

Evaluation of Relationship between Power Distance and Transformational Leadership: Examination of Multinational Corporations in Taiwan

Weng Kun Liu¹, Yueh-shian Lee²

¹Department of International Trade, Feng Chia University, Taiwan

²Department of Accounting, Feng Chia University, Taiwan

Abstract. This study applied Structural Equation Modeling (SEM) to investigate the relationship between power distance and transformational leadership for the managers in Taiwanese Multinational Corporations (MNCs). Data is collected from 208 managers or executives of MNCs in Taiwan. Power distance is tested via Hofstede's cultural dimension. Transformational leadership behaviors are measured through Bass and Avolio's Multifactor Leadership Questionnaire, including the following four categories: (1) idealized influence, (2) inspirational motivation, (3) intellectual stimulation, and (4) individualized consideration. The research results reveal that power distance has direct effect on idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.

Keywords: Power Distance, Transformational Leadership, Multinational Corporations

1. Introduction

Cultural differences influence the leadership behavior. Furthermore, cultural misunderstandings can cause business failures (Aitken, 2007). Fairholm (1994) finds that cultural issues are related to leadership studies. Leaders must be able to manage recruitment and retention, regulation, policy and procedure based on the culture issues in the competitive market. Organizations face problems related to the difficulty in developing trust among employees in different countries and overcoming communication barriers (Clem, 2011; Benito, 2011). Without a sense of trust, members are often unwilling to share their true beliefs or viewpoints (Crosby, 1997; Dadhich & Bhal, 2008). Therefore, leaders must understand employees' awareness of organizational culture, and modify the organizational culture to achieve organizational goals.

Leadership theories and practices have been studied in various contexts. For leadership to be effective, issues related to an organizational culture have to be identified. Successful leaders select, pay, promote, and train employees in accordance with cultures (Gupta, 2004). They use various approaches to manage employees.

A leader with the concept of leadership self-efficacy is anticipated to obtain higher level of task performance (Wood & Bandura, 1989). Leadership self-efficacy is defined as a leader's appropriate role and the confidence of self-schematic in leader's perceived capabilities to develop psychological motivations and behaviors required to achieve effective performance within the domain of leadership (Bandura, 1997). Leadership self-efficacy decides what challenges leaders confront, how they face the challenges, and how they resolve the difficulties and obstacles. Leadership self-efficacy not only affects an individual's effort and persistence, but influences one's leadership activities. Leadership self-efficacy may bring the leadership structure of the leader to the desired style of leadership, performance standard, and organizational expectation.

Some researchers only investigate the relationship between organizational cultures and leadership styles. This study investigates the relationships among three domains: cultural dimensions, transformational leadership and leadership self-efficacy in multinational firms in Taiwan. This study attempts to help managers understand the relationships among cultural dimensions, leadership behaviors and self-efficacy, to avoid the cultural misunderstanding and to find the correct leadership method for assisting firm performance. Managers recognize the influence of cultural dimensions; managers will be able to develop realistic strategies and train leadership abilities to manage subordinates in specific areas (Erez & Gati, 2004). Effective leadership abilities certainly reveal the important cross-culture issues in maintaining a competitive

advantage and in supporting firm performances (Fairholm, 1994). Therefore, business must understand the relationship among cultural dimensions, leadership behaviors and self-efficacy in order to improve their performances.

2. Literature Review

2.1. Power Distance

Power distance is the extent of a society's tolerance for social hierarchy and power structures. Power distance measures the equality or inequality among people in a society. Power and inequality are fundamental aspects of any society which is aware that all societies are unequal, but some are more unequal than others (Hofstede, 1980). A high power distance culture means that inequalities of power and wealth have been allowed to grow within the society. Hierarchy and inequality are fundamental to the culture. Members of this culture depend on their superiors or leaders, and managers in high power distance cultures assume employees inherently dislike work, as in McGregor's theory X assumption. Thus leaders of high power distance cultures prefer to adopt an authoritarian management style. Low power distance cultures are less the differences between citizens' power and wealth. Low power distance culture is based on McGregor's theory Y assumption that employees inherently like to work. The leadership style of low power distance culture is decentralized (Hofstede, 1980), and rewards and remuneration are based on performance.

