

# “Connections between individual and organizational level factors and leadership in Estonian enterprises”

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## SECTION 1. Macroeconomic processes and regional economies management

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### Connections between individual and organizational level factors and leadership in Estonian enterprises

#### Abstract

The purpose of this paper is to investigate connections between individual and organizational level factors and leadership in Estonian enterprises.

Leader-member exchange (LMX) theory suggests that leaders do not use the same style in dealing with all subordinates, but rather develop a different type of relationship or exchange with each subordinate (Liden & Graen, 1980).

Locke's range of affect theory (1976) states that satisfaction is determined by a discrepancy between what one wants in a job and what one has in a job. According to Stevens (1991), effective strategy implementation depends on the extent to which resultant changes conform to existing knowledge structures used by members of the organization to make sense of and give meaning to their work. Organizational commitment is a work-related attitude and it means the employee's psychological attachment to the organization.

McGregor's (1957) idea was his belief that managers, who hold either set of assumptions, can create self-fulfilling prophecies. According to Porter (1980), strategy is the choice of an attractive industry and good positioning within this industry (Porter, 1985). Porter (2008) has grouped competition and competitive strategy into three categories: core concepts, location as a competitive advantage and competitive solutions to societal problems.

The research questions are as follows: how three organizational level factors predict three leadership factors according to LMX and how leadership factors predict three individual level factors?

The authors conducted an empirical study in 2007-2008. The research was done in Estonian electrical-electronic machine, retail and machine-building enterprises with 623 respondents.

A standardised job satisfaction, attitude toward the firm, meaning of work, powerfulness of firm in competition against rivals, behavior of management and policy of firm questionnaires, comprising 45 items, were developed by the Denki Ringo research group (Ishikawa et al., 2006). Three factors, affect, loyalty and professional respect, were assessed by LMX scale (Liden & Graen, 1980).

A linear regression analysis was used in order to find statistically relevant connections between individual and organizational level factors and leadership in Estonian enterprises. The results indicate that all organizational level factors – powerfulness of firm in competition against rivals, behavior of management and policy of firm predict leadership styles – affect, loyalty and professional respect. Leadership styles – loyalty and professional respect predict individual level factors – job satisfaction, meaning of work and attitude toward the firm. The model was subsequently developed.

**Keywords:** job satisfaction, meaningful job, attitudes, policy, competitiveness, leadership, Estonia, electrical-electronic machine, retail and machine-building enterprises.

**JEL Classification:** M10, M12.

#### Introduction

The purpose of this paper is to investigate connections between individual and organizational level factors and leadership in Estonian enterprises. A survey was conducted in Estonian electrical-electronic machine, retail and machine-building enterprises. The research questions are as follows. How three organizational level factors, powerfulness of firm in competition against rivals, behavior of management and policy of firm, predict three leadership factors according to

leader-member exchange (LMX)? How leadership factors predict individual level factors?

The main aim of the study is to identify the connections between individual and organizational level factors and leadership in Estonian enterprises.

Locke's range of affect theory (1976) states that satisfaction is determined by a discrepancy between what one wants in a job and what one has in a job. According to Stevens (1991), effective strategy implementation depends on the extent to which resultant changes conform to existing knowledge structures used by members of the organization to make sense of and give meaning to their work. Organizational commitment is a work-related attitude and it

means the employee's psychological attachment to the organization.

McGregor's (1957) idea was his belief that managers, who hold either set of assumptions, can create self-fulfilling prophecies, that through their behavior, these managers create situations where subordinates act in ways that confirm the manager's original expectations. According to Porter (1980), strategy is the choice of an attractive industry and good positioning within this industry (Porter, 1985). Porter (2008) has grouped competition and competitive strategy into three categories: core concepts, location as a competitive advantage and competitive solutions to societal problems.

LMX theory suggests that leaders do not use the same style in dealing with all subordinates, but rather develop a different type of relationship or exchange with each subordinate (Dansereau, Graen, & Haga, 1975; Graen & Cashman, 1975; Liden & Graen, 1980; Graen, Novak, & Sommerkamp, 1982; Graen & Scandura, 1987).

