

Kathmandu University School of Management Occasional Paper  
No. 5

## **Leadership Styles, Subordinates' Satisfaction with the Leader and Perceived Effectiveness**

---

A Study in a Nepali Telecommunications Company

Arjun Kumar Shrestha  
July, 2012



## ABSTRACT

The current leadership literature is based on studies mostly carried out in the West. This study attempts to examine the relationship between leadership styles and employee and organizational outcomes in a Nepali telecommunication company. It proposes and tests a model suggesting direct relationship between leadership styles and employees' satisfaction with the leader, leader effectiveness, and work-unit effectiveness as well as the mediating effect of satisfaction with the leader on the relationships between leadership styles and leader effectiveness and work-unit effectiveness. Bass and Avolio's multifactor leadership questionnaire (MLQ) 5X (short) was used to measure leadership styles and employee's satisfaction with the leader. The sample consisted of 115 employees working in a Nepali telecommunication company. Structural Equation Modeling was employed to test the hypothesized relationships. Path analysis results indicated that (1) transformational leadership is positively related with outcomes; (2) transformational leadership is the stronger predictor of employee's satisfaction with the leader, leader effectiveness and work-unit effectiveness than transactional leadership; (3) the relationship between transformational leadership and leader effectiveness and work unit effectiveness were partially mediated by employee's satisfaction with the leader. Consistent with the findings of previous studies, the findings of this study clearly indicate that transformational leadership style significantly contribute to leader effectiveness and work-unit effectiveness and gives more satisfaction to the subordinates. These findings highlight the importance of transformational leadership style in achieving desired individual and organizational level outcomes. Relatively small sample size, sample drawn from a single organization, and subordinate's ratings for assessing leadership styles and outcomes limit the generalizability of the findings. For increased generalizability, further research with samples from different organizations and objective measures of outcomes will be needed.

Keywords – Leadership Styles, Transactional Leadership, Transformational Leadership, Satisfaction with the Leader, Leader effectiveness, Work-unit effectiveness

Organizational leaders are found to exercise wide variety of leadership styles and behaviors at work (Oshagbemi & Ocholi, 2006). The styles and behaviors exhibited by the leaders contribute significantly in the success and failure of an organization (Lok & Crawford, 2004). During the past several decades, there is growing interest among researchers in the study of the impact of leadership styles on various organizational and individual level outcomes. As a result, there are plethora of studies that suggest the influence of leadership styles on employee outcomes such as job satisfaction, satisfaction with the leader, organizational commitment, stress, turnover intentions and organizational outcomes such as organizational performance, team performance, work unit effectiveness, organizational effectiveness, etc. (e.g., Hang & Chou, 2005; Hoffman, Bynum, & Piccolo, 2011; Krishnan, 2004; Krishnan, 2005a, 2005b; Lee, 2004; Pillai & Williams, 2004; Schaubroeck, Kam, & Cha, 2007). The growing body of research has thus provided a compelling evidence linking leadership to individual and organizational outcomes across many contexts and countries (Muchiri, 2011).

Although numerous studies on leadership and outcomes have consistently indicated that leadership styles can have influence on individual and organizational level outcomes, Jing and Avery (2008) argue that these studies have utilized a restricted number of leadership paradigms, for example, the transactional and transformational leadership, ignoring the other paradigms, and there are differences in conceptualization of leadership which makes the direct comparison of the findings difficult. Furthermore, the literature on leadership suggests two perspectives on leadership – the universal perspective and the culture specific perspective (Spreitzer, Perttula, & Xin, 2005). The simple universal perspective suggests that the general idea of leadership is a universal phenomenon whereas the culture specific perspective suggests that many leadership theories developed in North American culture may not be generalizable when used by leaders with different cultural orientation (Hosfetede, 2001). Bass (1997) also argued that the relationship between the leader and followers is moderated by differences in cultural beliefs, values, and norms.

Previous studies also indicate that not only the cultural orientation of the leader but also the cultural orientation of the followers has different impact on leadership styles (e.g., Fernandes & Awamleh, 2004) and leadership style can be perceived differently and can have different effects on motivation and performance for followers from different cultural groups (e.g., Jung & Avolio, 1999). Several scholars have also raised the issue of the influence of different contexts such as size, nature of task, type of environment and organizational culture, etc. (e.g., Antonakis et al., 2003; Bass, 1990; Bruch & Walter, 2007; Hunt & Conger, 1999, as cited in Mannheim & Halamish, 2008) on the effects of leadership styles on followers.

Apart from the issues of leadership conceptualization and impact of culture and context on leadership styles, there are other issues (e.g., the mechanisms through which leadership affects outcomes) highlighted by leadership researchers which need to be addressed for better understanding of leadership phenomenon. Despite numerous studies linking leadership styles with several organizational and individual level outcomes, until the beginning of this century, only few studies have attempted to investigate the underlying mechanisms through which leadership styles influence outcomes. To fill this gap, researchers, especially in the past decade, have shown considerable attention in the examination of mediating and/ or moderating mechanisms between leadership styles and several outcomes (e.g., Bass, Avolio, Jung, & Yair, 2003; Mannheim & Halamish, 2008; Hoffman, Bynum, Piccolo, & Sutton, 2011, Schaubroeck et al., 2007). However, the role of numerous variables that can play a mediating and/or moderating role in leadership styles - outcome relationship has not been fully explored yet.

