

The Effects of Transformational Leadership in Chinese Family Business How Should Family Business Lead Their Family Employees?

Fei Yi GAO, Shanshan BAI, and Kan SHI

Abstract—Based on a sample of 186 family businesses in China, this study examined the adoption of transformational leadership in Chinese family businesses, and its impacts on the organizational commitment of family employees. Attitudinal and behavioral data were collected from both family business owners and family employees. With a China-specific version of leadership questionnaire, this study identified that a high level of transformational leadership behavior was practiced by Chinese family business owners. Results of multivariate analyses further indicated that family business owners' transformational leadership behavior has positive effects on family employees' value commitment and commitment to stay.

Index Terms—transformational leadership; organizational commitment; family employee, Chinese family business

I. INTRODUCTION

Family firms are businesses in which ownership and management are controlled by a family or family clan [1, 2]. Irrespective of scale of operation, industrial activity, and levels of socio-political and market development, family firms have been the backbone of socio-economic advancement across many nations [3]. In these family firms, family employees have long been viewed as an important source of competitive advantage. As both company members and owners' family members, family employees are generally found to be highly committed and loyal to their companies, and are able to provide companies with firm-specific tacit knowledge, quality social networks, and even financial and physical assets [4]. Therefore, the way of leading family employees in order to maintain or even enhance their organizational commitment have always been an important concern of family business owners [5].

One significant development in understanding leadership in the past decade has been the emergence of transformational leadership theory [6-8]. Based on the book of Burn [9], leadership style were conceptualized in terms of transformational and transactional characteristics. Transactional leadership describes those who lead through social exchange, and concentrate on accomplishing tasks and promise rewards for good performance, while disciplining poor performance. In contrast, transformational leaders stimulate and inspire followers to achieve

extraordinary outcomes by raising the level of motivation and morality in both themselves and their followers. More specifically, this type of leadership generates awareness and acceptance among followers of organizational goals by recognizing and broadening followers' interests and aligning these interests with organizational goals. Transformational leaders can motivate followers to reach their fullest potential and exceed expected performance, as well as increasing their level of satisfaction and commitment to the organization [10, 11]. Compared with transactional leadership, transformational leadership is believed to be advantageous in developing leaders and improving followers' loyalty, trust, self-esteem and self-efficacy [12, 13].

Relevant studies in other contexts have documented significant correlations between transformational leadership and employees' commitment [14, 15]. However, there has been a very limited study of transformational leadership and its possible consequences in the context of family business [16], particularly in Chinese family business. Regarding the applicability of transformational leadership in family firms, scholars in family business field have different opinions. One group of scholars believes that family businesses provide a perfect ground for the exercise of transformational leadership. The leadership adopted in family businesses may actually be similar to transformational leadership [17, 18]. The other group of scholars argues that transformational leadership will be seen as threatens to the stability of the traditional family business structure, thus may not be welcomed by both family business owners and family employees [10, 14, 19]. Against this background, this paper aims to find out whether transformational leadership is practiced in family businesses in mainland China? If yes, how will transformational leadership influence the commitment of family employees? Involving cross-sectional data from a sample of Chinese family businesses (CFBs), this study empirically explores the practice of transformational leadership style in CFBs, and further examines its impacts on the organizational commitment of family employees. As one of the very few studies that empirically investigate the practice and effects of transformational leadership in Chinese family businesses, this paper has important implication to both academics and practitioners in the field of family business.

The reminder of this paper first discusses the concept and various dimensions of transformational leadership, and develops hypothesis accordingly. The authors then introduce the sampling and data collection procedure, followed by the discussion of results and implications. The final section concludes this paper with the limitations of key contributions of the study.

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II. THEORETICAL BACKGROUND AND HYPOTHESES

The term 'transformational leadership' was first coined by Downton [20], and then emerged as an important approach to leadership research by Burns [9]. They believe that leadership is different from power because it is inseparable from followers' needs. Based on these early works, several theories of transformational leadership [6, 10] were generated to advance this new leadership concept. Different from the traditional concept of leadership as a relationship of economic exchange that offers rewards or compensation for a desired behavior, the new theory views leadership as a change process and explores the impacts of leader behavior on followers' values, beliefs and higher-order needs [11]. Specifically, Bass [6] described transformational leadership as leader behaviors that stimulate and inspire followers to achieve extraordinary outcomes by raising the level of motivation and morality in both themselves and their followers. Transformational leaders are effective in promoting organizational commitment by aligning goals and values of the follower, the group, the leader, and the organization [10, 12, 21]. Its strong, positive effects on followers' attributes and commitment will then motivate followers to reach their fullest potential and exceed expected performance [11]. Bass and his colleagues further conceptualized transformational leadership into four components: idealized influence; inspirational motivation; intellectual stimulation; and individualized consideration. Each of the components help build followers' commitment in different ways [6, 19, 22]. The following texts discuss these components and their impact on followers' organizational commitment in detail.

