

# Leader-Member Exchange, Transformational Leadership, and Value System

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## Abstract

This study looked at the relationship between leader-member exchange (LMX), transformational leadership, and terminal and instrumental value system congruence between leader and follower, and their relative impact on four outcomes, using a sample of 100 pairs of managers and subordinates from a non-profit organization in the United States. The four outcomes studied are perceived effectiveness of leader and work unit, follower satisfaction with leader, follower's motivation to put in extra effort, and follower's intention to quit the organization. Results of correlation analyses indicate that LMX is positively related to transformational leadership, which in turn is positively related to terminal value system congruence. Results of regression analyses using the forward option show that transformational leadership is a stronger predictor of effectiveness, satisfaction, and extra effort than LMX and terminal value system congruence. LMX explains significant additional variance in satisfaction and extra effort than what is already explained by transformational leadership. LMX is a stronger predictor of follower's intention to quit than transformational leadership and terminal value system congruence. LMX also mediates the relationship between transformational leadership and intention to quit. Instrumental value system congruence between leader and follower is not significantly related to any of the variables.

## Introduction

The constant change that has become a part of life for many organizations highlights the increasing importance of transformational leadership. Superior performance is possible only by transforming followers' values, attitudes, and motives from a lower to a higher plane of arousal and maturity (Bass, 1985). Transformational leadership is positively related to the amount of effort followers are willing to exert, satisfaction with the leader, ratings of job performance, and perceived effectiveness (Bass, 1998). Gerstner and Day (1997) argued that transformational leadership seems conceptually similar to the process of developing a unique exchange relationship that is central to Leader-Member Exchange (LMX). LMX has been found to be positively related to transformational leadership (Deluga, 1992). The relationship of leader-follower value system congruence with LMX and transformational leadership has however not been adequately explored. Burns (1978) considered transformational leadership to be a relationship wherein leaders and followers raise one another to higher levels of motivation. Their purposes, which might have started out as separate but related, become fused, leading to greater leader-follower congruence in value hierarchies. Thus, value system congruence between leader and follower could be among the most important characteristics of transformational leadership. This paper is an attempt to look at how LMX and transformational leadership are related to value system congruence, and analyze the relative impact of all the three on four outcomes—perceived effectiveness of leader and work unit, follower satisfaction with leader, follower's motivation to put in extra effort, and follower's intention to quit the organization.

## Transformational Leadership

According to Burns (1978: 4), "the result of transforming leadership is a relationship of mutual stimulation and elevation that converts followers into leaders and may convert leaders into moral

agents" thus resulting in a transforming effect on both leaders and followers. Transformational leadership raises the level of human conduct of both leader and follower. Bass (1985) defined a transformational leader as one who motivates followers to do more than they originally expected to do. Transformational leaders broaden and change the interests of their followers, and generate awareness and acceptance of the purposes and mission of the group. They stir their followers to look beyond their self-interest for the good of the group. Palmer, Walls, Burgess, and Stough (2001) found that transformational leadership was positively related to the ability to monitor and manage emotions in oneself and others.

Transformational leadership consists of four factors—charismatic leadership or idealized influence, inspirational leadership or motivation, intellectual stimulation, and individualized consideration. Followers have complete faith in charismatic leaders, feel proud to be associated with them, and trust their capacity to overcome any obstacle. Inspirational leadership involves the arousal and heightening of motivation among followers. Intellectual stimulation arouses in followers the awareness of problems and how they may be solved, and stirs the imagination and generates thoughts and insights. Individualized consideration involves giving personal attention to followers who seem neglected, treating each follower individually, and helping each follower get what he or she wants (Bass, 1998). Boehnke, Bontis, DiStefano, and DiStefano (2003) even found support for the claim that the main dimensions of leadership for extraordinary performance are universal.

