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## Effects of Leadership on Financial Performance at the Local Level of an Industrial Distributor

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# Effects of Leadership on Financial Performance at the Local Level of an Industrial Distributor

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## ABSTRACT

An important component in the industrial products supply chain is the distribution segment of the channel. The health and success of industrial distributors can often influence the success of manufacturers whom they represent. Although research has demonstrated how leadership is a key ingredient in the success of large corporations across industries, very little leadership research has been conducted in the industrial distribution market segment—especially at the local level. This research fills the gap between what is known about leadership in larger organizations, and the need for greater understanding of leadership at the local level of an industrial distributor. The authors of this study ask: how does leadership style affect the branch-level sales and margin performance of industrial sales organizations? To answer this question, this study collected transformational and transactional leadership data from 100 branch-office locations of a national wholesale distributor using the Multifactor Leadership Questionnaire (MLQ). Both leader and follower data were collected at each location. In all, nearly 300 people participated in the study. The authors calculated the predictive relationship between leadership style and average change in year-over-year sales and profit margin using a multiple regression analysis. The results show that a leader's self-reported transformational leadership was positively associated with sales and profit margin performance at the local level of an industrial distributor, while followers' ratings of a leader's transactional leadership style was negatively associated with sales performance.

## INTRODUCTION

Scholars and practitioners have been examining the effect of leadership in organizational performance for many years. The leadership of chief executive officer's (CEO's) in large corporations has been documented to be a key ingredient in the revitalization of companies (Tichy & Devanna, 1986), as well as in the ongoing management of these larger organizations (Collins, 2001). While the research on corporate CEO's is clear evidence that leadership plays an important role in the success of these organizations, there is less data to support the idea that leadership plays a similarly vital role in other

levels of the supply chain, including the industrial distribution segment. The dearth of research in the wholesale distribution channel is surprising considering the important role of distribution in the supply chain.

Wholesale distribution, which includes companies involved in the distribution of industrial products, facilitates the transfer of product from the original manufacturer of said product to the end user, the service/repair facility, or to the original equipment manufacturer (OEM). Figure 1, on page 3, illustrates the typical flow of product from the factory to the final use and/or installation. In the world of industrial products manufacturing, the industrial distributor is the lifeline to the market for the manufacturer. It provides both manufacturers and their customers a cost effective path to sales, distribution, marketing, logistics, and product service within specific geographic territories and industries.

Within the last two decades, some in the supply chain industry have developed a list of "best practices" for efficient business models. These best practice models often include in-depth analysis of inventory, supplier stratification, fleet management/logistics, purchasing practices and strategies, customer stratification, forecasting, process improvement, quality procedures, and other measurable variables that consider ways to improve efficiencies, cut waste, and generally improve the business model to allow for improved profits. Rarely, however, have these studies included an in-depth look at the effect of leadership on the success of the organization.

Significant consideration has been given in the literature over the last two decades to the idea of transformational leadership and the effect it has on an organization. Bass (1985) posited that transformational leadership can help followers, and thus organizations, exceed performance expectations. Research over the last two decades has added to the body of knowledge on the positive relationship between transformational leadership and organizational performance (Geyer & Steyrer, 1998; Howell & Avolio, 1993; Waldman, Ramirez, House, & Puraman, 2001). While the research provides evidence of the value of transformational leadership, there is a lack of empirical data on the effect of

