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Embracing Transformational Leadership: Team Values and the Impact of Leader Behavior on Team Performance

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The authors investigated the relationship between transformational leadership behavior and group performance in 218 financial services teams that were branches of a bank in Hong Kong and the United States. Transformational leadership influenced team performance through the mediating effect of team potency. The effect of transformational leadership on team potency was moderated by team power distance and team collectivism, such that higher power distance teams and more collectivistic teams exhibited stronger positive effects of transformational leadership on team potency. The model was supported by data in both Hong Kong and the United States, which suggests a convergence in how teams function in the East and West and highlights the importance of team values.

Keywords: transformational leadership, followers, team performance, group potency, team values

Transformational leaders inspire followers to transcend self-interest and perceptions of their own limitations to become more effective in pursuing collective goals (Bass, Avolio, Jung, & Berson, 2003). They do this by engaging in several types of behavior. Transformational leaders articulate ambitious collective goals and encourage followers to accept them. They also support followers in working toward the goals, such as by acting as a role model, stimulating them to engage in analysis, showing concern for them as individuals, and encouraging teamwork (Podsakoff, MacKenzie, Moorman, & Fetter, 1990). Numerous studies have found transformational leadership to be positively associated with subordinate performance at the individual and organizational levels of analysis, and research is accumulating on factors that mediate the relationship between transformational leadership and performance (see reviews by Conger, 1999; Judge & Piccolo, 2004). Several of these studies were conducted in non-Western societies (Den Hartog et al., 1999; Dvir & Shamir, 2003; Jung, Chow, & Wu, 2003; Lim & Ployhart, 2004; Shin & Zhou, 2003; Walumbwa & Lawler, 2003), which suggests that transformational leadership is effective in a variety of settings.

Transformational leadership research to date has focused on investigating main effects. Less attention has been given to identifying the conditions under which transformational leadership is more or less effective (Podsakoff, MacKenzie, & Bommer, 1996). Values, such as those identified by Hofstede (1980), may constitute potent moderators of followers' reactions to transformational leadership (see Beyer, 1999; Jung & Avolio, 1998). Values are defined as "shared prescriptive or proscriptive beliefs about ideal modes of behavior and end-states of existence that are activated by, yet transcend object and situation" (Rokeach, 1980, p. 262). All individuals, groups, and societies organize values in a hierarchy of importance (Feather, 1996), and values are believed to have a powerful impact on cognitions, emotions, and behavior (Meglino & Ravlin, 1998; Rokeach, 1973). In this article we focus on team values, which we define as the average level of values held by members of a work team. We examine the implications of team values for the leadership of teams.

We begin by reviewing extant research and theory relevant to the effects of transformational leadership on team performance. We then develop a hypothesis about the mediating role of team potency in this relationship as the background for our focal hypotheses concerning the moderating influences of two team values, power distance and collectivism, on the relationship between transformational leadership and team performance. Finally, we present and discuss the results of our study testing these hypotheses in 218 financial services teams in Hong Kong and the United States.

Transformational Leadership and Team Performance

Relatively few of the studies in a recent meta-analysis of the relationship between transformational leader behavior and effectiveness (Judge & Piccolo, 2004) examined the impact of transformational leadership on team performance, despite the view of many scholars that "leadership may have its most important consequences for teams and thus a focus on the team level is also important" (Lim & Ployhart, 2004, p. 610). Studies examining

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transformational leadership have largely focused on either how the behavior of low- to mid-level managers affects the performance or attitudes of individual workers or how the behavior of top managers affects organizational performance.

Two important exceptions studied team performance in military settings. In a study of Singaporean military combat teams, Lim and Ployhart (2004) found that team members' ratings of their commanding officers' transformational leadership were positively related to team performance. Similarly, Bass et al. (2003) found that transformational leadership ratings of platoon leaders and sergeants in the U.S. army predicted unit performance in combat simulations. As in these studies, we focus on the group level of analysis because we seek to explain the performance of "real" work teams, in which members are clearly identified, stable over time, and mutually dependent in pursuing task objectives (Hackman, 2002). In such teams, behavior and performance are strongly influenced by group norms, values, and other phenomena that occur within groups (Hackman, 1992; Levine & Moreland, 1991). The performance of work teams is generally viewed as a function of members' individual performance plus group process gains minus group process losses (Hackman, 1987; Steiner, 1972).

Team Potency as a Mediator

We argue that transformational leadership influences team performance through the mediating effect of team potency, defined as members' "generalized beliefs about the capabilities of the team across tasks and contexts" (Gully, Incalcaterra, Joshi, & Beaubien, 2002, p. 820). We develop this hypothesis in two parts, first discussing reasons that transformational leadership may foster team potency and then discussing reasons that team potency may contribute to team performance.

