

**A STUDY OF THE RELATIONSHIP BETWEEN
LEADERSHIP STYLE AND EMPLOYEE TURNOVER
INTENTION IN SHANGHAI, CHINA**

WEN XIN TIAN

**SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITI MALAYSIA SABAH
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**Dissertation Submitted in Partial Fulfillment of
the Requirements for the Degree of Master of
Human Capital Management (MHCM)**

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JUDUL: KAJIAN HUBUNGAN DIANTARA CARA KEPIMPINAN DAN KEINGINAN
PUSING GANTI PARA PEKERJA DI SHANGHAI CHINA

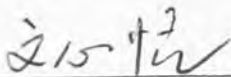
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DECLARATION

The materials in this dissertation are original except for quotations, excerpts, summaries and references which have been duly acknowledged.

WEN XIN TIAN

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ABSTRACT

Leadership is the process of influencing others to facilitate the attainment of organizationally relevant goals. The general objective of this research is to determine the impact of transformational-transactional leadership style and leadership factors have any effect on employee turnover intention in Shanghai, China. The paper reviews the basic theory and former researches on to what extent these factors have effect on employee turnover intention. The sample of this study comprise of the staff, first line managers and middle managers in Shanghai. A sample of 230 participants was targeted; and 171 questionnaires, which were utilized as the main instrument in this study, were returned. Eight hypotheses were constructed and testing by SPSS program of multiple regressions. And it was found out that both transformation and transactional leadership style had a significant relationship with employee turnover intention. Leadership factor inspirational motivation had a negative impact on employee turnover intention, and factor passive manage-by-exception and laissez-faire had positive impact on employee turnover intention.



ABSTRAK

KAJIAN HUBUNGAN DIANTARA CARA KEPIMPINAN DAN KEINGINAN PUSING GANTI PARA PEKERJA DI SHANGHAI CHINA.

Kepimpinan merupakan proses mempengaruhi orang lain untuk memudahkan pencapaian matlamat organisasi. Objektif umum kajian ini adalah untuk menentukan kesan cara kepimpinan transformasional-transaksional dan faktor kepimpinan mempunyai banyak kesan keatas keinginan pusing ganti para pekerja di Shanghai, China. Kajian ini meninjau semula teori asas dan pengkaji terdahulu tentang sejauhmanakah faktor-faktor ini memberi kesan terhadap keinginan pusing ganti para pekerja. Sampel kajian ini terdiri staf, pengurus atasan dan pengurus pertengahan di Shanghai. Sejumlah 230 peserta sasaran dan sebanyak 171 borang soal selidik dikembalikan dan yang digunakan sebagai instrument utama dalam kajian. Lapan hipotesis telah dibuat dan diuji menggunakan SPSS program regresi kepelbagaian. Kajian mendapati bahawa kedua-dua cara kepimpinan transformasi dan transaksional mempunyai hubungan yang penting dengan keinginan pusing ganti para pekerja. Faktor kepimpinan inspirasi motivasi mempunyai kesan yang negatif keatas keinginan pusing ganti para pekerja dan faktor pasif pengurusan-secara-luarbiasa istimewa dan laissez-faire mempunyai kesan positif keatas keinginan pusing ganti para pekerja.



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CHAPTER 1

INTRODUCTION

1.1 Overview

Now days, as the world has come to the era of the globalization and technology innovation, the pressure of competition and retaining the competitive advantages is strongly facing organizations. For this reason, besides keeping on updating technology and innovation the working systems, another important factor that makes significant contribution to organizations surviving in current market and performing well is their people, in other words, their human capital.