A linear regression analysis was used in order to find statistically relevant connections between individual and organizational level factors and leadership in Estonian enterprises.

The following section will explore the theoretical framework of the study by presenting an overview of the literature on this topic. This will be followed by a brief discussion of the relationship between individual and organizational level factors and leadership in Estonian enterprises. Then the empirical study will be presented followed by the results and some concluding remarks.

## 1. Theoretical framework

**1.1. Leadership.** LMX theory suggests that leaders do not use the same style in dealing with all subordinates, but rather develop a different type of relationship or exchange with each subordinate (Dansereau, Graen & Haga, 1975; Graen & Cashman, 1975; Liden & Graen, 1980; Graen, Novak & Sommerkamp, 1982; Graen & Scandura, 1987). These relationships range from those that are based strictly on employment contracts (i.e., low LMX, or "outgroup") to those that are characterized by mutual trust, respect, liking and reciprocal influence (i.e., high LMX or "in-group") (Dansereau et al., 1975).

According to Liden and Maslyn (1998), LMX dimension definitions are the following:

1. **Affect.** The mutual affection members of the dyad have for each other based primarily on interpersonal attraction, rather than work or professional values.

2. **Loyalty.** The expression of public support for the goals and the personal character of the other member of the LMX dyad.
3. **Contribution.** Perception of the current level of work-oriented activity each member puts forth toward the mutual goals (explicit or implicit) of the dyad.
4. **Professional respect.** Perception of the degree to which each member of the dyad has built a reputation, within and/or outside the organization, of excelling at his or her line of work.

## 2. Individual level factors

**2.1. Job satisfaction.** Locke's range of affect theory (1976) states that satisfaction is determined by a discrepancy between what one wants in a job and what one has in a job.

According to Judge's (2001) core self-evaluations model, there are four core self-evaluations that determine one's disposition towards job satisfaction: self-esteem, general self-esteem, locus of control and neuroticism.

Herzberg's (1968) two-factor theory explains satisfaction in the workplace. This theory states that different factors, motivation and hygiene factors, drive satisfaction and dissatisfaction. Motivating factors are facets of the job that bring along job satisfaction and make people want to perform, for example, recognition and achievement in work. Hygiene factors include facets of the working environment, such as company policies, a pay and other working conditions.

Hackman and Oldham's (1976) job characteristics model is used to study how job characteristics impact on job satisfaction. Hackman and Oldham (1975) suggested that jobs differ in the extent to which they involve five core dimensions: skill variety, task identity, task significance, autonomy and task feedback. They suggest that if jobs are designed in a way that increases the presence of these core characteristics, three critical psychological states can occur in employees: experienced meaningfulness of work, experienced responsibility for work outcomes and the knowledge of the results of work activities. When these critical psychological states are experienced, work motivation and job satisfaction will be high.

**2.2. Meaning of work.** Dewey (1939) saw goodness as the outcome of "valuation", a continuous balancing of personal or cultural value, which he called "ends in view". An end in view was said to be an objective potentially adopted, which may be refined or rejected based on its consistency with other objectives or as a means to objectives already held.

According to Stevens (1991), effective strategy implementation depends on the extent to which resultant changes conform to existing knowledge structures used by members of the organization to make sense of and give meaning to their work.

**2.3. Attitudes toward the firm.** Organizational commitment is a work-related attitude and it means the employee's psychological attachment to the organization. According to Meyer and Allen's (1991) three-component model of commitment, prior research indicated that there are three "mind sets" which can characterize an employee's commitment to the organization: affective commitment is defined as the employee's positive emotional attachment to the organization; continuance commitment is where the individual commits to the organization because he/she perceives high costs of losing organizational membership, including economic costs and social costs that would be incurred; normative commitment is where the individual commits to and remains with an organization because of feelings of obligation.

### 3. Organizational level factors

**3.1. The powerfulness of the firm in competition with rivals.** Porter (2008) has grouped competition and competitive strategy into three categories: core concepts, location as a competitive advantage and competitive solutions to societal problems.