The transformational leadership model adds to the two fundamental leadership behaviors of initiation and consideration in explaining the variance in subordinates' satisfaction and ratings of leader effectiveness (Seltzer & Bass, 1990). Studies have looked at the separate impact of the various components of transformational leadership on performance and attitudes. Leader's vision and vision implementation through task cues affects performance and many attitudes of subordinates (Kirkpatrick & Locke,

1996). Strength of delivery of vision by the leader is an especially important determinant of perceptions of leader charisma and effectiveness (Awamleh & Gardner, 1999). Task feedback interacts with charismatic leadership in affecting performance, and this relationship is mediated by subordinate's self-efficacy (Shea & Howell, 1999). Cremer and Knippenberg (2002) showed that the interactive effect of leader charisma and procedural fairness on cooperation was mediated by their interactive effect on the sense of group belongingness. Shamir, Zakay, Breinin and Popper (1998) found that a leader's emphasis on collective identity was related to subordinate's level of identification with the leader. Kark, Shamir, and Chen (2003) found that identification with leader mediated the relationship between transformational leadership and follower's dependence, and identification with the work group mediated the relationship between transformational leadership and follower's empowerment.

### Leader-Member Exchange (LMX)

The LMX theory occupies a unique position among leadership theories because of its focus on the dyadic relationship between leader and follower. LMX theory was originally referred to as Vertical Dyad Linkage (VDL) theory (Dansereau, Graen & Haga, 1975). According to VDL approach, leaders and followers develop dyadic relationships and leaders treat individual followers differently, resulting in two groups of followers—an in-group and an out-group. The in-group consists of a small number of trusted followers with whom the leader usually establishes a special higher quality exchange relationship. The out-group includes the remaining followers with whom the relationship of the leader remains more formal. These varying social exchange relationships are relatively enduring; they develop due to the leader's limited time and energy, and inability to give equal attention to all followers (Gerstner & Day, 1997).

Quality of leader-member exchange has been found to be positively related to follower's satisfaction, organizational commitment, role clarity, performance ratings given by leaders, and objective performance, and negatively related to role conflict and turnover intentions (Bauer & Green, 1996; Deluga, 1998; Gerstner & Day, 1997; Schriesheim, Castro, & Cogliser, 1999). Overall, results of studies suggest that having a high-quality relationship with one's leader can affect the entire work experience in a positive manner, including performance and affective outcomes (Gerstner & Day, 1997). Cogliser and Schriesheim (2000) found that work group cohesiveness, organizational climate, and leader power were related to LMX. The development of relationships in a leader-follower dyad can also be looked at in terms of a life-cycle model with three possible stages (Graen & Uhl-Bien, 1991). The relationship begins with an initial testing phase and remains at the out-group level if it does not proceed to the next stage. If the relationship proceeds to the second stage, mutual trust, loyalty, and respect are developed. Some relationships proceed to a third stage wherein self-interest gives way to mutual commitment to the mission. According to Graen and Uhl-Bien (1991), this final stage corresponds to transformational leadership.

LMX is conceptually described as an exchange process, making it appear to be a transactional leadership model, but it is not usually measured this way. Members of the in-group are not told what is expected in return for the rewards they are given as part of a high-quality exchange. Since leaders do not make explicit demands on followers in the form of harder work for these rewards, the relationship might be characterized as transforma-

tional. To the extent that LMX measures tap mutual respect, trust, and the overall quality of the working relationship, LMX is oriented toward transformational leadership. There is emerging support for the claim that LMX may be transformational, at least at certain times and under certain conditions (Gerstner & Day, 1997; Schriesheim, Castro, & Cogliser, 1999). Krishnan (2004) found that LMX and transformational leadership were positively related to each other. Dasborough and Ashkanasy (2002) argued that if prior interactions within the leader-member relationship have resulted in the members liking the leader, then members are more likely to consider the leader as truly transformational. Therefore, I hypothesized:

Hypothesis 1. LMX would be positively related to transformational leadership.

