

Higher-Order Goals, Trust-in-Leader, and Self-Efficacy as Mediators of Transformational Leadership Performance: The Case of Multi-level Marketing Organizations in China

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Abstract

Although former scholarly studies mostly focus on exploring leadership effectiveness under the traditional hierarchical leader-subordinate relationship, the research of leadership performance for non-hierarchical organizational structures, particularly the mediating factors of higher-order goals, trust-in-leader, and self-efficacy have been ignored. This study, therefore, makes an attempt to ascertain the impacts of transformational leadership on the performance of subordinates through the mediating effects of higher-order goals, trust-in-leader, and self-efficacy and the differences of these effects in the context of multi-level marketing (MLM). Like the small-sample studies adopted by Barling, Weber, and Kelloway [1996], Barling, Slater, and Kelloway [2000] and Bass, Avolio, Jung, and Berson [2003], this study adopts a sample of 123 MLM distributors of an MLM company in Hong Kong, with a high response rate of 80.4%. The results indicate that the mediating effect of self-efficacy between transformational leadership and performance is significant under non-hierarchical organizational structures such as MLM in China.

Keywords : Multi-Level Marketing, Direct Selling, Leadership, Trust, Self-Efficacy, Higher-Order Goals, China, Performance

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1. Introduction

The essence of managerial works is performance. Past studies have shown that leadership predicts performance [Judge and Piccolo, 2004; Pillai and William 2004; Bass, 1985; Burns, 1978]. Heifetz and Laurie [1997] pointed out the demands on leaders to mobilize workers throughout the organization to be adaptive in a changing workplace, claiming that instead of maintaining norms, leaders have to challenge “the way we do business” and help others distinguish immutable values from historical practices that must go. Rapid technological advancements have changed the landscape of workplaces such as working in non-hierarchical organizational structures, facing issues of diversity in organizations in a cross-cultural perspective [Mittal and Akhtar, 2014], defining work engagement [Bakker and Leiter, 2010; Rosso et al., 2010], and most importantly improving organizational creativity and innovation [Ghadi, 2012; Hu et al., 2012].

Transformational leadership is one of the most dominant paradigms in the contemporary leadership literature [Judge and Piccolo, 2004]. The leadership facilitates employees' performance in the areas of well-being [Nielsen et al., 2008], creativity [Dionne et al., 2003], and task accomplishment [Piccolo and Colquitt, 2006]. Burns [1978] found that transformational leaders motivate followers' behaviors and attitudes by generating higher-order goals and moral reasoning in them [Godwin et al., 1999]. However, many empirical studies found that transformational leaders influence subordinates not directly but indirectly [Ghadi et al., 2012]. Transformational leadership

affects subordinates' outcomes through numerous mediation mechanisms [Sivanathan et al., 2004; Avolio et al., 2009] such as trust [Gillespie and Mann, 2004; Wu and Tsang, 2008; Jung and Avolio, 2000; Goodwin et al., 2011], higher-order goals [Spark and Schenk, 2001; Krishnan, 2002], self-efficacy [Brown et al., 2001; Walumbwa et al., 2005a, 2005b; Fitzgerald and Schutte, 2010], and empowerment [Avolio et al., 2004; Shah et al., 2011]. Sufficient evidence proves that transformational leaders work well across hierarchical levels in organizations [Edwards and Gill, 2011]. However, no significant attention has been given to the effects of transformational leadership in non-traditional organizations, and the effects of the mediating mechanisms of transformation leadership in non-hierarchical organizational structures such as sales organizations and Internet companies. Moreover, a few studies have considered the relationship between transformational leadership and salesperson performance. Unfortunately, this research stream has failed to explain the influences of transformational leadership on the performance of self-employed individuals and workers in short-term contracts. Recently, Bams and Novicevic [2012] indicated that the idea of shared leadership would be an effective way to transcend leadership power in today's business organizations. They have raised concerns about the performance effect of transformational leadership in this century.

Therefore, we posit to understand the unique effect of transformational leadership on followers' outcomes in a non-hierarchical structural context and workers with the self-employment status. We find that multi-level marketing organizations (MLM) tend to be a proxy

for non-traditional organization for this study because of the unique operations in the MLM industry [Spark and Schenk, 2001; Nga and Mun, 2011]. Three common mediating factors of transformation leadership, which have been widely studied, are identified. They are higher-order goals [Podsakoff et al., 1996; Sparks and Schenk, 2001], trust-in-leader [Goodwin et al., 2011; Schwepker and Good, 2012], and self-efficacy [Fitzgerald and Schutte, 2010]. Therefore, we further examine these three factors in relation to their mediation effects, namely, higher-order goals, trust-in-leader, and self-efficacy in the context of MLM in China.

To the best of our knowledge, only Sparks and Schenk [2001] have written a paper in the US on higher-order goals in MLM, stating, "the transformational leadership indeed "transforms" followers by encouraging them to see the higher purposes in their work." According to Rokeach [1973], differences, which have found in instrumental values between Chinese and Americans, may lead to different cultural settings and economic developments, and then to various working expectations [Egri and Ralston, 2004].

From a different perspective, Jung and Avolio [2000] stated that "transformational leadership had both direct and indirect effects on performance mediated through followers' trust in the leader and value congruence." In the recent meta-analysis on trust and leadership, transformational leadership is highly predictive of trust [Dirks and Ferrin, 2002]. However, mixed findings were found. On the one hand, some transformational practices such as appropriate model, individualized support, and fostering acceptance of

group goals are found to be consistently positively related with trust-in-leader [Butler et al., 1999; Mackenzie et al., 2001]. On the other hand, other transformational practices, namely, articulating a vision, setting high expectations, and stimulating new ways of thinking, have negative associations with trust-in-leader [Podsakoff et al., 1996]. Moreover, Podsakoff et al. [1990] studied of sales-people and found that high performance expectations and intellectual stimulation negatively affect trust. Gillespie and Mann [2004] attributed the mixed findings to the sample or specific setting. As such, to follow this stream of studies, we need to examine whether trust-in-leader does not affect performance as a mediator in MLM because of varying specific settings.

The third mediation mechanism of transformational leadership in this study is self-efficacy, which has been considered as a good predictor of people's behavior and performance [Bandura, 1986, 1997, 2000; Luthans, 2002]. Interestingly, efficacy mediation has been found to be positively related to transformational leadership and performance in many empirical studies in terms of being a mediator [Walumbwa et al., 2005a; Fitzgerald and Schutter, 2010; Cavazotte et al., 2013]. In particular, Walumbwa et al. [2005a] revealed that efficacy enhances the effect of transformational leadership on followers' work-related attitudes across cultures. However, whether self-efficacy, with transformational leadership, has an effect on performance such as a sale or commission is yet to be investigated.

This study examines the roles of higher-order goals, trust-in-leader, and self-efficacy in transformational leadership as mediators. In doing so,

a sample of MLM distributors in Hong Kong and China has been selected. In the following sections, several tasks are accomplished. First, we briefly describe MLM operations to update readers about the MLM business. Thereafter, we review the literature on the construct of transformational leadership and its dimensions. Eventually, we depict the research model in terms of transformational leadership, higher-order goals, trust-in-leader, self-efficacy and performance, its hypotheses and findings.

2. MLM Operations

MLM (Multi-level Marketing, also known as network marketing) refers to the use of channeling, selling, and supplying goods and services through independent agents. These agents earn income from selling retail products and from recruiting new members. As people live in the digital age, the working environment has been gradually changed from a physical and formal organizational environment to a virtual and boundary-less organizational setting. Significant consumption relies on customer-to-customer (C2C) transactions. Job insecurity and the prolonged life span of human beings are factors that compel individuals to require additional financial resources to be achievable under the present medium and low-income employment because of the increasing cost of living [Nga and Mun, 2011; Siahann et al., 2014; Siahann, 2014].