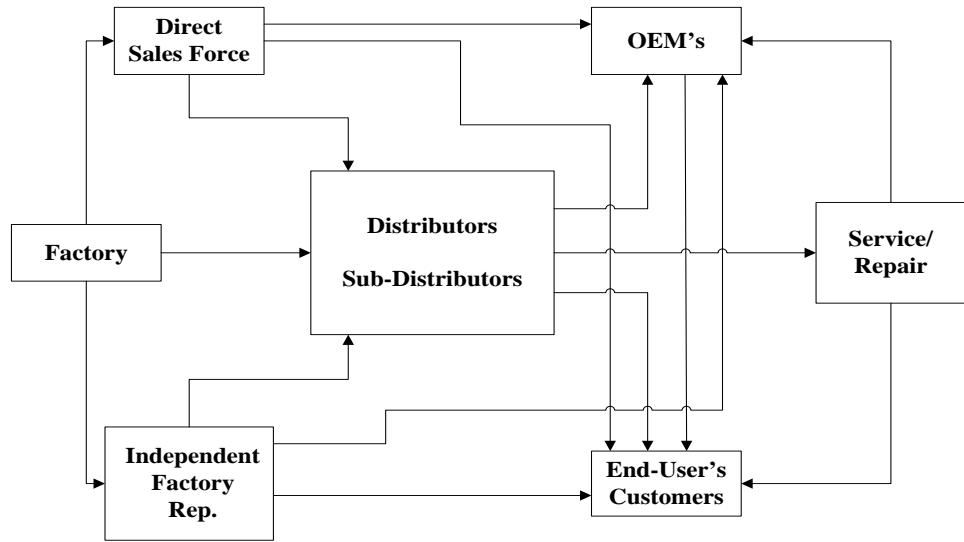


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FIGURE 1: DISTRIBUTION SYSTEMS: FUNCTIONS & COMPONENTS (COREY, CESPEDES, & RANGAN, 1989)



this leadership style in a distribution setting where leadership is often thought to be a key contributor to organizational success.

This study fills this research gap in a number of unique ways. First, data was collected from several branch managers of an industrial supply company. This allowed examination of company leadership at a local, rather than corporate level. Second, analysis was conducted on how local leaders' leadership styles are related to financial performance measures (sales and profit margins) of branch offices of an industrial supply. Very few leadership studies use actual financial performance measures such as changes in year-over-year sales data. Finally, data was collected, and analyzed, regarding the perceptions of leadership style both from the branch managers as well as their subordinates. This is important because it allows for a greater understanding of not only leadership style as leaders see themselves, but it also provides multiple perspectives on the leaders' style.

### Significance of the Problem

Bass, Avolio, Jung, and Berson (2003) noted that the pace of change in most organizations today requires adaptive, intuitive leaders that can both see and respond to change. To further corroborate this notion, in a study conducted by the National Association of Wholesaler Distributors, industrial distribution executives believe that the new economic environment will be more volatile, more uncertain, and more complex than previous decades (Blissett, 2010). In today's competitive, dynamic, global, free-market system wherein there is constant price vs. performance pressure, decreasing returns, and even destruction and/or erosion of core competencies, many believe that effective leadership is crucial for

organizational success (Bass, et al., 2003; Koene, Vogelaar, & Soeters, 2002; Santora, Seaton, & Sarros, 1999).

The industrial distribution industry operates within a very mature market segment, yet it must continue to change and adapt to a global and ever-changing industrial market. To remain competitive in this sort of dynamic market, industrial distributors must learn to find and develop strong leadership. If leadership is one of the key components in the improvement of a company's performance, then it stands to reason that leaders at all levels of an organization should try to better understand effective leadership practices (Zhu, Chew, & Spangler, 2005). Strong, effective leadership at the branch level is one of the best ways an industrial distributor can hedge against the constant creative destruction of organizational mediocrity and to provide a sustainable competitive advantage for organizational improvement and success.

### Industrial Distribution

The wholesale distribution industry represents a significant force in the U.S. economy, and a critical component of the overall supply chain for industrial products. Fein (2005), estimated that the wholesale distribution segment of the U.S. market is over \$4.2 trillion, represents approximately 7% of the private U.S. gross domestic product (GDP), and employs nearly one out of every 20 workers in the U.S. Corey, et al., (1989), succinctly state the importance of distributors; "if farms and factories are the heart of industrial America, distribution networks are its circulatory system" (p. xxvii). Clearly, the industrial distribution market segment is an important cog in the economic wheel.

