

RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP, EMPOWERMENT AND FOLLOWERS' PERFORMANCE: AN EMPIRICAL STUDY IN MALAYSIA

Relaciones entre Liderazgo Transformacional,
Empowerment y desempeño de seguidores: un estudio
empirico en Malasya

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ABSTRACT

Further research reveals that the effect of transformational leadership on followers' performance is indirectly affected by empowerment. The nature of this relationship is less emphasized in organizational leadership literature. Therefore, this study was conducted to examine the effect of transformational leadership on followers' performance and investigate the mediating effect of empowerment in the relationship between transformational leadership and followers' performance. Findings showed that the relationship between empowerment and transformational leadership had increased followers' performance. This result confirms that empowerment acts as a full mediating role in the leadership model of the studied organization.

KEY WORDS: Transformational leadership, empowerment, followers' performance

Resumen

La investigación revela que el efecto del liderazgo transformacional sobre los seguidores es afectado por el empowerment. El estudio examinó el efecto del liderazgo transformacional sobre el desempeño de los seguidores e investigó el efecto mediador del empowerment entre ambos. Revela que el efecto del empowerment del líder transformacional incremento el desempeño de los seguidores. Se confirma el efecto del empowerment desde el modelo del liderazgo.

Palabras clave. Liderazgo transformacional, epowerment, desempeño de seguidores.

INTRODUCTION

In an era of global competition where the environments are dynamic, many organizations shift the paradigms of their leaderships from a transactional style to transformational leadership style in order to achieve their strategies and goals (Bass, 1999; Howell & Avolio,

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1993). Several management thinkers (Bass, 1999; Bass & Avolio, 1994; Hartog, Muijen & Koopman, 1997) define transformational leadership as leaders who want to develop their followers' full potential, higher needs, good value systems, moralities and motivation. The ability of leaders to properly practice transformational styles in managing organizational functions may affect followers' performance (Howell & Avolio, 1993; Politis, 2002). Followers' performance can be seen in two major dimensions: task and contextual performance (Bohlander, Snell, & Sherman, 2001; Eysenck, 1998). Specifically, it may be viewed as a function of the capacity to perform, the opportunity to perform, and the willingness to perform. Surprisingly, a careful investigation reveals that the effect of transformational leadership on followers' performance is indirectly affected by empowerment (Bartram & Casimir, 2007; Moye & Henkin, 2006). For example, leaders who give sufficient power to followers will encourage them in using their intellect and fullest potential to overcome job obstacles, understanding the targeted goals and supporting the organizational interests.

The nature of this relationship is interesting however; little is known about the mediating effect of empowerment in the leadership model (Abidin, 2008). Previous studies over-emphasize on a segmented approach and direct effects model in analyzing transformational leadership and less attention was given to the significance of empowerment in developing transformational leadership models (Bartram & Casimir, 2007; Moye & Henkin, 2006; Howell & Avolio, 1993; Humphreys, 2002; Politis, 2002). Specifically this research is conducted in a Multinational Company (MNC) operating in Malaysia whose home country is the United States of America (USA). Will the managers hired by the USA company implementing transformational leadership style produce high level of followers' performance despite different location of business? Furthermore, the location of this MNC is in Sarawak where more than 30 ethnic groups reside and many of which are aborigines. Therefore, this study was conducted to examine two major objectives: firstly, to examine the effect of transformational leadership on followers' performance. Secondly, to investigate the mediating effect of empowerment in the relationship between transformational leadership and followers' performance.

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BACKGROUND OF THE STUDY

This study is conducted in the USA's Multinational Company (MNC) operating in Sarawak, Malaysia (USSUBSIDFIRM). USSUBSIDFIRM was initially established to focus on customized

semiconductor packaging and hard disk drives. Currently, this company almost dominates the electronic export and the largest airfreight exporter in Malaysia. In order to sustain and support the organizational competitiveness, transformational leadership styles are implemented to cope with the external organizational changes.

Management employees use policies and procedures set up by the stakeholders (i.e., senior management team and board of directors) as guidelines to ensure integrity and accountability in implementing management functions, such as general service, human resource, finance, and technical activities. These guidelines provide insufficient power to management employees in designing broad policies and procedures, but they are strongly encouraged to use their creativity and innovations in stimulating followers' intellectual engagement (e.g., using human resource information system, internet, automations and machineries in doing job), develop followers' potential (e.g., implement coaching and mentoring through work groups), sharing the vision and job challenges (e.g., communication openness about the directions of organization), and working together to achieve the organizational interests (e.g., rewards are not used as a main instrument in the interaction between leaders and followers). As a profitable business entity, empowerment technique was used to encourage freedom, increase commitment towards assigned jobs and improve the quality of services delivered at all levels in the organization.