2.2. Transformational Leadership

Transformational leadership means people follow a person with enthusiasm, vision and energy who inspires them and achieves great goals. Transformational leadership provides a generalization of thinking about leadership that emphasizes ideals, inspiration, innovations and individual concerns. Transformational leaders emphasize the value of the organizations' membership whether they are voluntary or compulsory (Hoffman, Bynum, Piccolo & Sutton, 2011). Conger & Kanungo (1998) describe five behavioral attributes of Charismatic Leaders that involve a more transformational viewpoint: Vision and articulation; sensitivity to the environment; sensitivity to member needs; personal risk taking; performing unconventional behavior. Burn (1982) defines transformation leadership as a method that leaders use charismatic methods to attract followers to the values. According to Burns (1982, p.20), "transformational leadership occurs when one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality."

According to Bass and Avolio (1994), transformational leadership is classified into the following four categories in this study: (1) idealized influence, (2) inspirational motivation, (3) intellectual stimulation, and (4) individualized consideration, which are generally abbreviated as the "Four I's" by most researchers (Avolio, Waldman, & Yammarino, 1991). Idealized influence is described as transformational leaders are prone to being respected and trusted, and followers' desirable behaviors are modulated in respond to leaders' guidance through emulation of their leaders (Bass, 1985). According to Bass (1996), inspirational motivation is defined as transformational leaders who "behave in ways that motivate and inspire those around them by providing meaning and challenge to their followers' work" (p. 9). Intellectual stimulation is defined as transformational leaders who "show their intellectual capacity by stimulating their followers' efforts to be innovative and creative by questioning assumptions, reframing problems, and approaching old situations in new ways" (Bass, 1996, p. 10). Individualized consideration is indicated as transformational leaders pay attention to followers' need and accompany their growths with leaders' mentoring and tutoring. On the basis of individual consideration, leaders and followers are interactive by mutual implication of agreements and communications (Bass, 1985).

2.3. Related Studies on Power Distance and Transformational Leadership

Leaders rely heavily on their performance behaviors and others will reciprocate their expectations by means of mutual cooperation. A leader with high power distance will be considered as less trusting and lead to lower reliability, which may lead to lower self-efficacy from others. Thus, leaders with high power distance are less trusting than those who have low power distance (Hofstede, 1980). According to Doney et al. (1998), a person with high power distance cultures is more likely to perceive that others dislike work

Burns defines transformational leadership in 1982. He stated transformational leadership provides vision and mission, gains trust and respect. Transformational leaders are able to communicate high expectations, promote motivation, rationality and problem solving, and followers respect and trust the intelligent leaders. Transformational leaders consider each employee individually and give personal attention (Burns, 1982; Avolio & Bass, 1999).

Javidan and Carl (2005) indicated that power distance, i.e., the desire to regard members of the society as equals (Hofstede, 1980), is the most important determinant of leadership style. Spreitzer, Perttula, and Xin's (2005) research examined global business and leadership effectiveness in Taiwan and the United States and produced results which concluded leaders that scored high on setting a vision, appropriate role-modeling, and intellectual stimulation were viewed as less effective by superiors who were more traditional, such as those found in a collective society, than by supervisors that were less traditional. They cite this evidence as a reason for businesses to recognize that valued leadership traits in one society may not be valued in another (Javidan, 2005).

Therefore, this study predicts four hypotheses as follows:

Hypothesis 1: Power distance has direct effect on idealized influence.

Hypothesis 2: Power distance has direct effect on inspirational motivation.

Hypothesis 3: Power distance has direct effect on intellectual stimulation.

Hypothesis 4: Power distance has direct effect on individualized consideration.

3. Methodology

Quantitative research method is applied in this study. The data for this research were collected from managers or executives of MNCs in Taiwan. The sample participants were randomly selected from Specialized Manager Name List in Taiwan, published by China Credit Information Service Ltd. As shown in Figure 1, the conceptual framework is applied to investigate the relationship between power distance, and the constructs of transformational leadership for the managers of MNCs in Taiwan.

The questionnaires were sent to randomly selected participants by email or mail. The questionnaires were written in Traditional Chinese editions. A total of 208 valid questionnaires were collected.