There are four mechanisms through which transformational leadership may enhance team potency. First, transformational leaders communicate a high level of confidence in the team's ability to achieve ambitious collective goals (Podsakoff et al., 1990). This confidence on the part of leaders can have a contagious effect on members' own confidence (McNatt & Judge, 2004). Second, transformational leaders model desired behaviors and encourage followers to engage in analysis. Such guidance provides team members with a better understanding of how to approach their work and should therefore strengthen their belief that they can execute the behaviors and analysis needed for successful team performance.

Third, transformational leaders show concern for followers' needs. Such concern should promote a belief among team members that the leader will provide them with any support that they might need from him or her. Believing that the leader will provide them with resources and other types of support they need to execute their work successfully should strengthen team members' confidence that they will be successful. Consistent with our reasoning above, in a study of 50 field companies in the Israel Defense Forces, Shamir, Zakay, Breinen, and Popper (1998) found that averaged perceptions of leader supportive behavior were positively related to group potency.

Finally, transformational leaders promote cooperation among team members. Such efforts should foster a belief among team members that any disagreements that arise within the team will be resolved without hurting team performance. This belief should strengthen team members' confidence in their ability to complete their work successfully without being derailed by destructive intrateam conflict.

Next, theory and research suggest that team potency may contribute to superior team performance. Teams that have more positive generalized beliefs about their capabilities should be more willing to work hard and to persist in the face of challenge and adversity (Larson & LaFasto, 1989), believing that their efforts will eventually pay off in the form of successful task completion. With ability held constant, greater effort is believed to translate into superior performance (Nadler & Lawler, 1977). Supporting the notion that team potency may contribute to team performance, a meta-analysis by Gully et al. (2002) found a significant relationship between group potency and group performance across 29 studies. Furthermore, Campion, Medsker, and Higgs (1993) found that group potency was the strongest among 19 predictors of group effectiveness assessed by separate sources. The above lines of reasoning suggest the following hypothesis:

> *Hypothesis 1:* Transformational leadership positively influences team performance through the mediating effect of team potency.

Consistent with Hypothesis 1, Bass et al.'s (2003) study found that unit potency partially mediated the relationship between transformational leadership and platoon performance. In a study of 47 Korean work teams, Jung and Sosik (2002) similarly found that teams that reported higher levels of transformational leadership perceived that they were more effective; this effect was mediated by group potency.

Team Values as Moderators

In general, little empirical work has examined how values affect leadership processes (Ehrhart & Klein, 2001). None of the studies in a recent meta-analysis of the relationship between transformational leader behavior and effectiveness (Judge & Piccolo, 2004) examined values as potential moderators. Although authors have alluded to the possibility that transformational leadership may be more or less effective depending on societal values (Scandura & Dorfman, 2004), very little empirical work has examined the moderating role of values held at any level of analysis.

We predicted that in work teams, two values identified by Hofstede (1980), power distance and collectivism, would moderate the relationship between transformational leadership and team potency. Power distance is defined as the extent to which people regard unequal status differences as legitimate (Hofstede, 1980). Collectivism is a multifaceted construct, of which two core elements are the extent to which members of a collective view the group's needs and obligations as superordinate to individual needs and desires and the extent to which members wish to maintain strong, harmonious relationships with other group members (Markus & Kitayama, 1991; Oyserman, Coon, & Kemmelmeier, 2002; Triandis, 1995). We argue that transformational leadership behaviors are especially powerful in boosting a team's self-confidence when the team has high levels of power distance and, separately, high collectivism.

Although Hofstede (1980) originally conceived of power distance and collectivism at the societal level, many studies have

since examined these constructs at lower levels of analysis, including at the level of work teams (Colquitt, Noe, & Jackson, 2002; Driskell & Salas, 1992; Earley, 1999; Eby & Dobbins, 1997; Gibson, 1999; Gibson & Saxton, 2005; Kirkman & Shapiro, 2001; Man & Lam, 2003; Thomas, 1999; Wagner, 1995; Wagner & Moch, 1986). Scholars have argued that all work teams develop distinctive cultures (Levine & Moreland, 1991). Values are considered the defining element of culture (see O'Reilly, Chatman, & Caldwell, 1991).

A number of processes may foster the development of shared work team values. First, individuals may self-select into work groups with similar values (see Adkins & Caldwell, 2004). Second, the situational context causes cognitions associated with different values to become salient, thus cuing individuals to respond in a manner that is congruent with those values (Gardner, Gabriel, & Lee, 1999; Oyserman et al., 2002; Triandis, 1998). For example, in teams that develop strong norms of cooperation, collectivistic cognitions such as group goals may be more salient to members, causing them each to behave more collectivistically than they would in less cooperative teams. Finally, team members reinforce shared norms and values by conferring overt and subtle social rewards to one another (Hackman, 1992). In addition, conditions such as strong interdependence among individuals and geographical isolation are likely to further support the development of strong group values (Triandis, 1998).