LITERATURE REVIEW RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP AND FOLLOWERS' PERFORMANCE

Previous studies using a direct effects approach have recognized the effect of transformational leadership practices on

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followers' performance. For example, several studies about transformational leadership using different samples, such as 239 self-managing employees in Dubai (Politis, 2002), 78 managers in selected commonwealth countries (Howell & Avolio, 1993), and 103 sales managers and 369 direct reporters in service marketing

(Humphreys, 2002) found that the ability of leaders to properly practice intellectual stimulation, individualized consideration, idealized influence (attributed), and idealized influence (behavior) in implementing job functions had motivated their followers to better perform jobs in the organizations. Thus, it can be hypothesized that:

H1: There is a positive relationship between transformational leadership and followers' performance

RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP, EMPOWERMENT AND FOLLOWERS' PERFORMANCE

The leadership style that will produce the best results in an organization where change occurs frequently, is one that can motivate followers to identify with the leader's vision of the future and to sacrifice self-interests for the benefit of the organization as a whole (Transformational leadership, 2002). The leadership research literature is consistent with the notion of transformational leadership theories, namely Burns' (1978) and Bass's (1985) transformational leadership theory. Specifically, Burns' (1978) transformational leadership theory highlights that mutual understanding of leaders and followers in managing organizational functions may increase followers' moralities. Besides that, Bass's (1985) transformational leadership theory posits that interaction between leaders and followers in managing organizational functions can inspire followers to go beyond their self-interests in supporting the organization's interests.

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Humphreys & Einstein (2003) viewed that the roots of Bass' 1985 transformational leadership model are not new; it is inextricably embedded in the evolution of management thought. Improving on Burns (1978) and Bass (1985) output, several management thinkers (Pearce et al., 2003) conducted research based on historical analysis of leadership theory and research, these authors deductively

derived a transformational leadership type which includes the behavioral set of providing a sense of vision, challenging the status quo, engaging in idealism and providing stimulation and inspiration. Departing from this idea, in 1999 Alimo-Metcalfe (as cited in Leban & Zulauf, 2004) viewed transformational leadership factors comprising of individual consideration, decisive, achieving, determined, involves other in values, networks, change management, accessible and intellectual versatility.

Regardless of the factors identified in the transformational leadership model, application of this theory in an organizational leadership framework shows that followers' moralities and concern about organizational interests can be effectively developed if leaders stimulate followers' intellect, develop followers' potential, design and communicate targeted goals and motivate followers to think beyond their self interest in organizations (Avolio, Zhu, Koh, & Bhatia, 2004; Bartram & Casimir, 2007). The ability of leaders to properly implement such transformational processes will increase followers' empowerments in doing job functions (Lashley, 1999; Locke & Latham, 1990; Pounder, 2002; Waldman, 1993).

Many studies about transformational leadership practices based on different samples and contexts had been conducted. For instance, Moye & Henkin (2006) researched on 2000 salaried employees at a Fortune 500 manufacturing organization in USA and Bartram & Casimir (2007) studied on 150 customer service operators in an Australian call-centre. The results from these studies showed that the ability of leaders to properly practice intellectual stimulation, individualized consideration, idealized influence (attributed), and idealized influence (behavior) had increased their followers' empowerment in managing job functions (Moye & Henkin, 2006; Bartram & Casimir, 2007). Additionally, the outcomes of

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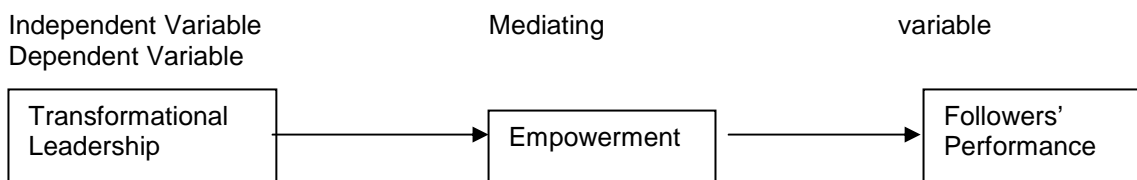
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transformational leadership based on these characteristics could produce intermediate outcomes such as shared vision, team commitment, an empowered team environment and functional team conflict (Dionne, Yammarino, Atwater, & Spangler, 2004). According to McGuire & Hutchings (2007), the outcomes of transformation leadership are developmental and motivational changes in followers and institutional and organisational change. As a result,

transformational leadership could lead to higher followers' performance in the organizations.