Idealized influence, also called charisma, describes transformational leaders who behave as role models for their followers. Followers usually perceive these leaders as having extraordinary capability, persistence and determination, as well as high standards of moral and ethical conduct. They deeply admire, respect and trust these leaders, and thus identify with the leaders and want to imitate them. Under such leadership, followers have a vision and a sense of mission [19, 21]. *Inspirational motivation* occurs when leaders motivate and inspire those around them by providing challenges and meaning to their work. They provide visions of what is possible and how to attain these goals. More specifically, these leaders get followers involved in envisioning the future, and then they promote positive expectations about what needs to be done and demonstrate commitment to the shared vision [19]. With this dimension, leaders are able to promote followers' emotional commitment and excitement to a mission [11]. *Intellectual stimulation* encourages followers to be creative and innovative. In practice, transformational leaders help others to think about old problems in new ways, and to continuously question and develop their own beliefs, assumptions and values. These leaders also jointly work with their followers to deal with problems in innovative ways. The pride in actions of all those involved and joint success in overcoming obstacles will reinforce organizational commitment of followers [11, 19]. *Individualized consideration* means understanding and sharing others' concern and developmental needs, and treating each individual follower uniquely. Leaders act as

coaches and advisors to not only identify and satisfy each individual follower's current needs, but also to attempt to expand and elevate the needs in order to assist followers become fully actualized. By emphasizing on followers' personal career needs and providing them with a sense of increased competence to carry out duties, leaders could further enhance followers' commitment [10, 11].

A number of studies have empirically validated the positive effects of transformational leadership on followers' organizational commitment. For example, transformational leadership was found to be significantly related to organizational commitment and organizational citizenship behavior in a study of 864 teachers in Singapore [15]. Rai and Sinha [23] conducted a test of 261 middle managers from public banking sector in India, and identified that managers' score on transformational leadership accounted for significant amounts of variances in their commitment to the organizations. In a similar vein, positive relationships between all components of transformational leadership and followers' commitment were also identified with a total of 124 managers from banking and food industries in U.S. [14]. In the context of family business, however, little empirical evidence has been provided to support the positive relationship between transformational leadership and employees', especially family employees' commitment to their organizations [16]. As indicated in the introduction, family business scholars have different opinions about the applicability and effects of transformational leadership in the family business context.

One school of thought claims that owners and family employees in family businesses share certain vision, value and beliefs, and have high level of loyalty, commitment, trust and communication based on their long-term family relationship [17, 18]. These characteristics all serve as beneficial contextual factors for the exercise of transformational leadership. Therefore, the leadership adopted in family businesses may be similar to transformational leadership, and the exercise of transformational leadership can further reinforce those family business characteristics [16, 24, 25]. In CFBs, influenced by the dominant Confucian-orientated family culture, family employees are supposed to pay high level of filial piety, trust, respect and loyalty to their firms. In return, the CFB owners should show benevolence to their employees by taking care of their livelihood and growth [26-29]. Chinese also view high moral standard and personal charisma as important feature of good leaders [30]. These characteristics could all support the exercise of transformational leadership in CFBs and boost its impact on organizational commitment of Chinese family employees. Therefore, this study assumed that:

H1: In CFBs, the exercise of transformational leadership will be positively associated with the family employees' organizational commitment. Specifically, the more transformational leadership behaviors a leader (a firm) possesses (adopts), the higher the organizational commitment of family employees.

