



Impact of organizational leadership on organizational performance: a study on small and medium size private companies in three cities of Tehran, Mashhad, Isfahan, Iran

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CHAPTER ONE: INTRODUCTION OF STUDY

1.1 Introduction

In today's business world, many archaic traditional theories of management and business practices have been replaced by more modern, systematic, measurable counterparts; yet success still depends on both the degree to which a business improves and its effectiveness. Therefore, the new heightened levels of rivalry have forced managers to look for and strive for better talent, improve on their pitfalls and rerun projects more effectively. Moreover, because of the phenomenal impact of globalization, companies must be aware and have the flexibility to react and deal with unexpected situations as they arise. There are many key elements which play essential roles in the survival of organizations in a ruthless globalized rivalry. These influential elements can be considered to be amongst organizational leadership, organizational culture, and organizational performance. All previously mentioned elements have a specific impact on organizational success which determines in the long run whether the organization survives or gets wiped off the market. As previously mentioned, in order to survive in a fierce global competition, companies need to have high performing organizations. Also, having a high performance organization is reliant upon some basic prerequisites which include the employees working there and their managers and leaders. First of all, it is necessary to define the following elements:

- Organizational Leadership.
- Organizational and leadership culture.

The elements listed above have both direct and indirect impacts on total organizational performance. However, organizational leadership is above all responsible for providing proper organizational structure and shaping the flow of organizational culture. Effective leadership in companies tends to increase their employees' and the entire organization's efficiency, effectiveness, flexibility, and productivity which in turn enhances a company's performance. As leadership in companies is responsible for an organization's performance, leaders must take into consideration the many elements involved in leading organizations through a smooth channel to eventually attaining high performance. Also,

they need to lead employees towards the right work attitude in order to deliver a high level of efficiency, effectiveness and productivity.

Having a high performance organization depends on having proper structure and culture which in turn may contribute to higher levels of employee satisfaction and motivation. Motivation and satisfaction have a direct relationship with both organizational productivity and employee efficiency and effectiveness and thus increase an organization's performance. Currently in business, due to modern supply chain management, one of a company's main concerns is having shorter lead times which help in getting closer to achieving an important part of their mission: that is, customer satisfaction and competitive advantage. Now this is the question: how can lack of employee motivation negatively affect an organization's productivity? Basically, demotivated employees tend to be adopting a more calculative manner in response to their managers. In a calculative style of management, employees work as much as they are paid and tend not to do more for their companies in the case of regular and unusual happenings. This behavior never helps organizations to improve their productivity because no one is willing to improve and make the conditions better. Due to the previously mentioned facts, in today's business competition there is no place for companies which are not improving because every day existing and new companies are offering new services and facilities to reach a higher level of customer satisfaction. Therefore, motivation and satisfaction are vital issues that every single company must take into account in order to minimize the possibility of being eliminated from the market. Hence, a high performance organization needs satisfied and motivated employees. Satisfied and motivated employees produce efficient and effective performers. Efficient and effective performers are fuel to the engine of high productivity in an organization which eventually results in a high performance organization.

Consequently, leaders who want to present a desired organization including satisfied, motivated, effective, efficient, and productive employees must deal with the culture and structure of organizations. In reference to Hay (2001) many employees leave their companies because of job dissatisfaction. A survey done by the Hay Company of 330 companies in 50 countries focuses on different aspects of employees' jobs including;

workload, treatment, benefits, pay, opportunities and advantages, recognition, job autonomy and quality, and teamwork. Questions were related to leadership styles and management communication skills. The minimal cost of any executive member or professional resigning from a company is equivalent to 18 months of his or her salary (Hay 2001). This loss of human capital and resources is considered to be a direct detrimental cost - not to mention its indirect opportunity cost including lost sales, lower productivity, and customer service deficiencies. Also, losing good employees has a negative impact on a company's morale (Hay2001).

1.2 Statement of Problem

The phenomenon of globalization has made the concept of leadership in organizations become a very vital issue especially in developing countries; since a great amount of daily competition pressures small companies to compete not only locally, but also with adjacent market competitors. As a result, companies need to develop their skills and the ability of their leaders to have a more compatible company in the global competition. One of the ways to have a compatible company is to be considered as a productive and high performance company. There are many issues playing a role in reaching that stage which a leader must deal with. Those elements are as follows: organizational culture, employee empowerment, leaders' charisma, and employee motivation and so on which have direct impact on employee satisfaction, effectiveness, and extra effort which are key elements of organizational performance.

The purpose of this paper is to demonstrate how leadership skills can help organizations to maintain high performance in existing markets in the following cities in Iran: Tehran, Mashhad, and Isfahan.

1.3 Research Question

The problem statement raises the following questions:

- 1- How might leaders help performance enhancement by applying management philosophies?
- 2- How will organizational culture enhance organizational performance?

- 3- What is the impact of leadership manner on organizational performance?
- 4- Is there any relationship between transformational and transactional leadership and outcomes of satisfaction, extra effort, and effectiveness?

1.4 Aim

The aim of this study is to evaluate the relationship between various leadership styles and organizational performances in the three major Iranian cities of Tehran, Mashhad, and Isfahan.

1.5 Objectives

This research is based on previous studies on the impact of leadership on organizational performance. This study will look at how leaders may help increase organizational performance. The following objectives need to be investigated in order to fulfill the aim of this research:

1. Definition of leadership and its role and organizational performance.
2. Analysis of efficiency, effectiveness, and productivity in organizations.
3. Evaluation of the current organizational culture in Iran.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The significance for community development, organizational learning, business effectiveness, project quality, and stakeholders' satisfaction all combine as reasons to explore and study the subject of leadership (Strang, 2005). This Literature review intends to investigate the transformational leadership and influential elements of inspirational motivation, intellectual stimulation, and individual consideration (Bass & Avolio, 2004). Inspirational motivation, intellectual stimulation, and individual consideration if

exercised correctly will result in the promotion of extra effort, employee satisfaction, and job effectiveness which are influential elements of organizational performance. In order to understand transformational leadership it is important to briefly examine how leadership theory has developed and how transformational leadership adds a new dimension to this arsenal (Kreitner and Kinicki, 2007, p511). Many authors of management and organization text books discuss leadership in terms of the following theories: Traits theory, Behavioral Approaches mustered up by Ohio State University studies and University of Michigan studies, Contingency theories include the Fiedler model, situational leadership, and path goal leadership. New approaches in evaluating leadership include transactional and transformational leadership, and emerging approaches for which a brief overview is shown in Table 1

Approaches to Studying Leadership

1. Trait Approaches

- Stogdill and Mann's five traits—intelligence, dominance, self-confidence, level of energy, and task-relevant knowledge
- Leadership prototypes—intelligence, masculinity, and dominance
- Kouzes and Posner's four traits—honesty, forward-looking, inspiring, and competent
- Goleman—emotional intelligence
- Judge and colleagues—two meta-analyses: importance of extraversion, conscientiousness, and openness; importance of personality over intelligence
- Kellerman's bad traits—incompetent, rigid, intemperate, callous, corrupt, insular, and evil

2. Behavioral Approaches

- Ohio State studies—two dimensions: initiating structure behavior and consideration behavior
- University of Michigan studies—two leadership styles: job-centered and employee centered

3. Contingency Approaches

- Fiedler's contingency model—task-oriented style and relationship-oriented style; and three dimensions of situational control: leader–member relations, task structure, and position power
- House's path–goal revised theory—eight leadership behaviors clarify paths for followers' goals; and employee characteristics and environmental factors are contingency factors that influence the effectiveness of leadership behaviors

4. Transformational Approach

- Bass and Avolio's four transformational leadership behaviors—inspirational motivation, idealized influence, individualized consideration, and intellectual stimulation
- Full-range theory of leadership—leadership varies along a continuum from laissez-faire leadership to transactional leadership to transformational leadership

5. Emerging Approaches

- Leader–member exchange (LMX) model—dyadic relationships between leaders and followers is critical
- Shared leadership—mutual influence process in which people share responsibility for leading
- Collins Level 5 leadership—leader has humility plus fearless will to succeed, plus four other capabilities
- Greenleaf's servant leadership—providing service to others not oneself
- Role of followers in leadership process—followers manage the leader–follower relationship

SOURCE: Adapted from A Kinicki and B Williams, *Management: A Practical Introduction*, 2nd ed (Burr Ridge, IL: McGraw-Hill/Irwin, 2006), p 449. Reprinted by permission of The McGraw-Hill Companies, Inc.

Table 1: Approaches to Studying Leadership (Kreitner and Kinicki, 2007)

The brief historical review sets the framework for the new paradigm of transformational leadership and the Multifactor Leadership Questionnaire (MLQ), used in this study.

During the 1980s there was a major paradigm shift in leadership caused by organizations' desire to be more efficient and effective in order to be more competitive. Bass and Avolio (1990) acknowledged three major leadership styles as transactional, laissez-faire, and transformational. This paper focuses mainly on transformational leadership, nonetheless, transactional and laissez-faire are philosophies which are reviewed and referenced to.

The MLQ is used in this study to evaluate leadership styles, characteristics of transformational leadership such as; charisma, vision, inspiration, intellectual stimulation, individual consideration, and influence. Also, three characters of transactional leadership include contingent reward, management by expectation-active, and management by expectation passive. In brief, in contingent reward, the effort of the follower is exchanged for a specific reward provided by the leader. In active management by exception, the leader is active in searching for problems in order to correct them. In passive management by exception, a leader sets standards and only intervenes should any problems arise. Based on Bass and Avolio (1990), cited by Kest (2007), Laissez-faire is the most passive of all leadership styles. Transformational leadership behaviors of charisma, inspiration, consideration, and stimulation lead to performances beyond normal expectations. The transactional behavior of contingent reward and active and passive management by exception generally leads to performance that just meets expectations.

In 1997, Bass and Avolio further refined leadership theory by proposing that leaders display elements of transactional, laissez-faire, and transformational depending on the situation (Sosik & Potosky, 2002 cited by Kest, 2007). Utilizing the MLQ technique provides us with data needed to assess the outcomes of extra effort, satisfaction, and effectiveness.

2.2 Definition of Leadership

In reference to studying the impact of organizational leadership on organizational performance, focus on efficiency and effectiveness leads to better productivity; it is necessary to define the leadership concept first. There are a vast gamut of articles and academic literatures written about leadership and its different styles. Therefore, it is very important to first know what constitutes leadership. That sheds some answers to many existing questions about leadership. One of the best definitions of leadership is proposed by Kim and Maubouregne (1992), which indicates leadership, is the capability to inspire confidence and support among an organization's people who are needed to achieve organizational goals. Rost (1993, P102), defines leadership as follows; "Leadership is an influence relationship among leaders and followers who intend real changes that reflect their mutual purposes". Also, Bass (1990) believes leadership is the "principal dynamic force that motivates and coordinates the organization in the accomplishment of its objectives. Also we should note that we can find leadership in all level of positions in organizations and it does not just stick to high level positions". Yet many scholars don't believe in differences in interpreting the definition of leadership. Most of these scholars say the same thing about what leadership is and even its characteristics features. "Leadership is about one person (the leader) getting other people (the followers) to do something. The definitions differ only in the particulars about the roles of leaders in practical settings" (Kort, 2008). Ciulla (2002) cited by Kort (2008) proceeds to say that it is these points of difference that should supplant the more basic question of what leadership is and what its characteristics are. Also from the same source there is a standard form of definition for leadership which is; "*Leadership is the ability to impress*

the will of the leader on those led and induce obedience, respect, loyalty, and cooperation,” and “Leadership is an influence relationship between leaders and followers who intend real changes that reflect their mutual purposes”.