Among the range of values previously examined in the literature (e.g., Hofstede, 1980; O'Reilly et al., 1991; Schwartz, 1992), in this study we chose to focus on power distance and collectivism because of their relevance to leadership in teams and organizations. Leadership helps organizations to manage two fundamental needs: (a) the need for inequity—the differential allocation of resources such as status and compensation among members—in the service of efficiency and (b) the need for group cohesiveness and solidarity, some level of which is required for the group's continued existence (Kabanoff, 1991). According to Kabanoff (1991), "leadership has a paradoxical or dualistic quality—it both glorifies inequality and the differences between the leader and the led, while at the same time it creates identification and cohesiveness between the leader and his or her followers" (pp. 433–434). Power distance reflects the degree to which team members accept inequity as legitimate. Collectivism reflects the degree to which the team emphasizes shared goals and cohesive relationships.

Power Distance

Earley (1999) argued that in high power distance work teams, low-status members are highly sensitive to input from high-status members. In an effort to win the favor of high-status members and thus work toward enhancing their own status, low-status members endorse the opinions and accept the influence of high-status members. Earley's theory was supported by the results of an experiment in which he created work teams with varying levels of power distance. In high power distance teams but not in low power distance teams, the team's judgment of its efficacy was strongly influenced by the individual judgments conveyed by high-status members.

We apply Earley's (1999) theory to the case of formal leaders, who are high in status relative to team members. Their high status should enable leaders to contribute disproportionately to team potency perceptions in high power distance teams. Because transformational leaders communicate high expectations for and confidence in work teams, higher levels of power distance should result in greater member internalization of these high expectations and confidence and thus in greater team potency.

There are additional reasons that transformational leaders' attempts to enhance the performance of subordinates may have a greater influence on the team potency of subordinates with high power distance. Teams with higher power distance have greater respect for authority and may therefore be more open to leaders' influence attempts. They may be more willing to emulate their leaders and to follow through on suggestions to rethink approaches to work and to work collaboratively, and to accept leaders' attempts to provide individualized support. Once they have accepted these forms of assistance from transformational leaders, teams with high power distance should feel highly confident in their ability (a) to execute the behaviors and analysis needed to do their work, on the basis of their experience emulating the leader and following through on suggestions to rethink their work; (b) to work together as a team without being undermined by intrateam conflict, on the basis of their experience following through on suggestions to work collaboratively; and (c) to obtain further support from the leader as needed, on the basis of their experience accepting the leader's individualized support. In contrast, teams with lower power distance may embrace transformational leader behaviors to a lesser extent, viewing them as less appropriate or responding to them more weakly. In sum, high team power distance should enhance the positive effect of transformational leadership on team potency through multiple pathways. We therefore propose the following hypothesis:

> *Hypothesis 2:* The positive direct effect of transformational leadership on team potency is moderated by team power distance. The higher the power distance, the stronger the positive association between transformational leadership and team potency.

Collectivism

According to Gibson and Saxton (2005), collectivism is a vital value that "has a demonstrated impact on work behavior in groups. . . . It influences social, cognitive, and affective processes in teams" (pp. 213–214). We argued earlier that transformational leaders foster team potency in part by engaging in supportive behaviors, such as showing concern for followers' needs and promoting cooperation among team members, thus bolstering team members' confidence in their ability to achieve ambitious goals. Collectivism is associated with the needs for affiliation, that is, social relationships and succorance, that is, protection and sympathy (Hui & Villareal, 1989). Supportive leader behaviors should help meet these interpersonal needs of collectivistic team members. For example, showing concern for followers' needs should help meet the needs for affiliation with the leader and for succorance. Promoting cooperation among team members should help meet the need for affiliation. Team members' resultant sense of connection and security may bolster their general sense of confidence. Leaders' appeals to engage in teamwork should also foster overall team confidence, as collectivists enjoy and view themselves as being skillful in collaborative work (Eby & Dobbins, 1997).

A study by Jung and Avolio (1998) was suggestive of this moderating effect of collectivism. Noting that Asian countries tend to be high in collectivism, Jung and Avolio (1998) hypothesized that Asian Americans would respond more positively than Caucasian Americans to transformational leadership. Furthermore, they predicted that this effect would be particularly strong for performance on team as compared with individual tasks. In an experiment that used confederate leaders who were trained to behave in a manner adhering to principles of either transformational leadership or transactional leadership,[1] Jung and Avolio found that Asian American participants with transformational leaders generally outperformed the Caucasian Americans with transformational leaders and that this effect was especially strong under interdependent group task conditions.

On the basis of the theory and research discussed above, we propose the following hypothesis:

> *Hypothesis 3:* The positive direct effect of transformational leadership on team potency is moderated by team collectivism. The higher the collectivism, the stronger the positive association between transformational leadership and team potency.

Figure 1 depicts the relationships specified in our hypotheses.

Method

Sample and Procedures

Participants in this study represented 218 financial services teams working in the Hong Kong and U.S. offices of a large multinational bank. By sampling teams in both Hong Kong and the United States, we planned to increase our chances of obtaining substantial variation in the team values that were the focus of this study. We assumed that societal values partly influence team values. Previous research has found that Chinese individuals tend to report relatively high levels of power distance and collectivism, whereas Americans report relatively low levels of these values (Bond & Hwang, 1995).