The typical business model for industrial distribu-

tors consists of having smaller, more local branch operations strategically located throughout the United States and other parts of the world. These branch locations will typically have between 3-15 personnel working at the branch. These small branch locations will generally be led and managed by a branch manager. The branch leader of a small industrial distributor often wears many hats. It is not uncommon for a branch leader to be responsible for all the administrative functions of the branch, as well as purchasing, warehouse activities, outside sales, inside sales, service, and engineering. Add to these many responsibilities—the requirement to provide near-constant interaction with manufacturers and suppliers, combat local market competition, and contend with the increasing competitive pricing pressures from overseas imports—and the idea of effective leadership at the local level becomes even more important. This research is focused on the effect of leadership on objective financial performance of industrial distribution branch offices.

## THEORETICAL BACKGROUND

Transformational and transactional leadership was introduced by Burns (1978) in his study of leaders throughout history. Burns (1978) proposed that transformational leaders go beyond a quid pro quo relationship with followers to motivate followers to achieve higher levels of performance. Bass (1985) extended Burn's (1978) theory into the field of management to specify the types of leadership behaviors that characterize transformational and transactional leadership. Both transactional and transformational leadership research attempts to understand the importance of the leader-follower relationship.

### *Transformational Leadership*

Those leaders who are more transformational in nature seek to understand and appeal to the follower's values while seeking a sort of higher purpose for accomplishing the task at hand (Burns, 1978; Hughes, Ginnett, & Curphy, 1993). This appeal to the follower's values, combined with other transformational leadership characteristics, contribute to the effectiveness and efficiency of this style of leadership. Research has shown that transformational leadership is an effective way of leading people. For example, Bass et al. (2003) examined the transformational and transactional leadership skills of light infantry rifle platoon leaders and found that both positively predicted unit performance. The meta-analysis conducted by Lowe and Kroeck (1996) found that the transformational scales used by the Multifactor Leadership Questionnaire (MLQ) were reliable and "significantly predicted work unit effectiveness across the set of studies."

Bass (1985) defined a transformational leader as "one who motivates us to do more than we originally expected to do" (p. 20). The primary differ-

ence between transactional and transformational leadership is "the process by which the leader motivates subordinates and in the types of goals set" (Lowe & Kroeck, 1996).

Since the introduction of the transformational leadership construct, numerous studies have collected empirical data demonstrating positive relationships with employee perceptions of leader effectiveness, organizational performance, and employee satisfaction (Hater & Bass, 1988; Yammarino, Spangler, & Bass, 1993; Xenikou & Simosi, 2006). Meta-analyses have also confirmed that there is a positive relationship between transformational leadership and organizational performance (DeGroot, Kiker, & Cross, 2000; Lowe & Kroeck, 1996; Patterson, Fuller, Kester, & Stringer, 1995

### *Transactional Leadership*

A common form of strategic leadership is transactional by nature (Pawar & Eastman, 1997). A transactional leader is one who operates within an existing organizational structure or system, rather than trying to change the systems in place. Exchange with the follower, recognition, and contingent reward are all common behaviors of transactional style of leadership (Bass, 1985; Shriberg, Shriberg, & Lloyd, 2002). Bass (1985), characterized transactional leaders as those who prefer to avoid risk taking, and were very conscious of time and efficiency. These types of leaders prefer to use past performance as predictors of future success. The leader provides tangible and intangible benefits to the individual follower, and in return the follower makes an effort to provide higher performance and achievement in pursuit of the organizations goals (Shriberg et al., 2002).

### *Hypotheses*

The purpose of this study was to: (a) evaluate the transformational leadership style of leaders in an industrial distributor and examine its association with organizational success, and (b) evaluate the transactional leadership style of leaders in an industrial distributor and examine its association with organizational success. Thus, the hypotheses for this study are:

- H1a:** Ratings of transformational leadership by branch managers will be positively associated with unit sales and margin performance.
- H1b:** Ratings of transactional leadership by branch managers will be positively associated with unit sales and margin performance.
- H2a:** Ratings of transformational leadership by followers will be positively associated with unit sales and margin performance.
- H2b:** Ratings of transactional leadership by followers will be positively associated with unit sales and margin performance.

