

Transformational leadership and organisational commitment in manufacturing and service small to medium-sized enterprises

The moderating effects of directive and participative leadership

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Abstract

Purpose – The purpose of this paper is to investigate whether the generally positive impact of transformational leadership on organizational commitment in large organizations can be extended to small- and medium-sized businesses (SMEs) in the manufacturing and service industry. The authors investigate the possible moderator effects of a participative and directive leadership style.

Design/methodology/approach – The collected data from 588 employees who rated 93 supervisors within 35 Dutch SMEs in both manufacturing and service industry. The authors analyse the nested data by means of multilevel modelling.

Findings – Transformational leadership, defined as visionary leadership and development stimulation, was positively related to organizational commitment for service SMEs, but not for manufacturing SMEs. While a participative leadership style did not moderate the relationship between transformational leadership and organizational commitment in either industry, a directive leadership style strengthened the relationship between transformational leadership and organizational commitment in manufacturing SMEs.

Research limitations/implications – Leaders in the service industry SMEs should engage in transformational leadership, whereas leaders in manufacturing industry SMEs should engage in other types of leadership. Future research should examine effective leadership in manufacturing.

Practical implications – As the results of this study suggest, a distinction should be made between manufacturing and service industry. The advice therefore needs to be twofold. Supervisors in manufacturing SMEs can best improve employees' organizational commitment by intensifying transformational leader behaviour combined with a directive decision style. Supervisors in service SMEs do not have to combine transformational leader behaviour with a particular leader decision style, if they wish to be more effective.

Social implications – Demonstrating transformational leader behaviour can be successful in both manufacturing and service SMEs. However, in manufacturing companies this will only be effective when combined with a directive leader decision style.

Originality/value – Although SMEs most of the time are considered as one similar group in comparison to large organizations, the authors follow Hughes and Wood (1999; see also Stonehouse and Pemberton, 2002) who argue that because of their different products, customers, and labour it is important to disaggregate research on SMEs and differentiate between manufacturing and service SMEs.

Keywords Quantitative, Directive leadership, Transformational leadership, Small-to-medium-sized enterprises, Organizational commitment, Participative leadership

Paper type Research paper



Small- and medium-sized enterprises (SMEs), defined as organizations with less than 250 employees (European Commission, 2012; OECD, 2014), have less ability to retain employees than their larger competitors. Large organizations can usually offer better payment and more promising career prospects (Cardon and Stevens, 2004; Harney and Dundon, 2006; Nadin and Cassell, 2007). Kotey and Slade (2005) argue that because SMEs organize their human resources differently, often informally, the process of managing SMEs differs from managing people in large organizations. As such, SMEs need to know how they can influence affective organizational commitment, defined as a voluntary attachment to the organization, using methods that are cost effective. The aim of this study is to examine whether leadership may be an effective mechanism to improve affective organizational commitment.

Research has found affective organizational commitment to be a key proximal precursor for organizationally relevant outcomes such as organizational citizenship behaviour, absenteeism, and organizational effectiveness (Cohen, 2003; Katz and Kahn, 1978; Allen and Meyer, 1990). Organizational commitment is also a key predictor of voluntary turnover. Studies have found organizational commitment to be more a more important predictor of voluntary turnover than variables such as job satisfaction (Mathieu and Zajac, 1990).

When considering the context of management, the research literature provides two approaches (Mesu, 2013). On the one hand, the “best-fit” approach suggests that management of people should take contingencies into account. For instance, the Human Resource Management (HRM) literature demonstrates that contingencies such as organizational strategy, structure, industry and size are important contextual factors, because they influence the effectiveness of HRM practices (e.g. Jackson and Schuler, 1995; Jackson *et al.*, 1989; Paauwe *et al.*, 2013). The situational approach within leadership literature (e.g. Hersey and Blanchard, 1982; Bass and Bass, 2008) emphasizes the importance of contingencies such as characteristics of the employees, and the nature of the work when considering the effectiveness of leadership. Although both HRM and leadership research within the “best-fit” approach consider contingencies, the contingencies within HRM research are generally at the macro-level, while the contingencies within the leadership research are generally at the micro-level.

On the other hand, the “best-practice” approach suggests that there is a single best way to manage people. For example, HR practices such as High Commitment HRM (Walton, 1985) and High Performance Work System (HPWS) (Huselid, 1995; Huselid and Becker, 1996; Collins and Smith, 2006) are assumed to be effective in every organization. Leadership theories such as the Ohio-State (Fleishman, 1957; Fleishman and Peters, 1962; Fleishman, 1973) and the Michigan models (Likert, 1979), differentiate between task and people-oriented leadership and are examples of “best-practice” models.

In this study, we sought to determine which of the aforementioned approaches would be more appropriate for leadership within SMEs: the “best-fit” approach, which is intuitively appealing and more popular in HRM research (Delery and Doty, 1996; Delery, 1998), or the “best-practice” approach, which is more prevalent within leadership research (Yukl, 2013). A “best-practice” approach suggests that leadership styles that are effective in large organizations will be effective in SMEs too. A “best-fit” approach suggests that SMEs are different from their larger competitors and that leadership may have different effects on employees within this environment. Compared to research on HRM in SME’s (see for instance Hayton, 2003; Theodorakopoulos, 2014), the research literature on leadership in SME’s includes few studies. We consider the effectiveness of transformational leadership within SMEs and contribute to the debate regarding “best-fit” and “best-practice”.