The literature has been used as foundation to develop a conceptual framework for this study as shown in Figure 1. Based on this figure, it seems reasonable to assume that high empowerment in managing organizational functions will influence USSUBSIDFIRM employees as this practice influences Western employees.

Figure 1. Empowerment mediates the effect of transformational leadership on followers' performance



Transformational leadership theories suggest that if USSUBSIDFIRM employees have high opportunities to use empowerments in managing organizational functions, this may lead to higher followers' performance. Therefore, it was hypothesized that:

H2: Empowerment positively mediates the effect of transformational leadership on followers' performance.

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METHODOLOGY: RESEARCH DESIGN

This study used a cross-sectional research design. Researchers integrate training management literature, the in-depth interview, the pilot study and the actual survey as a main procedure to gather data. The use of such methods may gather accurate and less biased data (Cresswell, 1998; Sekaran, 2000). This study was conducted at a MNC operating in Malaysia (USSUBSIDFIRM). At the initial stage of data collection procedure, the interview was

conducted based on the guidelines established by Easterby-Smith, Thorpe & Lowe, (1991), and Usunier (1998). Firstly, the researchers designed flexible interview questions which related to five issues: transformational leadership practices, empowerment features, follower performance characteristics, effect of transformational leadership on followers' performance, and effect transformational leadership and followers' empowerment on followers' performance. Secondly, a purposive sampling technique was used to identify four interviewees (i.e., one HR manager and three experienced supporting staff in the Human Resource Department of the organization) who have good knowledge and experiences about compensation system practiced in the organization. Thirdly, information gathered from such interviewees was constantly compared to the related literature review in order to put the research results in a proper context. The results of the interview were content analyzed in order to clearly understand the particular phenomena under study. Finally, the categorized information was used as a guideline to develop the content of survey questions for a pilot study. Next, a pilot study was done by discussing the survey questionnaire with four employees of the studied organization: HR manager, HR manager's assistant and two experienced supporting staff in the Human Resource Department. Their feedbacks were used to verify the content and format of the survey questionnaire for an actual study. Back translation technique was used to translate the content of questionnaires in Malay and English in order to increase the validity and reliability of the instrument (Hulland, 1999; Sekaran, 2000).

MEASURES

The survey questionnaire has 3 sections. Firstly, transformational leadership had 20 items that were modified from the multi factor leadership questionnaires (Bass, 1999; Bycio, Hackett & Allen, 1995; Dionne et al., 2004; Hartog et al., 1997). The items used to measure transformational leadership practices were: (1) seeking different perspective in solving problems, (2) instills pride in one employee for being associated with another employee, (3) employee's most important values and beliefs, (4) spends time

teaching and coaching, (5) talks enthusiastically about what needs to be accomplished, (6) ways that build employee's respect, (7) going beyond self-interest for the good of the group, (8) considers the moral and ethical consequences of decisions, (9) suggests new ways of looking at how to complete tasks, (10) considers an employee as having different needs, abilities, and aspirations from others, (11) listens to employee's concerns and helps employee to develop their strengths, (12) expressing confidence that goals will be achieved, (13) focuses attention on mistakes, exceptions and deviations from standards, (14) assisting employees in giving full attention on dealing with mistakes, complaints and failures, (15) increases employee willingness to work harder, (16) encourages employee to perform more than what is expected, (17) increases employee motivation to achieve individual and organizational goals, (18) encourages employee to think more creatively and be more innovative, (19) sets challenging standards for all tasks given to employee, and (20) gets employee to think of ideas that they had never thought of before.