According to Cameron and Quinn (1999), the major distinguishing feature in successful companies – their most important competitive advantage and the most powerful factor they all highlight as a key ingredient in their success – is their organizational culture. Barney (1986) states that three attributes that a firm's culture must have to generate sustained competitive advantage are isolated. Previous findings suggest that the cultures of some firms have these attributes; thus, these cultures are a source of such advantage.

**3.2. The behavior of the management.** Behavioral management theory addresses the human dimension of work. Behavioral theorists believe that a better understanding of human behavior at work through such aspects as motivation, expectations and group dynamics, improves productivity. The theorists of this school view employees as individuals, resources and assets to be developed and worked with.

McGregor's (1957) idea was his belief that managers, who hold either set of assumptions can create self-fulfilling prophecies, that through their behavior, these managers create situations, where subordinates act in ways that confirm the manager's original expectations.

According to Schein (2004), organizational cultures are created by leaders and one of the most decisive functions of leadership may well be the creation, management and – if and when necessary – the destruction of culture.

According to Kanne-Urrabazo (2006), many managers do not deny the importance of organizational culture in employee satisfaction, few fail to realize the direct impact they have in shaping it. It is crucial that managers at all levels are aware of their roles and responsibilities in upholding positive workplace environments that can increase employee satisfaction.

**3.3. Company policy.** Ansoff's (1957) matrix is one of the most well-known frameworks for deciding upon growth strategies. Strategic options, relating to which products or services an organization may offer in which markets are critical to the success of companies. The Ansoff's matrix is a useful, though not an exhaustive, framework for an organization's objective setting process and marketing audits. According to Porter (1980), strategy is the choice of an attractive industry and good positioning within this industry (Porter, 1985).

According to Cronqvist, Low and Nilsson (2007) and consistent with predictions from economic theories of corporate culture, the effect of corporate culture in company policies is long-term and stronger for internally grown business units and older firms. Their evidence is also consistent with firms preserving their cultures by selecting management teams that fit their cultures. Their evidence showed that a firm's corporate culture matters in its policy choices and performance.

**3.4. Connections between organizational level factors and leadership.** According to Jennings and Lumpkin (1992), firms with a cost leadership strategy tend to use a scanning activity that evaluates competitive threats and tracks the policies and tactics of competitors.

**3.5. Connections between leadership and individual level factors.** According to Bartolo and Furlonger (2000), employee job satisfaction correlated with supervisor leadership behavior, with the exception of consideration leadership and co-worker satisfaction.

One of the underlying processes by which transformational leadership is hypothesized to exert effects on followers' wellbeing, is through the meaningfulness of followers' work (Shamir, House & Arthur, 1993).

A manager's choice of influence tactics directly affects subordinate attitudes and behaviors (Yukl, 2006).

#### 4. Empirical study

In order to find connections between individual and organizational level factors and leadership, the authors conducted an empirical study in 2007-2008. The research was done in Estonian enterprises with 623 respondents.

**4.1. Methodology.** Authors used LMX scale with 8 items. All leadership items were assessed via 6-point scale, where 1 represented strongly disagree and 6 represented strongly agree. Three factors were assessed in the current research: affect, loyalty and professional respect. Affect factor consists of three items. An example of an item was: "I like my supervisor very much as a person". This scale had a Cronbach of .79. Loyalty factor consists of two items. An example of an item was: "My supervisor defends my work actions to a superior, even without complete knowledge of the issue in question". This scale had a Cronbach of .78. Professional respect factor consists of three items. An example of an item was: "I am impressed with my supervisor's knowledge of his/her job". This scale had a Cronbach of .77.

A standardized job satisfaction, attitude toward the firm, meaning of work, powerfulness of firm in competition against rivals, behavior of management and policy of firm questionnaires, comprising 45 items, were developed by the Denki Ringo research group (Ishikawa et al., 2006) and translated from English into Estonian. The questionnaires were administered in Estonian electric-electronic machine, retail store and machine-building enterprises. The linear regression analysis was used in order to find statistically relevant connections between individual and organizational level factors and 3 leadership factors: affect, loyalty and professional respect in Estonian enterprises.