Research in large organizations suggests that leader behaviour is positively related to organizational commitment (e.g. Bass and Riggio, 2006; Bycio *et al.*, 1995; Pillai *et al.*, 1999). A qualitative study, found that owner-managers of Dutch SMEs attempted to retain good employees by improving the firm's team spirit and family sense (Koch and Van Straten, 1997). These managers were attempting to influence employee organizational commitment through leader behaviour. Other scholars expected this relation to occur in SMEs and suggested investigating models that contain leadership and commitment (Eddleston, 2008; Pearson and Marler, 2010).

Transformational leadership, defined as leader behaviour which inspires and motivates people to perform beyond expectation (Bass, 1985), appears to particularly be affiliated with organizational commitment (Bass and Riggio, 2006; Bycio *et al.*, 1995; Kane and Tremble, 2000; Meyer *et al.*, 2002). According to Bass and Riggio (2006, pp. 32-33), the extraordinary commitment that transformational leaders evoke in their followers may underlie their excellent performance. The research literature to date is unclear whether this stimulating leader behaviour will render similar effects in SMEs as in large ones. The first contribution of this study is to extend the current literature by providing an empirical study of the relationship between transformational leadership and organizational commitment within SMEs.

Apart from the main effect of transformational leadership on organizational commitment, this study also investigates possible interaction or moderator effects (Aiken and West, 1991). We are particularly interested whether transformational leadership is strengthened or weakened by a participative leadership style, which is defined as a leadership style that aims to involve followers in decision processes (Bass and Bass, 2008). We are also interested in whether transformational leadership is strengthened or weakened by a directive leadership style, which is defined as a leadership style that focuses on top-down goal setting and role clarification (Bass and Bass, 2008; Judge *et al.*, 2004; Schriesheim and Kerr, 1974). Bass (1985) and later Bass and Riggio (2006) argued that transformational leadership could be combined with either a directive or a participative decision style, suggesting that both combinations could be equally effective. For example, a supervisor who consults employees when defining future goals may be as inspiring and as effective as a leader who is able to convince employees that the future goals he or she decided upon are worth achieving (see Bass and Riggio, 2006). Despite this contention's intuitive appeal, the research literature has not provided studies that determine whether a combination of participative leadership style and directive leadership style can be effective. The second contribution of this paper is to investigate whether and how participative and directive leadership styles moderate the relation between transformational leadership and organizational commitment.

Although SMEs are frequently considered homogenous compared to large organizations, we follow Hughes and Wood (1999; see also Stonehouse and Pemberton, 2002) and the logic of the "best-fit" approach to disaggregate research on SMEs and differentiate between manufacturing and service SMEs. Raziq (2011) found the adaptation of HPWS differed between the manufacturing and service industry in Pakistan: service-based SMEs adopt more HPWS compared to manufacturing SMEs. Recent studies have found that short-term rewards motivate employees more than long-term benefits (e.g. Edlund and Nilsson, 2007). Motivation especially has implications for small-business owners in manufacturing because SMEs need to make as many units as possible for the lowest cost. The third contribution is to test the external congruence argument (see also Hayton, 2003) for the effect of leadership within SMEs, and differentiate between manufacturing and service SMEs.

While some research has examined the effects of HRM within SMEs in different industries (Hayton, 2003; Theodorakopoulos, 2014), we decided not to differentiate between manufacturing and service SMEs in our theoretical elaboration because our study is based on the psychological leadership tradition rather than the HRM literature. In our analysis, we test the hypotheses for the two industries separately. We examine whether the impact of transformational leadership on organizational commitment can be extended from large firms to SMEs, whether this relationship is influenced by moderating effects of participative and directive leadership, and whether these effects for manufacturing and service SMEs is important for practitioners as well as scholars. Our fourth contribution is to provide owners and managers in SMEs with advice regarding the most suitable supervisors when they seek to solicit higher organizational commitment from their employees.

Research context: national culture

Because the study was conducted in the Netherlands, the results may be influenced by Dutch national culture. Dutch culture is characterized by a high individualism, high femininity, low power distance, and low uncertainty avoidance (Hofstede, 1991). As proposed by the GLOBE study, transformational leadership is less effective in individualistic cultures, but more effective in countries characterized by low uncertainty avoidance (Den Hartog *et al.*, 1999). These two predictions are in the opposite direction, which nullifying the effect. We expect a null or small effect for the impact of national culture on transformational leadership in the Netherlands.

The influence of the Dutch culture on participative and/or directive leadership style may be more pronounced than the impact of national culture on transformational leadership. Several scholars suggest that a highly feminine culture with low power distance will be favourable to a participative rather than a directive leadership style (Den Hartog *et al.*, 1999; Hofstede, 1991). Sharing between people is valued within an effeminate and low power distance cultural environment. Dutch people prefer to co-decide and believe this is the most effective method to gain employee cooperation (Hofstede, 1991). The research literature is unclear whether a more directive style of leadership produces less cooperation or even deviant behaviour in the Netherlands.

This study derives hypotheses through a discussion of the literature concerning leadership behaviour and organizational commitment. Next, we describe the research methodology and the results. Finally, we present our conclusions; suggest avenues for future research, and practical implications for SMEs.

Transformational leadership

Transformational leadership positively predicts employee and organizational outcomes. For example, transformational leadership has a positive effect on employees' subjective performance and on organizational profit (Rowald and Heinitz, 2007). Transformational leadership theory was first conceptualized by James MacGregor Burns (1978) and further elaborated by Bernard Bass (1985). Piccolo *et al.* (2012) assessed the factor structure of the dimensions of leadership styles: transformational leadership, consideration (people-oriented leadership), initiating structure (task-oriented leadership), transactional leadership and laissez faire. Their meta-analysis showed that transformational leadership is positively related to consideration and initiating structure. Two follow-up studies showed the different leadership dimensions were orthogonal (Piccolo *et al.*, 2012).