Though MLM seems to open a golden opportunity to efficiently attain financial independence, it is tough for distributors to succeed in the MLM industry, as pointed out by the high attrition rate

of MLM membership in the industry. An issue is the leadership problems from the peculiar leader-follower relationships found in MLM organizations. The MLM distributorship is a legal contractual relationship between an MLM company and a distributor. All MLM distributors work independently. In reality, they do not work alone but informally help one another to grow their distributorships. Every MLM organization has an incentive system to facilitate the recruitment and sponsorship of new distributors. As such, the traditional application of formal power and authority does not seem to be suitable for MLM businesses because distributors are independent owners (agents) who do not have a formal superior. The hierarchical leader-follower relationship found in other kinds of organizations is also not relevant to the sponsor-distributor relationship. Although sponsors are expected to provide leadership to their distributors, sponsors have no formal authority over distributors [Sparks and Schenk, 2001]. Sponsors lack leadership tools that are normally embedded in leadership positions because they cannot reprimand or reward their distributors [raen and Cashman, 1975] This “quasi-leadership” role may reduce the effect of leadership in non-hierarchical organizational structures.

This study investigates the special transformational leader behaviors that should be employed to contribute to the career success of distributors in MLM businesses. Previous studies on transformational leadership have indicated that leader-subordinate plays an important role in hierarchical organizational structures, in which, in fact, leaders provide “enough” resources within

the organizational boundary and provide a “good” working environment for subordinates to deliver effective services as expected from their leaders. Thus, the mediations of higher-order goal, trust-in-leader, and self-efficacy are vital for subordinates in such traditional hierarchical organizations. On the contrary, MLM distributors use their own resources and networks that do not go beyond those provided by MLM organizations, and they do not “work” in an MLM office. This study examines the effects of these three mediators under such a setting.

3. Literature Review on Transformational Leadership

3.1 Transformational Leadership Behaviors

For more than three decades, leadership theories have evolved from “Great Man” and “Trait” theories to “Transactional” and “Transformational” leadership. James McGregor Burns was the first to propose the concept of “transforming leadership” in his book “Leadership.” Later, Bernard Bass developed Burns’ concept from transforming leadership to “transformational leadership” in “Leadership and Performance beyond Expectation,” where the leader serves to transform followers or subordinates [Burns, 1978; Bass, 1985]. The well-known transformational leadership behavior has been conceptualized as four I’s of behavioral components: idealized influence/charisma, inspirational motivation, intellectual stimulation, and individualized consideration [Bass, 1985, 1996; Bass and Avolio, 1993, 1994; Avolio and Yammarino, 2002]. Idealized in-

fluence and inspirational motivation involve setting challenging goals and providing a vision or a sense of mission for followers. Behaviors related to these aspects of transformational leadership include instilling pride in and among the group, gaining respect and trust, inspiring followers to achieve goals beyond their own self-interest for the good of the organization, providing assurance to overcome obstacles, and promoting a brighter future [Kouzes and Posner, 1995]. Idealized influence and inspirational motivation are also viewed as two notions of “charisma.” Jung et al. [2003] found that charisma has a significant effect on building rapport and bonding with the team [Sullivan, 1988; Shamir et al., 1993]. As Klein and House [1995] indicated, charisma is similar to a fire that ignites followers’ energies and commitments to accomplish results beyond the call of duty. Moreover, intellectual stimulation promotes problem solving. The core behavior of intellectual stimulation is enhancing the re-examination of the ways in which work is approached and performed. Finally, individualized consideration involves treating followers as individuals and not only as members of a group. Leadership behaviors relating to individualized consideration include spending time to teach and coach, listening to followers, and giving them feedback when necessary.

The abovementioned leadership dimensions are vital elements for top and middle managers in creating an organizational environment that promotes, facilitates, and leads their subordinates to achieve goals in the traditional organizational structure [Kuratko et al., 2005]. However, they create less managerial influence on MLM organ-

izations than traditional organizations in four aspects.

First, the MLM relationship of sponsor-distributor is not the supervisor-subordinate relationship. Second, the performance goals of MLM distributors are merely targets and suggestions. No punishment nor reprimand could be imposed by sponsors or up-lines and MLM companies when MLM distributors do not achieve such targets. Third, most MLM companies mainly play the role of suppliers and sales support for distributors, who do not view themselves as "employees" of an MLM company. Fourth, core transformational leadership theory is used to inspire followers to adopt and follow the vision of the organization as if it were their own and to focus on their ability to achieve the collected goals set by the leaders [Bass and Sosik, 1995]. Lastly, MLM distributors work independently with their own personal agenda, which may not necessarily be the same as the goals and objectives of MLM companies in which they join.

Reasons exist for the weak effect of transformational leadership on improving distributors' performance. Recently, scholars have called for further considerations of a less hierarchical leadership process [Werhane, 2007] and more studies on unconventional groups and leaders [Peiró and Meliá, 2003] and counterculture to reframe the traditional mindset embedded in the traditional view of organizational leadership [Ghoshal, 2005].

Burns [1978] defined the transformational leadership style as "the process through which leaders and followers help each other to advance to a higher level of morality and motivation." Sivanathan et al. [2004] pointed out that transformational

leaders influence subordinates' attitudes and behaviors not directly but indirectly through numerous mediation mechanisms. Considerable research efforts have been devoted to understanding the influence of transformational leadership on follower attitudes, behaviors, and performance [Keller, 2006; Liao and Chuang, 2007; Piccolo and Colquitt, 2006]. However, the mechanisms and processes by which transformational leaders exert their influence on their followers' motivation and performance have not been adequately addressed in the literature [Bono and Judge, 2003; Lord et al., 1999]. Reviewing the mediation mechanisms and processes through which transformational leadership influences the performance of MLM contributors is needed. This motivates us to focus on examining three mediation factors as mediators of distributors' higher-order goals, trust-in-leader, and self-efficacy.

3.2 Effects of Transformational Leadership

As mentioned above, transformational leaders influence subordinates' attitudes and behaviors indirectly through the process of influence known as the mediating effects.

Although evidence suggests that higher-order goal, trust-in-leader, and self-efficacy have been found to have significant effects on performance in hierarchical organizational structures [Ghadi et al., 2013; Goodwin et al., 2011; Bass and Riggio, 2006; Choi et al., 2003; Pillai and Williams, 2004; Brown et al., 2001; Bandura, 1986; Katz and Kahn, 1978], the following effects need further investigation for non-hierarchical organizational structures such as MLM organizations:

- higher-order goals effect
- trust-in-leader effect
- self-efficacy effect

These effects will be discussed in the following paragraphs.

3.3.1 Higher-order Goals Effect

There are two frequently adopted theories of motivation: Maslow's hierarchy of needs [Maslow, 1943] and Locke's goal setting theory [Locke, 1968], which are especially relevant to the understanding of the facilitation of transformational leadership on the development of higher-order goals. According to Maslow's hierarchy of needs, people perform optimally when they reach a stage of self-actualization and self-transcendence. This "stage" in the hierarchy aims to connect something beyond the ego that would help a subject reach their potential [Daniels and Walker, 2001]. The stage of self-actualization advocates a strong link between higher-order goals and work life [Ghadi, 2012; Liaw et al., 2010]. Experiencing personal meaning at work has been found to be closely related to satisfying these higher-order needs, which involve progressing from "belonging" to "esteem" and "self-actualization" [Chalofsky, 2003]. Hackman and Oldhan [1976] further found that meaningful work and employee engagement are closely interconnected. To stay competitive in the marketplace, many organizations have been developing self-managing work teams. This development has resulted in less clearly defined authority similar to those found in MLMs and has further increased the relevance of MLM research to other types of or-

ganizational settings. Sparks and Schenk [2001] found that transformational leaders improved MLM distributors' performance by appealing to their higher-order motives. Whereas this evidence suggests that the higher-order motives serve as the mediator between transformational sponsors (up-line) and distributors (down-line) in the US environment, the path and pace of higher-order needs in China and the US are not the same because of the differences in culture and economic conditions [Egri and Ralston, 2004]. As such, we cast doubt on the sole role played by higher-order goals between transformational leadership and performance in MLM, that is, higher-order goals might not have a direct effect on performance. Instead, higher-order goals might serve as a mediator for transformational leadership on performance.