In contrast, the other school of thought argues that family firms generally bound by family traditions and rules, and pay excessive attentions to the long-term continuity of the businesses. These firms are resistant to change, conservative,

and stagnant [31-33]. Transformational leaders who question the status quo and seek continuous innovation and change may receive less support and be viewed as too unsettling [10, 14, 19]. Moreover, in the context of CFBs, leaders traditionally lead their followers paternalistically through hierarchical family structure. Leaders generally give orders to followers and absolute obedience is expected. By maintaining such hierarchical family relationship, family harmony is achieved [29, 34]. Since transformational leaders focus on equal and innovative leading, exercising transformational leadership in CFBs may face further obstacles and even create negative impact on employees' organizational commitment. Thus, we predict that:

H2: In CFBs, the exercise of transformational leadership will be negatively associated with the family employees' organizational commitment. Specifically, the more transformational leadership behaviors a leader (a firm) possesses (adopts), the lower the organizational commitment of family employees.

III. RESEARCH METHODOLOGY

A. Sample and Data Collection

TABLE I. SURVEY RESPONSE RATE

Region	City		Frequency (Percentage)
East-coastal	Beijing	National Capital	25 (13.4%)
	Shanghai	Directly Controlled Municipality	39 (21.0%)
		Guangzhou	Provincial Capital
Sub-total			90 (48.4%)
Inland	Harbin	Provincial Capital	30 (16.1%)
	Wuhan	Provincial Capital	26 (14.0%)
	Chengdu	Provincial Capital	16 (12.9%)
	Xi'an	Provincial Capital	24 (8.6%)
Sub-total			96 (51.6%)
Total			186 (100%)

While the unit of analysis was family businesses, the broad scope of this study was mainland China. The authors screened CFBs by asking their owners to indicate whether their firm is owned and managed by a family or family clan [2]. In order to collect data from an intentionally broad range of family businesses, the author undertook the sampling and data collection procedure in two stages. First, the authors selected seven major cities for data collection. Disparities in institutional environment, socio-culture, economic development, and market conditions across China's regions have significantly affected management, governance and leadership practices of local organizations [35, 36]. Therefore, collecting data from the seven cities chosen to represent China's eastern-coastal and inland regions enabled the author to control for the potential effects of regional disparities and improve the generalizability of the research findings. As indicated in Table I, Beijing, Shanghai, and Guangzhou represent the eastern-coastal region, and Harbin, Wuhan, Chengdu, and Xi'an represent the inland region. These selected cities are either provincial capitals or directly controlled municipalities. They all significantly represent the attributes of their corresponding

regions in terms of economic development, socio-cultural values, and institutional arrangements.

Second, the authors adopted a guanxi-assisted 'snowball sampling' method, where an initial small sample 'snowballed' into a sample that was large enough to meet the requirements of research design and data analysis [37]. The author used his guanxi networks in each city to distribute questionnaire survey packages to intermediary CFBs, who in turn enlisted and contacted other potential participants through their guanxi networks. This sampling method has been widely adopted in China-related studies, as personal connections are the key to accessing business associates and informants in China [38]. Because of their high context culture, Chinese people make very clear distinctions between insiders and outsiders. One implication is that they have little trust in outsiders, including researchers [39, 40]. Therefore, researchers working in China face much more difficulty in collecting empirical data than they would in many western societies [41]. To address this difficulty, guanxi networks, which dominate almost all business activities in China, have been essential for obtaining information and resources. Adopting a guanxi-assisted 'snowball sampling' method therefore appeared to be the most effective method to, first, gain access to potential CFBs and, second, to improve the quality and authenticity of the data gathered [42, 43]. With each respondent CFB, its owner was invited to fill out our survey questionnaire A which targeting on their leadership style, one of its family employees was invited to rate their organizational commitment level in questionnaire B.

Through the sampling and data collection process, this study obtained 186 usable responses out of the 280 CFBs initially contacted, resulting a response rate of 66.4 per cent. Information on respondent characteristics is specifically provided in Table II.

