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A Test of The Transformational Leadership Model: The Case of Iran (CP)

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Abstract

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A Test of The Transformational Leadership Model: The Case of Iran.

INTRODUCTION

Extensive research efforts have been dedicated to the study of transformational and charismatic leadership styles (e.g., Bass, 1985; Conger and Kanungo, 1987; House, 1977; Awamleh & Gardner, 1999; Conger and Kanungo, 1994; Bass and Avolio, 1993). It was shown that a number of critical organizational outcomes are related to these styles such as satisfaction, organizational performance, individual performance, and commitment (e.g., Kirkpatrick & Locke; 1996, Awamleh, Evans, & Mahate; 2005, Awamleh & Al Dmour, 2004; Fernandes & Awamleh; 2004). Still, there is a need to validate such results across cultures and in different universal settings (e.g., Al-Dmour and Awamleh, 2002). Accordingly, this study attempts to explore the effects of leadership styles from - transformational and transactional perspectives- among oil industry mangers in the country of Iran. The study is designed to assess the effects of transformational leadership styles, as apposed to transactional, on employees' self-perceived performance and job satisfaction. Additionally, self-esteem (Rosenberg, 1979), and Romance of Leadership (Meindl, 1995) are considered as moderating factors. This paper combines two research areas in one, these are transformational leadership and international business. Applying the model of transformational leadership in a new international context will contribute to both areas. Understanding how to mange and lead in the Iranian economy will aid international businesses and organizations that intend to do business in Iran and the gulf region. In practitioner and popular literatures, often times the Iranian culture is confused with that of its Arab neighbors in the gulf, although there are significant differences in language, history, and culture. Additionally, testing a leadership model in a new culture and context will be a useful comparative study.

Over the past few decades, Iran has undergone tremendous political, social, and economic changes. The Islamic revolution in 1979 has had a great impact on the Iranian society and its management practices in both private and public sectors. However, extremely limited western models of business leadership and management have been tested or validated in the Iranian industry during this period. For example, the authors were unable to find any documented research application for the transformational and transactional model in Iran. Our literature review revealed that only two studies might be relevant to the present one. The first was

conducted by Khalili (1996), which showed that Fiedler's model of contingency leadership holds true in the Iranian private sector companies. Managers with production orientation style (low LPC) perform better, as apposed to those with employee orientation style, in high as well as low situational controls. The study concluded, however, that Iranian private sector employees are under motivated and unsatisfied. The second study revealed that the majority of mangers in the Iranian manufacturing sector are high on consideration and low on task structure (Veyseh, 1999), which is a surprising result considering the type of industry. Further, the Iranian culture highest score on Hofstede's dimensions was on uncertainty avoidance, followed by power distance (Hofstede, 2003). Such societies would, in general, place value on reducing uncertainty levels by adopting strict rules, policies, and regulations. However, it is important to note that Hofstede's conclusions are based on a survey conducted in 1973 and has not been updated since.

The Iranian Oil sector is one of the largest sectors in the country and receives considerable public and private attention. Oil and gas in Iran constitute the major natural resource and are more than 70% of the country's exports accounting for 20% of GDP and making 50% of government revenues (World Bank, 2004). The industry employs hundreds of thousands and has a huge network throughout the country.

The paper will start by outlining the theoretical background for the study, followed by a problem definition and hypotheses. Next, we present our method and results. The discussion section will follow with elaborate comments on results and their significance, in addition to limitations and future research directions. Finally, the conclusion section will provide perspective and a summary.

THEORITICAL BACKGROUND

<u>Transformational and Transactional Leadership</u>

Based on charismatic leadership literature and the work of Burns (1978), Bass (1985) proposed a model of transformational leadership and outlined its components. Understanding transformational leadership means differentiating it from transactional leadership. Transactional leadership is based on the exchange process where the leader administers rewards and sanctions. Desired follower behaviors will be rewarded, while undesirable behaviors will draw out punishment. Rewards may include increase in salary, promotions, and more benefits, while penalties may take the form of pay cuts, demotions, and terminations.