Leadership is a relationship between leaders and followers, and building this relationship requires an appreciation for the personal values of those who would be willing to give their energy and talents to accomplish shared objectives. Values form the very core of personality, and they influence the choices people make, the appeals they respond to, and the way they invest their time and energy (Posner & Schmidt, 1992). Values assume even more importance in the case of transformational leaders, since transformational leadership results in changing the needs and values of both leaders and followers. Burns (1978) held that transformational leadership is based on the role of conscious purpose drawn from values. Transformational leadership involves the uncovering of contradictions among values and between values and practice, and the realigning of values in followers.

### Value System Congruence

Rokeach (1973:5) defined a value as "an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence." A belief concerning a desirable mode of conduct is an instrumental value and a belief concerning a desirable end-state of existence is a terminal value. Values may be thought of as internalized normative beliefs that can guide behavior. If a person values freedom as an end-state of existence, it means that he or she believes that freedom is preferable to slavery. Values can be conceptualized in two distinct ways—ipsative in which values are rank-ordered, and non-ipsative in which various values are measured independent of each other. A set of rank-ordered values is called a value system. Only the ipsative (rank-ordering) measurement model can capture the unique value configuration of an individual. That a person values happiness does not say much that is unique about that person, for most human beings value happiness. What matters most is how much a person values happiness in comparison with the other things that he or she values. If one knows that a person values happiness more than self-respect, one can have a more accurate picture of that person.

Value systems are enduring and it is important to understand value systems because they make a difference in terms of how people feel about themselves and their work. Several studies have demonstrated empirically how value systems affect personal and organizational effectiveness (Meglino & Ravlin, 1998). Value systems have been found to predict various outcomes including shopping selections (Homer & Kahle, 1988) and weight losses (Schwartz & Inbar-Saban, 1988). Values influence job choice decisions, job satisfaction, and commitment (Judge & Bretz, 1992). Blickle (2000) found that work values

predicted the frequency of use of influence strategies measured one year later.

Value system congruence between leader and follower could be defined as the extent of agreement between the leader's value system and the follower's value system. Weiss (1978) found that people aligned their values with the values of their leader if they perceived their leader to be competent and successful. Transformational leadership is likely to enhance the value system congruence between leader and follower. Congruence in values between leader and follower forms the strategic and moral foundation of authentic transformational leadership (Bass & Steidlmeier, 1999). An important difference between LMX and transformational leadership is the fusion of goals of leader and follower. Burns (1978) considered the fusion of goals between leader and follower to be an essential component of transformational leadership. LMX on the other hand, even when it is a high quality exchange relationship or has reached the final stage of mature relationship, does not address the question of changing the goals or value systems of followers. A high quality relationship is not necessarily an engaging relationship that would result in a transforming effect on both leader and follower. High quality exchange relationship simply presupposes a clear mutual understanding of each other's value systems and goals, and does not imply enhancing similarity in value systems.

Krishnan (2004) found that transformational leadership mediated the relationship between LMX and value system congruence. He used a list of ten values and did not distinguish between terminal and instrumental values. The vision that a transformational leader has serves as a unifying force that facilitates the convergence of leader's and follower's thoughts, beliefs and values (Kirkpatrick & Locke, 1996; Shamir et al., 1998). Jung and Avolio (2000) found that transformational leadership was positively related to value congruence between leader and follower. They measured value congruence as the extent to which followers agreed with leaders' values, and they did not distinguish between terminal and instrumental values. However, transformational leadership focuses on the joint purposes of leader and subordinate, and often results in transforming those purposes. Only the terminal values pertain to end-states of existence, and so the leadership that focuses on purposes will be related only to the terminal values. Hence, I hypothesized:

Hypothesis 2. Transformational leadership would be positively related to terminal value system congruence between leader and follower.

## Follower Outcomes

Followers have a strong identification with leaders who are transformational, and so they would be willing to put in extra effort for the sake of such leaders. Several studies have documented a high positive correlation between transformational leadership and perceived effectiveness of leader and work unit and extra effort from follower. Impact of transformational leadership on follower effort and performance would be enhanced if followers hold personal values that are compatible with their leaders' (Klein & House, 1995). Leader's vision is especially powerful when it is congruent with follower's personal values (Shamir, 1995). Jung and Avolio (2000) found that transformational leadership, besides directly enhancing follower performance, also had an indirect effect on performance through value congruence between leader and follower.