3.3.2 Trust-in-leader Effect

In the leadership literature, trust has been more frequently cited in discussions of transformational leadership than in those of other leadership theories [Dirks and Ferrin, 2002]. Avolio et al. [1999] found that the effect of transformational leadership on followers is not direct. Trust provides a channel for this effect on follower outcomes. In other words, transformational leaders are trusted by their subordinates, who in turn display positive job attitude and positive intra- and extra-role performance [Podsakoff et al., 1990; Jung and Avolio, 2000; Mackenzie et al., 2001; Connell et al., 2003]. Although trust is supported as a mediator in the transformational leadership paradigm in the traditional management hierarchy. However, the condition of trust can

be faked. As a result, while exhibiting transformational behavior, these pseudo-transformational leaders may not produce positive outcomes because of low trust [Bass and Steidlmeier, 1999]. It is inappropriate to ask if subordinates trust a leader in the non-hierarchical organizational structure such as MLM organizations based on the following reasons. First, the relationship between sponsor and distributors are not the same as the leader-follower relationship in the traditional hierarchical organizations as they do not regularly communicate with each other in MLM organizations as in traditional organizations. As such, fostering trust is not solid as trust is appraised from the view of subordinates. In fact, stages versus states theory of relationship marketing proposed by Rao and Perry [2002] and Palmer [2007] and partnering theory proposed by Garbarino and Johnston [1999] have helped explain that the relationships between up-lines and down-lines may be as equal partners that foster mutual trust, entrepreneurial skills, and the capability to sustain their value proposition to customers. As such, the norms of the behavior of trust among distributors may be viewed differently compared to trust-in-leader under the traditional organizational structure.

3.3.3 Self-Efficacy Effect

Bandura [1995, p. 2] defines self-efficacy as individuals' belief about their "capabilities to organize and execute the courses of action required to manage prospective situations. Efficacy beliefs influence how people think, feel, motivate themselves, and act." He found that employees with low self-efficacy doubt their ability and tend to

be distracted by their own negative thoughts, biases, and uncertainties. They tend to seek information that is consistent with their own view and interpret unclear information in a manner consistent with their view [Brown et al., 2001]. By contrast, employees with high self-efficacy seek to enhance the clarity of their role and work performance by continuously monitoring the work environment, updating their understanding of the organization's expectation and assessing their performance. To gain a competitive edge in the market, many organizations have been streamlining and greatly improving their organizational structures by promoting self-efficacy in various levels of workers [Gronn, 2000], and employees' innovative behaviors and commitment are fully endorsed [Hu et al., 2012; Dionne, et al., 2003].

Some theorists advocated that successful past experiences are the first way of creating a strong sense of efficacy [Bandura, 1997; Zimmerman, 2000]. The second way of developing self-efficacy beliefs is through modeling behavior. For modeling behavior to be effective, two considerations are required. The first is the attribute of the model where the observer must see some similar attributes of the model in them. The second consideration is the capability of the model where the observer must assume that the model's performance is reflective of their own capacity. If these two aspects are matched to the observer, then self-efficacy beliefs are enhanced [Zimmerman, 2000]. The third way of creating and strengthening self-efficacy beliefs is verbal encouragement. Although this experience is the least influential in developing self-efficacy, it can still play an

influential role in the development of self-efficacy [Bandura, 1997]. The last way of increasing self-efficacy is the individual's own view of their physiological and emotional states. Individuals often anticipate their performance by their emotional state and physical condition. A strong mind and a strong body enhance self-efficacy beliefs [Fitzgerald and Schutte, 2010].

Efficacy beliefs have been a focus of organizational research for nearly three decades [Bandura, 1986, 1997, 2000]. Studies on efficacy have been conducted in two different streams: self-efficacy and collective efficacy. For the former stream, Bandura [1997] suggested that self-efficacy plays an important role in task-related performance by influencing an individual's choice, effort, and persistence. In addition to his proposition widely tested by researchers on leadership, meta-analytic studies conducted in different settings and tasks have been conducted. The results of these studies revealed positive links among efficacy, effort, and performance [Stajkovic and Luthans, 1998].

Collective efficacy develops as each individual assesses their group's collective capability to perform job-related behaviors [Riggs and Knight, 1994]. The efficacy perceptions stay within individuals, and therefore collective efficacy must be measured at the individual level and then aggregated to the group level [Gully et al., 2002]. Similar to the results on self-efficacy, the research results of the second stream indicate that collective efficacy is also positively related to performance, problem solving, and work-related attitudes [Gully et al., 2002].

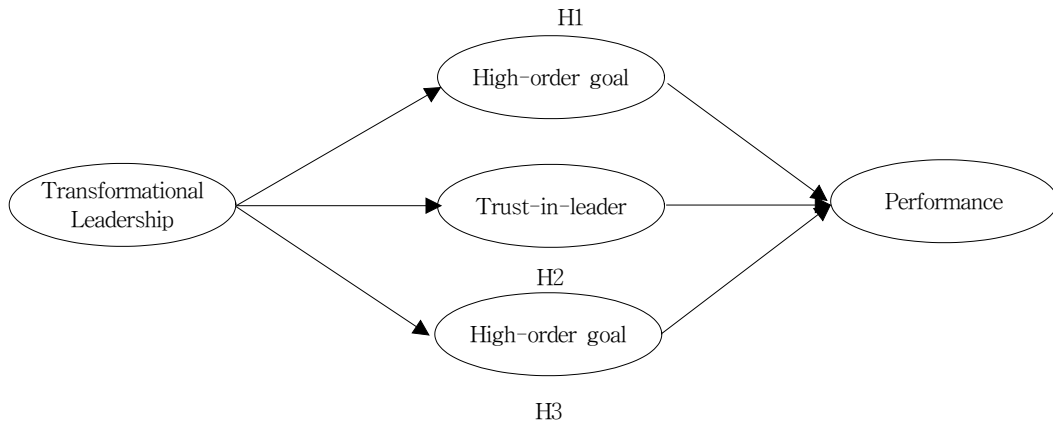
In the contemporary approach of managing and

leading changes in business, the emerging themes in leadership have emphasized the role of empowerment and shared influence for the task accomplishment of innovation and entrepreneurship [Gronn, 2000]. Effective leaders take empowerment as a tool for motivating their employees at the workplace and for making them more accountable for their responsibilities. Dvir et al. [2002] suggests that empowerment leads to self-efficacy, which in turn develops a sense of independence in the thinking and behavior of employees. Moreover, the effects of efficacy beliefs and leadership style on work-related attitudes have been examined across different national cultures [Lam, 2002]. An individual's self-efficacy would seem to enhance the effect of leadership on their performance [Stajkovic and Luthans, 1998; Mittal and Dhar, 2015]. As such, this study focuses on the mediating effects of self-efficacy on the relationship between transformational leaders and the performance of distributors in the MLM context.

3.4 Model and Hypotheses

A review of the literature on transformational leadership, intermediary effects, and performance was conducted in the last section. No study had examined the full set of interrelationships among transformational leadership, higher-order goal, trust-in-leader, self-efficacy, and performance. Therefore, the model depicted in <Figure 1> is an attempt to fill this gap in the literature. The model encompasses the following five constructs:

- Transformational leadership
- Higher-order goal



<Figure 1> Inner (Structural) Model of Mediating Effects between Transformational Leadership and Performance

- Trust-in-leader
- Self-efficacy
- Performance of MLM distributors

As shown in <Figure 1>, the model of transformational leadership, represented by an ellipsoid, is treated as the only exogenous construct measured by five manifested variables. Four dependent constructs are found in the model. Located on the right-hand side, performance is a dependent variable measured by a single indicator, which is a commission made by the independent distributor. The other three dependent constructs, which are located between transformational leadership and commission, are higher-order goal, trust-in-leader, and self-efficacy. They serve as mediators.

Actually, causality between components in the model is indicated by arrows, which show the direction of postulated influence. The model assumes a one-way flow of causation. The solid lines and the arrows hierarchically show the influence of components on other components. Given that we do not assume that performance of distrib-

utors will affect transformational leadership, no feedback flow exists in the model.

Importantly, the hypotheses in the model indicate only a small number of the potential links that could be made. Only relationships that will be formally tested in this study are presented as hypotheses. The formulation of this specific model was mostly determined by prior research and by the basic objective of this study.