In spite of numerous empirical evidences of the impact of leadership on outcomes, the findings on the effects of culture and context on leadership styles and outcomes are not consistent. On the other hand, no previous studies have investigated the mediating mechanism on leadership - outcome relationships including followers' satisfaction with the leader as a mediator. To fill this gap, this study intends to examine the relationships between transformational and transactional leadership styles and followers' satisfaction with the leader, work unit effectiveness, and leader effectiveness in a Nepali Telecommunications company. This study provides unique opportunities to investigate the stated relationships in a different culture and context as south-Asian sub-continent has a distinct collectivist culture and the people from Indian Subcontinent do not separate their professional life from their personal life (Hofstede, 2001).

## LITERATURE REVIEW

The continued search for effective leadership has resulted in the development of many theories of leadership. Leadership has been studied from different perspectives but over the period of more than three decades, transactional- transformational paradigm of leadership has gained the attention of many researchers and it has become an important topic in leadership research. According to Pearce et al. (2003), transactional leadership theory is based on expectancy theory (Vroom, 1964), Path-goal theory (House, 1971), Equity theory (Adams, 1963), Exchange theory (Homans, 1961), and Reinforcement theory (Luthans & Krietner, 1985) whereas transformational leadership theory is based on sociology of charisma (Weber, 1946), charismatic leadership theory (House, 1977), and transformational leadership (Burns, 1978).

*Transactional and Transformational Leadership Styles*

As trait, behavior and contingency theories could not fully explain the complexities involved in leadership, transactional-transformational leadership has drawn the attention of researchers as a new paradigm for understanding leadership (Shrestha & Mishra, 2011). Prior to the introduction of transactional-transformational leadership theory by Burns (1978), most researchers referred transactional contingent reinforcement as the core component of effective leadership behavior in organizations (Bass, Avolio, Jung, & Berson, 2003). A transaction or exchange process is the basis of transactional leadership since the transactional leader recognizes subordinates' needs and desires, and then clarifies how those needs and desires will be met in exchange for subordinates' work (Jing & Avery, 2008). Avolio & Bass's (2002) Multifactor Leadership Questionnaire (MLQ-Form 5X) indicates that transactional leadership may take the form of contingent reward, management-by-exception (active) or management-by-exception (passive). In contingent reward, the leader clarifies for the follower through direction or participation what the follower needs to do to be rewarded for the effort. In active management-by-exception, the leader monitors the follower's performance and takes corrective action if the follower fails to meet standards. In passive-management-by-exception, the leader waits the problems to arise before taking corrective action (Bass, 1999).

After the introduction of transactional-transformational paradigm of leadership into the literature, scholars argued that transformational leadership goes beyond pure economic and social exchange. Burns (1978) posited that transactional and transformational leadership are at the opposite end of the continuum. On the other hand, Bass (1997) suggested that transformational leadership augments the effects of transactional leadership, that is, transformational leadership is not a substitute of transactional leadership; it only adds to the effectiveness of transactional leadership. According to Bass (1999), this augmentation effect has found empirical support from different studies (e.g., Waldman, Bass, & Yammarino, 1990).

The influence process of transformational leadership is also different from the influence process of transactional leadership as it goes beyond just administering rewards and punishments and involves fundamentally changing the values, goals, and aspirations of followers (MacKenzie, Podaskoff, & Rich, 2001). According to Bass (1995), transformational leaders stimulate followers to realize the important meaning of the tasks they are responsible for, motivate their high level needs for growth and development, establish a climate of mutual trust, stir their employees to look beyond their own self-interests for the good of the group, and achieve performance beyond expectations (Chaoping & Kan, 2008). Transformational leaders achieve these through idealized influence (charisma), inspirational

motivation, intellectual stimulation or individualized consideration. Idealized influence and inspirational leadership are displayed when the leader envisions a desirable future, articulates how it can be reached, sets an example to be followed, sets high standards of performances and shows determinations and confidence (Erkutlu, 2008). Intellectual stimulation arouses in followers the awareness of problems and how they may be solved, and stirs imaginations and generates thoughts and insights (Krisnan, 2005a). Individualized consideration involves giving personal attention to followers who seem neglected, treating each follower individually, and helping each follower get what he or she wants (Bass, 1998).

### *Leadership Styles and Outcomes*

It has been well established in the literature that different leadership styles can have significant direct as well as indirect influences on different individual and organizational outcomes. Studies also suggest that the impact of different styles of leadership on outcome is different. Many studies which investigated the relationship between transactional leadership and organizational performance have come up with disappointing findings (Vigoda-Gadot, 2007). On the other hand, majority of the studies examining the relationships between transformational leadership and various organizational and individual outcomes using MLQ have indicated positive effect on outcomes. For example, As-Sadeq and Khoury's (2006) study of leadership styles in the Palestinian large-scale industrial enterprises indicated transformational leadership is the most satisfactory styles of leadership in terms of extra effort, effectiveness and satisfaction among employees. Similarly, a study on transactional and transformational leadership and sales persons' performance revealed that transformational leadership has stronger direct and indirect relationships with sales performance and organizational citizenship behavior than transactional leadership (MacKenzie, Podsakoff & Rich, 2001). Adams and Gamage (2008) suggested that effective leadership in business is a style that needs to complement the transformational leadership styles to ensure maximum organizational stability.