Human capital is considered the most important asset of organizations, the key to the success. According to Armstrong and Brown (2001), the quality of the human or intellectual capital possessed by organizations is seen generally as the key factor in differentiating them from their rivals and achieving superior results. Almost all the organizations shoot for talent people; but how to keep your human capital with you is another story. In China, due to the political policy and environment, the distribution of the human capital used to be controlled by the Chinese Government. During those times, on one hand, people could not find jobs by themselves. They had to follow the arrangement of the government no matter they liked it or not. On the other hand, enterprises could not recruit people according to their own human resource planning or standards instead of accepting the one pointed by government. However, along with the development of the economy and society, this situation is no long existed. Things

are completely changed now; people can easily transfer from one company to another. This kind of transfer is called turnover.

From the perspective of companies, employee turnover means cost. And some kinds of human resource losing can not be offset. Barnett (1995), Chang (1996), Barnard and Rodgers (1998) found voluntary turnover is a major problem for companies in many Asian countries and areas such as Hong Kong, South Korea, Malaysia, Singapore, and Taiwan. And this problem should be paid attention by academicians and researchers. Employee turnover can be caused by many different reasons. A lot of researches have been done related employee turnover with employee commitment, job stress and performance appraisal in some different areas

Employees are playing a significant role related to organizations' success. In order to achieve its objective, another factor – leader is important as well. Since, employees need capable leaders who behave properly in terms of directing them, motivating them and rewarding them. Therefore, to what extent a leader's behavior, or, in other words, the leadership style that a leader displays influences employee's behavior, such as turnover, is important to every organization.

This paper focuses on the leadership style, and tries to find out the association between it and employee turnover. It hopes that this paper will provide valuable information to the study of leadership style and turnover and finally contribute to management intelligence and resolve turnover problems in Shanghai, China.

1.2 Research Problem

As mentioned previously, employee turnover can result in large cost to organizations, and it becomes a critical problem facing managers. Why do employees leave their companies? What are the underlying factors that would explain this phenomenon? The purpose of this study is to examine the relationship between aspects of transactional and transformational leadership style (Bass, 1985) and employee turnover intention

According to Padilla-Velaz (1993), Gangadhraiah et al. (1990) and Martin (1990), job satisfaction is an immediate antecedent of intention to leave the workplace and turnover. Unsatisfied workers will leave their jobs more than their satisfied colleagues. Besides the job satisfaction and other determinants, leadership is viewed as an important predictor and plays a central role influence employee behavior (Ali & Hossein, 2006). And Yuan et al. (2006) found leadership style with factors of inspiration and charismatic is acceptable by employees in wire and cable companies in Taiwan. In this study, it is going to exam the relationship between employee turnover intention and transactional and transformational leadership style; and tries to answer tthe to the foregoing research questions as outlined below:

- 1.3.1 Is there a relationship between leadership style which is displayed in organizational environment and employee turnover intention?
- 1.3.2 To what extent leadership style displaying influence employee turnover intention?
- 1.3.3 Do different leadership styles result in different employee turnover outcome?
- 1.3.4 Which factor of leadership style has effect on reducing employee turnover

intention?

1.3.5 Which factor of leadership style has the effect on increasing employee turnover intention?

1.3.6 Is Bass's transformational leadership theory applicable in China?

1.3 Research Objectives

Until now the study on the relationship between leadership style and employee turnover is scarce. To understand this issue, it should be found out what kinds of leadership styles that are being practiced in organizations, and their effect on employee turnover intention. Therefore the objectives of this research are divided into two parts. The first part consists of main objectives while the second part is the supplementary objectives.

The main objectives of this research are as follows:

- a) To examine whether leadership style that is being displayed in organization environment will have an effect on employee turnover intention?
- b) To examine whether different leadership styles that are being displayed in organization environment will have different effect on employee turnover intention to the organization.

The supplementary objectives of this research are as follows:

- a) To examine whether Bass's transformational leadership theory is applicable in China.

- b) To discuss the solution of turnover problems in leadership behavior through finding the impact of factors of leadership style displaying effecting on employee turnover.
- c) To increase managers' ability to recognize turnover factors, this will provide prospective managers to react swiftly in meeting their strategy objectives.

