%) |
|--|-----|-------------------------|
| <b>Gender</b>                              |     |                         |
| Male                                       | 70  | 56.5                    |
| Female                                     | 54  | 43.5                    |
| <b>Race</b>                                |     |                         |
| Malay                                      | 112 | 90.3                    |
| Chinese                                    | 8   | 6.5                     |
| Indian                                     | 2   | 1.6                     |
| Other                                      | 2   | 1.6                     |
| <b>Age</b>                                 |     |                         |
| 18-24 years old                            | 9   | 7.3                     |
| 25-34 years old                            | 83  | 66.9                    |
| 35-44 years old                            | 25  | 20.2                    |
| 45 years old and above                     | 7   | 5.6                     |
| <b>Highest Education</b>                   |     |                         |
| Diploma and below                          | 6   | 4.8                     |
| Bachelor Degree                            | 92  | 74.2                    |
| Master Degree                              | 23  | 18.5                    |
| PHD  | 3   | 2.4                     |
| <b>Work Location</b>                       |     |                         |
| Northern Region                            | 57  | 46.0                    |
| Klang Valley Region                        | 47  | 37.9                    |
| Southern Region                            | 11  | 8.9                     |
| East Coast Region                          | 6   | 4.8                     |
| Sabah & Sarawak                            | 3   | 2.4                     |
| <b>Total Working Experience</b>            |     |                         |
| Less than 2 years                          | 11  | 8.9                     |
| 2-5 years                                  | 44  | 35.5                    |
| 6-10 years                                 | 39  | 31.5                    |
| 11-15 years                                | 8   | 6.5                     |
| 16 years and above                         | 22  | 17.7                    |
| <b>Working Period with Current Company</b> |     |                         |
| 1 year and below                           | 20  | 16.1                    |
| 2-3 years                                  | 55  | 44.4                    |
| 4-5 years                                  | 39  | 31.5                    |
| 6 years and above                          | 10  | 8.1                     |
| <b>Position Level</b>                      |     |                         |
| Executive                                  | 80  | 64.5                    |
| Manager                                    | 44  | 35.5                    |

## Result

### Measurement Model Evaluation

SmartPLS 4 was utilized to evaluate the measurement model for this study, focusing on convergent validity, discriminant validity, and internal consistency reliability. To assess convergent validity, the study examined the average variance extracted (AVE) and factor loadings of the first-order constructs. As shown in Table 2, all outer loadings exceeded the minimum threshold of 0.708, as recommended by Hair et al. (2022). Only one item had a loading slightly below this threshold, at 0.693, which is considered negligible. Additionally, the AVEs for all constructs were above the minimum acceptable value of 0.50, indicating that each construct accounted for at least 50% of the variance and thereby confirming adequate convergent validity (Hair et al., 2022). Internal consistency reliability was evaluated using Composite Reliability (CR). All CR values met the minimum criterion of 0.70 or higher (Hair et al., 2014), demonstrating satisfactory internal consistency. For discriminant validity, the study employed the heterotrait-monotrait (HTMT) ratio test, which is known to be more stringent than Fornell and Lacker's criterion (Henseler et al., 2015). As detailed in Table 3, all HTMT ratios were below the threshold of 0.90, confirming that discriminant validity was achieved (Henseler et al., 2015).