Secondly, empowerment had 6 items that were modified from empowerment literature (Spreitzer, 1995). The items used to measure this variable were: (1) employee can decide on their own on how to go about their work, (2) job activities are personally meaningful to the employee, (3) have a great deal of control over the happenings in employee's department, (4) have significant autonomy in determining the way of doing their job, (5) care about what employee do in their job, and (6) job is well within the scope of employee's abilities. Finally, the followers' performance were

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measured using 6 items based on Casimir, Waldman, Batram & Yang (2006) performance scale. The items used to measure this variable were: (1) employee performs a work successfully will increase his/her feeling of appreciation, (2) employee performs a job well contributes to his/her personal growth and development, (3) performing a job well increases employee's feelings of self-esteem, (4) performing a job well gives employee a feeling of accomplishment, (5) employee feel very satisfied when performing his/her works successfully, (6) employee performs the job well when he/she met the standard required for the job. All items used in the questionnaires were measured using a 7-item scale ranging from "strongly disagree" (1) to "strongly agree" (7). Demographic variables

were used as controlling variables because this study focused on employees' attitudes.

SAMPLE

The unit of analysis for this study was employees of the USSUBSIDFIRM. A convenience sampling technique was used to distribute 150 survey questionnaires to employees in the studied organization. Of the number, 118 questionnaires were returned and all usable, yielding a response rate of 78.6 percent. The number of survey participants exceeds the minimum sample of 30 respondents as required by probability sampling technique. Thus, the data collected can be analyzed using inferential statistics (Leedy & Ormrod, 2005; Sekaran, 2000). A Statistical Package for Social Science (SPSS) version 16.0 was used to analyze the construct validity and reliability and thus test the research hypotheses.

FINDINGS PARTICIPANTS' CHARACTERISTICS

Table 1 shows a majority of the respondents were males (64.4 percent) and many of the respondents were Malays (41.5 percent). Many respondents aged between 26 to 30 years old (34.7 percent) and many held Malaysian Certificate of Education (29.7 percent).

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Many respondents had working experienced between 1 to 3 years (24.6 percent). Ethnicity of the respondents are Malay (41.5%), Native (31.4%, consists of several ethnicity), Chinese (17.8%) and Indian (0.8%). In Malaysia, malays and the Natives are categorized under the aboriginies group.

Table 1: Participants' characteristics (N=118)

| <u>Gender (%)</u> | <u>Ethnicity (%)</u> | <u>Age (%)</u> | <u>Education (%)</u> | <u>Length of Service (%)</u> |
|-------------------|----------------------|----------------|----------------------|------------------------------|
| Male=64.4 | Malay=41.5 | 18-20=4.2 | SPM=29.7 | <1 year =10.2 |
| Female=37.4 | Chinese=17.8 | 22- | STPM=12.7 | 1-3 years =24.6 |
| | Indian=0.8 | 25=28.8 | Diploma=31.4 | 4-6 years =22.0 |
| | Native=31.4 | 26- | Degree=16.9 | 7-9 years =16.9 |
| | Others=8.5 | 30=34.7 | Others=9.3 | >10 years =26.3 |
| | | 31- | | |
| | | 35=18.6 | | |
| | | 36-40=8.6 | | |
| | | >40=5.1 | | |

Note: SPM/MCE/Senior Cambridge: Sijil Pelajaran Malaysia/Malaysia Certificate Education
STPM/HSC: Sijil Tinggi Pelajaran Malaysia/High School Certificate

VALIDITY AND RELIABILITY ANALYSES FOR MEASUREMENT SCALES

Table 2 shows the results of validity and reliability analyses for measurement scales. The factor analysis with direct oblimin rotation was done for four variables with 32 items, which related to three variables: transformational leadership (20 items), empowerment (6 items), and followers' performance (6 items). The factor loadings for transformational leadership is between 0.701 to 0.894, empowerment is between 0.507 to 0.805 and followers' performance is between 0.540 to 0.872. Next, the Kaiser-Mayer-Olkin Test (KMO), which is a measure of sampling adequacy, was conducted for each variable

and the results show that transformational (0.956), empowerment (0.747) and followers' performance (0.820) was acceptable. Bartlett's test of sphericity shows all the three components are significant with $p=.000$ value and the eigenvalue for transformational leadership is 13.434, empowerment is 3.173 while followers' performance is 3.884. Cronbach Alpha for transformational leadership is 0.974, empowerment is 0.817 and followers' performance is 0.888. Specifically, the results of these statistical analyses showed that (1) all research variables exceeded the minimum standard of Kaiser-Meyer-Olkin's value of 0.6 (Hair, Anderson & Tatham, Black, 1998), were significant in Bartlett's test of sphericity (Hair et al., 1998), (2) all research variables had eigenvalues larger than 1 (Hair et al., 1998), (3) the items for each research variable exceeded factor loadings of 0.40 (Hair et al, 1998),

and (4) all research variables exceeded the acceptable standard of reliability analysis of 0.70 (Nunally & Bernstein, 1994). These statistical results confirmed the validity and reliability of measurement scales used for this study as shown in Table 2.