The impact of transformational leadership on outcomes in non-business contexts is also found to be consistent with the findings in business contexts. Griffith (2004), while investigating the relationship between principal's leadership and school staff job satisfaction, staff turnover and school performance, found that transformational leadership was not associated directly with staff turnover or organizational (school) performance. Rather, it showed indirect positive effects on school performance mediated by staff job satisfaction. Contrary to the finding of majorities of the studies, Bass et al.'s (2003) study in US Army, on the other hand, found that both contingent reward and transformational leadership equally

predicted performance while platoon leaders' leadership style was examined. However, in the case of platoon sergeant as leaders, the finding was consistent with previous findings.

Similarly, a study by Bartram and Casimir (2007) in a call-center context which is characterized by high levels of control, standardization, and formalization revealed that transformational leadership has direct positive effect on satisfaction with the leader. Krishnan (2005a) also found that transformational leadership has direct positive relationship with the satisfaction of subordinates as well as their perception of leader and work unit effectiveness.

Many studies have attempted to enquire upon the effect of individual components of transformational leadership on outcomes. Erkutlu's (2008) study on the impact of transformational leadership on organizational and leadership effectiveness revealed that all the components of transformational leadership are related positively to both leadership and organizational effectiveness. Bruch and Walter's (2007) study to investigate hierarchical impacts on transformational leadership found that idealized influence and inspirational motivation to occur more frequently among upper rather than middle managers and suggested that hierarchy constituted a boundary condition both for the occurrence of specific transformational leadership behaviors and for the effectiveness of such behaviors in strengthening followers' job satisfaction.

## RESEARCH FRAMEWORK AND HYPOTHESES

The research framework of this study is shown in Figure 1. The transactional and transformational leadership styles are hypothesized to affect leader effectiveness and work-unit effectiveness directly as well as indirectly through a mediator (satisfaction with the leader). Satisfaction with the leader partially mediates the relationships between transactional and transformational leadership and leader effectiveness and work-unit effectiveness. The specific hypotheses indicating the direct and indirect relationships are discussed in the following section.

### *Leadership and Satisfaction with the Leader*

Job satisfaction has been well recognized as a multi-dimensional construct in management literature and satisfaction with the leader (supervisory satisfaction) has been established as one dimension of this construct (e.g., Job Diagnostic Survey developed by Hackman & Oldham, 1974; Job Descriptive Index developed by Smith, Kendall, & Hulin, 1969). There are limited studies which investigate the direct relationship between leadership styles and employees' satisfaction with leadership styles (e.g., Krishnan,

2005a; Huang & Chou, 2005) but there are numerous studies in the past that investigated the relationship between leadership and job satisfaction (e.g., Fernandes & Awamleh, 2004; Rad & Yarmohammadian, 2008; Lock & Crawford, 2004; Griffith, 2004), however, the findings of the studies are mixed. Rad and Yarmohammadian's (2008) study of relationship between managers' leadership style and employees' job satisfaction suggested significant correlation between the employees' job satisfaction and the leadership styles of managers. But, the study by Lok and Crawford (2004) found no significant differences with the impact of leadership styles on job satisfaction and commitment.

There is no consistency in research findings that directly link employee satisfaction to a particular style of leadership. Many theories have suggested that leaders should adapt to the situation for the better performance and satisfaction of employees. On the other hand, Bass (1997) argued that transformational leadership is more effective and satisfying than transactional and laissez-faire leadership. Therefore, I propose:

Hypothesis 1a: There is a significant relationship between leadership styles (transactional and transformational) and subordinates' satisfaction with the leader.

Hypothesis 1b: Transformational leadership would be a stronger predictor of subordinate satisfaction with the leader than transactional leadership.

### *Leadership Effectiveness*

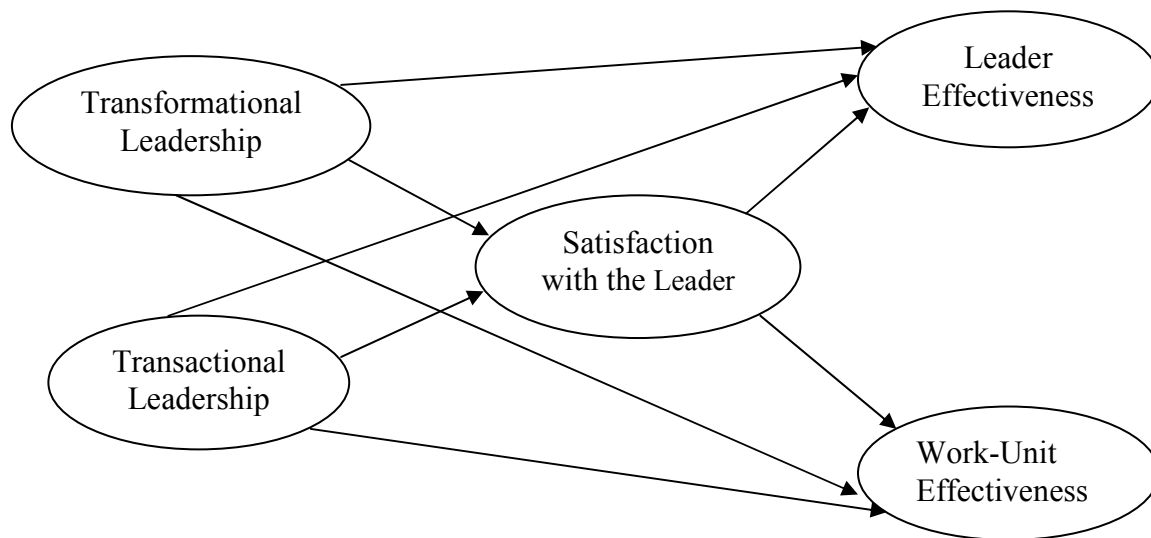
Both subjective (e.g., group performance, attainment of group goals, group growth, commitment to group goals) and objective (e.g., profit growth, profit margin, sales, increase, return on investment, etc.) measures have been used for measuring leadership effectiveness. According to Erkutlu (2008), the most commonly used measure of leader effectiveness is the extent to which the leader's group or organization performs its task successfully and attain its goals.