Table 2

*Result of Measurement Model Assessment For First-Order Constructs*

| Construct and Items  | Outer Loading | CR    | AVE   |
|--|---------------|-------|-------|
| <b><i>Job Autonomy</i></b>   |               |       |       |
| I am allowed to decide how to go about my job  | 0.731         | 0.916 | 0.609 |
| I am able to choose the way to go about my job   | 0.766         |       |       |
| I have control over the scheduling my work   | 0.811         |       |       |
| My job is such that can decide when to do particular work activities.  | 0.748         |       |       |
| My job allows me to modify the normal way we are evaluated so that i can emphasize some aspect of my job and play down others. | 0.788         |       |       |
| I am able to modify what my job objectives are   | 0.814         |       |       |
| I have some control over what i am supposed to accomplish.   | 0.798         |       |       |
| <b><i>Competency</i></b>   |               |       |       |
| I perform very well in many important situations   | 0.891         | 0.901 | 0.648 |
| I am a capable person  | 0.765         |       |       |
| I am very talented   | 0.767         |       |       |
| I am dealing appropriately with challenges   | 0.876         |       |       |
| I am very competent  | 0.71          |       |       |
| <b><i>Psychological ownership</i></b>  |               |       |       |
| I perceived this is my organization  | 0.852         | 0.956 | 0.756 |
| I feel a very high degree of personal ownership for this organisation.   | 0.901         |       |       |
| I feel a very high degree of personal ownership for this job.  | 0.882         |       |       |
| I feel emotionally attached to this organisation.  | 0.862         |       |       |
| This organization has a great deal of personal meaning to me.  | 0.918         |       |       |
| I feel a strong sense of belonging to my organization,   | 0.878         |       |       |
| Most people that work for this organization feel as they own the company.  | 0.785         |       |       |
| <b><i>Job Satisfaction</i></b>   |               |       |       |
| My job is like a hobby to me   | 0.846         | 0.955 | 0.809 |
| My job is usually interesting enough to keep me from getting bored   | 0.902         |       |       |
| I feel that i am happier in my work than most other people   | 0.909         |       |       |
| I like my job better than average worker does  | 0.895         |       |       |
| I find real enjoyment in my work   | 0.943         |       |       |

| Construct and Items   | Outer Loading | CR    | AVE   |
|---|---------------|-------|-------|
| <i>Transformational Leadership</i>  |               |       |       |
| My managers considers an individuals as having different needs abilities, and aspirations from others | 0.797         | 0.949 | 0.725 |
| My managers help us to develop our strength   | 0.926         |       |       |
| My managers goes beyond self-interest for the good of the firm  | 0.852         |       |       |
| My managers specifies the importance of having a strong sense of purpose                              | 0.831         |       |       |
| My managers talk enthusiastically about what need to be accomplish                                    | 0.782         |       |       |
| My managers seeks different perspective when solving problems   | 0.891         |       |       |
| My managers suggest new ways of looking at how to complete assignments                                | 0.872         |       |       |
| <i>Employee Performance</i>   |               |       |       |
| I meet formal performance requirement of the job  | 0.864         | 0.912 | 0.636 |
| I fulfil responsibilities specified in the job description  | 0.842         |       |       |
| I engage in activities that can positively affect my performance evaluation                           | 0.777         |       |       |
| I perform task that are expected to me  | 0.858         |       |       |
| I can make constructive suggestions to the overall functioning to my work group                       | 0.735         |       |       |
| I encourage others to try new and more effective ways of doing their job                              | 0.693         |       |       |

Table 3  
*Discriminant validity using HTMT criterion*

|         | C     | EP    | JA    | JS    | PO    | TL    | TL x JS |
|---------|-------|-------|-------|-------|-------|-------|---------|
| C       |       |       |       |       |       |       |         |
| EP      | 0.876 |       |       |       |       |       |         |
| JA      | 0.562 | 0.687 |       |       |       |       |         |
| JS      | 0.538 | 0.633 | 0.673 |       |       |       |         |
| PO      | 0.519 | 0.608 | 0.716 | 0.837 |       |       |         |
| TL      | 0.42  | 0.6   | 0.719 | 0.767 | 0.802 |       |         |
| TL x JS | 0.084 | 0.165 | 0.446 | 0.656 | 0.613 | 0.682 |         |

Note : C, Competency; EP, Employee Performance; JA, Job Autonomy; JS, Job Satisfaction; PO, Psychological Ownership; TL, Transformational Leadership

### Structural Model

SmartPLS 4 was employed to assess the structural model in this study. Prior to analyzing path coefficients, it was essential to address collinearity within the structural model. The inner model collinearity statistics revealed that all values were below the acceptable threshold of 3.3, indicating no multicollinearity issues (Kock, 2015). Specifically, the inner VIF values for the independent variables ranged from 1.445 to 2.536.