TABLE II. RESPONDENTS CHARACTERISTICS

Attribute	Frequency (Percentage)	N
Age of Firm (years)		
1-5	29 (15.6%)	186
6-10	63 (33.8%)	
11-15	56 (30.1%)	
16-20	17 (9.1%)	
> 20	21 (11.3%)	
Firm Size (No. of employees)		
< 10	5 (2.7%)	186
11-49	66 (35.5%)	
50-99	40 (21.5%)	
100-499	61 (32.8%)	
> 500	14 (7.5%)	
Industry		
Manufacturing	44 (23.7%)	186
Trade	109 (58.6%)	
Service	33 (17.7%)	
Age of Owner (years)		
20-30	16 (8.6%)	186
31-40	66 (35.5%)	
41-50	69 (37.1%)	
51-60	31 (16.7%)	
> 60	4 (2.2%)	
No. of Family Managers		
1-5	129 (69.7%)	185
6-10	38 (20.5%)	
11-20	16 (8.7%)	
21-40	2 (1.1%)	

B. Measurement of Variables

A wide range of psychological and management studies

have used Bass and Avolio's [19, 44] multifactor leadership questionnaire (MLQ) to measure transformational leadership, and proved its validity [45, 46]. However, the adoption and perception of leadership style are highly subject to national cultures, especially in countries with high power distance and a highly collectivistic culture, such as China [47]. Therefore, this study used a leadership style questionnaire that Li and Shi [48] specifically developed for China. While they referred to the MLQ, its authors developed this instrument through inductive methods by collecting leadership style information from 440 Chinese local respondents. The reliability and validity of this questionnaire has been tested through various methods [48, 49].

This study adopted a shortened China-specific version of leadership style questionnaire which was developed and validated by Li and Shi [48] in China. Our leadership questionnaire included 20 items that covered four components of China-specific transformational leadership: moral modeling, vision articulation, individualized consideration, and leader charisma. These components are relatively consistent with the original transformational leadership style questionnaire (MLQ-5x short) [19]. The authors ask each CFB owners to rate their own exercise of transformational leadership in a 5-point Likert scale (1 = 'strongly disagree' and 5 = 'strongly agree'). Further exploratory factor analysis was then conducted to group relevant items into their corresponding components (Cronbach's alpha between 0.84 and 0.89).

This paper also employed the most commonly adopted measurement of organizational commitment [50] to assess the commitment level of our sampled family employees. For each of the 15 items included, one family employee was asked to rate their opinion in a 5-point Likert scale (1 = 'strongly disagree' and 5 = 'strongly agree'). Following the approaches of previous studies [22, 51], we conduct factor analysis to further group these commitment items. While excluding the cross-loading items, two sub-groups of organizational commitment were generated: value commitment (Cronbach's alpha = 0.87) and commitment to stay (Cronbach's alpha = 0.93).

In addition, this study controlled several personal attributes for their potential effects on family employees' organizational commitment. These factors were: family employee's education (1=below high school to 6 =postgraduate), age (actual age), gender (0=male; 1=female) and position (1=lower management; 2=middle management; 3=top management).

IV. RESULTS AND DISCUSSION

Descriptive statistics of transformational leadership style adopted in CFBs are reported in Table III. As shown, the owners of our respondent CFBs appeared to adopt transformational leadership style (mean = 3.88) quite heavily. Among the four components, the owners particularly focused on leader charisma (mean = 4.12) and moral modeling (mean = 4.04), while paying slightly less attention to vision articulation (mean = 3.87) and individual consideration (mean = 3.85).

TABLE III. TRANSFORMATIONAL LEADERSHIP IN CFBs

Transformational Leadership	N	Min.	Max.	Mean	SD
Moral Modeling	185	1	5	4.04	0.55
Visionary Articulation	185	1	5	3.87	0.69
Individualized Consideration	184	1	5	3.85	0.66
Leader Charisma	184	1	5	4.12	0.57
Overall Transformational Leadership	184	1	5	3.88	0.65

Before conducting multivariate analysis (Multiple Regression) to test impact of transformational leadership on followers; organizational commitment, we addressed potential multicollinearity problems between our variables. Both the correlation (all less than 0.7) and VIF (from 1.069 to 1.198) demonstrated that multicollinearity is not a concern in this study [52].

The results of multivariate analysis are provided in Table IV. Model 1 and 3 indicated the impacts of the control variables on family employees' value commitment and commitment to stay. The results showed that family employees' age and position are positively related to family employees' commitment to stay. This indicated that family employees who are more senior in age and job position generally feel more attached to their job and have less intention to leave. The results in Model 2 indicated that all four components of transformational leadership are significantly, positively associated with family employees' value commitment. However, in terms of family employees' commitment to stay, the results of Model 4 showed that the components of vision articulation and individualized consideration do not have statistically significant impact. Therefore, our results partially support H1, since the variances of commitment to stay are not explained by all four component of transformational leadership.