The relationships among the independent construct and the dependent constructs in terms of hypotheses will be discussed in the following sections.

3.4.1 Transformational Leadership and Performance

As mentioned previously in the literature review, transformational leaders do not influence subordinates' performance in a simple way. They influence subordinates' outcomes through numerous mediation mechanisms [Sivanathan et al., 2004]. Moreover, the role of context as a mediator in the development of transformational leadership has been overlooked by many studies [Osborn

et al., 2002; Conger, 1999; Rubin et al., 2005]. As Perrow [1970, p. 6] noted, "...leadership style is a dependent variable which depends on something else. The setting or task is the independent variable." We should stress that "context" refers to an organization's external and internal environment, such as structure, culture, technology, and others. We support these findings and propose that the leadership effects of four leadership behaviors, namely, inspirational motivation (IM), intellectual stimulation (IS), individualized consideration (IC), and idealized influence should have different mediation effects in the MLM context.

Sales performance comprises in-role and ex-role performance. In-role performance is defined as those activities or formal requirements that a salesperson is expected to perform to meet the prescribed requirements of a job [MacKenzie et al., 1991; 1993; Podsakoff and MacKenzie, 1994; Williams and Anderson, 1991]. This construct is of interest in the vast majority of sales performance studies [Churchill et al., 1985]. The transformational leader behaviors also positively affect in-role sales performance in a laboratory experiment [Howell and Frost, 1989] and a number of field studies [Bass and Sosik, 1985]. However, the performance of MLM distributors refers to ex-role sales performance more than in-role performance because MLM distributors normally set their own sales target by themselves and not by their supervisors.

MLM operates by stipulating compensation schemes (consisting of commissions and bonuses) for product and services sold as well as the recruitment of distributors [Loch, 1996]. Pro-

duct sales rely on similar sales skills as outside industrial salespeople. A successful MLM member should be able to do well in prospecting, presenting, and closing a sale. A larger income comes from recruiting new distributors into the distribution networks of a distributor. Commissions on sales by new distributors are earned by current members recruited. To enhance this recruiting incentive, most MLMs pay commissions on multiple levels of distributors, hence the term MLM or network marketing. As such, MLM members could receive commissions from sales made by hundreds of other distributors. Performance in this study refers to the monthly commission earned by an individual distributor.

Statistically, when one antecedent and consequent variable are related through a mediator, its direct effect tends to be insignificant. As such, in our model, we expect that the relationship between transformational leadership and performance will not be significant.

3.4.2 Higher-Order Goals is a Mediator between Transformational Leadership and Performance

According to Sparks and Schenk [2001], transformational leadership positively impacts the higher purpose of distributors' belief about work. Ghadi et al. [2013] further found that transformational leadership, work engagement, and perceptions of meaningful work are highly related. Meaningful work is conceptualized differently across various cultures; therefore, it requires further empirical investigation.

Culture's influence on the leadership process is generally accepted. Leadership styles are man-

ifested differently in different cultural contexts [Mittal and Akhtar, 2014]. The perception of higher-order goals and the meaning in work are interpreted differently in various cultures [Shin and Zhou, 2003; Chalofsky, 2003]. The idea of higher-order goals and meaningful work are fully endorsed by different cultural contexts based on the different stages of the economic development of a country. However, some empirical studies have been conducted on the higher-order goals as a mediator in the transformational leadership paradigm, especially in the context of MLM organizations Sparks and Schenk [2001]. Thus, the following hypothesis emerges.

H1 : Transformational leadership has a positive relationship with the performance of distributors through higher-order goals. That is, higher-order goals will serve as a mediator between transformational leadership and performance of distributors.

3.4.3 Trust-in-Leader is a Mediator between Transformational Leadership and Performance

After thorough review of leadership performance literature, it is debatable if trust-in-leader is a mediator between transformational leadership and performance. Basically, researchers fall into two opposite camps of arguments.

On one hand, the impact of followers' trust in leaders has been well-attested in various business processes [Covey, 2008] and academic publications [Mulder et al., 2009]. When followers trust a leader, they are prone to listen, follow and change so as to attain better performance

and demonstrate more productive measures [Mayer et al., 1995; Coloquitt et al., 2007]. If trust is broken by a leader, there will be unfavorable impacts on followers [Dirks and Ferrin, 2002]. One of the possible impacts is that the followers will tend not to take advice from the leader and thus the performance of the followers will be eventually affected.

On the contrary, trust can be faked. According to Bass and Steidlmeier [1999], while showing transformational behavior, these pseudo-transformational leaders may not create positive results due to low trust. As mentioned by Braun, Peus, Weisweiler, and Frey, [2013], trust is not a mediator of the relationship between transformational leadership and performance. It is inappropriate to ask if subordinates trust a leader in the non-hierarchical organizational structure such as MLM organizations based on the following reasons. First, the relationship between sponsor and distributors are not the same as the leader-follower relationship in the traditional hierarchical organizations as they do not regularly communicate with each other in MLM organizations as in traditional organizations. As such, fostering trust is not solid as trust is appraised from the view of subordinates. As a matter of fact, the Partnering Theory suggested by Garbarino and Johnston [1999] and stages versus states theory of relationship marketing suggested by Rao and Perry [2002] and Palmer [2007] elucidate that the relationships between up-lines and down-lines as equal partners that cultivate entrepreneurial skills, build mutual trust, and establish the ability to add their value to prospective customers. Hence, according to Goodwin et al.

[2011], the behavioral pattern of trust viewed by distributors is different from trust-in-leader under the traditional organizational structure.

In sum, there are two sides of arguments. On the positive side, Coloquitt et al. [2007], Covey [2008], Mayer et al. [1995] and Mulder [2009] concur that trust-in-leader has affirmative impacts on the performance of the follower. On the negative side, Garbarino and Johnston [1999], Goodwin et al. [2011], Rao and Perry [2002] and Palmer [2007] disagree that trust-in-leader has significant impacts on the performance of the follower.

In the case of MLM organizations, we agree more with the opinions of the scholars on the negative side. All MLM organizations are primarily sales organizations. A successful distributor's career substantially depends on the professional salesmanship. As suggested by Garbarino and Johnson [1999], one key role of a sales manager is to offer support to followers. Under the MLM organizational structure, the punishment for a distributor is quite rare as all individuals salespersons are remunerated solely by a commission instead of a monthly salary, which might be validated by a sales manager [Harwood and Garry, 2006]. The sponsor-distributor (up-line or down-line) relationship is a partnership relationship rather than a leader-follower relationship.

Given there is trust in between leaders and distributors in MLM, trust still cannot help enhance performance without the organization support coming from the traditional hierarchical organization. The productivity of the distributors very much depends on individuals' factors such as hard work or self-efficacy of the distributors

[Taormina and Lao, 2007].

According to the abovementioned reasons, we agree with Braun et al. [2013] that there is no support for the role of trust as a mediator of the relationship between transformational leadership and follower performance.

For the benefit of statistical testing, we propose H2 for hypothesis testing in a null hypothesis format. Nonetheless, we expect it to be rejected.

H2 : Transformational leadership will have a positive relationship with the performance of distributors through trust-in-leader, that is, trust-in-leader will serve as a mediator between transformational leadership and the performance of distributors.

3.5 Self-Efficacy

Bandura [1997] mentioned that self-efficacy influences self-regulatory effectiveness. Self-efficacy is the belief of a person that they have the resources to succeed in a specific task. Bandura further found out that self-efficacy and self-esteem are different. Perceived self-efficacy is concerned with judgments of personal capability, whereas self-esteem is concerned with judgments of self-worth. People with high (vs. low) self-efficacy perception seek to play a greater role in organizations. A number of studies have found that self-efficacy acts as mediator of transformational leadership to improve performance in the organizational context [Gist and Mitchell, 1992; Brown et al., 2001; Pillai and Williams, 2004]. In addition, the effective self-regulation of work

behavior is a requirement of achieving personal goals and accomplishing the outcomes of organizations [Brown et al., 2001]. Nevertheless, we found no study that directly addressed the mediating effects of self-efficacy conducted under the non-hierarchical organizational context. Choi et al. [2003] found that the self-efficacy effect is significant in 169 training groups who attended a five-day workshop designed to increase participants' job-search skills and efficacy. Although their study was not conducted in a non-hierarchical structure organizational setting, we are motivated to test if self-efficacy also serves as a mediator between transformational leadership in MLM organizations.