Table 2. Validity and reliability analyses for measurement scales

| Measure | No. of Item | Factor Loadings | KMO | Bartlett's Test of Sphericity | Eigenvalue | Variance Explained | Cronbach Alpha |
|-----------------------------|-------------|-----------------|-------|-------------------------------|------------|--------------------|----------------|
| Transformational leadership | 20 | 0.701 to 0.894 | 0.956 | 2334.95, $p=.000$ | 13.434 | 67.171 | 0.974 |
| Empowerment | 6 | 0.507 to 0.805 | 0.747 | 269.185, $p=.000$ | 3.173 | 52.882 | 0.817 |
| Followers' Performance | 6 | 0.540 to 0.872 | 0.820 | 419.974, $p=.000$ | 3.884 | 64.739 | 0.888 |

PEARSON CORRELATION ANALYSIS AND DESCRIPTIVE STATISTICS

Table 3 shows the results of Pearson correlation analysis and descriptive statistics. The means for the variables are from 4.81 to 6.70, signifying that the level of transformational leadership practices, empowerment and followers' performance are ranging from high (4)

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to highest level (7). The correlation coefficients for the relationship between the independent variable (i.e., transformational leadership) and the mediating variable (i.e., empowerment), and the relationship between the dependent variable (i.e. followers' performance) were less than 0.90, indicating that the data were not affected by serious collinearity problem (Hair et al., 1998).

In terms of testing a direct effect model, transformational leadership practices positively and significantly correlated with followers' performance ($r=0.386$, $p<0.000$), therefore H1 was supported. This result demonstrates that the ability of leaders to properly implement transformational styles (i.e., intellectual stimulation, individualized consideration, idealized influence (attributed), and idealized influence (behavior) has directly increased followers' performance in the studied organization.

Table 3. Pearson correlation analysis and descriptive statistics

| Variables | Mean | Standard Deviation | Pearson Correlation (r) | | |
|--------------------------------|------|--------------------|-------------------------|----------|-----|
| | | | 1 | 2 | 3 |
| 1. Transformational Leadership | 4.81 | 1.42 | (1) | | |
| 2. Empowerment | 5.15 | 1.06 | 0.321** | (1) | |
| 3. Followers' Performance | 6.70 | 1.22 | 0.386*** | 0.478*** | (1) |

Note: Significant at ** $p<0.01$; *** $p<0.001$

Reliability estimation are shown diagonally (value 1)

Stepwise regression analysis was undertaken to test the mediating hypothesis because it can assess the magnitude of each independent variable, and vary the mediating variable in the relationship between many independent variables and one dependent variable (Baron & Kenny, 1986; Foster, Stine & Waterman, 1998). According to Baron & Kenny (1986), the mediating variable can be considered when it meets three conditions: first, the predictor variables are significantly correlated with the hypothesized mediator. Second, the predictor and mediator variables are all significantly correlated with the dependent variable. Third, a previously significant effect of predictor variables is reduced to non-significance or reduced in terms of effect size after the inclusion of mediator variables into the analysis (Wong, Hui & Law, 1995). In this

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regression analysis, standardized coefficients (standardized beta) were used for all analyses. The results of testing research hypothesis are shown in Table 4.

Table 4. Outcomes of stepwise regression analysis

| Variable | Dependent Variable (Followers' Performance) | | |
|------------------------------|--|----------|----------------|
| | Step 1 | Step 2 | Step3 |
| <u>Control Variables</u> | | | |
| Gender | 0.04 | 0.02 | 0.00 |
| Age | 0.32 | 0.26 | 0.19 |
| Race | -0.21 | -0.19 | -0.11 |
| Education Level | -0.02 | -0.05 | 0.02 |
| Job Category | 0.11 | 0.16 | 0.17 |
| Length of Service | -0.24 | -0.16 | -0.164 |
| <u>Independent Variables</u> | | | |
| Transformational Leadership | | 0.40*** | 0.28** |
| <u>Mediating Variable</u> | | | |
| Empowerment | | | 0.39*** |
| R Square | 0.31 | 0.50 | 0.61 |
| Adjust R Square | 0.05 | 0.20 | 0.32 |
| R square change | 0.10 | 0.15 | 0.12 |
| F | 1.94 | 4.90*** | 7.60*** |
| F Δ R Square | 1.94 | 20.56*** | 20.22*** |