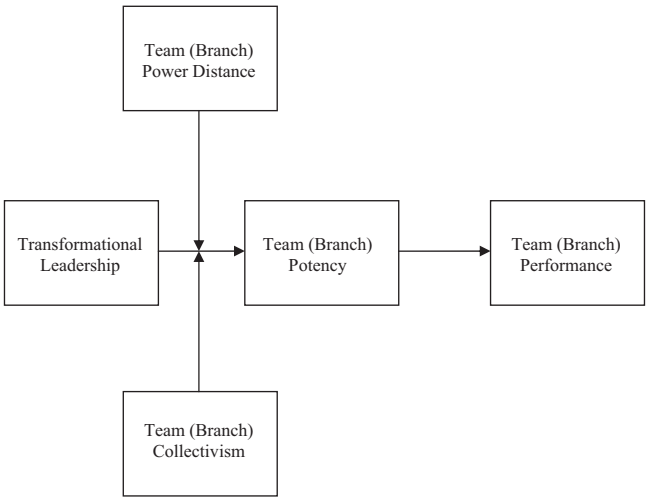

Figure 1. Proposed model.

Each team consisted of members working together in an interdependent fashion to provide financial services to customers and had as its core function one of the following activities: retail banking, customer service in the area of personal banking, or specialized customer service in the area of loans and financial instruments. Each team reported to a unit supervisor and comprised a geographically isolated branch of the bank, meaning that none of the teams included in this study shared its office facilities with another team. Focusing on geographically separate branches increased our confidence that the social processes we described in the previous section resulted in distinctive branch values.

Questionnaires were sent to potential participants through the company's internal mail system as part of a larger study of employee attitudes and well-being. Each envelope included an introductory letter from the second author and an endorsement of the project from senior management. The letter explained that participation in the study was strictly voluntary. Respondents were guaranteed anonymity and provided with a stamped envelope preaddressed to the second author.

All branch members completed and returned their questionnaires in 113 of the 139 Hong Kong branches (a response rate of 81%) and in 105 of the 140 U.S. branches (a response rate of 75%). The 102 members who did not return their questionnaires resulted in the exclusion of 61 branches (out of 279) from the analysis, as data from at least 1 member were missing.

To check the representativeness of the sample, we compared data from the respondents with company data on employees in similar frontline service positions. There were no significant differences between respondents and nonrespondents in terms of age, gender, education, or tenure. The size of the teams (branches) ranged from 4 to 7 members ($M = 5.0$, $SD = 0.5$). The average percentage of women in a branch was 75% ($SD = 15\%$), and 74% of the total sample was female. On average, the teams had a mean age of 32.5 years ($SD = 5.3$) and a mean tenure of 5.2 years ($SD = 2.7$).

Comparing the two subsamples from Hong Kong and the United States, we found no significant differences in age, gender, or education. Seventy-five percent of the Hong Kong branch members were women, compared with 73% of the U.S. sample. Women made up 42% of supervisors in the Hong Kong subsample and 44% in the U.S. subsample. The mean organizational tenure of U.S. respondents ($M = 5.6$, $SD = 2.8$) was significantly longer ($p < .01$) than that of Hong Kong respondents ($M = 4.8$, $SD = 2.6$).

Measures

The original questionnaire was prepared in English. However, because the conventional language of Hong Kong residents is Chinese, we translated the surveys distributed in Hong Kong into Chinese using the standard method of back-translation (Brislin, 1980). The translated version was pretested with 30 employees in the same organization. They were asked to comment on any item that they found ambiguous or difficult to understand. This process did not lead to major changes to any of the items.

[1] Bass's (1985) formulation distinguishes between transactional and transformational leadership. Transactional leaders communicate clear and specific expectations to their subordinates as well as help them to earn rewards for their performance.

All questions were answered on a 5-point Likert scale (ranging from *strongly disagree* to *strongly agree*). We obtained branch-level indexes of transformational leadership behavior, team potency, power distance, and collectivism by averaging individual scores. In predicting team potency and team performance, we tested the mean levels of power distance and collectivism as moderator variables. Values were relatively homogeneous within teams and differed across teams. This homogeneity was probably fostered because team members were highly interdependent and worked face to face in distinct geographical locations. Together, these factors tend to produce homogenization of beliefs and values within a group (Triandis, 1998).

Transformational leadership. Transformational leadership was measured with a 23-item scale developed by Podsakoff et al. (1990). Branch supervisors were rated by their direct reports, who were the study participants. Several empirical studies have used this measure of transformational leadership (e.g., Pillai & Williams, 1998; Podsakoff et al., 1996; Podsakoff, Niehoff, MacKenzie, & Williams, 1993; Spreitzer, Perttula, & Xin, 2005). The instrument captures six transformational leader dimensions, including articulating a vision (e.g., "Talks about the future in an enthusiastic, exciting way"), providing a model (e.g., "Sets a positive example for others to follow"), communicating high performance expectations (e.g., "Will not settle for second best"), providing individual support (e.g., "Shows concern for me as a person"), fostering acceptance of group goals (e.g., "Encourages a team attitude and spirit among employees"), and providing intellectual stimulation (e.g., "Suggests new ways of looking at how we do our jobs").