H3 : Transformational leadership will have a positive relationship with the performance of distributors through self-efficacy, that is, self-efficacy will serve as a mediator between transformational leadership and the performance of distributors.

4. Research Methodology

4.1 Data Collection

The data for this study were obtained from 123 MLM distributors who attended four leadership training meetings of an MLM company that mainly sells nutrition, skincare, personal care, home care, and home tech products in Hong Kong and Macau. These meetings were conducted in a period of 30 days. With prior approval from the company to collect data from its distributors, we distributed a questionnaire to each distributor based on the language of their

preference, either in English or Chinese, at the beginning of these meetings. In verifying that the two versions of the questionnaire are literally the same, the original English version was double-translated to ensure that the meanings of all items in the Chinese version were the same as those in the original English version. Most respondents took approximately 20 minutes to complete the questionnaire. Similar to Barling, Weber, and Kelloway [1996], Barling, Slater, and Kelloway [2000] and Bass, Avolio, Jung, and Berson [2003], this study adopts a small sample size of MLM distributors with a high response rate of 80.4%. We are happy with the sample size for several reasons. First, the chosen company is a renowned MLM organization in Hong Kong. Second, the data were collected in a rare situation where representative distributors were present in four local sales meetings, and finally, the approval for collecting data by the company had seldom been granted.

4.2 Questionnaire Design

The questionnaire has 49 questions and is divided into three sections. Section A consists of 20 items of the short form of Bass and Avolio [1993]'s Multifactor Leadership Questionnaire. Section B consists of three scales: the self-efficacy [Scholz et al., 2002], the trust scale [Butler, 1991], and the higher-order-goal scale [Sparks and Schenk, 2001]. For the first two sections, respondents were asked to rate each question on a five-point Likert-type scale, where 1 represents "strongly disagree," and 5 represents "strongly agree." Section C is concerned with

the classification data, which help describe the characteristics of the sample. Performance is measured by the amount of commission that each distributor earned in the preceding month.

4.3 Data Analysis

Profile of Distributors As indicated in <Table 1>, a total of 11% of the distributors surveyed were affiliated with the training for the first time, 17% for the second time, 38% for the third time, and the remainder for more than three times. The fact that the company holds a training meeting each year indicates that most surveyed distributors had been affiliated with the company for more than two years.

<Table 1> Profile of Respondents

Characteristics	Frequency	Percent
Age		
18~29 years	26	21.3
30~39 years	48	39.3
40~49 years	35	28.7
50 years and above	13	10.7
Education		
Secondary	24	19.7
Post-secondary	39	32.0
Degree	39	32.0
Post-graduate	8	6.6
Professional	8	4.9
Missing	8	4.9
No. of Meetings Attended		
First Time	13	10.7
Second Time	21	17.2
Third Time	46	37.7
Fourth Time	26	21.3
Fifth Time or more	16	13.1

In terms of the age of the distributors, most of them (68%) were middle-aged persons with ages ranging from 30 years to 49 years. A total of 21% of distributors were under 29 years old,

and 11% were over 50. In addition, these distributors had fairly good education : almost half of them completed secondary or post-secondary education, whereas the other half received an academic or professional degree.

4.4 Scales Reliability and Validity

To examine the reliability and validity of the scales adopted for this study, the Statistical Package for the Social Sciences (SPSS) Version 21 was employed to perform descriptive statistics and regression analysis, whereas Smart-PLS Version 3.17 was used for correlation analysis, reliability analysis, and confirmatory factor analysis. The software SmartPLS was adopted given its functions to examine the multiple relationships with independent and dependent factors, interaction effect and quadratic effect of a structural model [Hair and Lukas, 2014]. In addition, we chose Smart-PLS because it is a newly developed software to deal with structural equation modeling using small sample size.

This study relied on data collected from a single informant, leading to the possibility of common method variance [Chang et al., 2010]. Several steps were used to limit and assess these effects. Harrison [1996] stated that response biases have been revealed to be more problematic at the item level than at the construct level. As such, specific questions in the questionnaire were worded and sequenced to reduce the potential for carryover response bias by using the following two measures. First, we adopted different response anchors across measured constructs. Second, we separated the items that operationalize the de-

pendent variable and items measuring the independent variables in question order. Analysis using Harmon's single-factor test [Podsakoff and Organ, 1986] at a later stage indicated no evidence of artificial response bias.

Given a small sample size, we used a second-order confirmatory factor analysis with Smart-PLS to assess the validity derived from the questionnaire. A bootstrapping process with 5000 samples was used to re-specify the measurement model based on both content and statistical considerations. For the scale for transformational leadership, all items have loadings ranging from .0.83 to 0.88, which are significant at $p < 0.001$. R-square for each dimension of the scale was found to be higher than 0.6 and significant at $p < 0.05$. As such, the measurement model was considered acceptable.

We assessed convergent validity by examining the path coefficients of the second-order confirmatory factor analysis. Path coefficients were found to be ranging from 0.83 to 0.91, indicating that all dimensions of the scale were significantly pointing at the construct of transformational leadership. As such, convergent validity was

warranted.

Discriminant validity examines the extent to which sub-constructs or the indicator variables of a construct differ from one another. As the path coefficients tend to be high, two methods were adopted to assess discriminant validity. First, we employed the Fornell-Larcker Criterion [1981], which assessed whether the square root of the average variance extracted (AVE) is greater than the correlation shared between the sub-constructs of a higher-order construct. <Table 2> shows the AVEs for all dimensions of transformational leadership using Smart-PLS with the bootstrapping procedure. The correlations among the five dimensions of transformational leadership are shown under the diagonal, whereas the square roots of AVEs are on the diagonal. All AVEs are larger than the threshold of 0.5, and the correlations among the five dimensions of transformational leadership were found to be smaller than the square root of the AVEs (diagonal values). This finding provides evidence of discriminate validity.

Second, we used the cross-loading approach to examine discriminant validity from a different

<Table 2> Discriminant Validity for Transformational Leadership Fornell-Larcker Criterion

Dimension	Individual Consideration (IC)	Idealized influence attributes (IA)	Idealized Influence Behaviors (IB)	Inspirational Motivation (IM)	Intellectual Stimulation (IS)
IC	0.82 [#]				
IA	0.68 ⁺	0.80			
IB	0.65	0.72	0.74		
IM	0.73	0.59	0.67	0.78	
IS	0.69	0.68	0.63	0.60	0.79

[#] Square root of AVE in the diagonal.

⁺ r below the diagonal.

<Table 3> Discriminant Validity for Transformational Leadership Cross-Loadings

Construct Dimension	Transformational Leadership	Dimension of Transformational Leadership				
		Individual Consideration (IC)	Idealized influence attributes (IA)	Idealized Influence Behaviors (IB)	Inspirational Motivation (IM)	Intellectual Stimulation (IS)
IC1	0.80	0.84	0.65	0.63	0.65	0.63
IC3	0.70	0.84	0.54	0.51	0.53	0.58
IC4	0.65	0.78	0.49	0.45	0.54	0.53
IA1	0.65	0.44	0.78	0.50	0.54	0.45
IA2	0.62	0.54	0.74	0.54	0.54	0.45
IA3	0.77	0.64	0.87	0.65	0.57	0.59
IA4	0.72	0.54	0.80	0.60	0.61	0.49
IB1	0.51	0.36	0.40	0.65	0.43	0.44
IB3	0.66	0.49	0.61	0.77	0.44	0.52
IB4	0.71	0.58	0.58	0.80	0.57	0.57
IM1	0.66	0.58	0.54	0.46	0.74	0.51
IM2	0.62	0.46	0.48	0.49	0.75	0.46
IM4	0.70	0.57	0.59	0.54	0.81	0.47
IS2	0.56	0.45	0.42	0.42	0.36	0.73
IS3	0.63	0.61	0.40	0.52	0.46	0.73
IS4	0.74	0.63	0.55	0.63	0.56	0.81

perspective. <Table 3> shows the matrix of cross loadings generated by Smart-PLS Statistical Package Version 3.16. The rows of the matrix represent cross loadings of 16 items on the construct of transformational leadership and its five dimensions. Two phenomena were observed. First, items load heavier on their own dimension than on other dimensions. For example, considering the first three rows of <Table 3>, we find that the loading of Consid1 on the dimension Consideration is 0.84, which is the largest loading across the row. Second, each item will have the heaviest loading on the construct, except for its own dimension. For example, item Consid1 loads heaviest on the dimension Consideration (0.84) but second heaviest on the construct of Transformational Leadership (0.80).