## METHODOLOGY

### Sample

The leadership at the local level of an industrial distributor lies with the Branch Manager. Local Branch Managers and their subordinates from a single industrial distribution corporation provided the data that were used in this study. The industrial distribution branches surveyed in this study all belonged to the same parent organization, and all were engaged in the distribution of industrial products. By limiting this study to only one corporation, with multiple locations, other mitigating factors were controlled. These factors include: Branch Manager training is conducted at the corporate offices, finance and accounting for each branch are provided by corporate offices, and all employees participate in rigorous corporate product and service training conducted by corporate offices.

The target population for this study included all branch level locations in the four western regions of the United States within the participant company. Each branch had varying numbers of employees, depending on many factors, including age of the branch, market size, products offered, as well as other factors that often contribute to branch size.

The corporate offices of the participant company provided a list of 220 branch presidents from four western regions. These 220 branches represented nearly half of all branch locations for the company in the United States. All 220 branch leaders were asked to participate in the study. Of the 220 branch locations, 100 Branch Managers (called “leaders” in the survey instrument) participated, representing a 45% response rate. 180 subordinates (called “followers” in the survey instrument) of these leaders participated. We could not calculate the response rate for followers because we were not able to ascertain the total number of employees working under the 220 Branch Managers. Of the 100 leaders that participated, 98 had followers that participated. Of the 98 leaders, four were dropped because they were clear outliers. For example, branch offices which had only been open for one year skewed the data because their “growth” was measured from zero sales the year before. Also, it is recognized that within the industry it is possible to have one year of record sales that may skew the overall track record of a branch office. For example, if the branch office works on a large project that will not repeat, year after year, then it skews the data for that one year. Of the 94 leaders used in the study, 70 had enough followers participate, or years of experience as a leader to warrant using the data. Thus, the sample for the study used a total of 70 Branch Managers and their respective subordinates.

### Measures

*Dependent Variables.* The dependent variables in this study included year-over-year sales and

year-over-year profit margin performance, from 2007-2011. Year-over-year sales and profit margin performance was provided by the participant company corporate offices for each participating branch location. Both year-over-year sales and profit margin were reported as a percentage of change, year-over-year. To ensure that leadership data at each branch was closely tied to a specific leader, this information was provided for each year that the participating leader was at the branch being measured, up to five years. All data were coded so that the dependent variable data were only used for the time the respondent had been a leader at that particular branch. For example, if a leader had only been a leader at that branch for three years, then only the most recent three years of sales data was used in the regression. Then, the dependent variable was averaged over the appropriate time period for each participating leader.

To achieve more normative data, the dependent variables were transformed using a  $\log_{10}$  function to provide a positive number for each variable. Table 1 includes a summary of the descriptive statistics for all variables.

*Independent Variables.* Leadership style data, the primary independent variable in the analysis, was operationalized using the Multifactor Leadership Questionnaire (MLQ) survey instrument developed by Bass and Avolio (2004). The current version of the MLQ, the MLQ (5X), is a refined version of the original consisting of 45 questions, or statements. These 45 descriptive statements ask the participant to judge how frequently the statement fits the participant based upon a Likert scale from ‘0’ (not at all), to ‘4’ (frequently, if not always).

The 45 items in the current MLQ (5X) survey identify and measure key leadership and effectiveness behaviors of organizational leaders, which in prior research showed strong connection to both individual and organizational success (Bass & Avolio, 2004). Of the nine scales used in the current MLQ (5X) survey, five have been identified with, or characteristic of, transformational leadership; idealized attributes, idealized behaviors, inspirational motivation, intellectual stimulation, and individualized consideration. Each scale is defined by Bass & Avolio (2004) as follows:

- **Idealized Attributes:** Instills pride in others; goes beyond self-interest for the good of the group; acts in ways that build others’ respect for the leader; displays a sense of power and confidence.
- **Idealized Behaviors:** Communicates beliefs to followers; considers the moral and ethical consequences of decisions; emphasizes the importance of a collective sense of mission.
- **Inspirational Motivation:** Talks in ways that motivate others by being optimistic about the future and being enthusiastic about what needs to be accomplished; articulates a compelling vision of the future; confidence that goals will be

achieved.