The Podsakoff et al. (1990) instrument was developed with multiple dimensions in mind. However, in the present study we combined the different sets of items to form a composite transformational leadership index. The scale's alpha reliability in this study was .87 for the Hong Kong sample and .88 for the U.S. sample. In the Results section, we describe confirmatory factor analyses that tested the unidimensionality of these items.

Team potency. Team potency was measured with the Collective Efficacy Beliefs Scale (Riggs, Warka, Babasa, Betancourt, & Hooker, 1994). The scale consists of seven items (e.g., "The unit I work with has above average ability," "The members of this department have excellent job skills," and "This department is not very effective" [reverse scored]).[2] We relabeled this instrument as *team potency* because its content is more general than that of most group or collective efficacy instruments, which aggregate separate efficacy perceptions across a range of group tasks (see Gibson, Randel, & Earley, 2000). The scale's alpha reliability in this study was .91 for the Hong Kong sample and .90 for the U.S. sample.

Power distance. Power distance was measured with an eight-item measure developed by Earley and Erez (1997) on the basis of Hofstede's (1980) construct definition. Sample items include "Employees who often question authority sometimes keep their managers from being effective" and "Employees should not express disagreements with their managers." The scale's alpha reliability in this study was .86 for the Hong Kong sample and .89 for the U.S. sample.

Collectivism. Collectivism was measured with three items from a scale originally developed by Erez and Earley (1987) that has been used in several cross-cultural studies (e.g., Earley, 1993). The items are "If a group is slowing me down, it is better to leave it and work alone," "One does better working alone than in a group," and "I would rather struggle through a personal problem by myself than discuss it with others." All three items were reverse scored, so that higher scores reflected higher collectivism. The scale's alpha reliability was .88 for the Hong Kong sample and .87 for the U.S. sample.

Team performance. Subordinate reports of transformational leadership and other variables were obtained 3 weeks before branch performance was assessed. The immediate supervisor of each branch was asked to provide a team effectiveness rating solely for the purpose of this study. Previous studies (Lam, Schaubroeck, & Brown, 2004; Man & Lam, 2003) modified an individual competence measure (Heilman, Block, & Lucas, 1992) to measure performance at the team level. The three items used in this study and these previous team studies were "This team is very competent," "This team gets its work done very effectively," and "This team has performed its job well." Each item was measured on a 5-point Likert scale (1 = *strongly disagree,* 5 = *strongly agree*). The scale's alpha reliability in this study was .90 for the Hong Kong sample and .94 for the U.S. sample.

Control variables. Because group size and team members' age and tenure are in some cases related to team performance and team potency, their omission could potentially bias the regression coefficients. We therefore included these variables as controls in our hypothesis tests. In addition, one might conjecture that variation between branches across societies is explained by the difference in societal values. Therefore, we also controlled for nation (Hong Kong vs. United States) in the analyses. Finally, we controlled for team members' organizational tenure because of the mean difference reported above between the two countries.

Results

Measurement Model Tests

Using confirmatory factor analysis with LISREL 8 (Jöreskog & Sörbom, 1993), we tested the expected factor structure of all the measures on the Hong Kong data and compared the results with those of the original, English-language versions of the instruments used with the U.S. sample. First, we applied a confirmatory factor analysis of the individual-level data to the transformational leadership scale for the overall sample. To assess whether the observed covariance matrix fit our hypothesized model, we used the comparative fit index (CFI), goodness-of-fit index (GFI), incremental fit index (IFI), and standardized root-mean-square residual (RMSR). Some studies (e.g., Pillai & Williams, 1998) have examined a single composite index of all the transformational leadership items, which implies a higher order one-factor measurement model. In this model, the observed variables were specified to load on latent variables, as in the original six-factor model of the transformational leadership index, but each of the six factors loaded onto the same higher order latent variable, and their 15 factor covariances were removed. This model produced an adequately strong fit, $\chi^2(224, N = 1{,}092) = 421.22$, $p < .01$ (CFI = .95; GFI = .93; RMSR = .02; IFI = .95). A composite measure of transformational leadership was therefore used in the analyses.