Numerous studies (e.g., Chen & Silverthorne, 2004; Erkutlu, 2008; Gillespie & Mann, 2004) have investigated the impact of leadership styles on effectiveness. Lowe, Kroeck, & Sivasubramaniam's (1996) meta-analytic study found that transformational leaders were perceived to be more effective leaders than those leaders who exhibited transactional leadership only. Gillespie and Mann's (2004) study found direct relationships between leadership styles and leader effectiveness. In this study, the relationship between transformational leadership and leader effectiveness was found to be strongest. In line with these findings, it is proposed that the subordinates' satisfaction with their leader is positively



related to leadership styles and the satisfaction will be more for transformational leadership than transactional leadership.

Hypothesis 2: Transformational leadership would be a stronger predictor of perceived effectiveness of leader than transactional leadership.



*Figure 1: The Research Model*

#### *Work-unit Effectiveness*

Organizational effectiveness is a multidimensional construct and work unit effectiveness is one dimension of it which contributes to overall effectiveness of the organization. Research on the effects of leadership styles on work unit effectiveness has shown that transformational leadership has more positive impact on work unit effectiveness (e.g., Krishnan, 2005a), and organizational effectiveness (e.g., Erkutlu, 2008). Erkutlu (2008) also points to the fact that many scholars (e.g., Likert, 1961, 1967; Steers, 1977; Hunt et al., 1985; Hersey & Blanchard, 1988; Allem & Meyer, 1990; Wilson 1966) have evaluated organizational effectiveness by measuring the commitment of subordinates to the organization.

Several scholars have found positive association between transformational leadership and organizational commitment (e.g., Pillai & Williams, 2004; Lee, 2005) whereas the relationship between transactional leadership and organizational commitment has not been found to be significant (e.g., Lee, 2005). Similarly, studies on leadership - performance relationships have consistently shown that

transformational leadership can have positive impact on performance directly as well as indirectly (e.g., Schaubroeck, et al., 2007; Vigoda-Gadot, 2007). Since better performance of an organization can only be expected when work units perform effectively, leadership styles can have significant influence on work unit effectiveness. In light of the discussions presented above, I propose:

Hypothesis 3: Transformational leadership would be a stronger predictor of perceived work unit effectiveness than transactional leadership.

#### *Satisfaction with the Leader as a Mediator*

There are many studies that suggest the direct relationship between leadership styles and perceived effectiveness of the leadership as well as effectiveness of the work unit. But, some of the studies suggest employees' satisfaction with work and job to mediate the relationship between transformational leadership components and outcomes (Griffith, 2004). Therefore, I propose:

Hypothesis 4: The relationship between leadership styles (transactional and transformational) and perceived effectiveness of the leader and effectiveness of the organization would be mediated by the satisfaction of subordinates with the leader.

## METHODS

### *Sample*

The population of this study included employees of a large telecommunication company based in Kathmandu with its area of operation all over Nepal. 165 questionnaires were distributed to the employees of 7 different departments located in Kathmandu Valley and the participants were requested to return the questionnaires within one week. Altogether 122 participants returned the completed questionnaires out of which 115 were usable with a response rate of 74 percent.

Most of the employees were male (88.5%). 24.8% employees were less than 25 years old, 56.6% were between 31 and 45 years old, and 18.6% employees were 45+ years old. More than one third of the respondents (77.7%) were officers, 5.4% managers, and 5.4% were in senior executive positions. Only 10.7% employees were working at support level. 25.2% employees were working in their organization for less than 5 years while 20.4% had tenure more than 20 years in the organization.

### *Measures*

The questionnaire comprised of 44 items. Leadership styles and satisfaction with the leader were measured using 34 items of Bass and Avolio's (2004) MLQ Multifactor Leadership Questionnaire 5x (Short). Four items of MLQ were modified for measuring leader effectiveness and work unit effectiveness.

*Leadership Styles:* The MLQ comprises 32 items for measuring transactional and transformational leadership styles. Five sub-scales – idealized influence (attributed and behavioral), intellectual stimulation, individualized consideration, and inspirational motivation measure transformational leadership. These five sub-scales were aggregated to form the construct – transformational leadership. The aggregate of three sub-scales – contingent reward, management by exception (active) and management by exception (passive) measured transactional leadership. Higher scores on transactional and transformational leadership indicated that leaders were high on respective leadership styles.

*Satisfaction with the leader:* It was measured using two items of MLQ. For obtaining participants' responses on leadership styles and satisfaction with the leader, five-point scales (0 = not at all, 1 = Once in a while, 2 = Sometimes, 3 = Fairly often, 4 = Frequently, if not always) were used. High scores reflected greater satisfaction.