Bass and Riggio (2006) eventually distinguished four dimensions of transformational leadership. Idealized influence/charisma reflects a supervisor that provides a sense of

mission, wins the respect of followers and instils pride in them. Inspirational motivation is demonstrated by a supervisor who articulates a compelling vision, sets attractive goals and shows confidence that the employees will achieve them. Intellectual stimulation is shown by a supervisor who stimulates employees to be innovative and creative by questioning assumptions and approaching old situations in new ways. Individualized consideration is shown by a supervisor who approaches employees as individuals, rather than as members of a group, and provides special attention to their needs for development by acting as a teacher or coach.

Although widely used, the conceptualization of transformational leadership is problematic. Den Hartog *et al.* (1997) observed that the four-dimensional structure has not always been identified. None of the individual dimensions have been clearly delineated. From a theoretical perspective, the distinction between idealized influence/charisma and inspirational motivation is less clear, because charismatic leaders tend to inspire people through their vision as well (see also Rowold and Heinitz, 2007). We contend that distinguishing individualized consideration from intellectual stimulation may also be difficult because both refer to people's development. For example, a supervisor engaging in intellectual stimulation may suggest new ways of examining the job tasks. When demonstrating individualized consideration, a supervisor will invoke similar activities by spending time teaching and coaching. Both intellectual stimulation and individual consideration will help people to increase their knowledge and develop their skills and abilities. In addition, Anatonakis *et al.* (2003) and Bass and Riggio (2006) factor analysed a one-dimension scale where all dimensions loaded on one factor. When formulating the hypotheses for this paper we did not differentiate between the dimensions of transformational leadership. We analysed the data using exploratory factor analysis rather than confirmatory factor analysis to more freely examine the most appropriate structure.

Substantial relationships have been found between transformational leadership and organizational commitment in larger organizations (Bycio *et al.*, 1995; Kane and Tremble, 2000; Meyer *et al.*, 2002; Penley and Gould, 1988). Social exchange theory explains the association between transformational leadership and organizational commitment (Blau, 1964; Gouldner, 1960). According to Blau, social exchange between people should be distinguished from economic exchange. In economic exchange, both parties are clear regarding their expectations for the relationship. If employees, for example, have done their work sufficiently, they will receive their agreed salary. In social exchange, people provide services to each other without knowing if or when these services will be returned. When supervisors seek organizational commitment from their subordinates, they need to engage in behaviours that go beyond the economic exchange. Transformational leadership behaviours could articulate a compelling vision, providing a sense of mission and stimulating employees' development. Reciprocity is also relevant in leader-member-exchange (LMX), which is the theory that supervisors form a unique exchange relationship with each follower (Dansereau *et al.*, 1975). This relationship-based approach similarly derives from social exchange theory (Blau, 1964; Gouldner, 1960) and proposes that high quality relationships are characterized by trust, respect, loyalty, liking, intimacy, support, openness, and honesty (Graen and Scandura, 1987). LMX research has shown that LMX positively predicts important work outcomes (Gerstner and Day, 1997).

While transformational leader behaviours are effective in large firms, it is unclear whether transformational leader behaviours will be effective in SMEs. The "best-fit" approach suggests that SMEs are less complex organizations (Mintzberg, 1983) and do not require transformational leadership. SME leaders may simply need to clarify the

job tasks, correct people if needed and pay their agreed wages. The “best-fit” approach suggests transformational leadership will not effectively extend from large to small businesses. The “best-practice” approach suggests that employees within SMEs are susceptible to beneficial treatment from their supervisor and this will provide a positive psychological impact. Consistent with the norm of reciprocity and social exchange theory (Blau, 1964; Gouldner, 1960), employees will reciprocate beneficial leader behaviour by demonstrating higher trust and commitment. The psychological impact of supervisors on their subordinates may be even stronger in smaller than in larger organizations. Supervisors and employees work closer together in SMEs than larger organizations and the period of employment is usually longer in SMEs (Koch and Van Straten, 1997). We are more convinced by the “best-practice” approach. Although transformational leadership may not be necessary to run the SMEs, transformational leadership will have a positive influence on people’s emotions within these intense work settings.

Supervisors at a higher level tend to be perceived as more transformational compared to supervisors at lower levels (Avolio *et al.*, 2004; Kane and Tremble, 2000). Avolio *et al.* (2004) found structural distance moderated the effect relationship between transformational leadership and organizational commitment: as structural distance between employee and level of supervisor became higher, the relationship between transformational leadership and organizational commitment became weaker. Because supervisors within SMEs operate at close distance to their employees, we expect a positive association between transformational leadership and organizational commitment. We hypothesize:

- H1.* Within SMEs, transformational leadership is positively related to affective organizational commitment.

Participative and directive leadership style

Does a participative and directive leadership style enhance the influence of transformational leadership on organizational commitment in SMEs? Before answering this question, it is necessary to discuss whether the leader behaviours included in this study can be perceived as theoretically different concepts.

To begin with, directive and participative leadership styles can be regarded as opposite ends along a single continuum. While a directive leader will make decisions single-handedly, a participative supervisor will make decision in cooperation and consultation with subordinates (Bass and Bass, 2008). Directive leadership includes overlap with a transactional leadership style (Burns, 1978; Bass, 1985). Vera and Crossan (2004, p. 224) state that transactional leaders are expected to set goals, articulate agreements regarding their expectations from organizational members, articulate agreement regarding rewards for effort and commitment, and provide constructive feedback to maintain task efficiency.

Both participative and directive leadership styles can be separated from transformational leadership because all supervisors need to make decisions whether or not they have a transformational leadership style. Despite that all leaders make decision, either directive or participative leadership styles could be stronger more affiliated with transformational leadership. For example, a participative style could be more related to transformational leader behaviour than a directive style, which could be perceived as more transactional. We contend that transformational leadership, directive leadership and participative leadership are theoretically separable from each other.