Posner (1992) found that perceived value congruence was directly related to positive work attitudes. Value congruence in-

dicates a harmonious relationship between leader and subordinate; it should therefore result in greater satisfaction over time and a stronger desire to continue the relationship. Value congruence between employees and their supervisors is positively related to employee satisfaction and commitment (Meglino, Ravlin & Adkins, 1989). Jung and Avolio (2000) found that value congruence between leader and follower was positively related to follower satisfaction. Erdogan, Kraimer, and Liden (2002) demonstrated the complementary nature of LMX and person-organization fit in explaining job and career satisfaction.

The distinguishing feature of transformational leaders is that they are held in high regard and respected by their followers. Dvir, Eden, Avolio, and Shamir (2002) found that transformational leadership enhanced direct followers' development and indirect followers' performance. The shared perspective of the transformational leader's idealized vision and its potential for satisfying followers' needs make the leader likable. The personalized relationship between transformational leader and followers creates an environment in which the followers would feel happy to work with the leader. The transformational leader is an ideal or a role model for the follower, and hence the follower is likely to be influenced the most by such a leader. Therefore:

Hypothesis 3. Transformational leadership would be a stronger predictor of perceived effectiveness of leader and work unit, follower satisfaction with leader, and follower's motivation to put in extra effort, than LMX or value system congruence.

Shalley, Gilson, and Blum (2000) found that a work environment that complements job-required creativity had a negative effect on intentions to quit. Relationship with leader could be a part of such work environment. Scott, Bishop, and Chen (2003) demonstrated support for a model in which job satisfaction mediated the relationships between elements of a participative work environment and employee willingness to cooperate with co-workers and intention to quit. The relationships individuals had with their work groups were part of the work environment. Vecchio (1982) found that LMX was negatively related to propensity to quit. The quality of relationship between leader and follower would be the most important factor in making the follower continue to remain in that relationship. Transformational leadership will have a role to play in follower's intention to quit the job only after the follower considers the quality of relationship to be high. Thus:

Hypothesis 4. LMX would be a stronger predictor of follower's intention to quit the organization, than transformational leadership or value system congruence.

## Method

I collected data for this study from a large, non-profit, national, human service organization in the United States. Blood services (collecting and distributing blood and blood products to hospitals) comprised a major portion of the organization's domain of activity. Disaster relief, health services, and armed forces services were the most important areas of operation after blood services. The organization had total staff strength of 28,000, and operated on a \$1.5 million annual budget.

## Sample Characteristics

Those surveyed belonged to one of the 46 regional blood centers, spanning two northeastern states. Some of the respondents were handed over the surveys in person, generally at

the beginning of routine departmental meetings, by an administrative official of the organization, and were requested to answer the surveys and return them immediately. Other respondents were sent the surveys through inter-departmental mail and completed surveys were returned through the same medium to the administrative official. All responses were anonymous, and this was made clear to every respondent.

The sample of 100 leaders was drawn from nurse managers. The managers were randomly chosen and were requested to fill in the Value Survey (Rokeach, 1973) to measure their value systems. A majority of managers surveyed had been with the organization for at least 7 years. The median age of the managers surveyed was 42 years. Of the 96 managers who mentioned their gender, 71 were female and 25 were male. A subordinate of each of the managers surveyed was then randomly chosen to answer the Value Survey (Rokeach, 1973) and the leadership questionnaire. The questionnaires handed over to subordinates were coded to ensure pairing of each subordinate's response with his or her manager later. A manager had an average of 10 subordinates from whom one subordinate was randomly chosen. Of the 99 subordinates who mentioned their gender, 73 were female and 26 were male. A majority of subordinates surveyed were at least 30 years old, and had been with the organization for at least 4 years. 78% of the respondents reported that they had been working with the manager they were rating, for not less than 1 year.