1.4 Scope of the Study

The objective of this research is finding the relationship between leadership style and employee turnover intention. The researcher surveyed several enterprises in Shanghai, China. The survey occurred through questionnaire. Most of the enterprises which were surveyed are private companies where human resource is the core competitiveness factor. But employee turnover happened generally there. To evaluate the relationship between leadership style and employee turnover intention, first and middle line managers and their subordinates from these enterprises were selected as the participants.

1.5 Significance of the Study

The research on the relationship between leadership style and employee turnover is far from maturation; much study can be done here. This paper gave a helpful trial. It not only provides an example for further study on employee turnover, but also helps the managers of these target enterprises to improve their leader behaviors. From this study, managers can find that different leadership styles have different effect on

employee turnover. A more suitable leadership style that matches the environment of the organization can make a contribution to attract and maintain more talent people. A successful leadership practicing can bring the company with great benefits.

Without doubt, this study is still limited in some fields, but the result of this research could serve as a reference for further investigations about factors of employee turnover.

1.6 Definition of key variables

This study adopts 'leadership style' and 'employee turnover' as its key independent variable and dependant variable. The independent variable of leadership style includes two dimensions transactional leadership and transformational leadership. The key variables used in this study have specific meaning and such definition in general context as well as in the context of this research are outlined below.

1.6.1. Leadership Style

According to John, Robert and Michael (2005), leadership is the process of influencing others to facilitate the attainment of organizationally relevant goals. And Lord and Maher (1993) pointed out that leadership "involves behaviors, traits, characteristics, and outcomes produced by leaders as these elements are interpreted by followers". In this paper, which is basic on the transactional-transformational leadership theory developed by Bass (1985), is going to be found out that if there is different outcome in terms of employee turnover existing by displaying transactional leadership and

transformational leadership in organization environment.

1. Transactional leadership

Transactional leadership is responsive and its basic orientation is dealing with present issues. The effective transactional leader is a master of “give and take”. He or she always responds intelligently on the basis of accurate diagnosis of the situational factors and the subordinates’ expectations within these situations. In short, he or she always makes motivational transactions with his/her people.

2. Transformational leadership

Transformational leadership is proactive. This kind of leader sees the present as a springboard to achieve future aims. He or she forms new expectations in his or her people (Bennis & Nanus, 1985; Eden, 1990) and sets empowerment processes in motion (Conger & Kannungo, 1987). Briefly, he or she relates mainly to his or her people’s developmental needs (Alderfer, 1972).

1.6.2. Employee Turnover

The degree of individual movement across the membership boundary of a social system (Price, 1977). In this paper, employee turnover served as the outcome of leadership displaying. Archival data will be obtained from the employees who work in the target enterprises. And it is going to be focused on voluntary turnover which can expression the leave desire of employees not the external factors, such as layoff.

1.7 Organization of Thesis

This paper examined the relationship between leadership style and employee turnover intention in Shanghai, China. Chapter 1 is a generally introduction of this paper. In the Chapter 2, a literature reviewing presents the previous researches and findings of other researchers with the content of the association leadership style and turnover. Chapter 3 introduces the research framework, research design, methodology and key variables of this study. Following is the Chapter 4 which present the result of the study. Finally goes to the Chapter 5, it is the conclusion of this paper. In this part, recapitulation, discussion and implication of this study are given. It also includes the limitation the suggestion of future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter discusses some literature related to leadership and employee turnover. In order to have a best understanding of the factors of leadership style influencing employee turnover and utilize the result of former researchers, a review of all these studies is necessary; especially the factors discussed above and its key concepts are outlined in this chapter.

2.2 Definition of Key Concepts

Each of the concepts will be defined as to show the relationship of employee turnover and the variables of leadership style. The researcher will relate to these concepts with the findings in the latter chapters.