The literature reports mostly main effects of participative and directive leadership styles and not their interaction effect with transformational leadership. There are some indirect clues that provide rationale for the possible strengthening effects of both leader

decision styles. First, a participative leadership style could be effective in SMEs. According to several scholars, the overall performance in SMEs is enormously dependent on how well the team works together (Dietz *et al.*, 2006; Mazzarol, 2003). As such, a participative style may be helpful in creating a greater emotional bond with the employees, which may improve team performance. In their meta-analysis, Mathieu and Zajac (1990) found a correlation of 0.39 between participative leadership and organizational commitment, which indicates that this participative leadership behaviour could substantially impact organizational outcomes. Second, a directive leadership style could also improve organizational outcomes. Supervisors who demonstrate directive leadership mainly focus on goal setting and role clarification (Judge *et al.*, 2004; Schriesheim and Kerr, 1974). Directive leaders may be particularly effective in SMEs, because most of these companies have less clearly defined job roles. Employees need to be flexible and be willing to engage in a multitude of tasks (Heneman *et al.*, 2000; Koch and Van Straten, 1997). Supervisor who clearly explains a subordinate their job tasks can be highly effective in less structure situations. Consistent with this reasoning, Mathieu and Zajac (1990) demonstrated a positive relationship between directive leadership and organizational commitment.

Although participative and directive leadership styles can be perceived as opposites, both appear to positively impact employee commitment. While this may appear contradictory, participative as well as directive supervisors are decisive supervisors even though their method of decision making differs. Participative and directive supervisors differ from supervisors who practice laissez faire behaviour, which is characterized by avoidance of decision making and generally negatively impacts supervisor outcomes (Bass and Riggio, 2006)

We expect that both participative and directive leadership styles could strengthen the effectiveness of transformational leadership. For example, a transformational supervisor might be more inspirational when he or she creates a vision, which is supported by employees because their personal aspirations have been merged with the supervisors' vision. On the other hand, a transformational supervisor could also be more inspirational by explaining exactly how employees can practically implement the company vision (also see Bass and Riggio, 2006). The effect of transformational leader behaviour is strengthened in a directive way and will therefore render a higher level of organizational commitment. We hypothesize:

H2a. In SMEs, a participative leadership style strengthens the relation between transformational leadership and affective organizational commitment.

H2b. In SMEs, a directive leadership style strengthens the relation between transformational leadership and affective organizational commitment.

Method

Sample and procedure

The sample consisted of 588 employees. The employees rated 93 direct supervisors within 35 Dutch SMEs in both the manufacturing and service industry. The smallest SME employed 16 people and the largest SME employed 240 people. We gathered data as part of a larger research project where other variables such as transactional leadership, trust in the supervisor, and organizational citizenship behaviour were also included (see also Mesu, 2013; Mesu *et al.*, 2013). None of the employees in our sample was a supervisor. In total, 15 of the participating SMEs (40 supervisors) were

manufacturing SMEs, including manufacturing, construction, and agriculture. In total, 20 of the SMEs (53 supervisors) were service SMEs, including hotel and catering service, information and communications technology, consultancy, health care and transport. We are aware that incorporating agricultural SMEs as part of manufacturing SMEs can be questioned, but within our sample there are only two agricultural SMEs. We analysed the data with and without these two SMEs and found the same effects of the different leadership styles and their interactions. Our presentation of the results of the manufacturing SMEs includes the agricultural SMEs.

Characteristics of the employees and supervisor for the two industries are presented in Table I. The results showed that employees in manufacturing SMEs were older, worked longer for the same SMEs, and included more men. We only used age in the following analyses because tenure and age are highly correlated.

All of the employees were asked to cooperate in the research. In case of two departments within a SME, each with one direct supervisor, we received a list with names of all employees who worked in one of these departments. Next, we gave each employee a number and selected half the numbers at random. Questionnaires were completed at work at prearranged times. Employees did not participate if they were, for example, ill or on holiday. During the prearranged sessions, at least one trained researcher was present to answer questions concerning the questionnaire.

Measures

Affective organizational commitment was measured by using Allen and Meyer's (1990) eight-item scale. Employees were asked to what extent they agreed with statements concerning their own commitment using a five-point scale, ranging from 1 (totally disagree) to 5 (totally agree). This scale is marginal reliable ($\alpha = 0.70$). Deleting items did not improve the reliability. Because Kline (2000, p. 12) suggests that reliabilities between 0.90 and 0.70 are good and between 0.70 and 0.60 are acceptable, we decided to use this measure as our dependent variable. An example item of affective organizational commitment is "I really feel as if this organization's problems are my own".

Transformational leadership was measured using the MLQ, Form 5X (Bass and Avolio, 2004). Participative leadership style was measured using a five-item scale from Ogbonna and Harris (2000). Directive leadership style was measured using a five-item scale from Schriesheim and Kerr (1974). Employees rated how frequently their immediate supervisors demonstrated certain leader behaviour on a five-point scale ranging from 1 (not at all) to 5 (frequently, if not always).