Leadership behaviors section was measured using part of Multifactor Leadership Questionnaire (MLQ) Form 6S containing 12 questions developed by Bass and Avolio (1992). This questionnaire was used to measure managers' leadership on four factors related to transformational leadership behaviors. Cronbach's alpha were used to test reliability as follow: Idealized influence (3 items , Alpha=0.81), Inspirational motivation(3 items , Alpha=0.87), Intellectual stimulation(3 items , Alpha=0.84), Individualized consideration(3 items , Alpha=0.86). All values above 0.7 were considered reliability.

Structural equation modeling (SEM) was used to test the hypotheses and analyzed using Analysis of Moment Structure (AMOS), version 16. The two step approach was utilized: First, the model fit for the construct was examined through confirmatory factor analysis (CFA). Second, the significance of path was examined.

4. Results and Findings

The CFA produces the goodness-of-fit (GOF) induces for this hypothesized model (see Figure 1) is considered well-fitted. The results of GOF statistics induces are listed as follows:

$$\begin{aligned}\chi^2/df &= 1.311 < 3.0; \\ \text{RMR} &= 0.001 < 0.05; \\ \text{RMSEA} &= 0.003 < 0.08; \\ \text{GFI} &= 0.978 > 0.9; \\ \text{AGFI} &= 0.956 > 0.9.\end{aligned}$$

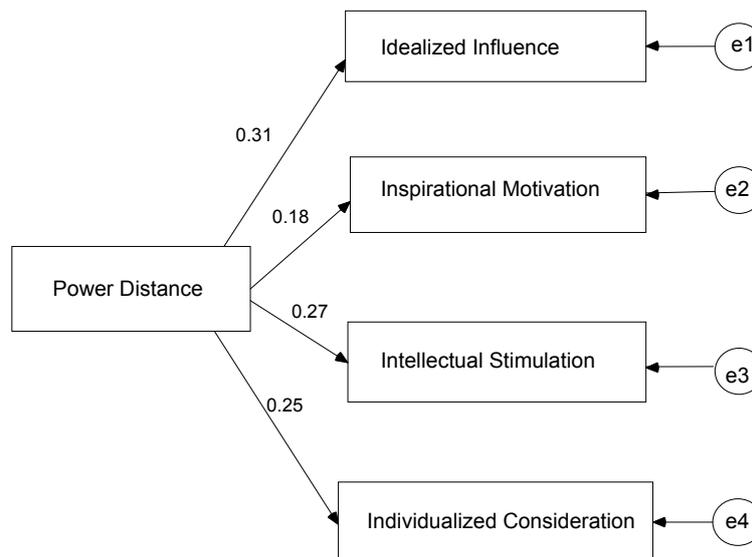


Figure 1. Results of the conceptual model

Table 1 Results of the Hypothesis

Hypothesis	Paths	Regression Weights	p	Statue
H1	Power distance→ Idealized influence	0.31	***	Sig.
H2	Power distance→ Inspirational motivation	0.18	***	Sig.
H3	Power distance→ Intellectual stimulation	0.27	***	Sig.
H4	Power distance→ Individualized consideration	0.25	***	Sig.

*** represents level of significance less than 0.001

As shown in Table 1, the study shows that Hypothesis 1, Hypothesis2, Hypothesis3, and Hypothesis4 are significant. This means that power distance significantly has effect on idealized influence, inspirational motivation, intellectual stimulation, and individual consideration.

5. Conclusion

Based on this finding, the research indicates that power distance have a significant influence on transformational leadership behavior, managers need to learn power distance and modified their behavior when lead subordinate. This research helps managers consider the relationship among power distance of cultures dimensions, so that they should think power distance and modified behaviors to achieve organizational goal. Managers should learn transformational leadership is for the target country to accommodate to the organizational culture or further the change of organizational culture.

Multinational Corporations (MNCs) have a lot of implications for culture dimension and leadership. Managers must understand diverse employees, so they can effectively lead employees who come from different backgrounds with diverse beliefs, philosophies or languages. Observing another culture allows leaders to understand the origin of subordinates' thought and to become more sensitive to the needs of subordinates.

Different degree of power distance can be challenged for leaders. Managers may have a difficult time of leading people from devise place (Metha, Dubinsky & Anderson, 2003). Human diversity may cause many conflicts. Therefore, managers of MNCs should respect for followers' opinions and help subordinates to deal with the problem instead of blame them. One way to improve leadership self-efficacy is to take the time to know all subordinates. When all members familiarize each other, they consider trust as the heart of the organization.