Based on the relevant literature authors developed the following general propositions:

**Proposition 1.** Three organizational level factors, powerfulness of firm in competition against rivals, behavior of management and policy of firm, predict leadership factors – affect, loyalty and professional respect.

**Proposition 2.** Leadership factors, affect, loyalty and professional respect, predict three individual level factors – job satisfaction, attitude toward the firm and meaning of work.

#### 5. Results

**5.1. Connections between individual and organizational level factors and leadership.** Our main purpose was to evaluate how organizational level factors predict different leadership styles and how

leadership styles predict individual level factors. The authors used linear regression analysis. In the first analysis organizational level factors were taken as an independent variables and leadership styles as a dependent variable. We calculated a standardized regression coefficient Beta, which enabled us to predict how strongly organizational level factors predict leadership styles. In the second analysis leadership styles were taken as independent variables and the individual level factors were taken as dependent variables. We calculated a standardized regression coefficient Beta, which enabled us to predict how strongly organizational level factors predict leadership styles and how strongly leadership styles predict individual level factors. Analysis was applied separately for 3 organizational level factors, for 3 leadership factors and for 3 individual level factors.

According to the linear regression analysis results in Table 1 and Table 2, all organizational level factors, powerfulness of firm in competition against rivals, behavior of management and policy of firm predict leadership styles – affect, loyalty and professional respect. Leadership styles, loyalty and professional respect predict individual level factors – job satisfaction, meaning of work and attitude toward the firm. Leadership style, affect, doesn't predict individual level factors – job satisfaction, meaning of work and attitude toward the firm.

Table 1. How organizational level factors predict leadership styles (according to standardised regression coefficient Beta).

		B	Beta	t	Sig.
<b>Leadership factor – affect</b>					
N = 623, R <sup>2</sup> = .082 F(1.621) = 55.666, p < .000	Powerfulness of firm in competition against rivals	.579	.286	7.460	.000*
	Behavior of management	.324	.186	4.734	.000*
	Policy of firm	.351	.113	2.859	.004*
<b>Leadership factor – loyalty</b>					
N = 623, R <sup>2</sup> = .202, F(1.621) = 157.35, p < .000	Powerfulness of firm in competition against rivals	.975	.449	12.543	.000*
	Behavior of management	.631	.338	8.964	.000*
	Policy of firm	.534	.161	4.071	.000*
<b>Leadership factor – professional respect</b>					
N = 623, R <sup>2</sup> = .268, F(1.621) = 229.17, p < .000	Powerfulness of firm in competition against rivals	.796	.519	15.138	.000*
	Behavior of management	.781	.592	18.321	.000*
	Policy of firm	1.204	.513	14.925	.000*

Notes: \* – coefficient statistically significant, p < 0,01.

Results indicate that three organizational level factors, powerfulness of firm in competition against

rivals, behavior of management and policy of firm predict leadership styles – affect ( $R^2 = .082$ ,  $F(1.621) = 55.666$ ,  $p < 0.01$ ), loyalty ( $R^2 = .202$ ,  $F(1.621) = 157.35$ ,  $p < 0.01$ ) and professional respect ( $R^2 = .268$ ,  $F(1.621) = 229.17$ ,  $p < 0.01$ ) in Estonian enterprises.

Table 2. How leadership styles predict individual level factors (according to standardized regression coefficient Beta)

		B	Beta	t	Sig.
<b>Job satisfaction</b>					
N = 623, $R^2 = .384$ , $F(3.619) = 130.72$ , $p < .000$	Leadership factor – affect	.009	.037	.263	.792
	Leadership factor – loyalty	.311	1.339	8.767	.000*
	Leadership factor – professional respect	.460	1.400	13.935	.000*
<b>Meaning of work</b>					
N = 623, $R^2 = .415$ , $F(3.619) = 146.46$ , $p < .000$	Leadership factor – affect	-.023	-.016	-.467	.640
	Leadership factor – loyalty	.152	.098	2.840	.004*
	Leadership factor – professional respect	.675	.616	19.102	.000*
<b>Attitude toward the firm</b>					
N = 623, $R^2 = .305$ , $F(3.619) = 90.621$ , $p < .000$	Leadership factor – affect	-.019	-.014	-.384	.703
	Leadership factor – loyalty	.393	.271	7.169	.000*
	Leadership factor – professional respect	.434	.423	12.018	.000*

Notes: \* – coefficient statistically significant,  $p < 0.01$ .