Considering the earlier critique on the factor structure of the MLQ (Den Hartog *et al.*, 1997), we conducted a confirmatory factor analysis (CFA) of the transformational leader behaviour 16-item scale, using Mplus (Muthén and Muthén, 2010). We initially

Characteristics of the sample	Employees		Total	Supervisors
	Manufacturing	Service		
Company size	63	75	67	67
Number sample	263	325	588	93
Age	39	33	36	39
% men	97	58	66	83
Tenure	11	5	7	11

Table I.

tested a one-dimensional scale, because the 16 items can be measured as one construct (Anatonakis *et al.*, 2003; Bass and Riggio, 2006), but this resulted in a poor fit ($\chi^2 = 527.39$; $df = 104$; $p = 0.000$; RMSEA = 0.083; CFI = 0.871; TLI = 0.851; SRMR = 0.50). We next tried a model distinguishing four dimensions of transformational leadership (each tapped by four items): idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Bass and Avolio, 2004; Bass and Riggio, 2006). This four-dimensional model was not identified, due to excessive overlapping between intellectual stimulation and individualized consideration and between idealized influence and inspirational motivation.

Analysis

Continuing CFA in an exploratory fashion, we found that a two-dimensional model provided the best fit ($\chi^2 = 183.29$; $df = 52$; $p = 0.000$; RMSEA = 0.066; CFI = 0.953; TLI = 0.940; SRMR = 0.036). The first dimension, which we called visionary leadership, was measured by four items usually incorporated into inspirational motivation and two items usually incorporated into idealized influence. The other two items were discarded: belonging to idealized influence; and referring to beliefs, values, and ethics of supervisors. These items were not only deleted for statistical reasons, but because their content related to achieving future goals, which is a feature the other six items shared. The reliability of the visionary leadership scale was good ($\alpha = 0.86$). An example item is talks optimistically about the future. The second dimension, which can be called development stimulation, was also measured with six items. Four items of intellectual stimulation and two items referring to individualized consideration were used to identify this newly formed dimension. All six items referred to teaching and stimulation of employee development, whereas the two discarded items focused on treating employees as individuals. The reliability of the development stimulation scale was good ($\alpha = 0.82$). An example item is spends time teaching and coaching.

Because we required all of the leadership scales in this study to be distinguished as separate constructs, we also conducted a CFA on the participative and directive leadership style scales alongside the transformational scales. The CFA resulted in a reasonably good fit ($\chi^2 = 595.29$; $df = 199$; $p = 0.000$; RMSEA = 0.058; CFI = 0.934; TLI = 0.923; SRMR = 0.042), with CFI and TLI a bit below 0.95, but still above the 0.90 norm, RMSEA slightly above and SRMR well below the 0.05 norm. All items loaded onto their intended factors (see Table II). The reliability of participative leadership was good ($\alpha = 0.86$). An example item is before taking action s/he consults with subordinates. They reliability of directive leadership was also good ($\alpha = 0.81$). An example item is S/he schedules the work to be done.

Because the data were nested, we aggregated the individual employee perceptions of leader behaviour to the supervisor level. This aggregation can be justified given the high intraclass correlations (ICC1; ICC2; see Bliese, 2000). All ICC1's were above 0.34, and the ICC2's above 0.76[1].

We analysed the data using multilevel modelling. Multilevel modelling provides a more rigorous testing method than ordinary regression (Hitt *et al.*, 2007; Bickel, 2007; Mathieu and Chen, 2011). Multilevel analyses were used to investigate the strength of the association between transformational leadership at the supervisor level (level 2) and organizational commitment at the employee level (level 1). In such situations, it is appropriate to use a hierarchical two-level modelling approach that simultaneously models effects at the within and between supervisor level (Raudenbush and Bryk, 2002). Level 1 captures the information of the employees within each supervisor

Items	Visionary leadership	Development stimulation	Participative leadership	Directive leadership
1. Sense of purpose	0.641			
2. Sense of mission	0.691			
3. Talks optimistically	0.598			
4. Talks enthusiastically	0.693			
5. Compelling vision	0.773			
6. Expresses confidence	0.738			
7. Re-examines assumptions		0.503		
8. Seeks differing perspectives		0.574		
9. Looks from different angles		0.618		
10. New ways of looking		0.647		
11. Teaching and coaching		0.691		
12. Develop my strengths		0.802		
13. Considers subordinates			0.742	
14. Consults before taking action			0.721	
15. Consults when faced with problem			0.630	
16. Asks for suggestions			0.788	
17. Advice on assignments			0.747	
18. Makes attitudes clear				0.666
19. Schedules the work				0.581
20. Maintains standards				0.738
21. Encourages uniform procedures				0.653
22. Let us know what is expected				0.754

Table II.
Standardized factor loadings (CFA) of leadership scales

(employee organizational commitment), and level 2 captures the variability between supervisors (aggregated employees perception of the leadership styles of their supervisor).

To test the moderator effects, we followed Aiken and West's (1991; see also Cohen *et al.*, 2002) suggestions concerning models based on standardized values. We controlled for gender and age on the employee level and company size at the higher level. Males, for example, might be differently predisposed to organizational commitment than females and people who are older might show a higher level of organizational commitment (Meyer *et al.*, 2002). Company size may also influence people's commitment, because bonding in smaller organizations may be stronger than in larger organizations (Koch and Van Straten, 1997; Storey *et al.*, 2010).

We tested the hypotheses for both participative leadership and directive leadership styles of transformational leadership (see Tables IV and V). After we added the controls (model 1), we added one of the two dimensions of transformational leadership to test *H1* (model 2). To test *H2*, we added the directive leadership style and its interaction with the dimension of transformational leadership in model 3, whilst we added the participative leadership style and its interaction with the dimension of transformational leadership in model 4. In addition, we presented (the deviance of) the model fits for the different models, and the percentage explained variance (R^2). The fit of models 3 and 4 are compared to model 2, which include only the main effect (dimension of transformational leadership).