Initially, five direct hypotheses were established. To evaluate the significance of each path relationship, a bootstrapping procedure with 5,000 subsamples was conducted, as recommended by Hair et al. (2022). As shown in Table [insert table number], it was determined that four hypotheses did not achieve statistical significance at the 0.05 level. Specifically, the relationships between job autonomy, competency, and job satisfaction were not significant, with p-values of 0.092 and 0.1, respectively, both exceeding the 0.05 threshold required for significance in a one-tailed test. This is further illustrated in Table [insert table number], where H1 and H2 have  $f^2$  values below 0.02 (0.035 and 0.028, respectively), indicating insignificance.

In contrast, the analysis revealed that Psychological Ownership significantly impacts Job Satisfaction ( $\beta = 0.632$ ,  $t$ -value = 4.92,  $p < 0.05$ ,  $R^2 = 0.654$ ). This confirms Hypothesis 3 (H3). Additionally, Job Satisfaction positively affects Employee Performance ( $\beta = 0.538$ ,  $t$ -value = 3.252,  $p < 0.05$ ,  $R^2 = 0.543$ ). The mediation effect of Transformational Leadership on the relationship between Job Satisfaction and Employee Performance also proved significant ( $\beta = 0.297$ ,  $t$ -value = 2.235,  $p < 0.05$ ), thereby confirming Hypotheses 3, 4, and 7.

Regarding the coefficient of determination ( $R^2$ ), the model shows that the  $R^2$  value for Job Satisfaction (0.654) indicates that 65.4% of the variance is explained by the three exogenous variables—Job Autonomy, Competency, and Psychological Ownership. This value reflects a moderate explanatory power, as it falls between 0.50 and 0.75 (Hair et al., 2019). For Employee Performance, the  $R^2$  value of 0.543 signifies that 54.3% of the variance is explained by Job Satisfaction, reinforcing the influence observed.

Table 4

*Hypothesis Testing For Direct Relationship and Moderating Analysis*

| Hypothesis                          | Beta  | SM    | STDEV | T statistics | P Value | $R^2$ | Decision |
|-------------------------------------|-------|-------|-------|--------------|---------|-------|----------|
| <b>Direct relationship analysis</b> |       |       |       |              |         |       |          |
| C -> JS                             | 0.132 | 0.159 | 0.099 | 1.33         | 0.092   | 0.654 | Reject   |
| JA -> JS                            | 0.138 | 0.152 | 0.107 | 1.284        | 0.1     | 0.654 | Reject   |
| PO -> JS                            | 0.632 | 0.595 | 0.128 | 4.92**       | 0.001   | 0.654 | Accepted |
| JS -> EP                            | 0.538 | 0.5   | 0.165 | 3.252**      | 0       | 0.543 | Accepted |
| <b>Moderation Analysis</b>          |       |       |       |              |         |       |          |
| TL x JS -> EP                       | 0.279 | 0.246 | 0.125 | 2.235*       | 0.013   |       | Accepted |

Note : C, Competency; EP, Employee Performance; JA, Job Autonomy; JS, Job Satisfaction; PO, Psychological Ownership; TL, Transformational Leadership

We tested the mediation hypotheses by bootstrapping the indirect impact, as suggested by Preacher and Hayes (2004; 2008). If the confidence interval does not 0, we can conclude that there is significant mediation. As shown in Table , Job Autonomy -> Job Satisfaction -> Employee Performance ( $\beta = 0.074$ ,  $p > 0.05$ ), Competency -> Job Satisfaction -> Employee Performance ( $\beta = 0.071$ ,  $p > 0.05$ ) and Psychological ownership -> Job Satisfaction -> Employee Performance ( $\beta = 0.34$ ,  $p < 0.1$ ) the first two hypothesis is not significant unlike the last one. Thus, H5, H6 were not supported and H7 were supported.