5. Measures

5.1 Performance of Distributors

Our dependent construct, performance, is operationalized by commission, which is the amount of payment in Hong Kong dollars received by the respondent from the MLM company in the preceding month. A logarithmic transformation was adopted to normalize the distribution of this variable.

5.2 Transformational Leadership

Our independent construct, transformational leadership, is composed of 20 five-point Likert-type items, which are the short form of Bass and Avolio [1994]'s Multifactor Leadership

Questionnaire. The literature on leadership indicates that this construct consists of multiple dimensions that are highly interrelated. We chose the items that capture a variety of aspects of leadership and used factor analysis to confirm the validity of the underlying construct. Respondents were asked to evaluate the extent to which their leader had to address the following five dimensions:

Idealized influence attributes (IIATT) involve challenging goals setting and provide a vision or sense of mission for followers. Four items are used in this dimension, with Cronbach's alpha of 0.77.

Idealized influence behaviors (IIB) instill pride

in and among the group of followers. This dimension also consists of four items and has a Cronbach's alpha of 0.78.

- Inspirational motivation (Inspire) inspires followers to achieve goals beyond their own self-interest for the good of the organization. Four items are used in this dimension, and Cronbach's alpha was found to be 0.7.
- Intellectual stimulation (Intstim.) promotes problem solving and examines whether work is performed properly. Three items are used for this sub-scale. Cronbach's alpha was found to be 0.74.
- Individual consideration (Consid.) involves

<Table 4> Loadings, Reliabilities, and R^2 of the Dimensions of Transformational Leadership

Construct and Items	Loading	Weight	Cronbach's alpha	Composite reliability	R^2	T-statistics
Transformational Leadership						
Inspirational motivation (IM)	0.84		0.926	0.935		29.36*
Intellectual stimulation (IS)	0.83					23.61
Idealized influence attributes (IB)	0.85					27.53
Idealized influence behaviors (IA)	0.88					31.61
Individual consideration (IC)	0.86					42.03
Inspirational motivation (IM)			0.70	0.83	0.70	
Item 1	0.78	0.42				17.47
Item 2	0.76	0.40				15.61
Item 4	0.80	0.45				19.72
Intellectual stimulation (IS)			0.68	0.83	0.68	
Item 2	0.74	0.37				13.18
Item 3	0.75	0.41				14.73
Item 4	0.85	0.49				33.56
Idealized influenced behaviors (IB)			0.60	0.79	0.72	
Item 1	0.65	0.37				8.16
Item 3	0.77	0.47				17.46
Item 4	0.80	0.50				22.18
Idealized influenced attributes (IA)			0.81	0.88	0.77	
Item 1	0.77	0.29				16.34
Item 2	0.74	0.28				12.06
Item 3	0.88	0.35				34.89
Item 4	0.80	0.32				21.14
Individual consideration (IC)			0.76	0.86	0.77	
Item 1	0.84	0.50				30.03
Item 3	0.84	0.40				24.41
Item 4	0.78	0.37				13.88

treating followers as individuals and not only as members of a group. This sub-scale consists of three items, and it has a Cronbach's alpha equal to 0.8.

Eventually, four items were dropped from the inventory because of low item-to-total correlation, each from four out of the five dimensions. As indicated in <Table 4>, the Cronbach's alpha for the measure is 0.926, and the composite reliability for the measure is 0.935.

5.3 Higher-Order Goals Effect

This single dimension-mediating construct is a two-item scale adopted from Sparks and Schenk [2001]. Cronbach's alpha for the measure is 0.706, whereas the composite reliability is 0.871.

5.3.1 Trust-in-leader Effect

This construct is the third mediating construct in the model. The scale adopted from Butler [1991] consists of four items. However, one item was dropped because of low item-to-total correlation. The final Cronbach's alpha is 0.833, and the composite reliability for the measure is 0.90.

5.3.2 Self-Efficacy Effect

One of our mediating constructs, self-efficacy, which was adopted from Scholz et al. [2002], consists of ten items. Each item was measured on a five-point Likert-type scale. After two items are deleted from the scale because of extremely low item-to-total correlation, the Cronbach's alpha is 0.859, which is

higher than the threshold of 0.70 as suggested by Nunnally [1978]. Thereafter, a split half reliability analysis was conducted. Cronbach's alphas for the two sub-scales were found to be 0.735 and 0.811, with a correlation of 0.829 between them. The composite reliability for the measure is 0.888 (see <Table 5>). This unidimensional scale was subject to an exploratory factor analysis. As the first factor contributed 43% of the total variance, the construct can be regarded as unidimensional.

5.3.3 Control Variables

A dummy variable identifying the gender of the respondents was included to control for possible differences in definitions and attitudes toward transformational leadership, self-efficacy, higher-order goal, and trust-in-leader, all of which could systemically affect the results of the study. A value of 1 was assigned for males, and a value of 2 was assigned for females.

As age may have some systematic effects on the relationships of interest because of cultural differences, an interval variable reflecting the actual age of the respondents was included in the model.

We include the number of meetings that a distributor has attended as a control variable because we want to examine whether experienced distributors may display effects on the relationships of interest different from those of new distributors. A value of 1 indicates that a respondent attended the training meeting for the first time, a value of 2 indicates that a respondent attended for the second time, and so on.

Education was used as a control variable bes-

<Table 5> Loadings and R^2 of Self-efficacy, Higher-Order Goal, and Trust-in-Leader

Construct and Items	Loading	Weight	Cronbach's alpha	Composite reliability	R^2	T-statistics			
Performance	1.00								
Self-efficacy									
Item 1	0.66	0.23	0.861	0.888	0.70	12.08*			
Item 4	0.75	0.17				8.77			
Item 5	0.71	0.18				11.38			
Item 6	0.68	0.14				12.33			
Item 7	0.75	0.14				15.05			
Item 8	0.70	0.16				11.18			
Item 9	0.74	0.12				12.56			
Item 10	0.67	0.16				8.53			
Higher-order goals									
Item 1	0.90	0.62				0.706	0.871	0.87	17.51
Item 2	0.85	0.52				16.36			
Trust-in-leader									
Item 1	0.81	0.34	0.833	0.900	0.90	10.22			
Item 3	0.90	0.39				34.05			
Item 4	0.89	0.42				23.02			

* significant at $p < 0.001$.

cause educational level was found to be related to the objective measures of task performance but weakly related to performance in training programs [Ng and Feldman, 2009]. Given that this study includes an objective measure of performance, commission, and the distributors were participating in a training program while data were collected, we want to ensure that educational level did not introduce unwanted variance into the relational dynamics in this study.

6. Testing Hypothesis

<Table 6> reports the variable means, standard deviations, and correlation coefficients between the dependent and independent variables. None of the variables used in the model has a correlation coefficient higher than 0.55. Collinearity diagnostics indicated that multicollinearity is not a serious problem [Belsely et al., 2005].

To examine the hypothesized effects in the

<Table 6> Correlations and Descriptive Statistics

Variable	Mean	s.d.	1	2	3	4
Performance a	0.46	0.78				
Transformational leadership	3.91	0.59	-0.03			
Self-efficacy	3.80	0.54	0.28*	0.22*		
Higher-order goals	4.13	0.68	-0.05	0.31**	0.23**	
Trust-in-leader	3.73	0.79	-0.04	0.55**	0.14	0.35**

^a Logarithm.