It can be seen that this type of leadership is not satisfactory for most situations. Since it is based on exchange, transactional leadership does not seek to motivate followers beyond the level that is required to avoid punishment or gain extrinsic rewards. It is generally believed that complete reliance on the transactional style may cause performance and satisfaction to suffer (Bass, 1985; Bryman, 1992; Burns; 1978; Peters and Austin, 1985). Transformational leadership, on the other hand, is thought to achieve remarkable levels of performance from followers. It engages followers by appealing to their upper level needs (e.g., self-actualization) and ideals that yield higher levels of follower satisfaction, performance, and organizational commitment (Bass, 1985; Bryman; 1992).

Although Burns and Bass agree that transactional and transformational leadership are two different constructs, they differ on the relationship between them. Burns (1978) on one hand views them as opposite, Bass (1985) on the other sees them as very closely related. Bass maintains that leaders, to be effective, need to exhibit aspects of both transactional and transformational leadership. Burns sustains a view that transformational leaders do not need any transactional leadership skills, they can simply ignore them. Bass, however, argues that transformational leaders will sometimes need to exhibit transactional leadership skills as called for by the situation. Bass's view has been empirically supported (e.g., Avolio, Waldman, and Einstein, 1988; Waldman, Bass, and Yammarino, 1989). Therefore, it is recognized that transformational leaders should engage in transactional behavior as well as transformational one. As such, transformational leadership does not substitute transactional leadership, instead, it builds on it (Bass and Avolio, 1990).

According to Bass, transactional leadership is comprised of two fundamental dimensions: contingent reward and management-by-exception, while transformational leadership is comprised of four central components: charisma, inspiration, individualized consideration, and intellectual stimulation.

Bass (1985) developed the Multifactor Leadership Questionnaire (MLQ) in order to systematically and reliably measure the components of transformational and transactional leadership. Since its development, the MLQ has received extensive evidence of its reliability and validity, and is commonly used in leadership research (Bryman; 1992, Awamleh & Dmour, 2004).

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Self-Esteem

Self-esteem is a set of attitudes and beliefs that a person brings with him or herself when facing the world (Wells & Marwell, 1976). It is sometimes referred to as self-worth, a personal assessment of how convinced is a person of his/her value as a contributor to family, career, organizations, and life in general. Normally, the higher the self esteem the more positive and assertive a person is, and the more comfortable he/she is with work assignments and with social interactions, including those with leaders or followers. It has been used to explore conformity, responses to threats, social participation, competitive behavior, and leadership styles. High self-esteem is associated with risk taking and job satisfaction (Brockner, 1988).

Romance of Leadership

This variable refers to the generalized beliefs that individuals have regarding the significance of leadership to organizations which may influence how they see their leaders (Meindl, Ehrlich, and Dukerich; 1985). Some people may believe that leadership (any type of leadership) is the most important factor in the success or failure of organizations and they would tend to attribute these successes and failures to leaders discounting other factors. So, such beliefs moderate and enhance followers' perceptions of leadership qualities. Meindl and Ehrlich (1988) developed the Romance of Leadership Scale (RLS). However, only inconclusive empirical evidence is available regarding this concept (e.g., Al-Dmour & Awamleh; 2002; Awamleh & Gardner; 1999, Meindl; 1988).

PROBLEM DEFINITION

This study is conducted to address some key questions by examining transformational and transactional leadership styles among oil industry managers in the country of Iran. It would be worth finding if the effects of transformational and transactional leadership styles that are globally known hold in such a situation, for example do follower's of transformational leaders in Iran show higher levels of performance and satisfaction compared to followers of transactional leaders, as is the case in other situations? Another question is: are there any effects for the individual differences of self-esteem, and leadership disposition on oil industry employees' performance and satisfaction? Do these two moderating factors, if/when present make a difference to the above relationships?

HYPOTHESES

In answering the questions posed by the authors above, and based on review of literature, the following hypotheses were advanced:

H1: There is a significant relationship between transactional leadership style of mangers\supervisors and employees' a) job satisfaction, and b) self-perceived performance.

H2: There is a significant relationship between transformational leadership style of mangers\supervisors and employee's a) job satisfaction, and b) self-perceived performance.