Note: Significant at **p<0.01; ***p<0.001

This table shows the outcomes of mediating effect in Step 3. The inclusion of empowerment in Step 3 of the table reveals that relationship between empowerment and transformational leadership significantly correlated with followers' performance ($\beta=.39$, $p<0.000$), therefore H2 was fully supported. This relationship explains that

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before the inclusion of empowerment into the analysis in Step 2, transformational leadership practices was found to be significantly correlated with followers' performance ($\beta=.40$, $p<0.000$). In terms of explanatory power, the inclusion of empowerment in Step 2 had explained 50 percent of the variance in the dependent variable. As shown in Step 3 (after the inclusion of empowerment into the analysis), the previous significant relationship between transformational leadership practices and followers' performance did not change to non significant (Step 3: $\beta=.28$, $p<0.00$), but the strength of relationships between such variables were decreased. In terms of explanatory power, the inclusion of empowerment in Step 3 had explained 61 percent of the variance in dependent variable. This result confirms that the inclusion of empowerment into the analysis has increased the effect of transformational leadership on followers' performance, which sends a message that empowerment act as a full mediating variable in the organization.

DISCUSSION AND IMPLICATIONS

This study confirms that the mediating effect of empowerment exists in the relationship between transformational leadership and followers' performance in the organizational sample. In the USSUBSIDFIRM, leaders have properly implemented transformational styles (i.e., individualized consideration, idealized influence (attributed), and idealized influence (behavior) in managing organizational functions. Besides that, majority employees perceived that such leadership practices had increased their empowerments in implementing job functions. Consequently, it may lead to increasing their performance in the organization.

The implications of this study can be divided into three major aspects: theoretical contribution, robustness of research methodology, and contribution to practitioners. In term of theoretical contribution, this study revealed that empowerment does act as a mediating variable in the relationship between selected leadership and followers' performance. This outcome is consistent with studies by Moye & Henkin (2006) and Bartram & Casimir (2007). In sum, the findings of this study have supported and broadened leadership

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research literature mostly published in Western countries. Thus, the notion of empowerment has been successfully applied within the leadership management models of the studied organization. With respect to the robustness of research methodology, the data gathered using leadership management literature, the in-depth interviews, pilot study and survey questionnaires have exceeded an acceptable standard of validity and reliability analysis, thus may lead to the production of accurate and reliable findings.

Regarding practical contributions, the findings of this study can be used as a guideline by management to upgrade the effectiveness of leadership styles in organizations. This objective may be achieved if the management consider these suggestions: firstly, leadership styles will be sharpened if they are continuously trained with up to date knowledge, relevant skills and good moral values. This training program can help to improve leaders' treatments in handling the needs and demands of employees who have different socio-economic backgrounds. Secondly, participative leadership styles can be meaningful if followers are allowed to be involved in decision making; this will motivate employees to perceive that their contributions are appreciated. Consequently, it may motivate them to use their creativities and innovations in performing their job. Finally, interaction between followers and leaders will increase positive subsequent personal outcomes (e.g., satisfaction, commitment, performance and ethics) if organizations provide merit based pay (e.g., monetary incentives) to high performing employees. This pay system may motivate followers and leaders to give more focus in achieving job targets. If management heavily consider such suggestions this may positively encourage followers and leaders to support organizational strategies and goals.

CONCLUSION

This study confirms that empowerment act as a full mediating role in the relationship between transformational leadership and followers' performance in the organizational sample. This result has supported and extended leadership research literature mostly published in Western organizational settings. Therefore, current

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research and practices within transformational leadership models need to consider empowerment as a critical aspect of organizational leadership styles where increasing followers' empowerments in managing organizational functions may strongly induce positive subsequent attitudinal and behavioural outcomes (e.g., competency, satisfaction, commitment, trust, and positive moral values). Thus, these positive outcomes may motivate employees to sustain and support organizational competitiveness in a global economy.

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