Rafferty (2008) believes leaders are people whom you like to follow. According to Rafferty studies, leaders are not people who make businesses but they are building and leading organizations which make businesses. Leaders coach organizations to success, share their values, and inspire new ideas in organizations (Rafferty, 2008). Another explanation by Adair (2002, p64) depicts leadership as an art form that allows you to influence a group of people to follow a specific series of actions: the art of controlling, directing and getting the best possible out of them.

Lastly, also Monroe (2008) states leadership and management are two different concepts in which leadership effectively involves visualizing and communicating the goal. Leadership is the art of getting people to move together toward a goal they “*don't yet see*”.

2.3 Difference of Leadership and Management

It is necessary to distinguish the difference between leadership and management to understand what leadership is really about (Kreitner and Kinicki, p511, 2007). According to Kreitner and Kinicki (2007), a manager basically is responsible for functional activities including planning, investigating, organizing, and controlling, and a leader; “*deals with interpersonal aspects of a manager’s job*”. Kreitner and Kinicki (2007, p511) elaborate

that the role of leader extends further in inspiring others, providing emotional support, and trying to gather followers striving for a common goal. Also, a leader plays an essential role in creating a vision and strategic plan for an organization while a manager is trying to implement that vision and plan (Kreitner and Kinicki, 2007, p511). Following is another school of thought in regards to the difference between leadership and management by Kotter.

In reference to Kotter (1990), leadership and management are separated from each other in roles but not because of the mentality of most people. *“Nor is leadership better than management or a replacement for it”* (Kotter 1990). As Kotter (1990) states: leadership and management are two different subjects that work in conjunction with each other to promote the compliment completion of a goal. Thus both are necessary for today’s business environment. Management is about dealing with complications. The most significant development of the 20th century; the emergence of large organizations, has led to numerous practices and procedures of management. Leadership, by contrast is about coping with change. The reason that leadership has become more important these days is the high competition and rapid changes in the world’s business. We should not forget that both leadership and management are necessary and important in today’s volatile business environment because each one performs its own special functions. Also, we should note *“strong leadership with weak management is no better, and is sometimes worse than the reverse. The best option is combining strong leadership and strong management and using each to balance the other”* (Kotter, 1990). An example by Kotter (1990) portrays the needs for leadership and management clearly; during peacetime an army usually survives with good and strong administration, while management is

exercised up and down the hierarchy and leadership only exercised on top. However, the wartime army needs strong leadership in all levels. Lou Gerstener, former CEO of IBM, and Larry Bossidy, former CEO of Allied Signal, state “*an organizational success needs a combination of effective leadership and management*” (Kreitner and Kinicki, 2007 p. 512).

Table 2 summarizes the key characteristics associated with being a leader and a manager.

Characteristics of Being a Leader and a Manager

Being a Leader Means	Being a Manager Means
Motivating, influencing, and changing behavior	Practicing stewardship, directing and being held accountable for resources
Inspiring, setting the tone, and articulating a vision	Executing plans, implementing, and delivering the goods and services
Managing people	Managing resources
Being charismatic	Being conscientious
Being visionary	Planning, organizing, directing, and controlling
Understanding and using power and influence	Understanding and using authority and responsibility
Acting decisively	Acting responsibly
Putting people first; the leader knows, responds to, and acts for his or her followers	Putting customers first; the manager knows, responds to, and acts for his or her customers
Leaders can make mistakes when	Managers can make mistakes when
1. They choose the wrong goal, direction or inspiration, due to incompetence or bad intentions; or	1. They fail to grasp the importance of people as the key resource; or
2. They overlead; or	2. They underlead; they treat people like other resources, numbers; or
3. They are unable to deliver on, implement the vision due to incompetence or a lack of follow through commitment	3. They are eager to direct and to control but are unwilling to accept accountability

SOURCE: Reprinted from P Lorenzi, "Managing for the Common Good: Prosocial Leadership," *Organizational Dynamics*, Vol. 33, No. 3, p 286, © 2004, with permission from Elsevier.

Table 2: Characteristics of Being a Leader and a Manager (Kreitner and Kinicki, 2007)

2.4 Different Styles of Leadership

In the current age of rapidly changing business environments, leadership is an important critical key-determining factor for each business and studying this concept is just crucial (Krishnan, 2004). Throughout most of academic literatures, there is a great deal of evidence relating to different forms of leadership depending on various organizational settings. Nevertheless, there is not enough research exploring the relationship between different leadership styles and leadership effectiveness. As we know, organizations

without effective leaderships cannot be successful, so having effective leadership is a vital element in having an effective organization with high performance. According to Bass and Avolio (1990, 1995) cited by Xirasagar (2008), there are three types of leadership branches to resort to ; transformational, transactional, and laissez-faire leadership. According to Bass and Avolio (1990, 1995) cited by Xirasagar (2008) transformational leadership contains behaviors that are believed to stimulate high motivation in followers which leads them to an exceptional performance, and “*transcending self-interest*”. However, transactional leadership is a process based on exchanging “*valued rewards for performance*”. Also, the last leadership style discussed; Laissez-faire is based on an indifferent approach to (lack of) leadership.

Drunkenly (1972) puts this simply as he categorizes leadership into three different styles: autocratic, democratic and laissez-fair. Also, Drunkenly identifies the following actions in participating in organizational performance;

(1) “*The greater the consideration shown by supervisors, the greater the performance levels of the group and the lower the absenteeism rates, grievance rates and turnover rates*”.

(2) “*The more general the supervision shown by the supervisor, the greater the performance of the group*”.

(3) “*The more democratic the style of supervision (that is, the more two-way communication there is), the higher the performance level*”.

(4) “*The more punitive the style of supervision, the greater the aggression allied to a tendency to decrease performance levels*”.

“*Punitive leadership increases the frustration and will subsequently lead either to a decrease in involvement (in the form of mental and physical withdrawal) or to retaliatory aggression (that is, aggression directed against productivity)*”.

The above discussion depicts that the problem of leadership and supervision in industrial organizations is one that has attracted a great deal of attention in recent years.

Various writers in management have gone so far as to contend that the quality of leadership is the single most important factor determining the success or failure of such organizations. But while the importance of this factor may be over-stressed, there is an increasingly impressive body of research on this question which does suggest that it is a very significant factor, that variations in production levels, in absenteeism, in labor turnover, in grievances, and employee commitment and co-cooperativeness can be directly traced to variations in the quality of leadership within such organizations.

2.5 Transformational and Transactional Leadership

2.5.1 Transformational Leadership

“The present organizational focus on revitalizing and transforming organizations to meet competitive challenges ahead has been accompanied by increasing interest among researchers in studying transformational leadership” (Krishnan, 2994). One of the latest approaches to conceptualization of leadership is transformational leadership which has drawn considerable attention from researchers (Pawar, 2002). This conceptualization is important and useful not only in studying the organizational change and process in institutional but also, *“in explaining the occurrence of employee level of positive outcome such as employee effort and satisfaction”* (Burns, 1978; Tichy and Devanna, 1986; Bass,

1985, 1998; cited by Pawar 2002). In reference to Czernkowski et al (2007), transformational leadership aims to transform its followers by applying a process of involving their higher level of desires and stimulating change in their manner, beliefs, assumptions and motivations. Reference to Bass (1990) cited by Stone, Russell, and Paterson (2003), state that transformational leadership: “*occurs when leaders broaden and elevate the interests of their employees, when they generate awareness and acceptance of the purposes and mission of the group, and when they stir their employees to look beyond their own self-interest for the good of the group*”. Also, Czernkowski further specifies that this transcending beyond self-interest is benedictional for the whole team, organization, and even for society. Transformational leadership is a process of setting a foundation of commitment to organizational goals and enabling and encouraging followers by empowering them to complete the pre-set objectives and tasks according to Yukl (1998) cited by Stone, Russell and Paterson (2003).

According to Pawar and Eastman (1997) cited by Beugre, Acar, and Braun (2006), in transformational leadership leaders hold “*charisma, intellectual stimulation, individuals consideration, and inspirational motivation*” to followers which are considered to be the four main characteristics of transformational leadership. Also, in reference to the same source; they build up an active and dynamic vision for organization that often necessitates a functional change in cultural value to reflect greater innovation.

2.5.2 Transformational Leadership Characteristics

In reference to Bass (1985) the explanation of transformational leadership characteristics are as follows;

I. Idealized Influence (Charisma)

Charisma is defined to be a characteristic that leaders must possess which leads followers to respect, trust and admire them. Basically followers identify and like to follow their leaders. In addition, leaders consider the followers' needs and perform as a "*role model*", and share risks with followers, and, treat and value their followers in an ethical way.

II. Inspirational Motivation

This philosophy examines how leaders have to give a clear understanding and meaning to their followers' work and explain all dark angles in their jobs. Moreover, leaders by showing their enthusiasm and optimism to followers, encourage them to picture an attractive future state which helps to arouse the followers and ultimately the team spirit.

III. Intellectual Stimulation

Leaders make followers motivated by raising the "*question assumptions, reframing problems, and approaching old situations in new ways*".

IV. Individualized Consideration

Leaders take each individual's needs into consideration, and act as guide and coach. By considering each individual, followers are successfully developed to higher levels of potential. Also, new learning opportunities are offered and individual differences in terms of needs and desires are taken into account.

Moreover, transformational leadership "*seeks a bonding between individual and collective interests allowing subordinates to work for transcendental goals*" (Bass, 1985, 1998; Pawar and Eastman, 1997 cited by Beugre, Acar, and Braun 2006). Klein and House (1995) cited by Beugre, Acar, and Braun (2006) state, Charisma which is one of the transformational leadership characteristics is like a fire which burns up the followers' commitment and energy to produce more than expectation in their duty. Beugre, Acar,

and Braun (2006) believe that inspirational motivation is very closely related to charisma, demanding higher involvement from the leaders, and inspiring energy in organizations' members. Transformational leaders communicate clearly the importance of the company's mission and objectives to employees. Such clear communication allows employees to strive, and often reach, beyond their prescribed duties. In explaining intellectual stimulation, Bass (1990, p. 21) cited by Beugre, Acar, and Braun (2006), notes that "*intellectually stimulating leaders are willing and able to show their employees new ways of looking at old problems, to teach them to see difficulties as problems to be solved, and to emphasize rational solutions*". In addition to providing inspirational motivation and intellectual stimulation, transformational leaders provide individualized consideration to followers, showing respect and dignity and serve as a mentor. According to Bass and Riggio (2006) cited by Boerners et al (2007), Transformational leaders encourage followers to achieve extraordinary results by providing both meaning and understanding. They align both individual followers and the larger organization's goals and objectives, and support followers by providing mentoring and coaching.