H3: There is a significant relationship between individual differences of employees' (Self-esteem, and RLS) and their a) job satisfaction, and b) self-perceived performance.

H4: The relationship of leadership styles of mangers\supervisors and a) job satisfaction, and b) self-perceived performance, of employees is moderated by individual differences (Self-esteem, and RLS).

METHOD

Population, Sample, and Subjects

Population of this study consisted of all Iranian oil companies (including natural gas), which total five. These are government owned and controlled. Up to date information was collected about these companies including contact information. They were all contacted regarding possible participation in this study. They all agreed, in various degrees of cooperation, to take part in the study. A total of 340 questionnaires were distributed by hand. Subjects were employees in non-managerial positions working full time. One hundred and forty five questionnaires were returned (picked up by hand from companies) which is 43%, out of these 112 were used and the remaining excluded for missing data or because they were filled out by other than the indented subjects resulting in 33% accurate reply rate (58% of the respondents were male; 71% had more than 5 years experience). Data collection took three months.

Measures

To measure subjects' perceptions of transformational and transactional leadership styles, the Multifactor Leadership Questionnaire (MLQ-5x/Short Form) (Bass and Avolio, 1995) was employed. For the purpose of this study, four subscales were loaded together and used as a measure for transformational leadership (Charisma, e.g., "the manager instills pride in being associated with him", Inspiration, e.g., "the manager talks enthusiastically about what needs to be accomplished", Individualized Consideration, e.g., "the managers helps me develop my

strengths", and Intellectual Stimulation, e.g., "the manager seeks differing perspectives when solving problems"), a total of 21 items. While transactional leadership style was measured by two subscales (Contingent Rewards, e.g., " the manager provides me with assistance in exchange for my efforts", and Management-by-Exception, e.g., "the manager waits to take action until things go wrong"), a total of 7 items.

To measure self-esteem, Rosenberg's (1979) 10-item scale was adopted (e.g., "I feel I have a number of good qualities"). As for the last individual difference, Romance of Leadership, the RLS scale developed by Meindl and Ehrlich (1988) was adopted. The original Scale contained 32 items. However, several versions of RLS have appeared since its development. The current study used Form C (RLS-C), which has 11 items (e.g., " when it comes right down to it, the quality of leadership is the single most important influence on the functioning of an organization").

Two instruments were developed to measure the dependent variables. Job satisfaction was assessed by a 14-item scale covering areas normally tapped in organizational behavior research. Examples of items include, "In general, I am satisfied with work", and "My job provides me with adequate financial rewards". As for the self assessed performance scale, it is comprised of 5 items such as "I consider my performance better than the average person in my company", and "I always reach my work targets".

The entire set of these scales was included in one questionnaire. They all used a unified 5 point (strongly agree to strongly disagree) Likert scale. The questionnaire included a total of 78 items.

RESULTS

Scale Reliabilities

According to Nunnally (1978), reliabilities which are less than 0.6 are considered poor, those in the 0.7 range are acceptable, while those above 0.8 are good. Results showed that the transformational leadership style Cronbach alpha was 0.88, and that of transactional is 0.71. Job satisfaction scale showed a reliability of 0.72, while performance scored 0.63. Reliabilities for self-esteem and RLS were 0.65, and 0.75 respectively. Accordingly, all of our scales pass the reliability test and are appropriate to use in the analyses.

Correlations

Table 1 shows all intercorelations. It is noted that the dependent variables are moderately correlated ($r = 0.56$, $p < 0.001$). However, they do not show high correlation which would not be desirable from a statistical point of view. It is also worth mentioning that transformational and transactional styles of leadership are highly correlated ($r = 0.73$, $p < 0.001$), which is not surprising given the fact that they are supposed to act as paired and not as contradictory factors, indeed this is common in transformational research, other studies have shown higher correlation between these two constructs (given the fact that transactional leadership turned out later to be insignificant in all of the models, there is need to run additional statistical tests to separate the effects of the two highly correlated independent variables) . It is worth noting that correlation between the two moderating variables is almost negligible.

Table 1. Intercorrelations of Self-Esteem, Self-Perceived Performance, RLS, Job Satisfaction, Transactional Leadership, and Transformational Leadership.