*Work unit effectiveness and leader effectiveness:* The MLQ utilizes a four-item scale to measure effectiveness. Slightly modified versions of these four items scale developed by Krishnan (2005a) were used to work-unit and leader effectiveness. Sample items for work-unit effectiveness and leader effectiveness are "How would you classify the overall work effectiveness of your unit?" and "How effective is your supervisor in meeting the requirements of the organization?" respectively. Responses were captured on a five-point scale (0 = Not effective, 1 = Only slightly effective, 2 = Very effective, 3 =, 4 = Extremely effective). High scores on these scales indicated higher effectiveness.

*Socio-demographic variables:* The remaining 6 items of the questionnaire were for collecting demographic information – age, gender, tenure, position (level), department in which the participant is working and major responsibility area.

## RESULTS

Table 1 gives the means, standard deviations, correlation coefficients and reliability coefficients (Cronbach alpha) for all study variables. As reflected from the descriptive statistics, the higher mean of transformational leadership implies that employees in this organization exhibit transformational leadership style more frequently than transactional style. The means of transformational leadership style ( $M = 2.32$ ,  $SD = 0.74$ ) and transactional leadership style ( $M = 2.17$  and  $SD = 0.61$ ) indicate that the frequency at which the employees practice either of these two forms of leadership is “sometimes”.

Table 1: Descriptive Statistics, Correlation Matrix, and Reliability Coefficients of Study Variables

		Mean	S D	1	2	3	4	5
1	Transformational Leadership	2.32	0.74	(0.92)				
2	Transactional Leadership	2.17	0.61	.802**	(0.74)			
3	Satisfaction	2.50	1.03	.845**	.608**	(0.73)		
4	Leadership Effectiveness	2.24	1.05	.825**	.701**	.802**	(0.71)	
5	Work unit Effectiveness	2.58	1.07	.807**	.583**	.798**	.686**	(0.86)

\*\*  $p < .01$

The values of reliability coefficients of different constructs were between 0.71 and 0.92 which indicated that the individual constructs are all consistent in their measurements.

Since the collection of ratings of all study variables was done at the same point in time from the same source, there could be a possibility of common method bias with this data set. To check this problem, as suggested by Zhou and Feris (1995), all the variables were simultaneously factor analyzed. The factor analysis resulted in an eight factor solution indicating that common method bias is not present in this data.

At the zero-correlation level, all study variables were significantly correlated with each other. It was found that both transformational and transactional leadership have positive and significant ( $p < .01$ ) relationship with satisfaction with leader, leader effectiveness and work-unit effectiveness.

As the value of correlation coefficients were high and the relationships were significant, there could be the problem of multicollinearity among the study variables. Therefore, multicollinearity was assessed by calculating tolerance ( $1 - R^2$ ) test for each independent variable, wherein a tolerance value of less than 0.1 is problematic (Hair, Anderson, Tatham & Black, 1998, as cited in Taormina, 2007). Using all the independent variables and running regression of each on all the others, tolerance values were above 0.1 which indicated that multicollinearity was not a problem in these data.

Structural equation modeling (SEM) using LISREL 8.8 for Windows was employed to test the hypothesized relationships. The path analysis focused only on structural model ignoring the measurement model. The assumptions made in observed variable path analysis is that all variables are measured without error (Kelloway, 1998), which is not generally true in this type of studies. But, these assumptions are said to be satisfied if all variables have high level of reliability (Cronbach alpha  $> .70$ ; Pedhazur, 1982, as cited in Kelloway, 1998). Since all study variables have alpha values above  $.70$ , these assumptions were met in the current study. Use of LISREL, the covariance based SEM, was another concern in this study because of relatively small sample size ( $N=115$ ). Literature suggests that Partial Least Squares (PLS) analysis which utilizes variance-based SEM, is more appropriate when sample size is small. However, according to Nasser and Wisenbaker (2003), for covariance-based SEM, sample size should exceed 100 observations to avoid problematic solutions. As the sample size in this study exceeded minimum sample size required, the possibility of problems while using LISREL was ruled out.

The standardized parameter estimates for the model are presented in Figure 2. All path coefficients are significant ( $p < .05$ ) except in the cases of transactional leadership and satisfaction with the leader and work-unit effectiveness. The model provided an acceptable fit to the data ( $\chi^2(1)=0.21$ , ns; GFI =1.00 , AGFI =.99 ; RMSEA =.00 , NFI=1.00 , CFI =1.00 , PNFI = .10)