## Measures

Rokeach's (1973) Value Survey was used for measuring the value systems of leaders and subordinates. Rokeach's Survey is the most commonly used instrument that is capable of accommodating all possible social values. The Value Survey has been found to be both reliable and valid (Rokeach, 1973; Schwartz & Bilsky, 1990). The Survey uses an ipsative (rank order) design and has two lists of values arranged alphabetically—the first list consisting of 18 terminal values and the second list consisting of 18 instrumental values. Each value is presented along with a brief definition in parenthesis and respondents are asked to arrange the values in each set in order of importance to and as guiding principles in their life. The value systems were thus obtained for each leader, and for one subordinate of each leader as consisting of two components—one terminal value system and one instrumental value system.

Value system congruence. Similarity between two profiles can be calculated by treating the two sets of observations as two vectors. The index of similarity would then be given by the cosine of the angle between the two vectors, which is the same as the Pearson product-moment correlation between the vectors. The correlation between a subordinate's rank order and his or her leader's rank order was taken as the index of leader-follower value system congruence for that leader-follower pair. For each leader-follower pair, I obtained two scores for the index of congruence—an index of terminal congruence and an index of instrumental congruence. The relationships of terminal congruence and instrumental congruence with other variables were studied separately.

Transformational leadership. Bass (1985) developed the Multi-factor Leadership Questionnaire (MLQ) to measure the factors in transactional and transformational leadership. Several studies (Bycio, Hackett & Allen, 1995; Howell & Avolio, 1993) have revealed high validity for the MLQ. The relationship of high transformational leadership scores on MLQ with

effective leadership was found to be significant across many settings (Bass, 1998). I used the MLQ Form 5x of Bass and Avolio (1991) to measure transformational leadership. The Questionnaire had 37 items to measure the four factors of transformational leadership—8 items for charismatic leadership, 10 items each for inspirational leadership and intellectual stimulation, and 9 items for individualized consideration. Subordinates were requested to answer the MLQ by rating how frequently their current immediate supervisors have displayed the behaviors described, using a five-point scale (0=Not at all; 1=Once in a while; 2=Sometimes; 3=Fairly often; 4=Frequently if not always). A separate score for each of the four factors of transformational leadership was obtained. The Cronbach's Alpha for items within each factor group was at least 0.9. The mean of the items in each factor group was taken as the measure of that factor. Correlations between the four factors were not less than 0.85. The mean of the four factors was taken as the measure of transformational leadership.

Leader-member exchange. I used the 7-item scale developed by Graen, Novak, and Sommerkamp (1982) for measuring LMX. This scale appears to provide the soundest psychometric properties of all available LMX measures (Gerstner & Day, 1997). I used a 4-point Likert scale for my study.

Perceived effectiveness. Bass (1985) used a four-item scale for measuring subordinates' assessment of their leader and work unit effectiveness. A slightly modified version of these four items was used in this study. The four items were: (a) How would you classify the overall work effectiveness of your unit? (b) Compared to all other units you have ever known, how do you rate your unit's effectiveness? (c) How effective is your supervisor in meeting the job-related needs of subordinates? (d) How effective is your supervisor in meeting the requirements of the organization? Subordinates gave their responses to each of the four items on a five-point scale (0=Not effective; 1=Only slightly effective; 2=Effective; 3=Very effective; 4=Extremely effective). The mean score on the four items was taken as the measure of perceived effectiveness.

Satisfaction of subordinate. Subordinate's satisfaction with leader was measured by having subordinates respond to the two items (Bass, 1985): (a) In all, how satisfied are you with your supervisor? (b) In all, how satisfied are you with the methods of leadership used by your supervisor for getting your group's job done? The subordinates' responses were recorded on a five-point scale (0=Very dissatisfied; 1=Somewhat dissatisfied; 2=Neither satisfied nor dissatisfied; 3=Fairly satisfied; 4=Very satisfied). The mean score on the two items was taken as the measure of satisfaction.