Results indicate that two leadership factors, loyalty and professional respect, predict individual level factors – job satisfaction ( $R^2 = .384$ ,  $F(3.619) = 130.72$ ,  $p < 0.01$ ), meaning of work ( $R^2 = .415$ ,  $F(3.619) = 146.46$ ,  $p < 0.01$ ) and attitude toward the firm ( $R^2 = .305$ ,  $F(3.619) = 90.621$ ,  $p < 0.01$ ) in Estonian enterprises. Results also indicate that one leadership factor, affect, doesn't predict none of the leadership styles – affect, loyalty and professional respect.

## Conclusions

In this article, a theoretical model of the relationship between individual and organizational level factors and leadership in Estonian enterprises was developed and analyzed. Our purpose was to examine the relationship between individual and organizational level factors and leadership styles. The findings of this study contribute to our understanding of the connection between these theoretical constructs.

From this study all organizational level factors, powerfulness of firm in competition against rivals, behavior of management and policy of firm, predict leadership styles – affect, loyalty and professional respect. Leadership styles, loyalty and professional respect predict individual level factors – job satisfaction, meaning of work and attitude toward the

firm (Figure 1, see Appendix). The model subsequently developed explains how three organizational level factors predict different leadership styles and how leadership styles predict individual level factors (Figure 1, see Appendix). Therefore, leadership styles, loyalty and professional respect predict employees job satisfaction, meaning of work and attitudes toward the firm. All three organizational level factors, powerfulness of firm in competition against rivals, behavior of management and policy of firm predict all three leadership styles.

The propositions discussed at the beginning of the paper will now be re-evaluated.

**Proposition 1.** Three organizational level factors, powerfulness of firm in competition against rivals, behavior of management and policy of firm, predict leadership factors – affect, loyalty and professional respect. This postulate was supported. All organizational level factors, powerfulness of firm in competition against rivals, behavior of management and policy of firm, predict leadership styles – affect, loyalty and professional respect.

**Proposition 2.** Leadership factors, affect, loyalty and professional respect, predict three individual level factors – job satisfaction, attitude toward the firm, meaning of work. This postulate was partly supported. Results indicate that two leadership factors, loyalty and professional respect, predict individual level factors – job satisfaction, meaning of work and attitude toward the firm in Estonian enterprises. Results also indicate that one leadership factor, affect, doesn't predict none of the leadership styles – affect, loyalty and professional respect.

Our findings are consistent with the following studies.

According to Jennings and Lumpkin (1992), firms with a cost leadership strategy tend to use a scanning activity that evaluates competitive threats and tracks the policies and tactics of competitors.

According to Bartolo and Furlonger (2000), employee job satisfaction correlated with supervisor leadership behavior, with the exception of consideration leadership and co-worker satisfaction.

One of the underlying processes, by which transformational leadership is hypothesized to exert effects on followers' wellbeing, is through the meaningfulness of followers' work (Shamir, House, & Arthur, 1993).

A manager's choice of influence tactics directly affects subordinate attitudes and behaviors (Yukl, 2006).

Implications for managers from this study are following. Leadership is a multidimensional construct.

Leadership factors, loyalty and professional respect, are important for employees job satisfaction, meaning of work and attitude toward the firm. Therefore, it should be taken into account when leaders want to shape employees attitudes toward the firm in an organization. Organizational level factors, powerfulness of firm in competition against rivals, behavior of management and policy of firm, have great influence on leadership factors and this should be taken into account.

There are also limitations in this study connected with its general framework. The authors have focused only on certain factors – individual and organizational level factors that are related to leadership, but there could be other factors, influencing the leadership. The author explored concrete connections between a limited number of factors and the other influences have been left for future research.