2.5.3 Transactional Leadership

Burns (1978) considered leaders to be either transformational or transactional, while others view leadership as a continuum with transactional leadership at one end and transformational leadership at the other. Bass (1990a) Cited by Stone, Russell, and Paterson (2003) believes transactional leadership is based on "*exchange promises of rewards and benefits to subordinates for the subordinates' fulfillment of agreements with the leader*". In transactional leadership, the main focus is in recognition of followers'

needs and then the definition of the exchange process for meeting those needs. Both the leader and the follower benefit from the exchange transaction (Daft 2002, cited by Stone, Russell, and Paterson, 2003). According to Tracey and Hinkin (1998) cited by Stone, Russell, and Paterson (2003), this type of leadership focuses on completion of assigned task, and relies on reward and punishment. Also, Czernkowski et al (2007), argues transactional leadership as an exchange process of “*value things*” between leaders and followers. Transactional leaders identify the needs of their subordinates, clarify and negotiate the aspired goals, and manage follower behavior by using contingent positive or negative reinforcement (Bass, 1985 cited by Boerner, Eisenbiess, and Grisser, 2007). Moreover, Bass et al (2003) cited by Boerner, Eisenbiess, and Grisser (2007) explains, transactional leadership is based on an agreement that followers accept or comply with the leader in exchange for praise, rewards, and resources or the avoidance of disciplinary action. Components of transactional leadership are contingent reward and management by exception (Avolio & Bass, 2002 cited by Boerner, Eisenbiess, and Grisser, 2007). Using contingent reward, leaders specify and clarify goals, which their subordinates are supposed to reach, and announce appropriate rewards. Both active and passive routes to management by exception are characterized by leaders who limit themselves to their role to monitors and intervene, only exceptionally (Boerner, Eisenbiess, and Grisser, 2007). According to Burns (1978) cited by Elenkov (2000), behaviors in transactional leadership are based on an exchange process in which the leader offers rewards against the subordinate’s effort. So basically, there is a relation between the leader and follower based on a series of transactions or going back and forth between the parties. Moreover, transactional leadership is assumed to “*critically depend on contingent reinforcement,*

either positive or negative". Transactional leaders define clearly how followers' requirements will be met in exchange for performance of the followers' role; or the leader may react only if followers fail to meet their role requirements. Thus, transactional leaders have been supposed to take advantage of contingent reward and active/passive management-by-exception leadership approaches (e.g., Bass, 1985, 1997; Hater and Bass, 1988; Howell and Avolio, 1993; Sosik et al. 1997 cited by, Elenkov 2000). The difference between active and passive management by expectation is based on the period of time that the leader interferes. In active form of management by expectation, the leader continuously checks and controls followers' performances and outcomes to assure that the corrective action is taken any time necessary to avoid any astray or mistake becoming a critical problem. Therefore, the leader keeps searching for deviation from what is expected to be normal delivery of the goal. Passive management by expectation means the leader takes any correction action only after the occurrence of a major problem. In this situation the leader waits until the task is completed before determining that a problem exists and then intervenes with criticism or takes more serious punitive actions (Elenkov 2000).

2.6 Area of Difference in Transformational and Transactional Leadership

As explained before, both transformational and transactional leadership have major differences in functionality and nature of leadership styles. Bass (1985b, 1990a) cited by Stone, Russell, and Paterson (2003), discusses the difference in transformational and transactional leadership and that is, a transformational leader's focus is on progress and improvement. Also, transformational leadership tries to increase the effect of

transactional leadership on followers. Besides, in transformational leadership, the major aim is to “*transform the personal values of followers to support the vision and goals of an organization by fostering an environment where relationships can be formed and by establishing a climate of trust in which visions can be shared*”. Also, in transformational leadership, the leader enhances followers’ needs and ambitions whereas in transactional leadership, the leader usually identifies the existing needs and objectives of followers and provides rewards for fulfilling those (Pawar, 2002)

According to Stone, Russell, and Paterson (2003), the following match with transformational leadership characteristics: building up a high level of trust, showing consideration for others, delegating responsibilities, empowering followers, listening, mentoring, and influencing followers. Also, Erkutlu (2006) takes a figure from Bass and Avolio (1990) which shows in transactional leadership results are in expected outcomes while in transformational leadership results are beyond expectations (see Figure 1).

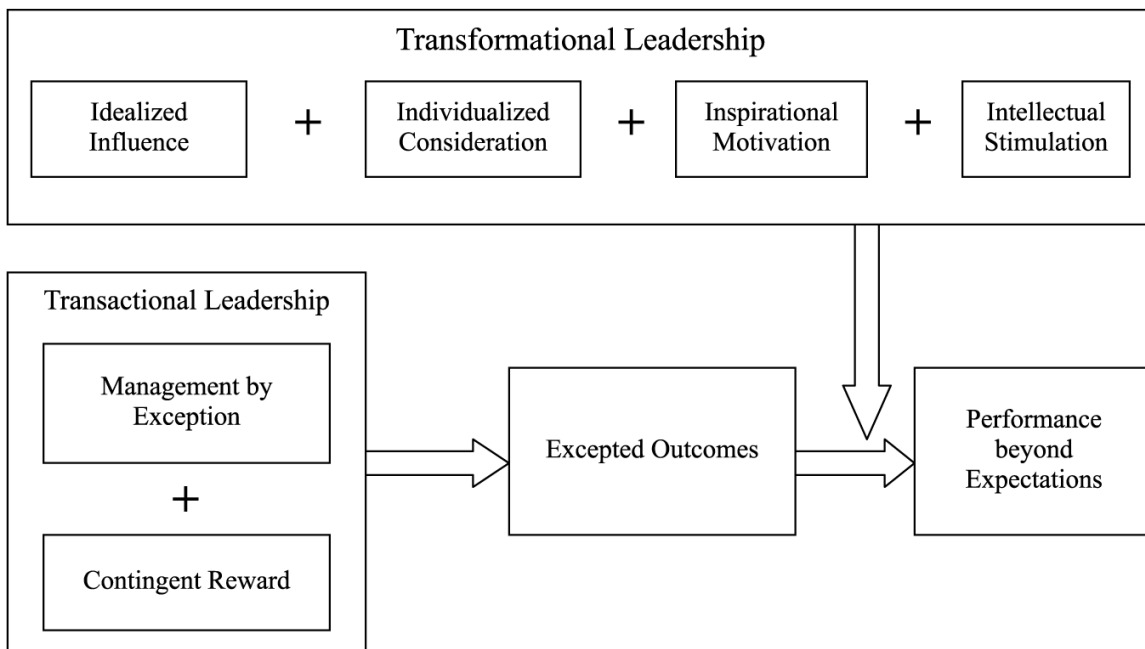


Figure 1: Results in Transformational and Transactional Leadership (Bass and Avolio, 1990, p.231)

2.7 Impact of Leadership on Organizational Performance

According to the contingency theory there is no single comprehensive universal leadership theory appropriate for all employees in all organizations. In considering the aforementioned theory, there are various methods that can be used in different situations by effective leaders. As every organization is based on a unique core, leaders and managers face diverse cases in dealing with organizations and employees. Therefore, they need to consider many different approaches to be able to handle situations which arise with a high level of productivity. Moreover, logically an organization may not survive unless it gains from thoughtful leadership. Therefore, having an effective leadership style may lead an organization to success. Strang (2005) believes that outcomes of leadership which are production and stakeholder's satisfaction can be modified by the behavior of a leader. Based on a study conducted in the manufacturing industry by Deluga (1988) cited by Strang (2005), there is a close association between transformational leadership and employee satisfaction, leader effectiveness, and organizational productivity. Moreover, transformational leaders empower followers to perform effectively in an independent manner by inspiring and motivating them through coaching and mentoring. Due to the very competitive global environment, companies need to reconsider the role of leadership to avoid wasting their resources which help them to stay competitive (Behery 2008). Leadership plays a very important role in organizations since it is responsible for defining strategies and designs the organization's path to be more effective and efficient in performance. Mostly parameters such as financial reports, bottom lines, market shares, companies' revenues, and etc, are used for

evaluating effectiveness of leadership and organizational performance. One of the ways to reach that point is by *“having a sustainable relationship between organizational leadership and organizational performance”* (Svensson and Wood, 2005). Many management theoreticians tend to consider leadership as a key contributor or a most important cause of organizational performance in the marketplace and society (Svensson and Wood, 2005). In reference to Andersen (2002, p.3) cited by Svensson and Wood (2005), management has a major impact on organizational effectiveness. Therefore, his/her assumption is based on the belief that *“leadership is the cause of the effectiveness of organizations”*. A wide range of management professionals believe in the major impact of management and leadership on organizational effectiveness (Svensson and Wood, 2005). Based on Fiedler (1967) cited by Svensson and Wood (2005), because of leadership influence and its crucial impact on organizational performance, we can predict organizational performance by closely observing and studying the scope of leadership effectiveness. Various other researchers also argue about the relationship between leadership and organizational performance: Mott (1972) argues that *“leadership is important to group or team performance”*. Bennis and Manus (1985), say that leadership and organizational performance are linked together and cannot be considered separately. Based on Ekvall and Ryhammar, (1998), Jung et al., (2003), and Mumford, Scott, Gaddis and Strange, (2002) cited by Haakonsson et al (2007), there is a direct relation between organizational leadership role and organizational productivity and innovation. In reference to Ekvall and Rymmar (1998) cited by Haakonsson et al (2007), organizational leadership has a direct influence on both organizational outcomes such as productivity and creativity. Scott and Bruce (1994) discovered a positive and significant relationship

between leader-member exchange and support for innovation which helps to increase the sense of innovative behavior within employees (cited by Haakonsson et al, 2007). According to Haakonsson (2007) cited from Oatley (1996) and Huy (2002) the difference in high tension and low tension is the level of creativity and activation in the stage of change which means in a low tension approach, climate activation leads employees to adapt new things from change. However, in a high tension climate there is a resistance to change which leads to a passive/ avoidance approach. There are some areas which leaders must maintain to have high performance organizations and one of them is knowledge sharing. Referring to Tiwana (2001), cited by Hereby (2008), *“organizations have adopted knowledge sharing and organizational learning as concepts that may help them align themselves within a new competitive environment”*. Hereby (2008) cited from Wah (1999) believes knowledge sharing is an important issue in knowledge management. Also, knowledge sharing will help to have an innovating organization (Connelly & Kelloway, 2003 cited by Hereby, 2008). Bailey and Clarke (2000) cited by Hereby (2008), consider knowledge sharing as *“how managers can generate, communicate, and exploit knowledge, for personal and organizational benefit”*. In reference to Hereby (2008) cited from different scholars such as; Nonaka (1995), knowledge sharing leads organizations to higher performance. Also, more and more scholars believe knowledge sharing has an important role in organizations’ development (Anson, 2001; Bell-Detienne & Jackson, 2001; Castel & Sir, 2001).

Transformational leaders can ease the path of knowledge sharing because of their charismatic characteristics. Based on the definition of transformational leadership by Yukl (1989) cited by Hereby (2008), *“The theory of transformational leadership*

concurrently involves leader traits, power, behavior, and situational variables". Thus, transformational leadership theory is viewed as a hybrid approach, gathering elements from these major approaches to leadership. Transformational leadership is defined in terms of the leader's effect on followers: followers feel trust, admiration, loyalty, and respect toward the leader, and they are motivated to do more than they were originally expected to do (Yukl, 1998 cited by Hereby, 2008). Therefore while the followers feel free and the trust bridge is built up between leader and follower the process of knowledge sharing will run smoothly. Also, transformational leadership brings more challenges which lead to higher performance (Bass & Avolio, 1994; cited by Hereby 2008).