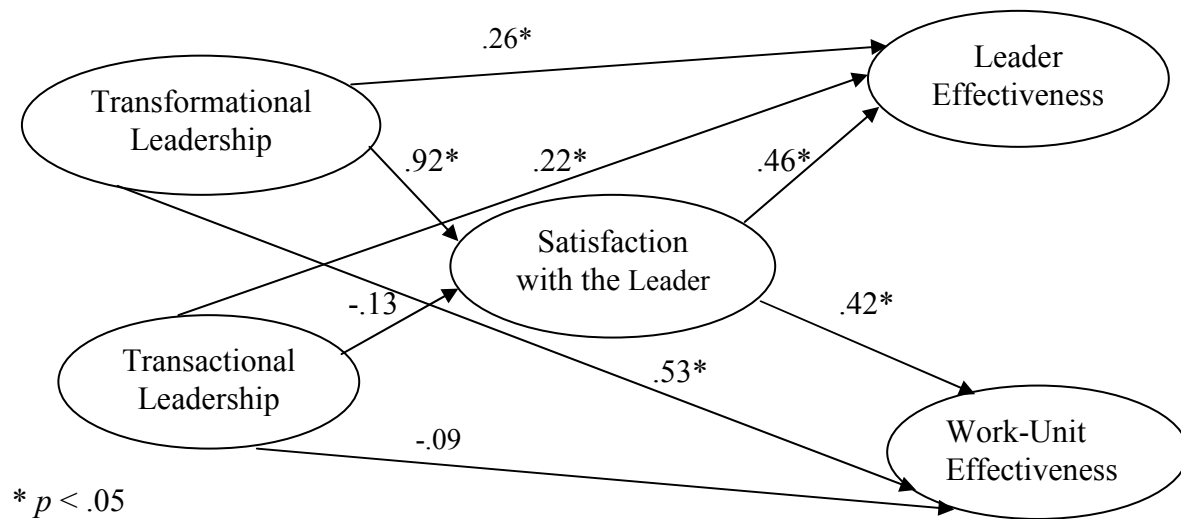


Figure 2: Structural model with standardized path coefficients

The results show that transformational leadership is positively related with satisfaction with the leader, leader effectiveness, and work-unit effectiveness. On the other hand, transactional leadership has significant direct relationship with leader effectiveness only. Satisfaction with the leader has significant positive relationship with leader effectiveness and work-unit effectiveness. These findings partially support the hypothesis that both the transformational and transactional leadership would be positively related with satisfaction with the leader (Hypothesis 1a), and fully support the hypothesis that transformational leadership would be a stronger predictor of satisfaction with the leader than transactional leadership (Hypothesis 1b).

The hypothesis 2, which proposed that transformational leadership would be a stronger predictor of leadership effectiveness than transactional leadership, was also supported as the path coefficient between transformational leadership and leadership effectiveness is higher than the path coefficient between transactional leadership and leader effectiveness.

The path analysis results show that transformational leadership has significant positive association with work unit effectiveness whereas in the case of transactional leadership the relationship was not significant. These results give sufficient evidence to support hypothesis 3.

The mediating effect of satisfaction with the leader between leadership styles and leader effectiveness and work unit effectiveness was tested by examining whether the three conditions proposed by Baron and Kenny (1986) are fulfilled. Full mediation is present when a path from the independent variable to dependent variable is not significant but the paths from the independent variable to the mediator, and from the mediator to the dependent variable are significant (Wold, 1985, as cited in Bass et al., 2003). Similarly, according to these authors, partial mediation is present when the paths from independent variable to dependent variable and mediator as well as the path from the mediator to dependent variables are significant. The path diagram (Figure 2) clearly shows that the paths from transformational leadership (independent variable) to satisfaction with the leader (mediator) and leader effectiveness and work unit effectiveness (dependent variables) are significant. On the other hand, the relationship between transactional leadership and satisfaction with the leader is not significant. Therefore, hypothesis 4 was partially supported.

## DISCUSSION

This study was conducted in a relatively unexplored Nepali culture. According to Hofstede (2001), Nepal, a country of south Asian Sub-continent, has distinct collectivist culture. The sample was drawn for a telecommunications company, a technology based organization, and subjects were also mostly graduate engineers, therefore, the context was also somewhat different than the context of previous studies.

The results of the study revealed that transformational leadership is positively related to employee's satisfaction with the leader whereas in the case of transactional leadership, relationship was not significant. Transformational leadership is also significantly related to perceived leader effectiveness and work unit effectiveness. Transactional leadership has significant positive relationship with leader effectiveness but the relationship is not significant in the case of work-unit effectiveness. The findings of this study suggest that subordinates are satisfied with the leader and perceive their leader and work-unit effective only when their leader exhibits transformational leadership.

The findings of the study which indicate that transformational leadership is strongly and positively correlated with employee's satisfaction with the leader, perceived leader effectiveness and work-unit effectiveness are consistent with the findings of previous studies (Krishnan, 2005; Bass, 1985 cited in Lee, 2005; Bycio et al., 1995, as cited in Krishnan, 2005). Citing Howell and Avolio (1993), Krishnan (2005a), pointed out that the high correlations between transformational leadership and

outcomes could have been because of both leadership styles and effects being assessed in the same questionnaire. However, the questionnaire in this study comprised of not only the items for capturing transformational leadership but also for transactional leadership. Transactional leadership showed significant relationship only with the leader effectiveness. Thus, the findings of this study provide greater support to the validity of relationships between transformational leadership and outcomes in a different culture as well as context.

The study also tested the mediating effect of employee's satisfaction with the leader in the relationships between leadership styles and perceived leader effectiveness and work-unit effectiveness. The findings indicate that employee's satisfaction with the leader partially mediates the relationships between transformational leadership and leader effectiveness and work-unit effectiveness. The findings suggest that although transformational leadership has direct impact on leader effectiveness and work -unit effectiveness, it also acts indirectly through the mediator, employee's satisfaction with the leader.

The significant relationship between transactional leadership and leader effectiveness but insignificant relationships between transactional leadership and other outcomes (satisfaction with the leader and work unit effectiveness) can be possibly due to the followers' acceptance of contingent reward that leader can provide to the subordinates as a measure of leader effectiveness but they are not satisfied with this style of leadership. In the present study, it is also possible that the highly qualified technical professionals (mostly graduate engineers) are less likely to be satisfied by traditional or transactional leadership styles.