Ethical values, innovation and corporate social responsibility in business could be studied and analyzed concerning the leadership. This research was done in Estonian electric-electronic machine, retail store and machine-building enterprises. Researches in other countries and in other branches should be conducted.

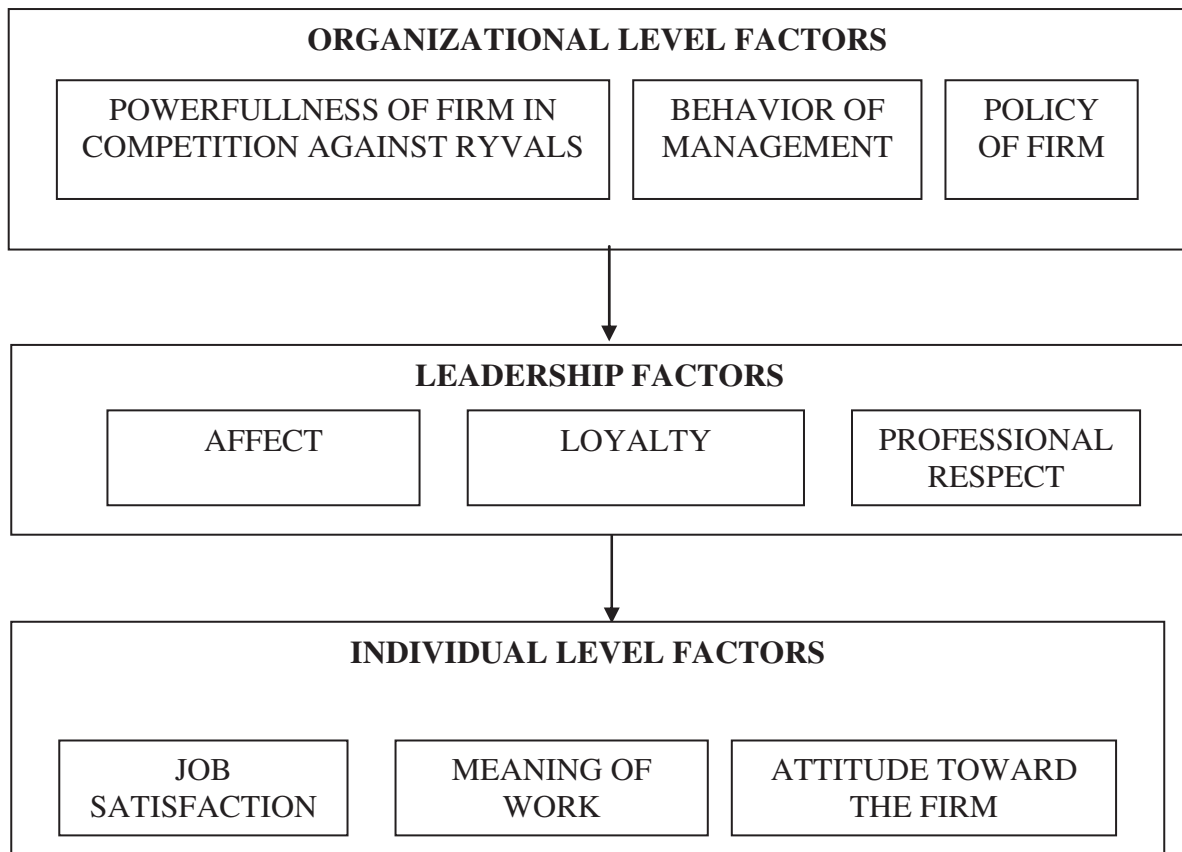
Individual and organizational level factors and leadership should be studied in more detail in further studies by using the model developed in this research. Individual and organizational level factors and leadership are understood and valued differently in different countries and in different organizations. Firstly, national cultural differences concerning the individual and organizational level factors and leadership should be studied. Secondly, other factors that influence individual and organizational level factors and leadership should be found out.

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**Appendix**



**Fig. 1. How organizational level factors predict leadership factors and how leadership factors predict individual level factors**