Xirasagar (2008) puts it as; mostly transformational leaders involve inspirational motivation, to stimulate followers' own needs to reach self-actualization and advancement through Maslow's need hierarchy. Therefore transformational leadership has the capability to enable employees to reconcile conflicting forces, to make decisions that are scientifically tenable, and to minimize dysfunctional or selfishly motivated decisions. Transformational leadership also allows *"leadership process to take place despite the nature of association being collegial rather than hierarchical, because of the leader's focus on using inspirational motivation and intellectual stimulation to drive superior performance, rather than a command and control approach"* (Xirasagar, 2008).

According to Boerner, et al (2007), a collection of meta-analysis tests performed gave a clear result for a positive relationship between transformational leadership and organizational performance. In reference to the same source, mediators can be found in HRM practices such as "staffing, training, performance appraisal, and compensation system" which help increase the level of positive mood, self-efficiency, intrinsic

motivation, agreement on values, trust and satisfaction (Boerner, et al, 2007). Boerner, et al (2007) argue that Organizational Citizenship Behaviors (OCB)

“Special type of work behaviors that are defined as individual behaviors that are beneficial to the organization and are optional, not directly or explicitly recognized by the formal reward system. These behaviors are rather a matter of personal choice, such that their errors are not generally understood as punishable. OCBs are thought to have an important impact on the effectiveness and efficiency of work teams and organizations, therefore contributing to the overall productivity of the organization”, can be considered as an important mediator.

Transformational leaders raise followers’ sense of motivation and pro-activeness to reach extraordinary outcomes by supporting information sharing (Boerner, et al, 2007). Bass & Riggo (2006, P.3) cited by Boerner et al (2007), argue they align the objectives and goals of individual followers and the larger organizations, and provide the followers by supporting, mentoring and coaching. Bass (1985) cited by Boerner, et al (2007) says *“transformational leaders are assumed to stimulate followers to perform beyond the level of expectations”*. Thus it would seem that transformational leaders can enhance the level of quality and quantity of followers performance by stimulating the followers’ Organizational Citizenship Behaviors (Podsakoff et al, 1990, cited by Boerner, 2007). Organizational effectiveness is the consequence of organizational culture and organizational leadership (Xenikou & Simosi, 2006). Several studies conducted during the 1990s show that particular culture directions lead to specific performance (Calori and Sarnin, 1992; Denison, 1990; Dsenison and Mishra, 1995; Gordon and DiTomaso, 1992;

Kotter and Heskett, 1992; Smart and St. John, 1996; Cited by Xenikou and Simosi, 2006). In reference to Bass (1985), cited by Xenikou and Simosi (2006), transformational leadership leads to performance beyond expectation in organizational settings. Also, research has empirically presented the relationship between the transformational quality and organizational measure of effectiveness (Howell and Avolio, 1993; Lowe et al., 1996; Waldman et al., 2001; cited by Xenikou and Simosi, 2006).

Applying and employing a proper organizational culture depends on the type and style of leadership. It means without having transformational leadership which is aiming for increased participation, empowerment and, etc it is not possible to implement the humanistic orientation culture which reflects the *“human relationship movement in the workplace”*. This type of culture that aligns with the help of transformational leadership is characterized by cooperation among an organization’s members, focusing on team work, members’ self-actualization, and empowerment. Also, it enhances the level of employees’ creativity, encourages them to participate in team decision making, and leads to a constructive interpersonal relation (Xenikou and Simosi, 2006).

According to Xenikou and Simosi (2006), organizational norms which are based on organizational culture *“encourage cooperation, teamwork, and participation, and they are related to performance because they facilitate group coordination and synergy of divergent organizational resource”*. Moreover, efficiency will be a result of self-actualization and employee development that leads to a large pool of resources reflecting the realm of human capital within organization (Xenikou and Simosi, 2006).

Xenikou and Simosi (2006) argue, Transformational leadership’s nature is to try to approach leadership as a social process by focusing on how they encourage their

followers to transcend their own self-interests for the sake of their team and the larger organization. Bass (1985) recommends that the transformational leadership increases the sense of achievement of high goals, self-satisfaction, and personal development which all in all has a direct impact on self-efficiency and effectiveness of individuals and, on a larger scale, the organization. According to Ogbonna and Harris (2000) cited by Xenikou and Simos (2006), organizational culture and organizational leadership jointly have a positive impact on organizational performance. Organizational culture and organizational leadership concurrently reach a point when supportive and participative leadership, as a culture form in leadership style, are indirectly but positively linked to performance. According to Yukl (1998) cited by Stone, Russell, and Paterson (2003), transformational leadership is a process of setting a foundation of commitment to organizational goals and then, by giving power, enabling and encouraging followers to complete those objectives. The result, at least in theory, is an enhanced follower performance (Burns, 1998; Yukl, 1998 cited by Stone, Russell, and Paterson, 2003). In reference to Koopman and Wierdsma (1998), cited by Somech et al (2006) "*participative leadership style, is defined as joint decision making or at least shared influence in decision making, by a superior and his or her employees*" and "*directive leadership is based on providing employees the framework for decision making and action in line with the superior's vision*" (Somech, 2006). According to Kuhnret (1993) cited by Somech et al (2006), transformational leaders stimulate followers to take actions which support their ultimate purpose by presenting a persuasive sense of inner purpose and direction; by considering that transformational leadership has a clear participative orientation. Accordingly, transformational leaders empower followers to increase their abilities to follow the

organizational objectives. Nevertheless, empirical reviews and meta-analysis show that participative leadership serves to promote the followers' productivity (Somech et al, 2006). Following sources, cited by Somech et al, (2006) show the positive points of participative leadership which is one of the transformational leadership styles. Somech et al, (2006) cited from Advocates of participative style (e.g., Muczyk & Riemann, 1998; West, 2002) who see leaders as aiming to encourage subordinates to discover new opportunities and challenges, to learn through acquiring, sharing, and combining knowledge. Also, participation can have positive motivational effects (Erez and Arad, 1986). Moreover, participation might be one of the factors responsible for increasing both information exchange and development of companies (Cannon-Bowers, Tannenbaum, Salas, and Volpe, 1995 cited by Somech et al, 2006). In addition, supporters of the directive style (Hogan et al, 1994; Murphy & Fiedler, 1992; Sagie et al, 2002, cited by Somech et al, 2006) argue that high directiveness can help encourage followers to rise to challenging goals and achieve high rates of performance. Leadership team information exchange may help an organization to improve its productivity (Somech et al, 2006). Based on a study on a Russian company, companies' levels of innovation and group cohesiveness and in general performance of organizations tend to soar higher with transformational and transactional leadership (Elenkov 2000). In particular, leadership researchers have contended that transformational leaders are likely to find more ready acceptance in organizations that are open to creative suggestions, innovation, and risk taking. In contrast, in organizations bound by rigid rules and punitive actions, leaders who openly seek improvement in the ways to perform the job may be viewed as too unsettling and, therefore, inappropriate for the stability and continuity of the existing

structure (Bass and Avolio, 1990; Howell and Avolio, 1993 cited by Elenkov, 2000). Thus, organizations in which there is a stronger support for innovation and risk taking may be more conducive to transformational leadership and they could show better performance results than organizations that are too orderly and rigidly structured.

In an earlier article, Elenkov (1995) highlighted the importance of support for innovation for strategic performance of Russian aerospace companies. Those companies' strategic approaches and performance results were also greatly different from the misguided managerial efforts and dismal performance outcomes generally demonstrated in other sectors of the Russian economy. Moreover, Bass and Avolio (1993) cited by Czernkowski (2007) believe transformational leadership is highly positive correlated to subordinates' extra effort, increased productivity, higher financial performance, subordinate satisfaction, high attendance, and low level of absenteeism, and low staff turnover rates.

2.7.1 Transformational Leadership and Empowerment

As Walton (1985) cited by Bartran and Casimir (2005) explains, empowerment is included under the appearance of the move from control toward a proactive and strategic commitment style of management. Modern researchers show empowerment as a process of enhancing individuals' self-efficiency and autonomy (Conger and Kanungo, 1980, cited by Bartran and Casimir, 2005). Also, empowerment is considered to be an enabling process which influences both initiation and persistence of followers' task-oriented behaviors (Bandurra 1997 cited by Bartran and Casimir, 2005). Avolio et al. (2004); Bennis and Nanus (1997) cited by Bartran and Cimices (2005), believe that empowering is one the characteristics of transformational leadership which by giving power to its

followers, leads them to attain organizational goals and performance targets. Furthermore, empowering followers by providing them with autonomy to manage their work and by increasing their perceived meaningfulness of their work would arguably facilitate their work-related learning and thereby improve both their satisfaction with the leader and performance.

According to Bass and Avolio (1993) cited by Ozaralli (2003), transformational leadership has positive relation with employee satisfaction. According to Thomas and Velthouse (1990) cited by Ozaralli, the environment of organizations have a great influence on empowerment awareness within organizations. By knowing the previously mentioned doctrine and applying it, leaders can show how traditional organizational practices transform employees' powerlessness to handle their jobs in full productive and creative potential, therefore resulting in a passive mind-set and inefficient or mediocre performance. Consequently, by transforming the conditions from powerlessness to empowerment, it would be expected that employees perform more productive and efficiently.

2.7.2 Transformational Leadership, Employee Satisfaction, and Commitment

In recent years there have been many studies on job satisfaction and its relation to performance. In reference to Locke (1969), basically job satisfaction can be defined as “*a function of the perceived relationship between what one wants from one's job and what one perceives it as offering*”. In related studies, Nystrom (1993) found that employees in strong cultures tend to express greater organizational commitment as well as higher job satisfaction.

Bass (1985) cited by Lee (2004) claims that leaders with transformational style usually set up a great relationship “*beyond pure economic and social exchange*” with their people following them. “Studies have linked transformational leadership to high levels of effort (Seltzer and Bass, 1990) cited by Lee (2004), satisfaction with the leader (Bass, 1985), trust in the leader (Bass, 1985; 1990; Podsakoff et al., 1990) and the followers’ reverence for their leader (Conger et al., 2000) cited by Lee (2004). These emotions aroused by the transformational acts of a leader contribute to the development of a high quality exchange between leader and followers. Moreover, transformational leadership and high quality exchange are highly interrelated; also transformational leadership mostly draws positive impacts on organizational commitment (Lee 2004). Moreover, transformational leadership encourages followers to go beyond their self-interest for excellence of organization (Bass, 1990) cited by Polities (2002). Also, they enhance the confidence and motivation of employees to perform beyond expectation (Polities 2002). According to a survey done by international survey research ltd (1997), there are two types of attitudes involved in an organizational restructuring: one is in transitional structures in which employees feel like victims and “*transformed organizations in which they shaped their future and found the change process exciting and enriching*”. Measurement of security is higher in transformed companies rather than in transitional organizations. Also, the leaders place more attention on employability and devote resources to training so that people feel more secure and committed to their organization’s future, so their level of satisfaction is higher than transitional organizations (International Survey Research Ltd 1997). In reference to CEB (2003) cited by Trinko (2005), statistical estimates show by improving a manager’s effectiveness, employees’

performance may be increased by twenty five percent. Also, there is a contrary relationship between job satisfaction and planning to leave (Williams et al., 2001; Steel and Ovalle, 1984) cited by Chen and Silverthorne (2004). Furthermore, Chen and Silverthorne (2004) state *“Job performance and job satisfaction are both considered predictors of employee turnover intention”*. According to a study done by Lee and Ashforth (1993) cited by Chen and Silverthorne (2004) there is an inverse relationship between job satisfaction and job stress which will have a negative impact on performance. *“The relationship between leadership style and subordinate job satisfaction in different organizations has been studied extensively. For example, Vries et al. (1998) found a human-oriented leadership style increases job satisfaction and several studies of leadership effectiveness have demonstrated that participative decision making can be beneficial to workers’ mental health and job satisfaction”* (Spector, 1986; Miller and Monge, 1986; Fisher, 1989). Wilkinson and Wagner (1993) claim the existence of a positive link between job satisfaction and performance and involvement of leadership styles in *“leadership-oriented behavior”*. Moreover, by considering the assumption of Chen and Silverthorne (2004), leadership manners will affect various outcomes such as performance and goal attainment by influencing the behavior of subordinates. In reference to Kelloway, Barling, and Helleur (1999), cited from many different sources, behaviors of transformational leadership are associated with subordinates’ satisfaction, commitment to organization, trust in management and higher task performance. Also, based on Barling et al, (1998), cited by Kellow et al, (1999), perception of subordinates about their transformational leaders *“led to enhanced effective commitment to the*

organization and, through the effect on affective commitment, to enhanced group performance”.