Results

In Table III, means, standard deviations, and correlations on the individual (employee) level are presented for both the manufacturing (below the diagonal) and the service SMEs (above the diagonal). For both industries, the leadership dimensions were strongly related with each other, but are perceived as separate constructs, which is

Table III.
Means, standard deviations (SD), and correlations of study variables

Variables	Manufacturing mean (SD)	Service mean (SD)	1	2	3	4	5	6	7	8
1. Gender	1.03 (0.18)	1.58 (0.49)		0.01	0.16**	0.09	0.17**	0.05	0.10	-0.12*
2. Age	38.9 (10.7)	33.9 (10.8)	0.19**		-0.12***	-0.06	-0.15**	-0.10	-0.15**	0.16*
3. Company size	67 (43)	75 (40)	-0.11***	-0.06		0.17**	0.15**	-0.14*	0.43**	-0.13*
4. Visionary leadership	3.39 (0.40)	3.62 (0.45)	0.07	0.08	-0.01		0.72**	0.64**	0.68**	0.13*
5. Development stimulation	3.23 (0.44)	3.41 (0.35)	0.06	0.03	-0.18**	0.75**		0.76**	0.54**	0.12*
6. Participative leadership	3.38 (0.45)	3.43 (0.43)	0.06	0.04	0.02	0.75**	0.66**		0.40**	0.18*
7. Directive leadership	3.35 (0.36)	3.60 (0.43)	0.10	0.08	-0.21**	0.64**	0.71**	0.64**		0.11**
8. Organizational commitment	3.42 (0.61)	3.54 (0.65)	0.04	0.12	0.03	0.11*	0.05	0.05	0.13*	

Notes: For manufacturing ($n = 262$), correlations below the diagonal and service SMEs (correlation above the diagonal, $n = 324$). * $p < 0.05$ (two-tailed), ** $p < 0.01$ (two-tailed); company size and the four leadership styles are on supervisor level

consistent with our CFA. While organizational commitment was only related to visionary and directive leadership for manufacturing SMEs, organizational commitment was related to all four leader behaviours for service SMEs.

Table IV (visionary leadership) and Table V (development stimulation) show the results of the multilevel analyses. The empty models (not in the tables) showed that 82 per cent of the variance of organizational commitment was related to the employee level and 18 per cent was related to the supervisor level for the manufacturing industry. Similar results were found for the service industry: 88 per cent of the variance of organizational commitment was related to the employee level and 12 per cent was related to the supervisor level. For both industries, age was positively related to organizational commitment (model 1: 0.13, $p < 0.05$ for the manufacturing SMEs and 0.15, $p < 0.01$ for the service SMEs). While company size was not related to organizational commitment for the manufacturing SMEs, company size was negatively related for the service SMEs (-0.12 , $p < 0.05$); the smaller the SMEs within the service industry, the higher employees' organizational commitment.

In *H1*, we predicted a positive relationship between transformational leadership and organizational commitment. Tables III and IV demonstrate that *H1* was supported for both dimensions of transformational leadership in the service SMEs (visionary leadership: 0.29, $p < 0.01$; development stimulation: 0.37, $p < 0.01$). *H1* was not supported for the manufacturing SMEs (visionary leadership: 0.12, ns and development stimulation: 0.06, ns). These results provide evidence for *H1* for the service industry, but not for the manufacturing industry. Regarding, "best-practices" vs the "best-fit" approach, these results indicate that the effectiveness of transformational leadership is not universal ("best-practices" approach), but is dependent on industry ("best-fit" approach).

For both industries, no significant interaction effects between visionary leadership and development stimulation, on the one hand, and a participative leadership style, on the other

	Manufacturing				Service			
	Model 1	Model 2	Model 3	Model 4	Model 1	Model 2	Model 3	Model 4
<i>Employee level</i>								
Gender	0.04	0.05	0.05	0.09	0.15	0.18	0.20*	0.20*
Age	0.13*	0.13*	0.13*	0.12*	0.15**	0.17**	0.18**	0.18**
<i>Supervisor level</i>								
Company size	0.02	0.03	0.04	0.04	-0.12*	-0.14*	-0.09*	-0.19**
Visionary leadership (vision)		0.12	0.27	0.13		0.29**	0.12	0.10
Participative style (part)			-0.14				0.24*	
Directive style (direct)				0.42*				0.30*
Vision × part			0.06				-0.02	
Vision × direct				0.53*				-0.06
Intercept	-0.24	-0.23	-0.24	-0.26	0.02	-0.02	0.02	0.01
Model fit	685.65	685.11	684.56	679.10	923.36	916.38	913.24	911.78
Deviance in model fit	25.34**	0.54	0.55	6.01*	11.99**	6.98**	3.14	4.60***
Variance level 2	0.18	0.18	0.17	0.15	0.10	0.06	0.05	0.04
Variance level 1	0.75	0.75	0.75	0.74	0.94	0.94	0.94	0.94
Change in R^2		0	3%	9%		20%	8%	17%

Notes: For manufacturing ($n = 262$ employees; 40 supervisors) and service SMEs ($n = 324$ employees, 53 supervisors). * $p < 0.05$; ** $p < 0.01$; *** $p < 0.10$

Table IV.
Effects of visionary,
directive and
participative
leadership styles on
organisational
commitment

hand, were found (interaction with visionary leadership for manufacturing SMEs: 0.06, ns for service SMEs: -0.02, ns; interaction with development stimulation for manufacturing SMEs: 0.05, ns for service SMEs: -0.01, ns). These results do not support *H2a*: the combination of transformational leadership and a participative leadership style has no additional effect on organizational commitment for SMEs. A main effect for a participative leadership style in the service industry was found (0.24, $p < 0.05$; 0.22 $p < 0.10$).