	1	2	3	4	5	6
1. Satisfaction	1					
2. Performance	0.36**	1				
3. RLS	0.04	0.13	1			
4. Self-esteem	0.22*	0.44**	0.16	1		
5. Transformational	0.451**	0.39**	0.02	0.04	1	
6. Transactional	0.40**	0.24*	0.00	0.03	0.73**	1

**correlation is sig. at $p < 0.01$
*correlation is sig. at $p < 0.05$

Hypotheses Testing: Multiple Regression and Partial Correlation Results

Table 2 shows results of the multiple regression test with self-perceived job performance ($m = 4.022$; $SD = 0.46$) acting as the dependent variable and entering transformational leadership ($m = 3.23$; $SD = 0.57$), transactional leadership ($m = 3.11$; $SD = 0.56$), self-esteem ($m = 4.19$; $SD = .48$), and RLS ($m = 3.96$; $SD = 0.40$) as factors. The overall model is significant at $p < 0.000$. Multiple regression revealed significant impact of self-esteem ($p < 0.000$), and transformational leadership ($p < 0.000$). Conversely, RLS and transactional leadership failed to show any significant relationship with job performance.

Table 2. Multiple Regression. Self-Perceived Performance is dependent variable.

	R	R Square	Adjusted R Square	Std. Error of the Estimate	
	0.547a	0.299	0.273	0.39381	

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	Sum of Squares	Df	Mean Square	F	Sig. of F
Regression	7.075	4	1.769	11.406	0.000
Residual	16.594	107	0.155		
Total	23.670	111			

	Unstandarized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	Sig.
Constant	1.273	0.501		2.543	0.012
RLS	6.486E-02	0.094	0.057	0.693	0.490
Esteem	0.397	0.078	0.417	5.081	0.000
Transac	-1.101E-02	0.096	-0.014	-0.115	0.909
Transform	0.266	0.095	0.329	2.794	0.006

Performance (Y) = bo + b1 RLS + b2 Self-Esteem + b3 Transactional Leadership + b4 Transformational Leadership

Results of the second multiple regression are shown in Table 3. Here, the test was conducted with job satisfaction ($m = 3.33$; $SD = 0.59$) as the dependent variable while self-esteem, RLS, transformational leadership, and transactional leadership all entered as factors. Like the first test, the overall model is significant at $p < 0.000$. Transformational leadership style showed significance at the $p < 0.001$ level, as well as self-esteem at the $p < 0.05$. Again, RLS, and transactional leadership showed no relationship.

Table 3. Multiple Regression. Satisfaction is dependent variable.

	R	R Square	Adjusted R Square	Std. Error of the Estimate	
	0.505a	0.255	0.227	0.52461	

	Sum of Squares	Df	Mean Square	F	Sig. Of F
Regression	10.066	4	2.516	9.144	0.000
Residual	29.448	107	0.275		
Total	39.514	111			

	Unstandarized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	Sig.
Constant	0.641	0.667		0.961	0.339
RLS	1.164E-02	0.125	0.008	0.093	0.926
Esteem	0.245	0.104	0.199	2.345	0.020
Transac	0.158	0.128	0.150	1.236	0.219
Transform	0.349	0.127	0.334	2.751	0.007

Satisfaction (Y) = bo + b1 RLS + b2 Self-Esteem + b3 Transactional Leadership + b4 Transformational Leadership

To test the remaining hypothesis, a partial correlation is run controlling for self-esteem and RLS (Table 4). Compared to inter-correlations presented in Table 1, it is witnessed that the

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new correlations are virtually unaffected when partialed for RLS and self-esteem together. This process was repeated by partialing each proposed moderating factors separately, without revealing any different results. This suggests that in this case, self-esteem and RLS do not act as moderating variables.

Table 4. Partial Correlations controlling for Self-Esteem and RLS.