Transformational leadership has mean score of 2.32 which is higher than the mean score of transactional leadership. Although the mean score is higher than the score of Lee's (2006) study with mean score of 2.15, he pointed out that studies in R&D organizations (to a certain extent closer to organization of this study) higher mean scores of transformational leadership ranging from 2.96 to 3.19 (e.g., Keller, 1992; Basu & Green, 1997) has been reported. The relatively low score in this study suggests that there is inadequate leadership demonstrated by the leaders. The reason for low score could be due to the fact that most of the leaders are of engineering background and working for a technology based organization, they may think that technical skills are more important than leadership skills. Another reason could be that the subordinates may not accept the leadership roles of their superior as they are also equally qualified and have same level of technical skills as their leaders. The relatively low score could also be due to cross-cultural differences as Asian culture is more attuned to paternalistic leadership (Lee, 2005).



Although transformational leadership has significant positive relationships with employee's satisfaction with the leader, leader effectiveness and work-unit effectiveness, their relatively low mean score and large standard deviations (2.50, 2.24 and 2.58 with standard deviations 1.03, 1.05 and 1.07 respectively) indicate that satisfaction of the employees as well as perceived effectiveness of the leader and work-unit can be increased when the leaders exhibit superior leadership, that is, the achieve high mean score on transformational leadership.

#### IMPLICATIONS AND DIRECTIONS FOR FUTURE RESEARCH

The findings of the study indicate that transformational leadership is more important than transactional leadership for bringing greater employee satisfaction, leader effectiveness as well as work-unit effectiveness. Since transformational leadership plays an important role in influencing important organizational outcomes, organizations should put emphasis on selecting employees having transformational leadership qualities and should design training intervention that can impart transformational leadership qualities to their employees in supervisory positions.

Since the study design was cross-sectional, direction of causality cannot be ascertained from this study. For finding the direction of causality, this study can be replicated in a longitudinal design including other similar types of organizations to determine whether the results obtained from cross-sectional study are likely to be sustained. In this study, all outcomes variables were measured from subordinates' perceptions. If some objective measures of outcome variables could be used, it is likely to provide more valid results. This study does not include situational factors. Since there are many situational factors that influence leadership and outcomes in technology based organizations, this study can be further expanded by including situational variables while investigating the relationships between leadership and organizational outcomes. As the subjects of the study belonged to a single organization, the findings of this study cannot be generalized and have limited external validity.

REFERENCES

- Adams, D. and Gamage, D.T. (2008). A study of leadership effectiveness in a large VET institution in Australia. *International Journal of Educational Management*, 22(3), 214-228. doi: 10.1108/09513540810861856.
- As-Sadeq, H.A. and Khoury, G.C. (2006). Leadership styles in the Palestinian large-scale industrial enterprises. *Journal of Management Development*, 25(9), 832-849. doi: 10.1108/02621710610692043.
- Baron, R.M. & Kenny, D.A. (1986). The moderator-mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology*, 51, 1173-1182.
- Bartram, T. and Casimir, G. (2007). The relationship between leadership and follower in-role performance and satisfaction with the leader – The mediating effects of empowerment and trust in the leader. *Leadership and Organization Development Journal*, 28(1), 4-19. doi:
- Bass, B.M. (1990). *Bass & Stogdill's Handbook of Leadership: Theory, Research and Managerial Applications*, Free Press, New York, NY.
- Bass, B.M. (1997). Does the transactional-transformational leadership paradigm transcend organizational and national boundaries? *American Psychologist*, 52(2), 130-139.
- Bass, B.M. (1999). Two decades of research and development in transformational leadership. *European Journal of Work and Organizational Psychology*, 8(1), 9-32.
- Bass, B.M., Avolio, B.J., Jung, D.I., & Berson, Y. (2003). Predicting unit performance by assessing transformational and transactional leadership. *Journal of applied Psychology*, 88(2), 207-218. doi: 10.1037/0021-9010.88.2.207.
- Bos, J.T., Donders N., Brouwer, K.M., Gulden, J. (2009). Work characteristics and determinants of job satisfaction in four age groups: university employees' point of view. *Int Arch Occup Environ Health*, 82, 1249-1259.

- Bruch, H. & Walter, F. (2007). Leadership in context: Investigating hierarchical impacts on transformational leadership. *Leadership & Organization Development Journal*, 28(8), 710-726. doi: 10.1108/01437730710835452.
- Chen J. & Silverthorne, C. (2005). Leadership effectiveness, leadership style and employee readiness. *Leadership & Organization Development Journal*, 26(4), 280-288. doi: 10.1108/01437730510600652.
- Cheng, B. and Chou, L. (2005). Fitting organizational values: The mediating role of person-organization fit between CEO charismatic leadership and employee outcomes. *International Journal of Manpower*, 26 (1), 35-49.
- Chaoping, L. and Kan, Shi. (2008). The structure and measurement of transformational leadership in China. *Front. Bus. Res. China*, 2(4), 571-590.
- Erkutlu, H. (2008). The impact of transformational leadership on organizational and leadership effectiveness – The Turkish case. *Journal of management Development*, 27 (7), 708-726.
- Fernandes, C. & Awamleh, R. (2004 ). The impact of transformational and transactional leadership styles on employee's satisfaction and performance: An empirical test in a multicultural environment. *International Business & Economics Research Journal*, 3(8), 65-76.
- Gillespie, N.A. and Mann, L. (2004). Transformational leadership and shared values: the building blocks of trust. *Journal of Managerial Psychology*, 19(6), 588-607.
- Griffith, J. (2004). Relation of principal transformational leadership to school staff job satisfaction, staff turnover, and school performance. *Journal of Educational Administration*, 42 (3), 333-356.
- Huang, M., Cheng, B and Chou, L. (2005). Fitting in organizational values The mediating role of person-organization fit between CEO charismatic leadership and employee outcomes. *International Journal of Manpower*, 26(1), 35-49. doi: 10.1108/01437720510587262.
- Hoffman, B.J., Bynum, B.H., Piccolo, R.F., and Sutton, A.W. (2011). Person-organization value congruence: How transformational leaders influence work group effectiveness. *Academy of Management Journal*, 54(4), 770-796.