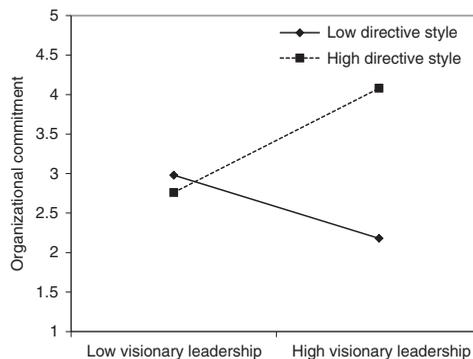
While we found significant interaction effects for both dimensions of transformational leadership, on the one hand, and a directive leadership style, on the other hand, for manufacturing SMEs (interaction with visionary leadership: 0.53, $p < 0.05$, and development stimulation: 0.42, $p < 0.05$), we did not find these effects for service SMEs (interaction with visionary leadership: -0.06, ns and development stimulation: 0.01, ns). Interaction effects for manufacturing SMEs are depicted in Figure 1 (visionary leadership)

	Manufacturing				Service			
	Model 1	Model 2	Model 3	Model 4	Model 1	Model 2	Model 3	Model 4
<i>Employee level</i>								
Gender	0.04	0.04	0.04	0.08	0.15*	0.22*	0.22*	0.22*
Age	0.13*	0.13*	0.13*	0.11*	0.15**	0.18**	0.18**	0.19**
<i>Supervisor level</i>								
Company size	0.02	0.03	0.04	0.05	-0.12*	-0.13*	-0.09***	-0.20**
Development stimulation (DS)		0.06	0.10	-0.05		0.37**	0.15	0.21***
Participative style (part)			-0.03				0.22***	
Directive style (direct)				0.47*				0.28*
DS × part			0.05				-0.01	
DS × direct				0.42*				0.01
Intercept	-0.24	-0.23	-0.25	-0.25	0.02	-0.04	0.01	-0.04
Model fit	685.65	685.48	685.36	678.24	923.36	915.31	913.54	910.34
Deviance in model fit	25.34**	0.17	0.12	7.23*	11.99**	8.05**	1.77	4.97***
Variance level 2	0.18	0.18	0.18	0.15	0.10	0.05	0.04	0.03
Variance level 1	0.75	0.75	0.74	0.73	0.94	0.94	0.94	0.94
Change in R^2		0	0.1%	8%		25%	10%	20%

Table V. Effects of development stimulation, a directive and participative leadership style on organisational commitment

Notes: For manufacturing ($n = 262$ employees; 40 supervisors) and service SMEs ($n = 324$ employees; 53 supervisors). * $p < 0.05$; ** $p < 0.01$; *** $p < 0.10$

Figure 1. The moderating effect of a directive leadership style in the relationship between transformational leadership (visionary leadership) and organizational commitment



and Figure 2 (development stimulation). Both figures show that under the condition of a low directive style, transformational leadership is not effective, while under the condition of a highly directive style, transformational leadership is positively related to organizational commitment. These results imply that *H2b* is supported for the manufacturing industry, but not for the service industry. In the service industry the main effect of a participative leadership style was significant (0.30, $p < 0.05$; 0.28, $p < 0.05$).

In addition, we also examined three-way interactions (transformational leadership \times directive leadership \times participative leadership) for both dimensions of transformational leadership and for both industries. None of the three-way interactions were significant[2].

Discussion

In this study, we examined whether the generally positive impact of transformational leadership in large organizations could be extended to SMEs in manufacturing and service industries. According to the “best-practice” approach for leadership research, best leadership practices should be effective regardless of contingency factors such as size, industry or characteristics of the employees (Bass, 1985; Bass, 1997). On the other hand, the “best-fit” approach, for example the situational approach within leadership research (Hersey and Blanchard, 1982; Bass and Bass, 2008), emphasizes the importance of considering contingencies when evaluating the effectiveness of leadership. In addition, we investigated possible moderator effects of a participative and directive leadership style in the relationship between transformational leadership and affective organizational commitment.

The results of our study produced several important findings. In support of our predictions, both dimensions of transformational leadership were positively related to organizational commitment in SMEs within the service industry. Transformational leadership is not only effective in larger organizations, but is also suited for service SMEs. For manufacturing industry, the combination between transformational leadership and a directive leadership style is most effective. The most important conclusion from our results regards the “best-fit” and “best-practices” approaches. We found support for the “best-fit” approach. The effect of transformational leadership depends on the size and industry of organization: while transformational leadership is effective in service SMEs, within manufacturing SMEs transformational leadership is only effective when it is combined with a directive leadership style. On the other hand, the results showed that employees in manufacturing and service SMEs differ in terms

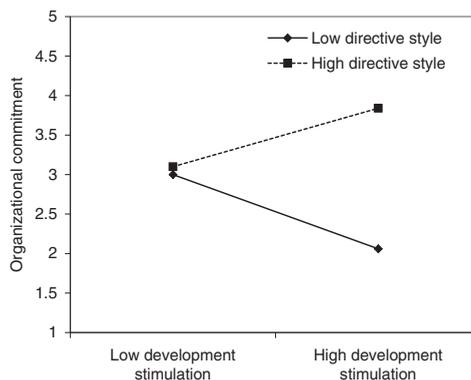


Figure 2.
The moderating
effect of a directive
leadership style in
the relationship
between
transformational
leadership
(development
stimulation) and
organizational
commitment

of gender, age, and tenure. Some employees may be less sensitive to transformational leadership and that this explains the different effects between manufacturing and service SMEs. Future research is needed to examine these effects.

More research is also needed to examine why the effectiveness of transformational leadership is different for service and manufacturing industry. Possible answers can be found in the HRM literature. Industry, as a contingency factor, seems to have an effect within HRM research. For example, Combs *et al.* (2006) conducted a meta-analysis that found that the relationship between HPWS and performance is stronger for manufacturing industry. On the other hand, Raziq (2011) found that service-based SMEs adopt more HPWS. Given some overlap in HPWS and transformational leadership as a way to manage people, because both are focussed on an employee-oriented style, future research could examine the combined effect of HPWS and transformational leadership within (service and manufacturing) SMEs.