2.7.3 Transformational Leadership and Trust

As Bass (1985) argues, in transformational leadership, the leader intellectually stimulates the followers by means of encouraging them to learn more about new ways to accomplish their work, and ultimately improve their performance. As stated by Bartran and Casimir (2005), by setting up trust in the leader we can have a high level of satisfaction and performance. Also, transformational leadership can facilitate and develop the trust in a leader because this type of leadership shows the leader's concerns about followers' individual needs as well as behaving in ways that “are consistent with espoused values” (Bass, 1985; cited by Bartran and Casimir, 2005). Based on the argument of Bartram and Casimir (2005) cited from Jung and Avolio, (2000); Pillai et al., (1999), for having satisfied a productive organization (high performance), leaders of organizations need to be trusted by followers because it is proven that trust in leaders is positively correlated to many different organizational outcomes such as performance, satisfaction, and organizational behavior citizenship. According to the idea proposed by Bass (1990) and Lowe et al (1996) cited by Bartram and Casimir (2005), transformational leadership is associated with trust in a leader. Also, Conger and Kanungo, (1988); Kouzes and Posner, (1993), Whitener et al., (1998); Kirkpatrick and Locke, (1991); Bennis and Nanus, (1997); Jung and Avolio, (2000); Shamir et al., (1993); Pillai et al., (1999); Kark and Shamir (2002), cited by Bartran and Casimir (2005), believe trust can be built and facilitated by transformational leadership for the following reasons:

“The leader’s own determination and commitment to the vision, as evidenced by self-sacrificial behaviors, indicate that the leader is “walking the talk” and thereby builds credibility; the leader’s high level of self-confidence leads to perceptions of competence, which helps to engender trust because the leader is seen as capable of fulfilling the leadership role in terms of making sound decisions and having the ability to achieve the vision; espousing and embodying shared values causes followers to identify with and admire the leader’s positive emotions experienced by followers due to increased levels of self-efficacy and the feeling that they are pursuing meaningful goals: individualized consideration (i.e. being concerned about the welfare of followers and attending to their individual needs) results in followers believing the leader cares about them as people rather than as a means to an end; confidence in the intentions and motives of the leader results in perceptions of procedural justice and, in turn, trust and acting as a mentor and paying close attention to followers’ needs for achievement and growth indicate a concern for the welfare of followers, which is pivotal for trust”.

2.7.4 Transformational Leadership, Organizational Culture and Management Philosophy (Total Quality Management).

Cooperate culture in itself is a complex web of behavioral norms and values that also consists of behavior of people inside an organization which is mainly is based on company’s policies and regulations. Also, it can be understood that there is a direct link between organizational culture and organizational effectiveness (Xenikou, and Simosi, 2006). There are more definitions for culture which are as follows: Kilman et al. (1985)

cited by Xenikou, and Simosi, (2006) defined corporate culture as *“the shared philosophies, ideologies, values, assumptions, beliefs, expectations, attitudes and norms”* that knit an organization together. Deal (1986, p. 301) cited by Xenikou and Simosi (2006), defined it as *“the human invention that creates solidarity and meaning and inspires commitment and productivity”*.

“During the 1990s a number of comparative studies on the culture-performance link showed that certain cultural orientations are conducive to performance” (Calori and Sarnin, 1991; Denison, 1990; Denison and Mishra, 1995; Gordon and DiTomaso, 1992; Kotter and Heskett, 1992; Smart and St. John, 1996) cited by Xenikou and Simosi, (2006). Moreover, in reference to Xenikou and Simosi, (2006), there is a positive key impact on an organization’s performance due to having a strong culture of organization which has an extensive influence throughout any organization.

In reference to Mosaddegh Rad (2006), by applying management philosophies such as Total Quality Management (TQM) the entire business effectiveness, efficiency, flexibility, and competitiveness will be enhanced. TQM has become the organizational culture which focuses on committing to meet customer satisfaction via unremitting improvement (Mosaddegh Rad, 2006). Therefore, by properly applying Total Quality Management (TQM) companies can reach the maximum level of customer satisfaction (Mosaddegh Rad, 2006). Considering TQM and its focus on customer satisfaction, Hoffman and Mehra (1997), emphasize the consideration of employees as internal customers in an organization in which this belief will improve internal customer satisfaction and solve employee problems, resulting in improved productivity. *“TQM programs establish a culture that makes the employee a stakeholder and treats the*

employee as a stakeholder". TQM focuses on satisfying both internal and external customers whilst nourishing improvement and total involvement (Hoffman and Mehra 1997).

Now to word up an answer for the question of how organizational culture and TQM (organizational culture) may help the enhancement of the organizational efficiency and effectiveness; TQM is a description of the culture, attitude and organization of a company that aims to provide its customers with products and services that satisfy their needs.

"The culture requires quality in all aspects of the organization's operations, with things being done right the first time, and defects and waste eradicated from operations"

(Guangming et al., 2000) cited by Mosaddegh Rad (2006). Therefore, the last statement depicts by doing one thing at a time at the right time and eliminating defects from the operation of an organization's efficiency, effectiveness, and productivity will be improved totally and performance will be considered at a high level. Also, according to Mosaddegh Rad (2006), this type of culture is cost effective due to proper utilization of employment of resources, materials, and equipment. Furthermore, *"an emphasis on continuous learning and improvement induces a positive culture where there is sufficient behavior modification to warrant a sustainable TQM climate"* (Mosaddegh Rad, 2006)

Consequently, this sustainable TQM climate will guarantee a high performance for an organization. Based on a study done by Mosaddegh Rad (2005), about implementing TQM in Iran, TQM showed the most effect on process management, focusing on both customers and employees. It resulted in improvement in some areas such as senior management commitment to quality, manager's participation in improving an organization's management system, clarity of process and activities procedure, and

improving the relationship of employees and organizations. Also, increase in knowledge and qualities of employees, and verifying personal performance criteria and measuring it as individual and team work performance.

2.8 Iranian Leadership Culture, Empirical Studies

During the past two decades because of the importance of culture and its effects on organizations, many researchers have become interested in conducting studies on cross-cultural management. Most of these studies are conducted in industrialized countries and some emerging economies such as China, India and recently Eastern European countries (Yeganeh and Su, 2007). However, some other strategically and economically important countries like Iran have not received the attention they really merit. Therefore, there are few published and registered studies on Iranian leadership styles and the cultures related to them, so in this part, two major published studies are coming follows. One is GLOBE PROJECT (Global Leadership and Organizational Behavior Effectiveness). In this study over 170 social scientists and management scholars from 61 countries in all major regions throughout the world were engaged in the study of the relationship between culture and leadership. In Iran this research was done under the title “*Effective Leadership and Culture in Iran: An Empirical Study*” by Dastmalchian, Javidan, and Alam in 2001. The second study is based on research by Yeganeh and Su in 2007 under the title “*Comprehending core cultural orientations of Iranian managers*”. Discussions of these studies follow.

2.8.1 Effective Leadership and Culture in Iran: An Empirical Study

GLOBE (Global Leadership and Organizational Behavior Effectiveness) research project,

“Is a multi-phase, multi-method project launched by Robert House in 1993. Over 170 social scientists and management scholars from 61 countries in all major regions throughout the world have been engaged in the study of the relationship between culture and leadership. GLOBE was designed to investigate the existence of universally acceptable and universally unacceptable leadership attributes, and to identify, those attributes that are culture specific. The theoretical base of this research program is grounded in the notion of implicit theory of leadership which argues that individuals have implicit theories about the attributes and behaviors that distinguish leaders from others, effective leaders from ineffective leaders, and moral from evil leaders” (House, Ruiz-Quintanilla, Dorfman, Javidan, Dickson, and Gupta, 1999, cited by Dastmalchian et al ,2001).

GLOBE focused on nine cultural dimensions which were as follows: uncertainty avoidance, power distance, social collectivism, in-group collectivism, gender egalitarianism, assertiveness, future orientation, humane orientation, and performance orientation. According to Dasmalchian et al (2001), there is a lack of studies, literature, and knowledge relative to non-western countries. Also, because of the lack of precise research on leaders in non-western countries, there is an increased tendency to find out an answer for universality of leadership. How far western knowledge about leadership will apply to other countries’ cultures is a question which researchers have been looking for the answer to for around 20 years (Dasmalchian et, al, 2001). After following some reviews and research results from the GLOBE research project it was found that there are two concepts of Emic and Etic of leadership. Emic includes *“cultural traditions, values, ideologies, and social norms are bound to differentiate as much as or even more than*

structural factors between societies” (Lammers and Hickson, 1997, p. 10, cited by Dastmalchian et al 2001). Moreover, Etic’s concept of leadership is about some common characteristics of leadership which transcend national cultures and are accepted universally (Dastmalchian et al 2001). In this study researchers tried to compare their findings in Iran with the western leadership literature to identify the similarities and differences.

As a result of a comparative study of Iranian and Canadian managers, conducted by Javidan and Dastmalchian (1993), a significant difference was found in the criteria of effectiveness in management culture in the two countries. Also, according to Dastmalchian et al (2001), another study of 143 Iranian managers (Javidan and Dastmalchian, 1998) shows that the Iranian manager fits with the concepts of visionary and high-commitment leadership which was developed by authors like Kotter(1988), Conger (1989), and Tichy and Devanna (1986). Moreover, results for this study show that subordinates value and respect visionary leaders (Dastmalchian et al 2001). This attitude is one of the consequences of charismatic leadership and charisma is one of the attributes of transformational leadership. In a further study by the same researchers in 1996 on 100 Iranian managers, the results obtained showed a strong empirical support for the concept of empowerment developed by Conger and Kanungo in 1987. The results also showed leaders who implemented those practices had a strong emotional impact on followers and built a loyal workforce (Dastmalchian et al 2001). Loyalty and emotional impact are signs of charismatic leadership, and therefore transformational leadership characteristics. GLOBE results for Iran’s social culture, indicated that *“the social culture in Iran should change in that more uncertainty avoidance, more gender egalitarianism, higher levels of*

social collectivism, more human orientation, more performance orientation, more future orientation, and assertiveness should be the norm in society". Also, power distance and in-group collectivism have higher emphasis in Iranian culture, (Dastmalchian et al 2001). Demonstration of loyalty, "*pride expression*", family and organization cohesiveness, and other in-group collectivities are remarkable features of Iranian social culture. In addition, human orientation is a strong social cultural norm in Iran and in the GLOBE research project its score is located in the top 30% of the ranked 61 countries. Also, performance orientation, improvement, and excellence are supported by social norms in Iran. According to the respondents in the GLOBE research project the level of future orientation is low in Iranian culture but there is high desire to make it a societal norm. The uncertainty avoidance is the same as future orientation (Dastmalchian et, al, 2001). In summary, results obtained from gathered data, shows:

"Societal culture in Iran is characterized by a strong cultural value on in-group collectivism, low uncertainty avoidance, high performance orientation, high power distance, and low societal collectivism. Moderate emphasis on humane orientation and moderately low assertiveness and future orientation are also among the cultural attributes of Iranian society".