6. Acknowledgements

Our appreciation is offered to the anonymous participants who kindly share their opinions and experiences. Without their contributions of time and resources, this study would not have been completed.

7. References

- [1] Aitken, P. 'Walking the talk': the nature and role of leadership culture within organization cultures. *Journal of General Management*, 2007, **32**(4): 17-37.
- [2] Avolio, B. J., Waldman, D. A., & Yammarino, F. J. Leading in the 1990s: The Four I's of transformational leadership. *Journal of European Industrial Training*, 1991, **15**(4): 9-16.
- [3] Bandura, A. *Self-efficacy: The exercise of control*. New York: W. H. Freeman, 1997.
- [4] Bass, B. M. *Leadership and performance beyond expectations*. New York, NY: Free Press, 1985.
- [5] Bass, B. M. *New paradigm of leadership: An inquiry into transformational leadership* (Report No: ADA306579). Alexandria, VA: U.S. Army Research Institute for the Behavioral and Social Sciences, 1996.
- [6] Bass, B. M., & Avolio, B. J. "Transformational Leadership and Organizational Culture." *International Journal of Public Administration*, 1994, **17**(3): 541-554.
- [7] Benito, G., Lunnan, R., & Tomassen, S. Distant Encounters of the Third Kind: Multinational Companies Locating Divisional Headquarters Abroad. *The Journal of Management Studies*, 2011, **48**(2): 373.
- [8] Clem, A., & Mujtaba, B. Focus Factors: Exploring Cross-Cultural Business Dynamics of Making Deals And Building Relationships In India. *Journal of Business Case Studies*, 2011, **7**(1): 81-88.
- [9] Conger, J. A., & Kanungo, R. N. *Charismatic leadership in organizations*. Thousand Oaks, CA: Sage, 1998.
- [10] Crosby, P. B. *The absolutes of leadership*. San Francisco: Jossey-Bass, 1997.
- [11] Dadhich, A., & Bhal, K. T. Ethical leader behaviour and leader-member exchange as predictors of subordinate behaviours. *Vikalpa: The Journal for Decision Makers*, 2008, **33**(4): 15-25.
- [12] Doney, P. M., Cannon, J. P., & Mullen, M. R. Understanding the influence of national culture on the development of trust. *Academy of Management Review*, 1998, **23**: 601-620.
- [13] Erez, M., & Gati, E. A Dynamic, Multi-Level Model of Culture: From the Micro Level of the Individual to the Macro Level of a Global Culture. *Applied Psychology: An International Review*, 2004, **53**(4): 583-598.
- [14] Fairholm, G. W. Cultural leadership. In *Leadership and the culture of trust* (Ch.2), 1994.
- [15] Gupta, A. K. Greeting and managing global business teams. In A. K. Gupta, & V. Govindarajan, *Global strategy and organizations* (pp. 129-147). Danvers, MA: John Wiley & Sons, 2004.
- [16] Hoffman, B.J., Bynum, B.H., Piccolo, P.F., & Sutton, A.W. Person-organizational value congruence: How transformational leaders influence work group effectiveness. *Academy of Management Journal*, 2011, **54**(4): 779-796.
- [17] Hofstede, G. *Culture's Consequences: International Differences in Work-Related Values*. Newbury Park, CA: Sage Publications, 1980.
- [18] Javidan, M., & Carl, D. Leadership across cultures: A study of Canadian and Taiwanese executives. *Management International Review*, 2005, **45**(1): 23-44.
- [19] Mehta, R., Dubinsky, A., & Anderson, R. Leadership style, motivation, and performance in international marketing channels: An empirical investigation of the USA, Finland, and Poland. *European Journal of Marketing*, 2003, **37**(1/1): 50-85.
- [20] Spreitzer, G., Perttula, K., & Xin, K. Traditionality matters: An examination of the effectiveness of transformational leadership in the United States and Taiwan. *Journal of Organizational Behavior*, 2005, **26**: 205-227.
- [21] Wood R., & Bandura, A. Social cognitive theory or organizational management. *Academy of Management Review*, 1989, **14**: 361-384.