[2] Employees at the bank referred to the financial services teams both as *teams* and as *departments.*

A two-sample analysis of a four-factor model (transformational leadership, team potency, power distance, and collectivism) including both the Hong Kong and the U.S. subsamples yielded an adequately strong fit to the data, $\chi^2(748, N = 1{,}092) = 2{,}101.17$, $p < .01$ (CFI = .94; GFI = .92; RMSR = .03; IFI = .94). These results indicate that the factor structure, specifying unidimensional measurement of each construct, was supported across the two subsamples. We also tested factor loading equivalence between the Hong Kong and U.S. samples for the four constructs. When the loadings were fixed to be equivalent across the two samples, the CFI and IFI remained the same as in the previous test, and the increase in the chi-square statistic was not significant. We also tested the equivalence of the uniquenesses and factor variance-covariance matrices of the two samples by constraining these parameters to be equal. These models produced no significant increments in chi-square statistics or changes in other fit indexes. We thus found strong evidence of measurement equivalence in terms of between-group factor structures, factor loadings, error variances, and factor variances and covariances.

Aggregation Issues

To assess the appropriateness of aggregating individual scores to the team level, it was necessary to examine both between-group differences and within-group agreement. James (1982) recommended two intraclass correlations (ICCs) for assessing agreement among group members. ICC(1) indicates the extent of agreement among ratings from members of the same group. ICC(2) indicates whether groups can be differentiated on the variables of interest. James (1982) conducted a survey of published articles and reported an acceptable range for aggregation of .00 to .50 for ICC(1), with ICC(2) expected to exceed the .70 reliability convention. For transformational leadership, the ICC(1) and ICC(2) values were .37 and .82, respectively. For team potency, the ICC(1) and ICC(2) values were .35 and .80, respectively. For power distance, the ICC(1) and ICC(2) values were .34 and .78, respectively. For collectivism, the ICC(1) and ICC(2) values were .38 and .84, respectively. These results indicate that it was appropriate to analyze the data at the team level.

Hypothesis Tests

Table 1 shows the means, standard deviations, and correlations among all the variables in the study at the team level. Coefficient alphas for the overall sample are also presented. The mean level of collectivism in the Hong Kong sample was significantly higher than in the U.S. sample (Hong Kong, $M = 3.35$; United States, $M = 2.41$), $t(216) = 11.32$, $p < .0001$. The mean level of power distance in the Hong Kong sample was also significantly higher than in the U.S. sample (Hong Kong, $M = 3.49$; United States, $M = 2.41$), $t(216) = 12.85$, $p < .0001$. These differences are consistent with prior research comparing Hong Kong and U.S. samples (Bond & Hwang, 1995). The two samples did not differ significantly in their mean levels of transformational leadership, team potency, or team performance.

To test Hypothesis 1, we used the three-equation approach to testing mediation recommended by Baron and Kenny (1986). According to Baron and Kenny, mediation is demonstrated if the independent variable affects the mediator in the first equation and the dependent variable in the second equation, the putative mediator variable affects the dependent variable in the third equation, and the effect of the distal independent variable on the dependent variable is significantly weaker than the same effect when the putative mediator is not in the equation. Table 2 presents the results for the direct effect of transformational leadership on team potency and team performance and the effect of team potency on team performance. Transformational leadership was significantly related to team potency and, separately, to team performance. Team potency was also significantly related to team performance. When we included both transformational leadership and team potency as predictors of team performance, only team potency had a statistically significant effect ($\beta = .36$, $p < .001$). The beta for transformational leadership on team performance, with team potency controlled for, was not significant ($\beta = .07$). These results indicate that team potency mediated the relationship between transformational leadership and team performance. These findings support Hypothesis 1.

Moderated regression was used to test the interactions predicted in Hypotheses 2 and 3 (see Table 3). To test these hypotheses, we entered the control variables' main effects at Step 1 and the substantive variables' main effects at Step 2. The block including the Transformational Leadership × Power Distance and Transformational Leadership × Collectivism product terms was entered at Step 3. This block was significantly related to team potency ($\Delta R^2 = .07$), $F(2, 207) = 34.38$, $p < .001$, and each of the two product variables was statistically significant ($p < .001$). The interactions were plotted with cut values of one standard deviation

Table 1
Group Construct Means, Standard Deviations, and Correlations Among Study Variables in Combined (Hong Kong and U.S.) Sample

Variable	*M*	*SD*	1	2	3	4	5	6	7	8	9
1. Team mean age	32.54	5.32	—								
2. Organizational tenure	5.33	2.62	.62	—							
3. Team mean tenure	5.24	2.74	.57	.52	—						
4. Team size	5.02	0.53	.10	.08	.09	—					
5. Transformational leadership	3.44	0.77	.07	.08	.09	.05	(.88)				
6. Team potency	3.40	0.65	−.07	−.08	−.07	.02	.28	(.91)			
7. Team performance	3.71	0.72	.10	.11	.09	.10	.32	.38	(.92)		
8. Team power distance	2.83	0.94	−.09	−.04	−.09	−.07	.13	.20	.18	(.88)	
9. Team collectivism	2.92	0.96	.11	.07	.10	.08	.14	.19	.14	.39	(.88)

Note. $N = 218$. Correlations greater than .14 are significant at $p < .05$. Correlations greater than .18 are significant at $p < .01$. Coefficient alphas are presented in parentheses on the diagonal.