	1	2	3	4
1. Satisfaction	1	0.30**	0.45**	0.40**
2. Performance	0.30**	1	0.35**	0.25*
3. Transformational	0.45**	0.35**	1	0.72**
4. Transactional	0.40**	0.25*	0.72**	1

**correlation is sig. at $p < 0.01$
*correlation is sig. at $p < 0.05$

DISCUSSION

Contrary to our expectations, results of the statistical analysis provided grounds to only fully accept one hypothesis, and partially accept one, while rejecting two. More specifically, multiple regression test results indicate that Hypothesis one (a and b) is not supported where transactional style of leadership of managers/supervisors is not significantly related to neither employees' self-perceived performance nor to their satisfaction. Hypothesis two, however, had clear support from the multiple regression where transformational leadership style of managers/supervisors is directly related to employees satisfaction on the job and self assessed performance. In sum, only transformational leadership style, and not transactional leadership, is significantly related to satisfaction and self-perceived performance,

The third hypothesis received mixed support. Both multiple regression analyses revealed that only self-esteem and not RLS is significantly related to job performance and satisfaction. As for the fourth hypothesis, partial correlation controlling for the two suggested individual differences revealed no impact on the various hypothesized relationships. This indicates that RLS and self-esteem, whether taken together, or separate, do not mediate the relationship between leadership styles on one hand, and the dependent variables on the other.

Effects of Transformational Leadership

Findings of this study confirm that transformational leadership style of managers will boost employees' job satisfaction and performance. When mangers operationalize charisma and utilize inspiration, individualized consideration, and intellectual stimulation they elicit positive reactions from employees. Seemingly, such transformational qualities do indeed stimulate higher level needs of followers and result in feelings of satisfaction. This finding is supported by rationale of other leadership researchers (e.g., Bass & Avolio; 1990, Awamleh, Evans, & Mahate; 2005). When managers exhibit a transformational leadership style, it reflects on employees' general positive attitude toward work and work conditions, which in turn increases job satisfaction and facilitates job performance. This result strongly validates transformational leadership across one more national culture (Iran) and industry (Oil and gas), which adds to the empirical support that the construct has had since its inception. This result is also consistent with Veyesh (1999) finding that majority of Iranian managers are high on consideration.

Effects of Transactional Leadership

Contrary to expectations, in this situation, transactional leadership style did not positively relate to employee satisfaction or performance. This may illustrate that followers in oil companies in Iran value having some degree of independence. Perhaps they respond more positively to a system that defines their tasks while spelling out performance targets and expectations. This can make the performance-reward linkages more patent. Moreover, a transactional leadership style maybe redundant or irrelevant in the oil industry environment where the majority of tasks are highly standardized and routinized. Accordingly, employees become eager for space and flexibility in the process of performing tasks. Such tasks may be better complemented by transformational style rather that a transactional one. There could also be a cultural explanation. Again, Veyesh's (1999) finding that the vast majority of Iranian managers in the manufacturing sector are high on consideration (or relationship oriented rather than task oriented). This may suggest that employees in Iran traditionally expect their managers to be more transformational than transactional and respond more positively when such style is exhibited.

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Combined Effects of Transformational and Transactional Leadership Styles

Based on theory and earlier empirical studies, we expected both independent variables to be significantly related to satisfaction and performance since we view both leadership styles to be complementary as advanced by Bass (1985) and was shown in a number of studies (e.g., Al-Dmour and Awamleh; 2002). However, results plainly show that only transformational and not transactional style is positively and significantly related to satisfaction and performance. This is certainly a major finding that requires explanation, although it is important to note that Awamleh, Evans, and Mahate (2005) revealed similar result in their study of the banking environment in the UAE. In face of this, we offer the following interpretation. Functional operations of oil companies are highly specialized and standardized, especially at the processing level, this leaves little room for variations or flexibility in the work processes. The environment is well controlled and tasks are well structured which may leave no gap for transactional leadership to fill. Individual performance, is largely determined by the flow of work (e.g., refineries) more than the immediate demands and expectations of managers especially in the short term.

Nevertheless, transformational leadership style appears to contribute greatly to both satisfaction and performance. Seemingly, employees in our sample confirmed this view. In such programmed environment, satisfaction and self assessed performance become results of appealing to higher needs which may help overcome the routine. What does this finding do to Bass's (1985) view that both leadership styles are closely related and in effect complimentary? Indeed, current findings give support to Burns's (1978) position that these two styles are at opposite ends of the continuum. It is possible, however, that the findings represent only an exception to Bass's conceptualization and that they are situation specific. The UAE banking study (Awamleh, Evans, & Mahate; 2005) seems to be a similar case.