- Jing, F.F. & Avery, G.C. (2008). Missing links in understanding the relationship between leadership and organizational performance. *International Business & Economics Research Journal*, 7(5). 67-78.
- Jung, J. & Avolio, B.J. (1999). Effects of leadership style and followers' cultural orientation on performance in group and individual task conditions. *The Academy of Management Journal*, 42(2), 208-218. Retrieved from <http://www.jstor.org/stable/257093>.
- Kelloway, E.K. (1998). *Using LISREL for structural equation modeling A researcher's guide*. Thousand Oaks: SAGE Publications.
- Krishnan, V.R. (2004). Impact of transformational leadership on followers' influence strategies. *The Leadership & organization Development Journal*, 25(1), 58-72.  
doi:10.1108/01437730410512778.
- Krishnan, V.R. (2005a). Leader-member exchange, transformational leadership, and value system, *Electronic Journal of Business Ethics and Organization Studies*, 10(1), 14-21.
- Krishnan, V.R. (2005b). Transformational leadership and outcomes: Role of relationship duration. *Leadership & Organization Development Journal*, 26(6), 2005. doi: 10.1108/01437730510617654.
- Lee, J. (2005). Effects of leadership and leader-member exchange on commitment. *Leadership and Organization Development Journal*, 26(8), 655-672. doi: 10.1108/01437730510633728.
- Lok, P. and Crawford, J. (2004). The effect of organizational culture and leadership style on job satisfaction and organizational commitment – A cross-national comparison. *Journal of Management Development*, 23 (4), 321-338.
- MacKenzie, S., Podsakoff, P.M. and Rich, G.A. (2001). Transformational and transactional leadership and salesperson performance. *Journal of the Academy of Marketing Science*, 29(2), 115-134.
- Mannheim, B. & Halamish, H. (2008). Transformational leadership as related to team outcomes and contextual moderation. *Leadership & Organizational Development Journal*, 29(7), 617-630. doi: 10.1108/01437730810906353.

- Muchiri, M.K. (2011). Leadership in context: A review and research agenda for sub-Saharan Africa. *Journal of Occupational and Organizational Psychology*, 84, 440-452. doi: 10.1111/j.2044-8325.2011.02018.x.
- Oshagbemi, T. & Ocholi, S.A. (2006). Leadership styles and behavior profiles of managers. *Journal of Management Development*, 25(8), 748-762. doi: 10.1108/02621710610684231.
- Pearce, C.L., Sims Jr, H.P., Cox, J.F., Ball, G., Schnell, E., Smith, K.A., & Trevino, L. (2003). *Journal of Management Development*, 22(4), 273-307. doi: 10.1108/02621710310467587.
- Pillai, R. & Williams, E.A. (2004). Transformational leadership, self-efficacy, group cohesiveness, commitment, and performance. *Journal of Organizational Change Management*, 17(2), 144-159. doi: 10.1108/09534810410530584.
- Rad, A. and Yarmohammadian, M. (2008). A study of relationship between managers' leadership style and employee's job satisfaction. *Leadership in Health Services*, 19(2), 11-28.
- Shrestha, A.K. & Mishra, A.K. (2011). *Leadership styles, employees' commitment to organizational change, and organizational performance: A study in a Nepali technology based organization*. Paper presented at 11<sup>th</sup> South Asian Management Forum (SMAF), Kathmandu, Nepal.
- Spreitzer, G.M., Perttula, K.H., & Xin, K. (2005). Traditionality matters: An examination of the effectiveness of transformational leadership in the U.S. and Taiwan. *Journal of Organizational Behavior*, 26(3), 205-227. doi:10.1002/job.315
- Taormina, R.J. (2008). Interrelating leadership behaviors, organizational socialization, and organizational culture. *Leadership & Organization Development Journal*, 29(1), 85-102.
- Tatum, B.C., Eberlin, R., Lottraba, C. and Bradberry, T. (2003). Leadership, decision making and organizational justice. *Management Decision*, 41(10), 1006-1016.
- Vigoda-Gadot, E. (2007). Leadership style, organizational politics, and employees' performance: An empirical examination of two competing models. *Personnel Review*, 36(5), 661-683. doi: 10.1108/00483480710773981.
- Walter, F. and Bruch, H. (2007). Leadership in context: investigating hierarchical impacts on transformational leadership. *Leadership and Organization Development Journal*, 28 (8), 710-726.

Zhou, J., & Ferris, G.R. (1995). The dimensions and consequences of organizational politics perceptions: A confirmatory analysis. *Journal of Applied Social Psychology*, 25(19). 1747-1764. doi: 10.1111/j.1559-1816.1995.tb01816.x.