Table 2
Results of Hierarchical Regression Analysis for Mediation Tests

Variable	Team potency	Team performance	Team performance	Team performance
Nation[a]	.08	.07	.08	.08
Team mean age	.01	.06	.03	.04
Organizational tenure	.04	.07	.02	.01
Team mean tenure	.02	.05	.05	.03
Team size	−.05	−.04	−.03	−.03
Team potency			.38**	.36**
Transformational leadership	.33**	.25**		.07
Total R^2	.12**	.10**	.13**	.14**

Note. Values are standardized regression coefficients. $N = 218$.
[a] 0 = Hong Kong, 1 = United States.
** $p < .001$.

below the mean and one standard deviation above the mean on each moderator variable. The first plot revealed that the positive effect of transformational leadership on team potency was stronger among branches with higher power distance (see Figure 2). A second plot revealed that the positive effect of transformational leadership on team potency was also stronger among branches with higher collectivism (see Figure 3). These plots are consistent with Hypotheses 2 and 3.

Supplemental Analyses

Adapting a procedure outlined by Muller, Judd, and Yzerbyt (2005, p. 855), we examined mediated moderation of the effects of transformational leadership on team performance. *Mediated moderation* refers to the extent to which an intervening variable mediates the effect of a more distal independent variable at different levels of the moderator. The Muller et al. (2005) procedure assesses the indirect effect of an independent variable at different levels of the moderator and differentiates the direct and indirect influences of the moderated effect. The total moderated effect of transformational leadership was significant ($\beta = .59$, $p < .01$). The simple indirect effect of transformational leadership (through team potency) was stronger at higher levels of team power distance ($\beta = .67$, $p < .01$) than at lower levels of team power distance ($\beta = .29$, $p < .05$), and the difference between the two betas was significant, $t(207) = 4.23$, $p < .001$. The simple indirect effect of transformational leadership was also stronger at higher levels of team collectivism ($\beta = .65$, $p < .01$) than at lower levels of team collectivism ($\beta = .31$, $p < .05$), $t(206) = 4.08$, $p < .001$). There was no significant residual moderated effect of transformational leadership at any level of team power distance ($\beta = .07$) or at any level of team collectivism ($\beta = .08$). This indicates that most of the overall moderated effect of transformational leadership on team performance was mediated by team potency. In other words, the significant influences of transformational leadership on team performance were all mediated by team potency, regardless of the level of team values.

We also examined whether the moderating effect of team values differed between societal cultures by testing the three-way inter-

Table 3
Results of Moderated Hierarchical Regression Analyses

Variable	Team potency	Team potency	Team performance	Team performance
Step 1: Control				
Nation[a]	.13*	.13*	.13*	.13*
Team mean age	.01	.04	.03	.03
Organizational tenure	.02	.01	.03	.01
Team mean tenure	.03	.03	.05	.04
Team size	−.05	−.03	−.05	−.04
Step 2: Independent				
Transformational leadership	.27**	.22**	.24**	.21**
Team power distance	.07	.06	.06	.06
Team collectivism	.06	.05	.08	.07
Step 3: Interaction terms				
Transformational Leadership × Team Power Distance		.21**		.24**
Transformational Leadership × Team Collectivism		.25**		.19**
Total R^2	.11*	.18**	.10**	.17**
ΔR^2 at last step		.07**		.07**

Note. Standardized regression coefficients obtained at the last step (Step 2 or Step 3) are shown. $N = 218$.
[a] 0 = Hong Kong, 1 = United States.
* $p < .05$. ** $p < .001$.

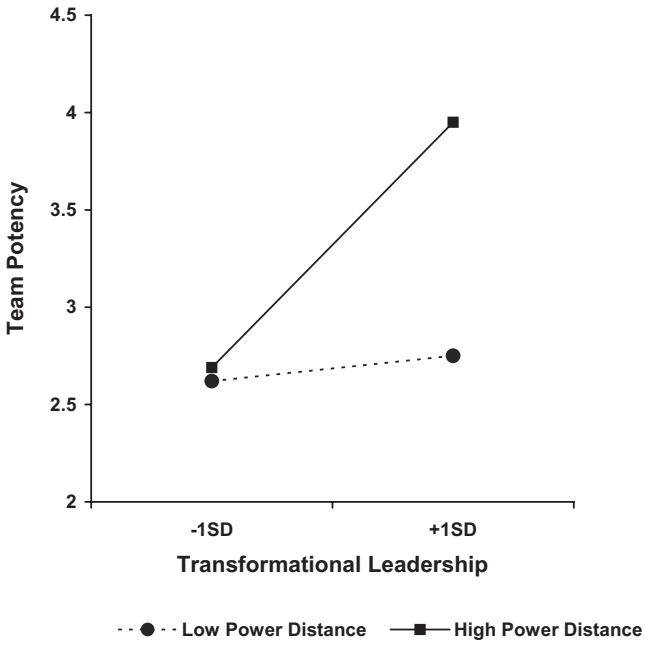

Figure 2. Team potency predicted by the transformational leadership and team power distance interaction.

action of nation (Hong Kong vs. United States), transformational leadership, and team values (team power distance, team collectivism). After we entered the control variables, constituent main effects, and two-way interactions, the block of three three-way interaction variables was not significant in predicting either team potency ($\Delta R^2 = .01$), $F(3, 206) = 0.14$, or team performance ($\Delta R^2 = .01$), $F(3, 206) = 0.17$, and none of the six three-way interactions tested was significant. Thus, the moderating effect of team values did not differ between the two societal cultures.