Of course, there could also be a cultural dimension to the results. As seen earlier, we have attempted to provide some interpretation of the cultural impact on results of this study, however, sound theoretical and empirical models are lacking in this area to allow any conclusive or strong explanations. This will be addressed later in the conclusion section.

Effects of RLS and Self-esteem

No support was given to the romance of leadership construct in the current study. Results showed it not to be a predictor or a moderator of either performance or satisfaction. This is

somewhat surprising given that Hofstede classified the Iranian culture as high on power distance. One would expect such cultures to romanticize leadership to a high degree since people tend to accept the natural rank system in organizations. Accordingly, this would suggest that they would be quicker to attribute successes and failures to leaders rather than to other factors. However, in this case, this is not so which requires further investigation.

Self-esteem was consistently shown to be related significantly to dependent variables. As expected, it came out in regression analysis as a good predictor of satisfaction and performance, but not as a moderator. In both cases, the higher self-esteem an employee has, the higher his/her satisfaction and self-assessed performance will be. Moreover, individuals with high self-esteem are more likely to exert extra effort and are less affected by environmental and situational factors. Contrary to expectations however, self-esteem did not play the role of a moderator. We offer two possible explanations for this finding. First, the oil companies' work environment itself as discussed earlier. Second, the design of the study predestined that only partial correlations can be used to test for moderating effects whereas a more solid test can be achieved through the use of MANCOVA.

Limitations and Future Research Directions

The interactions of transactional leadership style and followers' performance and satisfaction require further studying. Bass' versus Burns's conceptualization of leadership styles is clearly in need of further exploration especially in a highly programmed work environment such as the oil sector. Was the organizational variable (oil industry) responsible for lack of significance in the transactional leadership effects? Or are the reasons more general, such as cultural variables or more specific such as study design? This study either did not capture that relationship properly or the situational/cultural factors were strong enough to override. If so, what are these factors? Further, the nature of contact that an employee has with his or her supervisor and the level of closeness were not assessed. Also, experience, training, personality attributes, success requirements (e.g., Micali, 1981) of employees were not assessed in relation to the other constructs.

The above limitations provide some clues for future research directions. Clearly cultural factors in Iran are in a serious need of study. Other areas that deserve attention include the relationship between leadership styles and independently measured performance. Also worthy of scholarly attention is the assessment of effects that experience, level of skills, career

aspirations have on perceptions of leadership. Moreover, the satisfaction relationship should be further explored. For example, how would task structure, position power, and group norms impact satisfaction.

CONCLUSION

Unlike many similar studies which are criticized (e.g., Meindl, 1995) because they seem to measure distant as opposed to close leadership relationships, this paper detected leadership qualities at a functional level. In designing this study, our initial view was that both leadership styles are necessary conditions for leadership to be operationalized. Both act as components of same construct, they are neither exchangeable nor competing (Bass, 1985). However, findings in this case do not support that position. To maximize the satisfaction and performance levels of their followers, leaders must possess charisma, provide individualized consideration, be intellectually stimulating and inspiring to followers. It is not clear if leaders must always display the attributes of both leadership styles in order to be effective. It would be reasonable to expect that oil companies in Iran operate in such a way that substitutes for the qualities of transactional leadership or somehow makes them irrelevant. However, there seems to be no substitute provided for transformational qualities. More importantly, the question of national culture remains unanswered to large extent as a result of lack of empirical evidence, therefore, immediate and serious attention is required to fill this gap. Self-esteem continues to show relevance as one of the determining factors of satisfaction and performance.

Finally, we wish to highlight that since transformational leadership has been shown to be a key factor for eliciting higher levels of individual satisfaction and performance, there will be value in training and developing more managers to learn transformational skills (Howell & Frost 1989; Holladay & Coombs, 1994; Kirkpatrick & Locke 1996; Awamleh & Gardner 1999; & Dvir, Eden, Avolio, & Shamir, 2002).

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