Extra effort. Extra effort from subordinates as a result of leadership behaviors was measured using the three items: (a) He/she motivates me to do more than I thought I could do; (b) He/she heightens my motivation to succeed; (c) He/she gets me to do more than I expected I could do (Bass, 1985). Subordinates were requested to answer these items by rating how frequently their current immediate supervisors have displayed the behaviors described, using a five-point scale (0=Not at all; 1=Once in a while; 2=Sometimes; 3=Fairly often; 4=Frequently if not always). The mean score on the three items was taken as the measure of extra effort.

Intention to quit. Subordinate's intention to quit the organization was measured using the three items: (a) I think often about quitting my job; (b) I intend to search for a new job soon; (c) I intend to quit my job soon. The subordinates' responses were recorded on a five-point scale (0=Strongly disagree; 1=Slightly disagree; 2=Neither agree nor disagree; 3=Slightly

**Table 1**  
Means, Standard Deviations, Cronbach Alphas, and Correlations between Variables \*

Variables	M	SD	1	2	3	4	5	6	7
1. TL	2.58	0.90	(.98)						
2. Terminal VSC	0.19	0.29	*.25						
3. LMX	1.85	0.70	***.76	.08					
4. Effectiveness	2.60	0.83	***.77	†.20					
5. Satisfaction	2.74	1.31	***.86	*.25	***.64	(.86)			
6. Extra Effort	2.24	1.14	***.88	†.20	***.72	***.78	(.92)		
7. Intention to Quit	1.56	1.22	***-.46	-.12	***-.50	***-.48	***-.81	(.91)	

\* N ranges from 92 to 100. Cronbach Alphas are in parentheses along the diagonal.

TL = Transformational leadership. VSC = Value system congruence.

† =  $p < .10$ . \* =  $p < .05$ . \*\* =  $p < .01$ . \*\*\* =  $p < .001$ .

agree; 4=Strongly agree). The mean score on the three items was taken as the measure of intention to quit.

## Results

Table 1 presents the means, standard deviations, reliabilities (Cronbach alphas), and correlations between all variables in the study. LMX was significantly positively related to transformational leadership, thereby supporting Hypothesis 1. Transformational leadership was significantly positively related to leader-follower terminal value system congruence. Thus, the results supported Hypothesis 2. Neither transformational leadership nor any of the other variables was significantly related to leader-follower instrumental value system congruence. The relationships between LMX, transformational leadership, and terminal congruence followed a two-part sequence. LMX was related to transformational leadership and transformational leadership was related to congruence, but LMX was not related to congruence. I also did a regression analysis with terminal congruence as dependent variable and both LMX and transformational leadership as independent variables; the model was significant at 0.01 level ( $R$ -Square = 0.10), the parameter estimate of transformational leadership was 0.16 ( $t = 3.09$ ,  $p < 0.01$ ), and the parameter estimate of LMX was  $-0.13$  ( $t = -1.95$ ,  $p < 0.10$ ).

Hypotheses 3 and 4 were tested using regression analysis with the forward-selection technique (Judge, Griffiths, Hill, Lutkepohl, & Lee, 1985). The forward-selection technique begins with no variables in the model. For each independent variable, it calculates F statistics that reflect the variable's contribution to the model if it is included. The variable that

would produce the largest F statistic is added to the model. The evaluation process is repeated with the variables remaining outside the model. Once a variable is entered into the model, it stays. Thus, variables are added one by one to the model until no remaining variable produces a significant F statistic. Each of the four outcomes (effectiveness, satisfaction, extra effort, and intention to quit) was separately modeled against LMX, transformational leadership, and terminal

value system congruence using the forward option. The results are given in Table 2.

Transformational leadership was a stronger predictor of effectiveness, satisfaction, and extra effort, than LMX and value system congruence, thus supporting Hypothesis 3. LMX, however, entered step 2 of the model in the case of extra effort, and explained significantly more variance in extra effort than what was already explained by transformational leadership. In the case of satisfaction also, LMX entered step 2 of the model and added to transformational leadership in explaining significant additional variance in satisfaction. Terminal congruence entered step 3 of the model but did not explain significant additional variance in satisfaction, though the model as a whole remained significant. A separate partial correlation analysis also revealed that the relationship between terminal value system congruence and satisfaction continued to remain significant after controlling for LMX, but ceased to be significant after controlling for transformational leadership or after controlling for both transformational leadership and LMX.