Also, in terms of willingness to change the culture, the data shows Iranians are most interested in reducing power distance and increasing future orientation (Dastmalchian et, al, 2001). Based on the GLOBE research project Iranian leadership includes the following seven scales: supportive, dictatorial, planner, familial, humble, faithful, and receptive. Results show the supportive and dictatorial were similar to "*Etic's charismatic and narcissistic dimensions of leadership. Remaining leadership factors from main factor*

analysis are regarded as Emic aspects of leadership: attributes of familial, humble, and faithful have more of a historical root and can be linked to the role of family and religion in the long history of the country. The other two, planner and receptive, may be more readily related to more social changes that Iranian society has been going through since the revolution in 1979” (Den Hartog et al., 1999; Ashkanasy et al.,2000; Wright, 1992, 2000, Cited by Dastmalchian et al., 2001).

2.8.2 Comprehending Core Cultural Orientations of Iranian Managers

In their research study Yeganeh and Su (2007) tried to explain significant and important features of Iranian managerial culture by discussing underlying social and organizational consequences. In this research study Iranian culture is divided into 13 orientations which show the respondent’s cultural traits. Only those traits relevant to this study are discussed further. Ronen and Ahenkar (1985) classify Iranian culture in “*near Eastern cluster including Turkey and Greece*” (cited by Yeganeh and Su, 2007). But in recent research carried out through GLOBE research project Iran is classified with the South Asian cultural cluster including India, Thailand, and Malaysia (Javidan and Dastmalchian, 2003, cited by Yeganeh and Su, 2007). Results obtained show 50% of respondents believe their culture is shaped and rooted in their county of birth (Iran), and 48.8% of them believe their religion has shaped their culture (Yeganeh and Su, 2007). According to the definition of collectivism and individualism by Hofstede (1980) cited by Yeganeh and Su (2007), in collectivistic society “attributes are determined by loyalty toward one’s group which individualistic society view as one in which beliefs and behaviors are determined by the individual”. The result of this research shows Iran should be

considered as a collectivistic society because of a high level of collectivistic orientation. Also, this result confirms the Hofstede (1980) research which ranked Iran as a highly collectivistic country (Yeganeh and Su, 2007). Another result obtained is related to Hierarchy orientation (power distance) which by definition means *“the less powerful members of a society expect and accept that power is distributed unequally”*. The result shows the level of hierarchy (power distance) is high in Iranian society which is in conformity with the GLOBE project, and Hofstede (1980, cited in Yeganeh and Su, 2007). Past orientation is another Iranian cultural trait which is prevalent to a very high degree. This means Iranian managers tend to be past instead of future oriented. This result is also in conformity with GLOBE research project findings. As noted by de Gobineau (1890), a French writer, the past is the favorite subject for conversation among Iranian people (Yeganeh and Su, 2007). Also, other ideas about Iranians’ past orientation indicate *“past orientation can be manifested also in terms of neglecting plans or setting short-time horizons”* (Yeganeh and Su, 2007). Moreover, according to Namazie (2003), cited by Yeganeh and Su (2007), who investigated a few joint ventures, the foreign counterparts considered Iranian managers as impatient which is in conformity with GLOBE research project findings that indicated that vision orientation is low in Iranian managers. Considering Activity Orientation includes Thinking, Being and Doing, Iranians are supposed to be oriented in thinking including analysis, calculation, and planning which is not in conformity with GLOBE results, and Namazie’s (2003) research. One interpretation is that the scores reflect desirable values rather than desired ones (Yeganeh and Su, 2007). In reference to the other two parts of activity orientation, Being and Doing, *“it is argued that in Doing cultures, people tend to view work activities*

as core to their existence, and they attach much importance to achievement and hard work. In contrast, in Being cultures peace of mind is cherished and emphasis is placed on immediate gratification and spontaneous action” (Yeganeh and Su, 2007). According to the results obtained, Iranian managers’ score for Being is moderate whilst for Doing it is relatively low.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter focuses on presenting the methodology and design of the dissertation in depth. Accordingly, methodology is supported by research design, target population, sampling, and test analysis.

Moreover, this chapter examines the relationship between the transformational and transactional leadership with respective consequent measures of employee effectiveness, satisfaction, and extra effort. Whilst the paper further analyses a comparison study of employee satisfaction, extra effort and effectiveness performed and evaluated in both transformational and transactional styles of leadership. Surveys have been conducted to

assess the extent and outcome of these studies as they are considered to be amongst the most efficient data-mining techniques for a large sized sample of an organization according to Babbie (2004). Both qualitative and quantitative research methods are used for social science approaches (Holme and Solvang, 1991 cited by Chaudhry, 2007). In quantitative method the purpose is “to gather, analyze, and measure statistical data from a large sample selection to see if there is a connection between the different variables. On the other hand, the purpose of qualitative research is to gain a deeper understanding and description of a problem” (Holme and Solvang, 1991 cited by Chaudhry, 2007). The MLQ technique has been long scrutinized and hence validated by pundits. Simply put, MLQ is considered to be a definitive measure of leaders output (Bass, 1997). *“The MLQ measures leadership styles, and designates behaviors ranging from transactional leadership to transformational leadership, including laissez-faire leadership. The reliability of the MLQ, as reported by Bass and Avolio for each leadership factor, ranges from .74 to .91”* (Bass and Avolio, 2000, cited by Kest, 2007).

Lastly, It was expected that the questionnaire would have high reliability and validity because of its precise wording utilized to help reduce the bias. The association of variables is correlation relationship. Correlation is an empirical relationship which means that change in one variable will make change in others. Hence, The Multifactor Leadership Questionnaire (MLQ) which is based on the Full Range Leadership Model developed by Bass and Avolio (2000) has been utilized.

3.2 Target Population

The elected population chosen is from a random selection of a SMPC (Small and Medium Private Companies) employees in Iran and includes the three major industrial

cities of Tehran, Mashhad, and Isfahan. The survey was distributed to industrial, trading and service companies. There were no simulated setting nor are the variables controlled or manipulated in this survey. People surveyed were in different positions and managerial levels (middle to upper management). In relation to the sampling frame, once permission was granted by the upper executives to perform the sampling and the study, questionnaires were distributed randomly among employees, filled in and returned to us. To guarantee assurance and accuracy of the result, participants were assured of non-disclosure of the completed survey to company executives.

3.3 Instrumentation

The dimension system was based on the MLQ Form 5X Rater which was developed by Bass and Avolio in 2004. MLQ was initially developed to clarify the differences in transformational and transactional leadership. A collection of 45 questions in this questionnaire, based on the 5-point Likert scale, takes the participants through a full spectrum and reveals a fairly accurate outcome. Following are the explanation of scales: (0) not at all, (1) once in a while, (2) sometimes, (3) fairly often, (4) frequently, if not always. In this research demographic information was not needed. As recommended by Kest (2007) to confirm the consistency of MLQ reliability in several studies, coefficient alphas were analyzed. The following table is an initial analysis of MLQ 5X in different organizational samples.

Organizational Samples Used in Initial Analysis for MLQ 5X

No	Description of the Sample	No. of Raters
1	Undergraduate Students (American)	162
2	United states Government Research Agency	66
3	United States Army	202
4	Scottish Gas Firm	99

5	United States Business Firm	549
6	United States Business Firm	320
7	United States Business Firm	457
8	Undergraduate Students (American and Taiwanese)	254
9	. United States Nursing School	45
	Total	2,154

Table 3: Organizational Samples Used in Initial Analysis for MLQ 5X (Bass and Avolio 2000, cited by Kest, 2007).

In the above Table 3 all reliabilities in nine samples are between 0.74-0.94 (Bass and Avolio, 2000, cited by Kest, 2007).

3.4 Data Collection

The MLQ 5X has been incorporated in the core of this study. Once top management issued the go-ahead on the conduct of the study, a short presentation was held for employees about the different styles of leadership and the purpose of the study and survey. To ensure the confidentiality of the survey, questionnaires (The Farsi translation from English version of MLQ which is available in Appendix A-2) distributed among employees were collected immediately after completion and placed in sealed envelopes in their presence. All envelopes were opened, later, by the researcher and data analysis was done by him. Once the surveys were finalized the reports were ready and a copy of the report was provided to the upper management.

3.5 Data Analysis

In this study for analyzing the survey, the Statistical Package for the Social Sciences (SPSS) was used. Linier Regression was used to find the value of R, R Square, F, and T. Pearson Correlation, a significance test of the variables (t test): the R-squared statistic

shows how the independent variables are explained in the model. The adjusted R-squared indicates the percentage of error in the model; the significant F change indicates if there is no relationship between the variables, and an ANOVA test that shows an F statistic, at a 0.1 confidence level, again indicates the relationship of the variables. Moreover, in order to find the answer to each null hypothesis, there is a regression test that answers the questions: there is no relationship between transformational leadership and outcomes in organization; there is no relationship between transactional leadership and outcomes in organizations; there is no difference in outcomes as they are related to transactional and transformational leadership. Outcomes are: extra effort, satisfaction, and effectiveness. In this study dependent variables are: Extra effort, Satisfaction, and Effectiveness. The independent variables are: different characteristics of transactional and transformational leadership which are coming in following. There are 20 questions related to characteristics of transformational leadership, 15 questions to transactional leadership and 9 questions dedicated to outcomes. The formula for linear regression is established as follows: $Y = \text{constant} + bX + \text{Error}$. Y is a dependent variable like effectiveness and X is independent variables. Also, b is the calculated effect of independent variable on dependent variable.

CHAPTER FOUR: RESULTS AND ANALYZES

4.1 Introduction

The aim of this chapter is to analyze the transformational and transactional leadership of small and medium private companies in the following major Iranian business-intensive cities: Tehran, Mashhad, and Isfahan. The outcomes of effectiveness, satisfaction and extra effort (dependent variables), were evaluated against characteristics of transformational and transactional leadership, and laissez- Faire (independent variables) from MLQ 5X (Bass and Avolio, 2004). Analysis of data proves both transactional and transformational leadership have a direct, and positive relationship with effectiveness, satisfaction, and extra effort. However, overall, the levels of correlation coefficients are different: in transformational leadership this has a stronger correlation on all characters in comparison to transactional leadership. This Chapter intends to cover the following studies: research questions, data analysis, hypothesis test outcomes along with supporting tables. Also, consequently, survey results, based on linier regression and Pearson Correlation, are reported. The target sample of population was 30 companies (108 people surveyed) which were divided in the three above-mentioned cities (10 sample companies per city).