- Intellectual Stimulation: Invites followers to be innovative and creative in solving problems; allows followers to question the status quo; seeks different perspectives on problems.
- Individualized Consideration: The leader delegates projects to stimulate learning experiences, provides coaching and teaching, and treats each follower as a respected individual. (pp. 95-96)

The two scales identified with, or characteristic of, transactional leadership are; contingent reward, and management-by-exception. These two scales are defined by Bass & Avolio (2004) as:

- Contingent Reward: The leader provides rewards for achieving a performance task; makes clear what can be expected when goals are reached; shows satisfaction when goals are achieved.
- Management-by-Exception (active): The leader focuses attention on mistakes, irregularities, and deviation from standards; keeps track of all mistakes. (p. 96)

The MLQ also has two additional scales used to measure laissez-faire leadership. These include Management-by-Exception (passive), and Laissez-Faire. Bass & Avolio (2004) defines these scales as:

- Management-by-Exception (passive): The leader fails to interfere until problems become serious; waits for things to go wrong before taking action.
- Laissez-Faire: This leader avoids getting involved in important issues; absent when needed, and avoids making decisions. (p. 97)

It should be noted that in numerous correlations among factor analysis criteria by Bass and Avolio (2004), laissez-faire style of leadership consistently ranked at the ineffective end of the leadership scale (p. 4). Therefore, the emphasis of this study was on transactional and transformational leadership.

Cronbach's coefficient alpha was used to measure internal consistency within categories of the MLQ. Cronbach's alpha for transformational leadership, using the aforementioned categories, was .90. Cronbach's alpha for transactional leadership was .73.

## ANALYSIS

A correlation analysis was first used to examine the association between leadership styles, sales, and margin. Bivariate correlation examines the rela-

tionship between two variables without taking into account any other variables. A correlation analysis can be a useful first step in assessing relationships among the variables in a study.

Following the correlation analysis, a multivariate ordinary least squares (OLS) regression was used to understand the relationship between transformational and transactional leadership, and the dependent variables of change in sales and margin. Multivariate regression examines the associations between multiple independent variables and a dependent variable. The association between any individual independent variable and the dependent variable is "net of" or "controlling for" the other independent variables. Thus, the regression coefficients indicate the association between any independent variable and the dependent variable net of the effects of the other independent variables. Multivariate regression is advantageous over bivariate correlation because it is able to partially control for other factors that might be causing a spurious relationship to arise.

The first model regressed the dependent variable of sales on the transformational and transactional leadership scale as reported by the Branch Managers as well as the transformational and transactional leadership scales as reported by their subordinates. The second model regressed the dependent variable of margin on the same scales. Consequently, each model had four leadership variables.

## RESULTS

### *Bivariate Correlations*

Results presented in Table 1 show the descriptive statistics as well as the bivariate correlations for independent and dependent variables. The data reveal that transformational leadership, as assessed by the leaders, is positively correlated to both sales and margin performance:  $r(94) = .349, p < .01$ , and  $r(94) = .312, p < .01$ , respectively. Transactional style of leadership, as viewed by the leader was not significant. Follower ratings of the Branch Manager's leadership style were not associated with sales or margins.

TABLE 1. MEANS, STANDARD DEVIATIONS, AND INTERCORRELATIONS OF INDEPENDENT AND DEPENDENT VARIABLES

	M	SD	1	2	3	4	5	6
Leader's rating on own transformational leadership	2.987	.540	1					
Follower's rating of leader's transformational leadership	2.836	.571	.308**	1				
Leader's rating of own transactional leadership	2.360	.612	.636**	.327**	1			
Follower's rating of leader's transactional leadership	2.423	.564	.321**	.728**	.380**	1		
Sales	.142	.056	.349**	.022	.160	-.095	1	
Margin	.103	.062	.312**	-.021	.155	.111	.930**	1

Note. \*\* Correlation is significant at the 0.01 level. All *P* values are two-tailed.