We were interested to discover that company size was negatively related to organizational commitment for service SMEs, but was not related for manufacturing SMEs, which is another evidence for the “best-fit” approach. We found evidence for an inverse relationship where employees within smaller service SMEs are relatively more committed. As yet, we cannot be conclusive about the influence of company size on the level of organizational commitment because we did not compare SMEs with large organizations. Future research may conduct more comparisons between SMEs and large organizations.

In our study, within the category of organizational commitment we focused on affective organizational commitment. Literature includes three distinct dimensions of organizational commitment: affective, continuance, and normative organizational commitment (Allen and Meyer, 1990; Meyer and Allen, 1991). Amongst the three dimensions, affective organizational commitment is most studied and demonstrates the highest relationships to employee and organizational outcomes (Cohen, 2003, Katz and Kahn, 1978). In addition to the organization, various alternative foci of commitment have been increasingly recognized (Cohen, 2003). One such alternative focus is occupation. Where occupational commitment has an affective dimension, it captures an employee’s emotional identification with work goals and occupation. Occupational commitment appears to be associated with retention, which is related to both occupational and organizational membership. Future research should investigate the relationships between the different dimensions and foci of commitment within SMEs.

Contrary to the contention held by other scholars (Antonakis *et al.*, 2003; Bass and Riggio, 2006) that the dimensions of transformational leadership can be grouped together and measured as one construct, our CFA did not identify a one-dimensional model of transformational leadership. In addition, our CFA did not identify the four dimensions as proposed by Bass and Avolio either (2004; see Den Hartog *et al.*, 1997). More research is needed to gain a better insight into the different dimensions of transformational leadership.

Despite the research context of the Netherlands for our study, the results in our sample of 35 SMEs did not indicate a tendency that the effects of participative and/or directive leadership are more outspoken. While for manufacturing both the main and moderating effects of the participative leadership style were weaker than those of the directive leadership style, in the service industries the effects of both styles of leadership were more or less similar. This may be somewhat surprising, since it is generally assumed that a participative leadership style works best when the subordinates’ commitment is important (Bass and Bass, 2008). Supervisors in SMEs may possibly be more directive and more influential, because many of them copy the

dominant role exemplified by the owner-managers of these companies (Koch and Van Straten, 1997). In smaller manufacturing firms, where manufacturing is less automated, a supervisor who knows the work and gives clear direction on the tasks could be much appreciated. Another explanation may be that employees from manufacturing SMEs can consider a participative style of leadership as a sign of weakness, indicating that supervisors does not know what they want and consults others when decisions need to be made. Further research is needed to discern why a directive leadership style might have a greater impact in these SMEs than a participative leadership style. Improved understanding would be obtained if this research would be repeated in many different countries.

Limitations

This study includes several limitations. First, our study was conducted in the Netherlands and can be influenced by the Dutch culture. Future research in other cultures is needed to compare the structure and effects of transformational leadership. For instance Luo *et al.* (2013) did not find support for the original western-oriented nine-factor Full Range Leadership Model (MLQ) in China. Factor analysis showed that the MLQ in China can be reduced by two factors: transformational and passive leadership.

Second, the leadership dimensions within this study were statistically associated, which is not optimal for examining interaction effects of independent variables. We demonstrated that all leadership dimensions could be perceived as separate constructs. Despite this limitation, this study contributed to the existing literature by demonstrating several moderating effects – of a directive leadership style in particular – on the relation between transformational leadership and organizational commitment.

Finally, because this research was cross-sectional, nothing definite can be concluded concerning causal relationships. A better insight into causal relations could be obtained by conducting longitudinal studies.

Practical implications

What practical advice can be given to the owner-managers of SMEs, if they wish to attain a higher level of organizational commitment among their employees? As the results of this study suggest, a distinction should be made between manufacturing and service industry. We provide twofold advice. Supervisors in manufacturing SMEs can best improve employees' organizational commitment by intensifying transformational leader behaviour combined with a directive decision style. A supervisor who sets future goals personally rather than collectively will be more effective in manufacturing SMEs, as will a leader who coaches employees by instructing them rather than by negotiating with them. Supervisors in service SMEs do not have to combine transformational leader behaviour with a particular leader decision style when they wish to be more effective. Intensifying both visionary leadership and development stimulation as such will solicit additional organizational commitment from employees within these companies. Demonstrating higher levels of a participative and/or directive leadership style may render similar positive effects. Demonstrating transformational leadership behaviour can be successful in both manufacturing and service SMEs. In manufacturing companies, transformational leadership will only be effective when combined with a directive leader decision style.

Conclusions

Our study showed in a Dutch sample of SME's that transformational leadership, in terms of visionary leadership and development stimulation, was positively related to

organizational commitment for service SMEs, but not for manufacturing SMEs. While a participative leadership style did not moderate the relationship between transformational leadership and organizational commitment in either industry, a directive leadership style strengthened the relationship between transformational leadership and organizational commitment for manufacturing SMEs.

Notes

1. Visionary leadership: ICC1 = 0.39, ICC2 = 0.80; development stimulation: ICC1 = 0.35, ICC2 = 0.76; participative leadership: ICC1 = 0.37, ICC2 = 0.78; and directive leadership: ICC1 = 0.34, ICC2 = 0.76.
2. For both visionary leadership and for development stimulation we found the same effects: in the manufacturing industry this three-way interaction is 0.09, ns, in the service industry this interaction is 0.02, ns.

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