* significant at $p < 0.05$.

** significant at $p < 0.001$.

model as previously specified, we conducted structural equation modeling (SEM) analyses using Smart-PLS Version 3.27 [Hair and Lukas, 2014]. Smart-PLS was used for two reasons. First, partial least square (PLS) approach is more suitable than other existing algorithms for studies with a small sample size. Second, this study has adopted some constructs (e.g., higher-order goal) with less than three indicators [Hair and Lukas, 2014]. In avoiding inadmissible or unidentifiable solutions, using PLS seems to be more appropriate [Hair and Lukas, 2014].

Through the use of Smart-PLS, a series of successive models were generated to determine the added value of each step. We started with a model using performance as the dependent variable and control variables as independent variables and then added mediators such as higher-order goal, trust-in-leader, and self-efficacy. <Table 8> shows the most informative models. Several other confirmatory and additional interaction terms and disaggregated influence variables were first tested to ensure the validity of our findings.

<Figure 2> shows the models with constructs and their operationalized items : Model 1 : Self-efficacy with Direct Effect and Model 2 : Self-efficacy without Direct Effect. As Smart-PLS does not provide indices for goodness-of-fit, we only display the estimates of loadings, which are their respective t values and p values. The results of the analysis are divided into the following three parts :

Reliabilities of constructs

- Estimated loadings of the confirmatory

factor analysis of constructs

- Standardized path coefficients between transformational leadership and other constructs with control variables

Part One : Reliabilities of Constructs

<Table 5> shows a summary of the reliabilities of all constructs in terms of Cronbach's alpha and composite reliability. In general, composite reliabilities are higher than Cronbach's alphas. As presented in the previous section, all major constructs have composite reliabilities higher than the threshold of 0.7 [Nunnally, 1978]. Among the five dimensions of transformational leadership, IIB has the lowest reliability coefficient of 0.79. Thus, all constructs have acceptable reliability.

Part Two: Estimates of Confirmatory Factor Analysis of Transformational Leadership

"Outer model" is the name used by Smart-PLS for the measurement model in SEM. In our model, the construct of transformational leadership, its dimensions, and the three mediators are referred to. <Table 5> shows the standardized loadings of items on transformational leadership and its dimensions. All loadings range from 0.83 to 0.88, which are significantly higher than the acceptable level of 0.5. T-values for all loadings are significant at $p < 0.001$. In addition, R^2 for each dimension is high, reaching a level 0.65. This finding also indicates the high convergent validity of transformational leadership. However, as transformational leadership is an exogenous construct in the model, it does not have R^2 .

<Table 5> shows the standardized loading of

items on self-efficacy, higher-order goal, and trust-in-leader. All loadings ranging from 0.66 to 0.90 are significant at $p < 0.001$. As indicated by their R^2 , the explanatory power of the construct higher-order goal is as high as those of self-efficacy, higher-order goal, and trust-in-leader, which have R^2 of 0.70, 0.87, and 0.90, respectively. Performance does have an R^2 because it has only one item (indicator).

Part Three: Standardized Path Coefficients between Transformational Leadership and other Constructs with Control Variables.

In our model, “inner model” refers to the structural relationship among all constructs such as transformational leadership, performance, self-

efficacy, higher-order goal, and trust-in leader.

We first consider Analysis 1 with control variables in <Table 7>, which shows that all control variables do not significantly influence distributors’ performance. This indicates that transformational leadership does not have a direct effect on the performance of distributors in the MLM environment and provides evidence to proceed examining the three proposed mediators. In Analysis 1, while direct effect of transformational leadership is introduced, the path coefficient between transformational leadership and performance was found to be insignificant and almost equal to zero.

Hypotheses 1, 2 and 3 indicate the mediating

<Table 7> PLS-SEM Predicting the Level of Performance in terms of Commission

Variable	Analysis 1		Analysis 2		Analysis 3	
	Control Variable	With Direct Effect	With Direct Effect	W/O Direct Effect	Self-efficacy Only	Self-efficacy W/O Direct Effect
Control Variables						
Age	0.089	0.090	0.053	0.046	0.055	0.056
Gender	-0.014	-0.013	0.021	0.013	0.016	0.009
Education	0.099	0.098	0.068	0.072	0.065	0.070
Meetings	0.086	0.087	0.063	0.059	0.066	0.062
Direct Effect						
Transformational leadership		-0.028	-0.077		-0.086	
Performance						
Indirect Effect						
A1: Self-efficacy Performance			0.272*	0.261*		
A2: Higher-order goals Performance			-0.043	-0.052	0.264*	0.244*
A3: Trust-in-leader Performance			0.006	-0.031		
B1: Transformational leadership Self-efficacy			0.222*	0.222*	0.220*	0.220*
B2: Transformational leadership Higher-order goal			0.308*	0.308*		
B3: Transformational leadership Trust-in-leader			0.507*	0.507*		
R^2	0.025	0.026	0.090	0.086	0.089	0.082
Change in R^2		0.001	0.004	0.004	0.003	0.007

** significant at $p < 0.01$.

* significant at $p < 0.05$.

effects of higher-order goal, trust-in-leader, and self-efficacy on the relationship between transformational leadership and performance. In other words, Hypotheses 1, 2, and 3 suggest that transformational leadership affects performance through higher-order goals, trust-in-leader, and self-efficacy, respectively.

In Analysis 2, the mediating effects of higher-order goal, trust-in-leader and self-efficacy are tested.

There are two cases. The first case is related to higher-order goal, trust-in-leader. The indirect effects of transformational leadership on both higher-order goal and trust-in-leader are significant. However, the coefficients of the paths from higher-order goal and trust-in-leader to performance are insignificant, indicating that full mediation for higher-order goal and trust-in-leader do not exist given that transformational

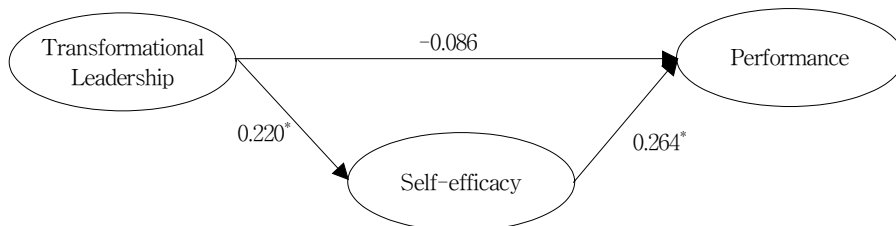
leadership has no direct effect on performance. As such, hypotheses 1 & 2 that higher-order goal, trust-in-leader as mediators are rejected. However, the rejection of Hypothesis 2 is well anticipated as discussed in the literature review.

The second case is related to self-efficacy as a mediator.

We examine the mediating effect of self-efficacy with control variable in Analysis 2 in <Table 8>. The full mediating effect was found to be significant. This finding means that the paths from transformational leadership to self-efficacy and from self-efficacy to performance were found to be large and significant at $p < 0.05$. Thus, Hypothesis 3, stating that self-efficacy is a mediator of transformational leadership and performance, is accepted.

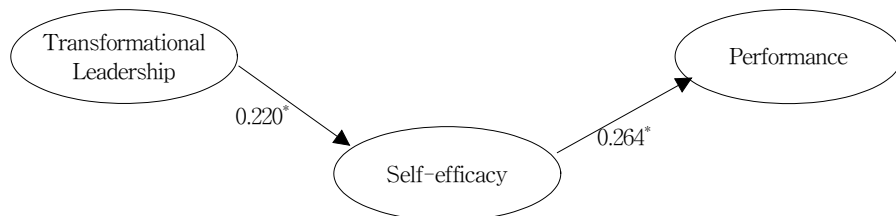
We rely on Analysis 3 in <Table 7> to fully interpret our results for Hypothesis 3. The

Model 1: Self-efficacy with Direct Effect



* Significant at $p < 0.05 = 1.810$, GFI = 0.926, CFI = 0.958, RMR = 0.074.

Model 2: Self-efficacy without Direct Effect



* Significant at $p < 0.05 = 1.810$, GFI = 0.926, CFI = 0.958, RMR = 0.074.