In brief, our results indicate that the leadership style conducted by family business owners in China were indeed high transformational. These CFB owners generally behave as role model for their employees and pay specific attention to their own moral standard; inspire those around them by providing vision and meaning for work; and treat each employee uniquely by considering their specific work and life needs. The finding implies that China's Confucian-oriented family culture and institutional environment still heavily influence the management and leadership practices of CFBs. Indeed, China's hierarchical and high-power distance culture generally requires followers to pay absolute respect, trust, and obedience to their leaders. To maintain a dominant position in such a hierarchical relationship, it is important for leaders to show their particularly high levels of capability, persistence, and determination (leader charisma) in order to win support and respect from their followers. In addition, under China's weak legal system, high moral standards (moral modeling) are critical to ensure leaders do not abuse their dominant power, and this is an important for winning followers' trust [53, 54]. It would therefore appear that, as a consequence, the participating CFB owners displayed intensive and extensive adoption of the leader charisma and moral modeling dimensions.

TABLE IV. RESULTS OF REGRESSION ANALYSIS ON VALUE COMMITMENT AND COMMITMENT TO STAY

Model	1	2	3	4
(Constant)				
Moral Modeling		0.32**		0.19*
Vision Articulation		0.26**		-0.07
Leader Charisma		0.24**		0.21**
Individualized Consideration		0.24**		0.04
<i>Controls</i>				
Family employee's Education	-0.02	-0.06	0.13	0.12
Family employee's Age	-0.10	-0.1	0.15*	0.2*
Family employee's Gender	0.07	0.03	0.13	0.12
Family employee's Position	-0.10	-0.08	0.19*	0.18*
F-Statistics	1.05	3.73**	4.01**	4.34**
R-square	0.02	0.15	0.09	0.17
R-square change	0.02	0.13	0.09	0.09

Standardized coefficients are reported.

** Significant at $p < 0.01$; * significant at $p < 0.05$; two-tailed; N = 186
Education (1=below high school to 6 =postgraduate); Age (actual age);
Gender (0=male; 1=female); position (1=lower management; 2=middle
management; 3=top management)

By leading transformationally, their family employees have higher commitment to the value of the family firm, and feel more attached to their job by having higher commitment to stay with the current company. However, one surprise finding is that vision articulation and individualized consideration have insignificant effects in improve family employees' commitment to stay. This is consistent with findings of other studies which indicated that transformational leadership has stronger influence on affective (moral and value) commitment, with normative commitment (obligation to stay) being more influenced by exchange-based leadership, such as transactional leadership [22]. Furthermore, the significant results on the components of moral modeling and leader charisma may imply that Chinese employees have specific and high concern about leaders' charismatic attribute and capability while making their career decisions. China's collectivistic family culture may be one reason, since followers will have higher identity and self-concept under charismatic and moral leaders [11], and identity and membership with a social collective is critically important for Chinese under the collectivistic culture [29, 55].

V. CONCLUSION

This exploratory study aimed to find out whether CFB owners lead their family employees transformationally, and the influences of transformational leadership on family employees' organizational commitment (value commitment and commitment to stay). With a sample of 186 CFBs, the authors found that the leadership behavior of CFB owners is quite similar to transformational leadership style, and their transformational leadership behavior has positive impact on family employees' value commitment and commitment to stay. This study is one of the first to study the leadership style in CFBs. It empirically validates the transformational

leadership theory in the context of China, and the applicability of transformational leadership style in family businesses and its potential positive influence on family employees. Such findings enhance the understanding of the leadership styles of CFBs operating in mainland China, a subject that until now has attracted very limited empirical attention. The findings also demonstrate the relevance of leadership style in understanding employees', particularly family employees' psychological state in family business context. Moreover, this study offers useful guidelines for managers or consultants who are looking for effective leadership to lead family business in China. However, with the cross-sectional nature of this study, we have not been able to ascertain the direction of leadership and outcome variable. Future studies involving longitudinal data are preferred. Moreover, this study only focuses on family employees in family business in China. Future research would have additional value by further including non-family employees, or making comparison between family and non-family firms in China. Overall, given the rising economic significance of China and, in particular, family businesses in the country, this study have significantly contributed to the literature by enhancing our understanding leadership in and its impact on organizational commitment in CFBs, and also provided important practical implications.

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