**Regression Analysis**

The multivariate ordinary least squares (OLS) regression results for sales are shown in Table 2, and regression results for margin are shown in Table 3. Table 2 reveals there is a positive relationship between the independent variables and sales. Taken together, the independent variables explained 22.2% of the variance in sales. The regression also shows the association between leader-reported and follower-reported leadership scale ratings and sales. Leader-reported transformational leadership was positively related to year-over-year sales performance ( $b = .044, p < .01$ ). The results show that for every one unit increase in transformational leadership qualities, there is a predicted increase in sales of .044. Because sales were reported in year-

over-year percentage change, this means that sales increased, on average, 4.4% annually as a leaders self-reported transformational skills increased by one unit, as measured by the MLQ. This regression also revealed a negative relationship between sales and leadership when the followers perceive their leader to be more transactional in nature. The coefficient for follower-reported transactional style of leadership was  $-.033 (p < .05)$ , indicating that for every one unit of increase in followers' perceptions of their leader using a transactional leadership, there was a decrease in sales of  $-.033$ . Again, this indicates that if a follower perceives his/her leader to demonstrate transactional style of leadership, it may reduce annual sales by 3.3% for every unit increase in transactional style of leadership.

TABLE 2. REGRESSION ANALYSIS ON SALES

	R <sup>2</sup>	Adj. R <sup>2</sup>	Unstandardized Coefficients		Standard Coefficients	
			B	Std. Error	Beta	Sig.
Model 1	.222	.174				
Summary						
Constant			.050	.038		.196
Leader's rating of own transformational leadership			.044	.014	.450	.002
Follower's rating of leader's transformational leadership			.011	.150	.119	.462
Leader's rating of own transactional leadership			.003	.013	.034	.813
Follower's rating of leader's transactional leadership			-.033	.016	-.339	.042

Note. Dependent variable: Average year-to-year percentage change in sales.

Next, a regression was run using margin as the dependent variable. The results were similar to the sales results. The independent variables explained 15.7% of the variance in margin. Leader-reported transformational style leadership was positively associated with profit margins ( $b = .03, p < .01$ ). Therefore, for every one unit of increase in transformational leadership, there is a predicted increase in margin of .041, or an average 4.1% increase in year-over-year change in margins. Results for the OLS regression on margins is shown in Table 3.

an industrial distribution branch office. Using a validated instrument measuring transformational and transactional leadership, the MLQ survey, and sales and margin data provided by the participant company, this research demonstrates the importance of “good” leadership skills to the overall success of the organization. Specifically, the higher that branch managers believed they practiced transformational leadership, the higher their annual branch sales and margins increased. Additionally, when branch managers’ subordinates

TABLE 3. REGRESSION ANALYSIS ON MARGIN

Model 1	R <sup>2</sup>	Adj. R <sup>2</sup>	Unstandardized Coefficients		Standard Coefficients	
			B	Std. Error	Beta	Sig.
Summary	.157	.105				
Constant			.031	.043		.476
Leader’s rating of own transformational leadership			.041	.016	.390	.010
Follower’s rating of leader’s transformational leadership			.007	.170	.066	.695
Leader’s rating of own transactional leadership			.000	.015	.004	.979
Follower’s rating of leader’s transactional leadership			-.030	.018	-.286	.097

Note. Dependent variable: Average year-to-year percentage change in margin.

The correlational analysis revealed, and regressions confirmed, that the perceptions of the leaders on their own transformational style of leadership has a significant, positive relationship with both sales and margin in an industrial distributor. Therefore, hypothesis H1a was supported. Because the branch managers’ ratings of transactional leadership skills was not significant for either sales or margin, hypothesis H1b was rejected. Followers’ ratings of the leaders’ use of transformational leadership style was not associated with sales or margins; therefore, hypothesis H2a was also rejected. The results also showed a negative relationship between followers’ ratings of their leaders’ transactional style of leadership, and sales. This contradicted hypothesis H2b.

**DISCUSSION**

The primary purpose of this research was to gain a better understanding of the impact of leadership on organizational outcomes in a critical link of the industrial products supply chain, i.e., industrial distribution branch offices. This study set out to quantitatively examine the effect of a leaders’ self-rating, and their subordinate’s ratings of transformational and transactional leadership behaviors on financial measures of success at a branch office of

felt that their leader had a more transactional style, the branch sales were lower.