Table 5

*Hypothesis Testing For Mediation Analysis*

| Hypothesis     | Beta  | SM    | STDEV | T statistics | P Value | Decision |
|----------------|-------|-------|-------|--------------|---------|----------|
| JA -> JS -> EP | 0.074 | 0.082 | 0.069 | 1.067        | 0.143   | Reject   |
| C -> JS -> EP  | 0.071 | 0.081 | 0.059 | 1.211        | 0.113   | Reject   |
| PO -> JS -> EP | 0.34  | 0.291 | 0.105 | 3.249        | 0.001   | Accepted |

Note : C, Competency; EP, Employee Performance; JA, Job Autonomy; JS, Job Satisfaction; PO, Psychological Ownership

**Discussion**

This research investigates key factors influencing employee performance in Malaysian SMEs. Utilizing Self-Determination Theory, the study highlights that autonomy is essential for individuals to align their work with personal values and exercise control over how tasks are executed. Regression analysis was employed to examine the relationships between independent variables (job autonomy, competency, and psychological ownership), the mediator (job satisfaction), the moderator (transformational leadership), and the dependent variable (employee performance). The sample of 124 Malaysian SME employees was deemed sufficient for drawing generalizable conclusions, meeting the power analysis requirements for an anticipated effect size of 0.15 at a significance level of 0.05 (Bujang & Adnan, 2016). Data were collected via a 47-item questionnaire, which covered the independent, moderating, and dependent variables. According to Sharma (2017), the sampling strategy ensured equal participation opportunities and provided results closely reflecting the broader population.

The findings indicate that job autonomy and competency do not significantly impact job satisfaction. This may be due to the lack of job autonomy in the respondents' daily roles, as many work at the executive level where autonomy is less emphasized. For instance, a study on employees at Telekom Malaysia in Terengganu found that job autonomy issues were minimal, as employees had substantial decision-making flexibility (Anual et al., 2023). Additionally, competency was not a significant factor for job satisfaction, possibly because 75.9% of respondents had less than ten years of experience and may not yet have developed the skills necessary for high competence. Nurhidayati et al. (2022) also suggest that high knowledge does not necessarily translate to increased competence or job satisfaction. Furthermore, the majority of respondents were under 35 years old, and their relatively limited experience might have affected their competence level. Consequently, hypotheses 1 and 2 were rejected, reflecting the lack of mediating effect of job satisfaction between job autonomy and competency on employee performance (H5 and H6). Similarly, Pangaribuan and Sihombing (2022) found that job satisfaction did not mediate the effect of competence on performance, attributing this to variations in performance measurement and individual company practices.

Conversely, psychological ownership was found to significantly impact job satisfaction, supporting Aslan et al. (2021), who argue that employees' feelings of ownership enhance job satisfaction. Additionally, middle managers' sense of ownership influences their engagement in entrepreneurial activities within their organizations (Mustafa et al., 2016). The mediating effect of job satisfaction between psychological ownership and employee performance was also significant.

The study confirms that job satisfaction significantly affects employee performance, consistent with Riyanto et al. (2021), who highlight job satisfaction's crucial role in influencing workplace behaviors. Transformational leadership also plays a significant role in strengthening the relationship between job satisfaction and employee performance. Effective leadership is vital for managing employee performance in SMEs, as transformational leaders enhance their followers' skills and elevate their aspirations, leading to greater cohesion and alignment with organizational goals (Nasir et al., 2022).