4.2 Analysis of Data

The survey questions were analyzed by Statistical Package for Social Science (SPSS) 14th version in which both linier regression and Pearson correlation were utilized to drive the

results. As commonly known, there are many different ways to test the null hypothesis in which linear regression was used in this study. In linear regression, R, R-squared (the R-squared statistic, which shows how the independent variables are explained in the model; the adjusted R-squared, which indicates the percent of error in the model), ANOVA, F value, and t stat are being defined. The t test indicates that at a particular confidence level (95%) the hypothesized value is an acceptable approximation of the true value. This analysis uses the 2-t rule of thumb, whereby if the absolute value of the t stat is greater than 1.98, then the null hypothesis is rejected. ANOVA yields the F test which also tests the hypothesis using all of the coefficient estimates. The F test tests the hypothesis that all of the coefficients are jointly zero. An ANOVA test shows an F statistic, at a .05 confidence level, which again indicates the relationship of the variables.

If the F value (result given by SPSS) is greater in absolute value than the critical F (Find from F table), then the null hypothesis will be rejected in that all of the coefficient estimates are zero. Also, in order to understand the correlation- the Pearson correlation- it has to be known that the correlation coefficient ranges between -1 and 1. Table 4 shows the interpretations for analyzing the correlation coefficient.

Interpretation for Correlation Coefficient

Correlation	Negative	Positive
Small	-0.3 to -0.1	0.3 to 0.1
Medium	-0.3 to -0.5	0.3 to 0.5
Large	-0.5 to -1.0	0.5 to 1.0
Source: Cohen, J. (1988). Statistical power analysis for the behavioral sciences (2nd Ed).		

Table 4: Interpretation for correlation coefficient (Cohen 1988).

4.3 Hypothesis

H01: There is no relationship between Transformational Leadership and Satisfaction, Extra Effort, and Effectiveness.

H02: There is no relationship between Transactional Leadership and Satisfaction, Extra Effort, and Effectiveness.

Table 5 shows the variables that directly relate to a type of leadership style and an outcome. The variables listed in Table 5 are those that were tested to either accept or reject the null hypotheses presented.

Question Variables as They Relate to Leadership Behaviour

<i>Leadership Style and Outcomes</i>	<i>Question No, Variable</i>
<i>Transformational</i>	
Idealized Influence (Attributed)	10,18,21,25
Idealized Influence (Behaviour)	6,14,23,34
Inspirational Motivation	9,13,26,36
Intellectual Stimulation	2,8,30,32
Individual Consideration	15,19,29,31
<i>Transactional</i>	
Contingent Reward	1,11,16,35
Management by Exception (Active)	4,22,24,27
Management by Exception (Passive)	3,12,17,20
<i>Laissez-Faire</i>	5,7,28,33
<i>Outcomes</i>	
Satisfaction	38,41
Extra Effort	39,42,44
Effectiveness	37,40,43,45

Table 5: Question Variables as They Relate to Leadership Behavior

4.4 Test Result and Analysis

In determining the relationship between dependent and independent variables to state the existence of a relationship between leadership styles and their outcomes, Pearson

Correlation and Linear Regression including R, R Squared, F, and t have been applied. To obtain the results the main Null Hypotheses had to be sub-divided into other sub-Null Hypotheses to reach an accurate calculation. Following are sub Null Hypotheses related to our study;

- 1- There is no relationship between Satisfaction (dependent variable) and transformational leadership variables (independent variable) of idealized influence attributes, idealized influence behaviour, inspirational motivation, inspirational stimulation, and individual consideration.
- 2- There is no relationship between Extra Effort (dependent variable) and transformational leadership variables (independent variable) of idealized influence attributes, idealized influence behaviour, inspirational motivation, inspirational stimulation, and individual consideration.
- 3- There is no relationship between Effectiveness (dependent variable) and transformational leadership variables (independent variable) of idealized influence attributes, idealized influence behaviour, inspirational motivation, inspirational stimulation, and individual consideration.

Also this step had to be re-taken for transactional leadership. Following are sub Null Hypotheses related to transactional leadership;

- 4- There is no relationship between Satisfaction (dependent variable) and Transactional Leadership variables (independent) of contingent reward, management by expectation active, and management by expectation passive.

- 5- There is no relationship between Extra effort (dependent variable) and Transactional Leadership variables (independent) of contingent reward, management by expectation active, and management by expectation passive.
- 6- There is no relationship between Effectiveness (dependent variable) and Transactional Leadership variables (independent) of contingent reward, management by expectation active, and management by expectation passive.

Tables 6.1, 6.2, and 6.3 show the results related to Transformational Leadership. Also, analysis has come after each table.

Sub-Null Hypotheses 1, Satisfaction and Transformational Leadership Variables

Variables	R	R-Squared	F	t	Coefficient Correlation
Satisfaction-Idealized Influence Attributes	0.615	0.379	64.639	8.040	0.615
Satisfaction-Idealized Influence Behaviour	0.627	0.394	68.786	8.294	0.627
Satisfaction-Inspirational Motivation	0.764	0.584	148.872	12.201	0.764
Satisfaction-Inspirational Stimulation	0.719	0.516	113.146	10.637	0.719
Satisfaction-Individual Consideration	0.600	0.360	59.580	7.719	0.600
All F and t values are significant at 0.01 or less					

Table 6.1: Results Analyzed for Satisfaction and Transformational Leadership Variables (Full Results from SPSS are Available in Appendix B-1).

As is shown in Table 6.1, all correlation coefficients are above 0.6 which shows the strong correlation between Satisfaction and transformational leadership variables and, in advance, Transformational Leadership itself. Also, examining F and t from the tables shows there is a correlation between Satisfaction and Transformational leadership variables. Moreover, by studying R^2 the following can be interpreted: satisfaction (Y),

with Idealized influence-attribute (X), Idealized influence-Behavior (X), motivation (X), stimulation (X), and consideration (X) has R^2 of in the following order: 0.379, 0.394, 0.584, 0.516, and 0.360. This means idealized influence-attribute, idealized influence-behavior, motivation, stimulation, and consideration explain in order 37.9%, 39.4%, 58.4%, 51.6%, and 36% of variances of satisfaction. All are significant and therefore we reject the Null Hypotheses which means there is a relationship between mentioned variables.

Sub-Null Hypotheses 2, Extra Effort and Transformational Leadership Variables

Variables	R	R-Squared	F	t	Coefficient Correlation
Extra Effort-Idealized Influence Attributes	0.671	0.450	86.814	9.317	0.671
Extra Effort-Idealized Influence Behaviour	0.551	0.304	46.241	6.800	0.551
Extra Effort-Inspirational Motivation	0.771	0.505	108.189	10.401	0.711
Extra Effort-Inspirational Stimulation	0.645	0.416	75.393	8.683	0.645
Extra Effort-Individual Consideration	0.695	0.435	81.483	9.027	0.695
All F and t values are significant at 0.01 or less					

Table 6.2: Results Analyzed for Extra Effort and Transformational Leadership Variables (Full Results from SPSS are Available in Appendix B-2).

Results in Table 6.2, shows that there is strong correlation between extra effort and transformational leadership variables and in advance transformational leadership itself. F and t values prove the existing relationship between mentioned variables also. Moreover, by studying R^2 it can be interpreted that; extra effort (Y), with Idealized influence-attribute (X), Idealized influence-Behavior (X), motivation (X), stimulation (X), and consideration (X) has R^2 of in order; 0.450, 0.304, 0.505, 0.416, and 0.435. ; Idealized

influence-attribute, idealized influence- behavior, motivation, stimulation, and consideration explain in order 45%, 30.4%, 50.5%, 41.6%, and 43.5% of variances of extra effort. Since the tests numerical outcomes are significant, therefore, we reject the Null Hypotheses which means there is a relationship between mentioned variables.

Sub-Null Hypotheses 3, Effectiveness and Transformational Leadership Variables

Variables	R	R-Squared	F	t	Coefficient Correlation
Effectiveness-Idealized Influence Attributes	0.655	0.430	79.803	8.933	0.655
Effectiveness-Idealized Influence Behaviour	0.638	0.407	72.658	8.524	0.638
Effectiveness-Inspirational Motivation	0.776	0.602	160.580	12.672	0.776
Effectiveness-Inspirational Stimulation	0.668	0.447	85.633	9.254	0.668
Effectiveness-Individual Consideration	0.568	0.322	50.411	7.100	0.568

All F and t values are significant at 0.01 or less

Table 6.3: Results Analyzed for Effectiveness and Transformational Leadership Variables (Full Results from SPSS are Available in Appendix B-3).

Table 6.3 shows the positive and strong correlation between Effectiveness and transformational leadership variables. All correlation coefficients are above 0.5 which depicts a strong and good correlation between effectiveness and transformational leadership. Moreover, by studying R^2 it can be interpreted that; effectiveness (Y), with Idealized influence-attribute (X), Idealized influence-Behavior (X), motivation (X), stimulation (X), and consideration (X) has R^2 of in order; 0.430, 0.407, 0.602, 0.447, and 0.322. These simply mean ; Idealized influence-attribute, idealized influence- behavior, motivation, stimulation, and consideration explain in order 43%, 40.7%, 60.2%, 44.7%,

and 32.2% of variances of effectiveness. All numerical outcomes are yet again significant; therefore, we reject the Null Hypotheses which means there is a relationship between mentioned variables.

Tables 7.1, 7.2, and 7.3 show the results related to Transactional Leadership

Sub-Null Hypotheses 4, Satisfaction and Transactional Leadership Variables

Variables	R	R-Squared	F	t	Coefficient Correlation
Satisfaction-Contingent reward	0.786	0.618	171.283	13.088	0.786
Satisfaction-Management by Expectation –Active	0.655	0.429	79.561	8.920	0.655
Satisfaction-Management by Expectation-Passive	0.353	0.125	15.087	-3.884	-0.353

All F and t values are significant at 0.01 or less

Table 7.1: Results Analyzed for Satisfaction and Transactional Leadership Variables (Full Results from SPSS are Available in Appendix B-1).

Obtained results in Table 7.1 shows contingent reward and management by expectation - active are in strong correlation with satisfaction by having correlation coefficients above 0.6 but management by expectation-passive have moderate and negative correlation with satisfaction. Moreover, by studying R^2 the following can be concluded: satisfaction (Y), with contingent reward (X), management by expectation-active (X), management by expectation-passive (X) has R^2 of in the following order; 0.618, 0.429, and 0.125. These mean contingent rewards, management by expectation-active, and management by expectation-passive explain in order 61.8%, 42.9%, and 12.5% of variances of extra effort. All are significant. Therefore, we reject the Null Hypotheses which means there is a relationship between mentioned variables.

Sub-Null Hypotheses 5, Extra Effort and Transactional Leadership Variables

Variables	R	R-Squared	F	t	Coefficient Correlation
Extra Effort - Contingent reward	0.699	0.489	101.237	10.062	0.699
Extra Effort - Management by Expectation –Active	0.554	0.307	46.850	6.845	0.554
Extra Effort - Management by Expectation-Passive	0.288	0.083	9.609	-3.100	-0.288

All F and t values are significant at 0.01 or less

Table 7.2: Results Analyzed for Extra Effort and Transactional Leadership Variables (Full Results from SPSS are Available in Appendix B-2).