Findings supported Hypothesis 4. Transformational leadership and LMX were both significantly negatively related to follower's intention to quit the job, but LMX was a stronger predictor of intention to quit than transformational leadership and terminal congruence. Transformational leadership did not add

**Table 2**  
Linear Regression Using the Forward Option\*

Dependent variable	Step variable	Independent estimate entered	Parameter	F	Model R2	Model F
Effectiveness	1	TL	0.73	***159.34	.63	***159.34
	2	LMX	0.31	*6.25	.79	***174.77
Extra effort	1	TL	1.08	***324.74	.78	***324.74
	2	TL	0.90	***88.85	.79	***174.77
	3	LMX	0.31	*6.25	.79	***174.77
Satisfaction	1	TL	1.26	***262.39	.74	***262.39
	2	TL	0.95	***61.99	.77	***151.08
	3	LMX	0.51	**11.06	.77	***151.08
Intention to quit	1	TL	0.89	***50.52	.77	***102.27
	2	LMX	0.56	***12.57	.77	***102.27
	3	Terminal VSC	0.33	1.84	.77	***102.27
Intention to quit	1	LMX	-0.90	***31.89	.26	***31.89
	2	LMX	-0.64	*6.19	.27	***16.85
	3	TL	-0.25	1.60	.27	***16.85

\* Parameter estimates are reported only if a variable met the 0.50 significance level for entry into the model.

TL = Transformational leadership. VSC = Value system congruence.

\* =  $p < 0.05$ . \*\* =  $p < 0.01$ . \*\*\* =  $p < 0.001$ .

significant amount of additional variance in intention to quit when it entered the model in step 2, though the overall model continued to remain significant. A separate partial correlation analysis also showed that the relationship between transformational leadership and intention to quit ceased to be significant after controlling for LMX. Thus, LMX mediated the relationship between transformational leadership and intention to quit. Terminal congruence was not significantly related to intention to quit. Leader-follower instrumental value system congruence was not significantly related to any of the variables.

## Discussion

Transformational leadership is positively related to leader-follower terminal value system congruence, but there is no similar relationship in the case of instrumental value system congruence. Emulation of leader's value system by followers was a component of House's (1977) model of charismatic leadership. The findings of this study suggest that followers may emulate only the terminal value systems of transformational leaders, but not their instrumental value systems. Bass (1985) argued that transformational leaders elevated the value of designated outcomes in the eyes of the followers resulting in what Burns (1978) termed the fusion of leader's and followers' purposes. One of the managerial implications of this study is that one should pay attention to developing transformational leadership capabilities in managers if a change in terminal values of subordinates is contemplated. Subordinates are likely to fall in line with the terminal value systems of their leaders if their leaders are more transformational.

## Leader-Member Exchange

A significant finding of this study is that terminal congruence is positively related to transformational leadership after controlling for LMX. Many authors have highlighted the similarities between the constructs of LMX and transformational leadership (Gerstner & Day, 1997). Congruence of terminal value systems between follower and leader could be the uniqueness of the construct of transformational leadership. This study supports the claim of Burns (1978) that fusion of goals between leader and follower is the ultimate yardstick of transformational leadership.

## Follower Outcome Variables

Perceived effectiveness. The positive and significant relationship between LMX and perceived effectiveness ceases to exist after controlling for transformational leadership. Thus, transformational leadership mediates the relationship between LMX and perceived effectiveness. Scandura (1999) commented that discrepancies in empirical studies on LMX suggest that there might be mediator variables that account for some of the differences reported across studies. The correlations between LMX and perceived effectiveness of leader seen in earlier studies (Deluga, 1998) may not have been the result of a direct relationship between the two variables. This study highlights the mediating role of transformational leadership in the impact of LMX on follower outcomes.