### **Research Implication**

The findings of this research have several important implications. It has been demonstrated that psychological ownership, job satisfaction, and transformational leadership significantly influence employee performance. To avoid insignificant results, it is crucial to select and evaluate variables carefully. For SME owners, the results suggest focusing on key factors that can enhance employee performance and, consequently, company revenue. Specifically, they should prioritize developing their employees' skills and knowledge to boost competency. Providing greater job autonomy can contribute to both employee development and job satisfaction. Additionally, adopting transformational leadership styles is essential for improving employee performance. SME owners should embody effective leadership qualities to motivate and manage their staff more effectively. From a policy perspective, government and policymakers should consider launching large-scale programs aimed at enhancing leadership skills within Malaysian SMEs. Investing in high-quality training, both from local and international sources, can help improve the skills and knowledge of the workforce. These efforts can lead to increased national labor productivity and contribute to the overall betterment of the nation.

### **Limitation and Future Research**

Despite the meticulous approach taken in this study, there are several limitations that should be acknowledged when interpreting the results and planning future research. Firstly, the study was based on a sample of 124 employees from SMEs in Malaysia, which may not fully represent the diverse geographical and organizational contexts. Consequently, further validation is required to confirm the findings across different settings. Additionally, the study focused on a limited number of key variables. Future research could benefit from incorporating additional factors such as communication, human capital management, reward systems, and support perceptions. Previous research supports this approach, noting that incentive packages can enhance job performance and satisfaction (Bartol & Durham, 2000), and can also stimulate creativity and innovation (Eisenberger et al., 1999).

Moreover, future studies could target specific sectors within SMEs, such as healthcare or service industries, to yield more precise insights. Attention should also be given to improving the sample demographics, focusing on higher-level positions such as managers to better assess variables like autonomy and competency. Age distribution should be considered for similar reasons. Lastly, this study was limited by its regional focus, with a higher concentration of respondents from the northern and central regions of Peninsular Malaysia. This imbalance affects the representativeness of the sample for Malaysian SMEs as a whole.

### **Conclusion**

To conclude this study, it is evident that Psychological Ownership, Job Satisfaction, and Transformational Leadership significantly contribute to enhancing employee performance.



These factors play a crucial role in fostering an environment where employees are motivated, engaged, and productive. Psychological Ownership creates a sense of belonging and accountability among employees, leading to increased job satisfaction and higher performance levels. Job Satisfaction, in turn, directly impacts employee performance by creating a more fulfilling and motivating work environment. Transformational Leadership inspires and motivates employees, driving them to exceed their usual performance levels and achieve organizational goals.

However, the study also found that Job Autonomy and Competency did not demonstrate a positive impact on Job Satisfaction and Employee Performance. Several possible reasons for these findings were explored, including potential gaps in the implementation of job autonomy practices and the adequacy of competency development programs. The study suggests that the mismatch between these variables and the target respondents could be one of the reasons for the observed lack of impact. Therefore, further research is needed to delve into these areas, potentially by expanding the scope of variables and exploring their interaction in different contexts.

Moreover, the study highlights the importance of selecting the right variables for the appropriate target respondents to ensure accurate and reliable results. For Small and Medium Enterprises (SMEs), it is essential to address these gaps and focus on strategies that can enhance employee performance and satisfaction. SME owners must prioritize initiatives that foster Psychological Ownership, enhance Job Satisfaction, and implement effective Transformational Leadership to drive improvements in employee performance. By doing so, they can contribute to increasing the productivity and competitiveness of SMEs, which is vital for the overall economic growth and development of the country.

Furthermore, the role of government and policymakers cannot be understated. Given that SMEs represent a significant portion of Malaysia's GDP, their productivity and performance are crucial to national economic health. Policymakers should focus on supporting SMEs through targeted programs and incentives that enhance leadership skills, employee satisfaction, and overall organizational performance. By implementing such measures, the government can help ensure that the productivity rates of SMEs align with or exceed those of non-SMEs, thereby contributing to a more robust and competitive national economy.

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