As it is shown in Table 7.2, correlation coefficients in extra effort-contingent reward/management by expectation-active are high and strong and positive but in extra effort-management by expectation-passive, is weak and negative. Moreover, by studying R^2 it can be interpreted that; satisfaction (Y), with contingent reward (X), management by expectation-active (X), management by expectation-passive (X) has R^2 of in order; 0.489, 0.307 and 0.083. These mean contingent rewards, management by expectation-active, and management by expectation-passive explain in order 48.9%, 30.7%, and 8.3% of variances of extra effort. Since all numerical results are significant, therefore, we reject the Null Hypotheses which means there is a relationship between mentioned variables.

Sub-Null Hypotheses 6, Effectiveness and Transactional Leadership Variables

Variables	R	R-Squared	F	t	Coefficient Correlation
Effectiveness - Contingent reward	0.723	0.523	116.311	10.785	0.723
Effectiveness - Management by Expectation –Active	0.691	0.478	97.015	9.850	0.691
Effectiveness - Management by	0.376	0.141	17.416	-4.173	-0.376

Expectation-Passive					
All F and t values are significant at 0.01 or less					

Table 7.3: Results Analyzed for Effectiveness and Transactional Leadership Variables (Full Results from SPSS are Available in Appendix B-3).

In Table 7.3, different results with different levels of correlation coefficients are shown. There are two high, positive, and strong correlations which are related to effectiveness-contingent reward (highest, 0.723), and management by expectation-active 0.691. Effectiveness-management by expectation-passive has moderate and negative correlation with each other. This table shows all three methods are correlated with effectiveness but with different levels. Moreover, by studying R^2 the following can be concluded: satisfaction (Y), with contingent reward (X), management by expectation-active (X), management by expectation-passive (X) has R^2 of in order; 0.523, 0.478, and 0.141. These mean contingent rewards, management by expectation-active, and management by expectation-passive explain in order 52.3%, 47.8%, 14.1% of variances of extra effort. All numerical figures are significant. Therefore, we reject the Null Hypotheses which means there is a relationship between mentioned variables.

4.5 Means' Comparison

A means' comparison of different types of leadership and outcomes is shown in Table 8. In Table 8, each variables' mean is calculated and transformational and transactional leadership means in overall calculation with explanations of them appear in section 4.5.1-4.5.3. There are 45 questions which are rated in the following 5 scales: 0: not at all, 1: once a while, 2: sometimes, 3: fairly often, and 4: frequently if not always.

Variables' Means

Variable	Related Question No	Mean	Variable	Related Question No	Mean
Idealized	10, 18, 21,	2.74	Contingent	1, 11, 16, 35	2.55

Influence-Attribute	25		Reward		
Idealized Influence-Behavior	6, 14, 23, 34	2.47	Management by expectation-active	4,22,24,27	2.70
Inspirational Motivation	9, 13, 26, 36	2.63	Management By Expectation-Passive	3, 12, 17, 20	1.98
Intellectual Stimulation	2, 8, 30, 32	2.55	Satisfaction	38, 41	2.44
Individuals Consideration	15, 19, 29, 31	2.33	Extra effort	39, 42, 44	2.21
			Effectiveness	37, 40, 43, 45	2.66
Transformational Leadership		2.58	Transactional leadership		2.41

Table 8: MLQ-5X, questions' means

4.5.1 Transformational Leadership Means

The study reveals that the test relating to transformational leadership tends to display average and above average "Means"; all means recorded to be above 2.5. The mean average for Idealized Influence Attributes is 2.74. The mean average for questions relating to Idealized Influence Behavior is 2.47. Means for inspirational Motivation stands on 2.63. Inspirational Stimulation's mean is 2.55. Finally, Individual Consideration's mean is 2.30. The overall mean average for transformational leadership is 2.58. The comparison of the means shows that the atmosphere of small and medium sized private companies in Iran are not fully transformational but somehow moving gradually towards reaching the average point of transformational leadership. In short, the average mean is recorded to be in upper levels and occasionally fairly average.

4.5.2 Transactional leadership Means

By studying the means of questions relating to transactional leadership, the mean average of 2.41 was obtained, showing an above-average outcome. The mean for Contingent reward is 2.55. Management by Expectation-Active stays at the point of 2.70 and Management by Expectation-Passive stays at the low level of 1.98 which is below the average.

4.5.3 Outcomes Means

The concluding study of the dependent variable means shows that all means recorded also stay at the above average range. However, the Effectiveness mean of 2.66 is at the upper level between sometimes and fairly often, and Satisfaction data by 2.44 and Extra Effort by 2.21 are on lower levels.

4.6 Summary

In this chapter the aim is to show the results for the Null-Hypotheses. The quantitative results were collected from MLQ-5X. The test executed Linier Regression, including analysis of variance (ANOVA), R, R-squared, F, t statistics. Also, Pearson Correlation was performed. The two main Null-Hypotheses broke down in 6 sub Null-Hypotheses and the summary of these results are described below.

All Null-Hypotheses which were related to transformational leadership and its relationship with outcomes of satisfaction, extra effort, and effectiveness, were rejected because all results showed the strong and positive correlation between variables (outcomes as dependents, and transformational leadership characteristics as independents). Moreover, all Null-Hypotheses related to Transactional leadership and its outcomes of satisfaction, extra efforts, and effectiveness, were rejected too. However, in one method of transactional leadership- management by expectation-passive- the

correlation is negative and weak. In the other two methods of transactional leadership, contingent reward is more fitted to the model which means having a stronger positive correlation with outcomes of satisfaction, extra effort, and effectiveness in comparison to data accumulated by management by expectation- active. Overall, the data revealed that small and medium sized private companies in the three major cities of Tehran, Mashhad, and Isfahan, in Iran are managed in a somewhat transformational leadership. Transformational variable means were generally 2.54 on the 5-point scale, and for the transactional variables the means were generally 2.41. Surveyed employees (middle managers) answering to the questionnaire generally indicated that the small and medium sized private companies are operated in a stage between transactional and transformational leadership environment which means they are in a transformational phase.

Chapter Five: Recommendations and Conclusions

5.1 Introduction

The focus of this chapter is on the summary of the whole study which explains the importance and need of leadership styles, and their impacts on performance of small and medium sized private companies in the three cities of Tehran, Mashhad, and Isfahan, in Iran. The results obtained show that there is a relationship between transformational leadership and employee satisfaction, extra effort, and effectiveness. This means, by applying transformational leadership approaches, satisfaction, extra effort, and effectiveness will improve. This chapter starts with a summary of the study and a brief report of results, and a conclusion in which hypotheses and results are discussed, and finally a recommendation is proposed for this study and future references.

5.2 Recommendations

Findings of this empirical study show transformational leadership will enhance satisfaction, extra effort, and effectiveness in small and medium sized private companies in the three industrial and business cities of Tehran, Mashhad, and Isfahan, Iran. This study shows that the aforementioned companies are being administrated by somewhat transactional and transformational leadership. However, the results depict a promising transformation to a transformational phase which means the leadership style is in transformational phases. By considering obtained results, we can conclude that transformational leadership characteristics- for example, inspirational motivation and intellectual stimulation- are key contributors to outcomes of satisfaction, extra effort, and

effectiveness. Therefore, applying transformationalism can help the overall organizational performance. In reference to findings set forth by this study and reviewed literatures mentioning the existing tendency and willingness of Iranian managers to change their current situation such as reducing “Hierarchy”, increasing “Future orientation”, and the high level of their “Performance Orientation” (Dastmalchian et al, 2001), training programs to introduce new methods of leadership and management can help Iranian society to overcome the current situation and change their organizations to improve productivity and efficiency. According to the research findings, inspirational motivation and intellectual stimulation have more impact on satisfaction, extra effort, and effectiveness. Therefore, Iranian leaders and managers by considering these two areas can enhance their organization’s performance. Also, contingent reward has a major impact on satisfaction and effectiveness which shows it is a motivational factor for the respective employees. Therefore, by applying different methods- depending on the culture of the organization- for encouraging employees such as profit sharing and a bonus structure, performance can be enhanced. By applying a bonus structure, employees will be encouraged to work harder and try to achieve their set goals to get their rewards. This application will increase employees’ responsibilities and motivation to hit their targets in organizations. Given rewards can be financial, emotional, or promotional this will help to enhance employees’ performance and in general organizational performance.

5.3 Limitations of This Research

In conducting this research study there were some major difficulties and limitations. The first major problem was caused by time limitation: that is, because of a lack of time the research was done in only three major cities of Iran, rather than making a more extensive

and thereby better coverage of the cities of Iran. The second limitation was rooted in a shortage of proper literature and academic articles in the field of leadership and management in Iran. The last major limitation was due to the Iranian companies and organizations' regulations for conducting research and collecting data, especially for subjects related to culture, leadership, and management styles that reflected managers' and leaders' cultures to avoid showing their strategies in their jobs

5.4 Conclusions

The purpose of this study was to find the impact of leadership styles on performance of employees and in general organization. To fulfill the aim of the study, three elements of employee satisfaction, extra effort, and effectiveness, which are related to performance and the relationship between leadership styles and mentioned elements, were studied. A literature review was performed covering the different concepts of management such as definition of leadership, difference of leadership and management, different styles of leadership, in-depth focus on transformational and transactional leadership, area of difference between transformational and transactional leadership and the impact of leadership on organizational performance mostly related to transformational leadership. Finally, some empirical studies about the culture of Iranian managers were discussed to shed some light on the existing challenges of these managerial systems. This study indicates transformational leadership has a better relationship with satisfaction, extra effort, and effectiveness rather than transactional leadership. Satisfaction, extra effort, and effectiveness are essential elements to contribute to performance improvement and productivity.

The result obtained by the data analysis shows a positive and strong correlation between transformational leadership characteristics, idealized influence attributes, idealized influence behavior, inspirational motivation, inspirational stimulation, and individual consideration with outcomes of satisfaction, extra effort, and effectiveness. Also, data taken from the survey studies shows that in correlation of transactional leadership and outcomes of satisfaction, extra effort, and effectiveness, the two methods of contingent reward and management by expectation-active have positive and good correlation with outcomes, however, management by expectation-passive has a moderate and negative correlation with mentioned outcomes. By considering the result from the study, satisfaction, extra effort, and effectiveness were enhanced by transformational leadership.

In general, small and medium sized private companies in the three cities of Tehran, Mashhad, and Isfahan, in Iran are believed to be administrated by traditional management which means, in the context of the GLOBE research project findings, Iranian leaders' culture fits into the familial trait (Dastmalchian et al, 2001). Also, Yeganeh and Su (2007) defined "Past Orientation" as an attribute of Iranian managers which is contrary to "Future Orientation", a characteristic of transformational leadership. Also, according to the same sources, Iran has a high degree of power distance (hierarchy method). However, in accordance with the result obtained, these organizations are administrated somehow between transactional and transformational.

The transformational leadership mean in means' comparison is higher than transactional leadership and it is in the transforming phase to reach the transformational level. The result obtained proves that the findings in the GLOBE research project (Dastmalchian et al, 2001), and research by Yeganeh and Su (2007) which discusses the tendency of

Iranian managers to increase their “future orientation”, and their good support in “performance orientation”, and their high tendency to support “ In-group collectivism”.

Finally, it should be noted that while the findings of this study are limited in terms of scope, cultural orientations and sample size, further studies may utilize an incorporation of more diverse industries, cultural backgrounds, and demographic aspects. Also, in future studies for analyzing data, multiple regressions can be used in order to build a model which comprises of all independent variables and to determine their significance in explaining the characteristics of transformational and transactional leaderships’ impact on the following outcomes: satisfaction, extra effort, and effectiveness.

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