Extra effort. Transformational leadership is the strongest predictor of extra effort, but LMX also explains significant ad-

ditional variance. Settoon, Bennett and Liden (1996) found that LMX was positively related to extra-role behaviors of subordinates. This study throws more light on the relative contributions of transformational leadership and LMX in predicting extra effort.

Satisfaction with leader. Terminal congruence, transformational leadership, and LMX are all significantly positively related to follower's satisfaction with leader. Graen et al. (1982) found that LMX was positively related to satisfaction. This study shows that the positive relationship between LMX and satisfaction with leader continues to remain significant even after controlling for transformational leadership. Meglino et al. (1989) had found a positive relationship between leader-follower value congruence and satisfaction of follower. The findings of this study however explain more by looking at terminal and instrumental value system congruence separately. It is only the terminal values that matter while considering satisfaction of follower, and the instrumental values seem to be of no consequence. However, the positive relationship between terminal congruence and satisfaction remains significant after controlling for LMX but not after controlling for transformational leadership. This further highlights terminal congruence to be a uniquely identifying characteristic of transformational leadership. The fact that transformational leadership and LMX differentially affect the relationship between terminal congruence and satisfaction demonstrates the importance of terminal congruence in understanding the construct of transformational leadership.

Transformational leadership and outcome variables. The results indicate that transformational leadership is strongly and positively correlated with perceived effectiveness, satisfaction, and extra effort, and is strongly and negatively correlated with intention to quit. Other studies have also found similar relationships (Bycio et al., 1995). Such high correlations could have been because of both leadership behaviors and effects being assessed in the same questionnaire (Howell & Avolio, 1993). In this study however, value system congruence was measured independently of the leadership questionnaire. Transformational leadership is positively correlated to terminal value system congruence, which again is positively correlated to satisfaction. Thus, the findings of this study provide greater support to the validity of the relationship between transformational leadership and satisfaction. The findings also indicate that LMX mediates the relationship between transformational leadership and intention to quit. It is not transformational leadership that directly affects follower's intention to quit, but it is the quality of the relationship between follower and leader as captured by the LMX construct that is immediately related to intention to quit.

## Limitations of Study

Participation in the study was voluntary and so there might have been some self-selection bias. Moreover, the use of correlation design does not answer the question of causality. Data was collected only from one organization, and the organization from which data was collected was a non-profit service organization known for its strong culture. It is possible that a cultural bias may have been introduced. In addition, a majority of the respondents were women. The generalizability and external validity of the results are therefore limited. The variables other than value system congruence—LMX, transformational leadership, and the four outcomes—were measured by surveying the subordinate. The same source being used for measuring all these

variables could have caused some measurement error.

## Directions for Future Research

Future research might benefit from extending this study to include objective measures of effectiveness. More studies are also needed that look at both LMX and transformational leadership and not just one of them, since part of the effects attributed to transformational leadership could actually be on account of LMX. The surprisingly distinct results obtained for terminal and instrumental values demonstrate the importance of studying the two types of values separately. Past studies have looked at the relationship between values and outcome variables like performance, turnover, and absenteeism, but it might be worth studying the relationships of outcome variables with terminal and instrumental values separately. Studying the values of managers and their subordinates across many industries and over time could be of help in generalizing the results of this study. Avolio and Bass (1999) found that combining charisma and inspiration into one factor was a better way of representing

the underlying dimensions of transformational leadership. Future research could use the resulting three-factor structure for studying transformational leadership.

## Conclusion

The multiple changes occurring in society and the business world have created a greater need for transformational leadership. This study addresses the relationship between transformational leadership, LMX, and value system congruence of follower with leader, and the impact of all the three on four follower outcomes. LMX is positively related to transformational leadership, and transformational leadership is positively related to leader-follower terminal value system congruence. The study also highlights terminal value system congruence to be a useful variable that distinguishes transformational leadership from closely related constructs like LMX. As further research provides greater support, developing transformational leadership in managers could become an integral part of attempts to change the terminal value systems of subordinates.

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