2.2.1 Transactional-Transformational Leadership

In the past decades, approaches of leadership theories have been flourishing and numerous theories emerged. However, when most of these old leadership approaches were tested they led to unsatisfactory results in theoretical and practical application. Until the late 20th century, much attention was focused on examining the approaches of leaders who have successfully transformed organizations of different settings. The

basic of this research is built upon the theoretical model of transformational leadership put forward by Burns (1978) and further advanced by Bass (1985). Bass's transformational leadership theory, comprising transactional and transformational leadership styles, described the leader as one who helps to develop and maintain a sense of commitment, and raises aspirations and motivation among colleagues and followers.

The original factors of the transformational and transactional leadership model were conceptualized by Bass (1985). On the basis of a series of investigations, Bass (1985) emerged with five leadership factors, three describing transformational leaders and two describing transactional leaders. The transformational factors were labeled: charisma, individualized consideration and intellectual stimulation. The transactional factors were: contingent reward and management-by-exception. Scales measuring separate aspects of transformational and transactional leadership are based on factor analysis of the former-version questionnaire and subsequent modification. Since its conceptualization, the model has been subject to major revision (Bass & Avolio, 1993, 1994) changing from a five-factor to a nine-factor model with the following modification: Charisma was further subdivided into idealized influence (attributed) and idealized influence (behavior) while management-by-exception into management-by-exception (active) and management-by-exception (passive); and with an addition of factor *laissez-faire*.

- Transformational leadership

Transformational leadership “occurs when one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality” (Burns 1978, p. 20). It goes beyond exchanging inducements for desired performance (Bass, 1985) and involves stimulating followers to transcend their own self-interests for a higher collective purpose, mission, or vision (Bass, 1985; Howell & Avolio, 1993; Pearce et al., 2000). Transformational leaders concentrate their effort on longer-term goals, emphasize the vision and inspire followers to pursue the vision, and foster trust and commitment (Howell & Avolio, 1993; Jung & Avolio, 1999). Burns considered that transformational leaders could raise the followers from a lower to a higher level of needs in accordance with Maslow’s hierarchy of needs (Maslow, 1954). They also recognize the needs of followers and seek to satisfy their higher needs and engage the full person of the followers (Avolio & Gibbon, 1988; Tichy & Devanna, 1990). More often they serve as a coach, mentor, and teacher to gain a sense of commitment and dedication from their followers (Keller, 1992). According to Bass (1998), transformational leaders show respect and confidence, and they motivate their followers to work hard to improve organizational effectiveness (Bass & Avolio, 1994). By showing respect and confidence in their followers, transformational leaders are able to bring a high degree of trust and loyalty on the part of follower to the extent that followers are willing to identify with the leader and the organization. As a result, followers trust in and emotionally identify with the leader,

such that they are willing to stay with the organization – even under very difficult circumstances (Fred et al., 2004).

Transformational leaders were characterized by (1) Raising the level of awareness of followers about the importance of achieving valued outcomes, a vision, and the required strategy; (2) getting followers to transcend their own self-interest for the sake of the team, organization, or larger collectivity, and (3) Expanding followers' portfolio of needs by raising their awareness to improve themselves and what they are attempting to accomplish (Burns, 1978; Bass, 1985).

- Transactional leadership

Transactional leadership is simply contingent reinforcement (Bass, 1985). "Leader-followers relationships are based on series of exchanges or bargains between leaders and followers" (Howell & Avolio, 1993, p.891). Transactional leaders link with their followers merely in an exchange process. The emphasis is put on the use of contingent rewards whereby appropriate economic and social rewards are used depending on the extent of accomplishment of agreed-upon objectives (Wei et al., 2003). Typically, the main focus of this leadership style is on setting goals, clarifying the link between performance and rewards, and providing constructive feedback to keep followers on task (Bass, 1985). The leaders set out a list of performance and achievement guidelines for followers against which rewards in terms of money, praise, and promotion will be given in return.

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