<Figure 2> Relationship between Transformational Leadership and Performance

〈Table 8〉 Testing of Hypotheses

Hypothesis	Result
H1 : Transformational leadership will have a positive relationship with the performance of distributors through higher-order goals, that is, higher-order goals will not serve as a mediator between transformational leadership and the performance of distributors.	Rejected
H2 : Transformational leadership will have a positive relationship with the performance of distributors through trust-in-leader, that is, trust-in-leader will not serve as a mediator between transformational leadership and the performance of distributors.	Rejected as expected
H3 : Transformational leadership will have a positive relationship with the performance of distributors through self-efficacy, that is, self-efficacy will serve as a mediator between transformational leadership and the performance of distributors.	Supported

change in explained variance between Analysis 1 without direct effect and Analysis 3 without direct effect is 5.6%, which is significant at $p < 0.05$. As the direct effect of transformational leadership on performance is not significant as shown in 〈Figure 2〉 Model 1 : Self-efficacy with direct effect, we further conduct an analysis confirming that self-efficacy as a mediator is well-received as shown in 〈Figure 2〉 Model 2: Self-efficacy without direct effect.

Thus, Hypothesis 3 is supported.

6.1 Summary and Conclusions

In this study, we examine the impacts of transformational leaders on distributors' performance through distributors' perceptions of trust-in leader, higher-order goal, and self-efficacy in MLM organizations, which is an organizational context seldom employed in the literature on leadership. In recent years, a rising tide of transformational leadership is observed in some parts of the world. On the one hand, some researchers have viewed that this phenomenon will lead to better performance in organizations through variables such as trust-in-leader, higher-order goal, and self-

efficacy. The literature on transformation leadership is rooted in hierarchical organizations. Transplanting theories and practices relating to leadership to other type of organizations without clarifying the role of these variables between transformational leadership and performance would be detrimental. To avoid this limitation, this study has two objectives. The first objective draws together the various directions of theory and research in the study of transformational leadership by developing a model that conceptually ties all three variables (either as mediators) together with transformational leadership as the antecedent and the performance of distributors as the consequence. The second objective tests the hypothesized causal links between the determinants in the model.

In establishing a certain degree of faith in the hypotheses and model developed in this study, reliable measurements are necessary. The primary method for measuring the reliability of multi-item measures was the Cronbach's alpha coefficient. In general, the reliability coefficients ranged from about 0.800 to 0.926 across all constructs. These values compared favorably with those obtained in other studies [Churchill

and Surprenant, 1982; Yau, 1994] and were of highly sufficient levels to warrant confidence in the measures [Nunnally, 1978]. Furthermore, the results of the item-to-total correlation analysis also showed that the strong internal consistency of the research instruments was prevalent.

As transformational leadership is a core component of the model, the assessment of construct and discriminant and convergent validity was conducted. A first-order confirmatory factor analysis indicated that all items have significant loadings and are above 0.83, leading to the conclusion that the measurement model has construct validity. Path coefficients of the second-order factor analysis were found to be large enough to warrant convergent validity. Discriminant validity assessed by both Fornell-Larcker Criteria [1981] and the cross-loading approach was found to be acceptable. The model with five constructs was subjected to testing using Smart-PLS. According to the standardized path coefficients between transformational leadership and other constructs with control variables, all seven hypotheses received support.

6.2 Theoretical Contributions

In this study, three different but related contributions are made to the literature on leadership. First, it provides further insights for MLM business particularly into the equal status of sponsor-recruit relationships in the success of MLM distributorship. Second, it does not support the mediation components of higher-order goals and trust-in-leader as a mediator between transformational leadership and performance. Third,

it supports the proposition stating that self-efficacy serves as both a mediator through which transformational leadership may achieve performance.

For over two decades, scholars have offered consistent results showing that transformational leadership has direct and indirect effects on the performance of fellows through trust-in-leader, higher-order goals, and self-efficacy. However, trust-in-leader and self-efficacy mediation effect propositions have not been tested in non-hierarchical organizational structures such as MLM. Using the MLM's logic underlying the transformational leadership perspective, we successfully demonstrate that full mediations for higher-order goals and trust-in-leader do not exist (Hypotheses 1 and 2). In the MLM business practice, MLM distributors do not need to build personal trustworthiness and emotional support for themselves. All sales and sponsorship information of any MLM company must be fully disclosed and be made available to all levels of distributors for easy recruitment. Distributors completely rely on their personal effort instead of their sponsors because all distributors are independent operators.

Hence, we have two contributions to the literature. First, these findings confirm our thinking showing that the assumption stating that followers' success significantly depends on their leader or sponsor's leadership is not universally true. The case in MLM clearly indicates this confirmation, where the success of distributors is solely relied on their own personal effort. This condition leads to the result showing that transformational leadership has no significantly direct

effect on the performance of distributors.

Second, thus, self-efficacy is able to enhance the effect of transformational leadership on distributors' performance, indicating that the self-development of distributors is a vital part of leadership effectiveness for MLM organizations.

6.3 Management and Marketing Implications

This study makes certain contributions to management practices. The model and findings provide indications for developing both marketing and managerial strategies.

First, our findings provide a new focus on leadership development training for leaders in this century who are able to guide ambidextrous organizations by focusing on their followers' self-concept and identity. The twenty-first century has seen an accelerating move away from traditional organizational structures toward hybrid adaptations that focus on external, flexible interaction, interdependency, and a bottom-up approach. New forms of leadership such as shared leadership [Barnes et al., 2013] should shift from leader-follower-centric models to leader-leader models. The behavior of leaders in the future should focus on the mediating effects of meaningful work [Ghadi et al., 2013] and a culture of innovation [Hu et al., 2012], empowerment [Shah et al., 2011], and intrapreneurship [Moriano et al., 2014]. In other words, corporate training should be focused more on character development and enhancement than on skills training.

In addition, the significant effect of efficacy belief on the performance of MLM distributors

leads us to consider the adoption of a leader-leader approach instead of a leader-follower approach. In the MLM context, the adoption of the leader-leader approach is a mean to strengthen self-efficacy of the followers so that better performance can be achieved [Bandura, 1997; Riggs and Knight, 1994; Lam, 2002; Manz, 1983, 1986, 1992]. Therefore, MLM leaders should focus on creating a culture showing that every distributor is a leader in the organization. In such a way, the self-efficacy that enhances the effect of leadership on distributor performance will be nourished eventually.

7. Limitations

This study has several limitations.

The first limitation is concerned with the sample size. In this study, only a small sample of 123 distributors was used. This small sample size has created problems in data analysis. However, recent statistical development in SEM enabled us to employ a new SEM software called Smart-PLS, which is specialized to handle small sample sizes effectively.

Another limitation is related to the measurement of performance. In this study, distributors' performance was measured in terms of commission. This practice is a good approach as requested by contemporary researchers. However, distributors' performance can be measured by other factors such as sales volume, costs, profits, and turnovers. In addition, other intangible performance indicators exist such as satisfaction of customers and distributors, which are important in reflecting business success.

Finally, as the data were obtained using a single informant approach, the measurement of transformational leadership in terms of its five dimensions may not necessarily reflect the true behaviors of the leaders as perceived by their distributors.

7.1 Directions for Future Research

A number of suggestions can be made for building on this study and for furthering the understanding of the process of transformational leadership.

The model in this study can be improved in a number of ways.

First, in this study, the participants were only chosen from Hong Kong and Macau. For future studies, transformational leadership in MLM can also be expanded to different major Chinese communities such as Shanghai, Taipei, and Beijing. More specifically, by the joint efforts of different scholars from various Chinese communities, the transformational leadership in multi-level marketing can be generalized in the mentioned Chinese communities.

Moreover, this study was tailored to explore the transformational leadership in MLM in the Chinese community. A research study about the cross-cultural differences between the Chinese and non-Chinese communities with regard to the transformational leadership in MLM would be interesting.

Furthermore, as the data for this study were obtained from MLM distributors of an MLM company selling nutrition, skincare, personal care, home care and home tech products, other studies

may be conducted in different MLM companies with different product lines so that generalization can be made.

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