The importance of this finding may be of value to those interested in leadership positions at industrial distributors. To be a successful leader in an industrial distribution setting, the results suggest that transformational leadership is more effective than transactional leadership. These results seem to confirm what Burns (1978) found when he stated:

Transforming leadership, while more complex, is more potent [than transactional leadership]. The transforming leader recognizes and exploits an existing need or demand of a potential follower. But, beyond that, the transforming leader looks for potential motives in followers, seeks to satisfy higher needs, and engages the full person of the follower. 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. (p. 4)

The results of this research add to the growing body of knowledge in transformational leadership research. Some have posited that “good” leadership does make a difference in organizational success



(Koene et al., 2002); this research supports this idea through demonstration of financial performance at a branch location of an industrial distributor.

This study adds in other ways, also. First, it is one of few leadership studies that links perceptions of leadership to actual financial performance. Koene et al. (2002) used net profit and controllable costs as dependent variables in their study, but these were only measured for a period of seven months. Xenikou and Simosi (2006) also included financial performance as a measure of organizational performance. In their study performance measures were a percentage of annual performance goal of each branch. These performance goals were set by upper management, and again the analysis was based on only one year's performance.

Second, findings were also surprising in that only the leaders' self-perceptions of their transformational leadership style mattered; followers' perceptions of their leaders' transformational styles were not associated with improved sales or profit margin. Leadership positions in smaller branch offices are less defined than job positions for lower level employees. Whereas a leader understands the entire scope of their job, lower level employees may not see everything that their leader does and, thus, be ascribing ratings of transformational and transactional leadership based only on the portion of the leader's job performance that they see. Harris and Schaubroeck (1988) found that job type (i.e., higher versus lower level jobs) influenced ratings of supervisors. Future research should incorporate job type as a moderating variable to better understand discrepancies between leader and follower ratings of leader transformational and transactional leadership.

### *Implications*

The findings of this research suggest that leadership matters. The results show that there is a significant relationship between the way a leader believes he/she leads, and the success of their branch. A positive relationship between a branch manager leading in a transformational style, and an increase in sales and margins for that branch office exists. The results from this research study may provide upper level management of industrial distribution companies the empirical data needed to staff local level branch locations with leaders that will be effective in guiding and directing the branch to long term success and profitability. Understanding more about what makes a leader more effective will help organizations further define characteristics and requirements for promoting and hiring leaders at all levels of the organization.

### *Limitations and Future Study*

One limitation of this study was that it was difficult to control who took the follower surveys. Each participating leader provided email addresses of employees/followers who were candidates to evaluate

the leaders' skillset in leadership. It is possible that the leaders only provided names and email addresses of those whom they believed would provide positive feedback on the MLQ. This might mean that the follower surveys are biased. This suggests that caution is warranted when interpreting the findings that used the follower data. Future research that collects both leader and follower data might be able to more reliably gather all follower data.

Another limitation is that this study was confined to one corporation within one industry. It is not possible to be certain that these findings will be generalizable to other corporations within the industrial distribution industry or to corporations outside the industry. This research may be generalizable to other organizations within the supply chain that have satellite branches, distribution centers, or companies, spread throughout a large area, but without further analysis it cannot be assumed that this research will reach across all industry sectors and markets. Alternative business models or practices might limit or even enhance the relationship between transformational leadership and local branch success. For example the participant company used in this study allows branch managers to earn and/or purchase up to 40% ownership in their respective branch office. Future research would do well to examine other industrial distribution companies and perhaps other industries that have the same, or similar, financial ownership models.

The final limitation is the use of retrospective data. That is, the independent variable data was collected up to five years after the sales and margin data had already occurred. This does not allow a clear direction of effect. For example, it may be that the previously higher levels of sales and margins may influence branch managers to feel that they are more transformational leaders. Although this particular direction of effects is less likely, it is still a possibility that should not be dismissed. Future research could profitably utilize prospective longitudinal designs where leadership data is collected prior to the occurrence of the sales and margin data.

In spite of these limitations, this study is a unique addition to the leadership literature. By linking the leadership style of Branch Managers to the annual sales and profit margin performance for their respective branches, this research clearly shows the importance of transformational leadership at the local level.

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