Discussion

This study explored how team values influence followers' responses to transformational leadership and how these responses, in turn, influence team performance. As in recent studies examining military units (Bass et al., 2003; Lim & Ployhart, 2004), we found that transformational leadership was associated with superior team performance in both Hong Kong and the United States. This relationship was mediated by team potency. Transformational leadership influenced team potency and, consequently, team performance to a greater extent among teams that were high in power distance and, separately, high in collectivism.

Implications

Importance of team values. Our findings draw attention to the importance of team values. Prior research has focused primarily on values at higher levels of analysis (i.e., societal and organizational), although there are several exceptions (e.g., Wagner & Moch, 1986). In both Hong Kong and the United States, the interaction between transformational leadership and team values exerted similar effects, which suggests that team values moderate the effect of transformational leadership on team performance regardless of whether teams are located in the East or the West. These results imply that basic principles of team functioning may hold across nations. More conclusive support for this idea would require testing our hypotheses in a sample of teams spanning a larger number of societies.

Practical implications. Leaders who wish to enhance the performance of their subordinates through transformational leadership need to understand and establish conditions that support such leadership. Our findings indicate that one such enabling condition is team values. In this study, both team power distance and team collectivism had a substantial influence on employees' responses to transformational leadership. It is interesting that most previous studies that have found a relationship between transformational leadership and team performance were conducted in military settings, where the overarching values are both hierarchical (reflecting high power distance) and team oriented (reflecting high collectivism), an observation that is consistent with our findings. Leaders and organizations should consider the fact that certain team contexts may be more favorable for transformational leadership when designing their approaches to leadership in different settings.

Our finding that collectivistic teams had particularly strong team potency and, consequently, higher performance when they perceived the leader as being more transformational suggests that leaders may wish to promote the development of collectivism at the team level. Leaders can foster the development of shared values through recruitment, socialization, and rewards (Chatman & Cha, 2003)—in this case, by recruiting individuals who are high in collectivism, by instituting socialization practices that promote a team-oriented mindset, and by rewarding team members formally and informally for collectivistic behavior.

We also found that in high power distance teams, transformational leadership had a stronger impact on team potency. This

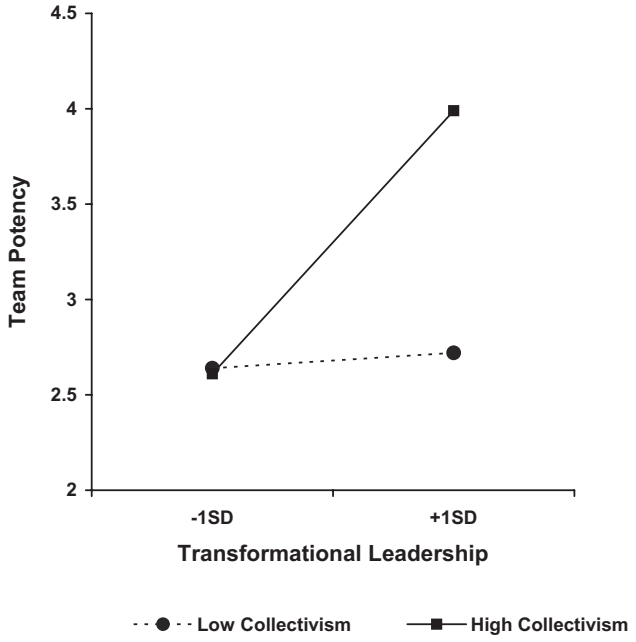

Figure 3. Team potency predicted by the transformational leadership and team collectivism interaction.

finding suggests that ambitious leaders may wish to instill respect for their authority while still attending to followers' needs and suggestions. This prescription is consistent with the idea that leaders should maintain some distance from their subordinates to promote subordinate respect and compliance (Rosenfeld, Giacalone, & Riordan, 2001). However, it is premature to conclude that leaders should actively promote a high level of power distance among subordinates. Unwillingness on the part of subordinates to disagree with leaders—a hallmark of high power distance—could lead to the loss of valuable ideas.

Future Directions

A number of avenues exist for future research on leadership and team values. First, more research is needed on how team values shape the way followers respond to leadership. Additional team values, such as uncertainty avoidance (Hofstede, 1980) or tradition (Schwartz, 1992), may play important roles in leadership processes. For example, leaders may need to engage in more supportive behaviors and provide greater reassurance to persuade teams with high uncertainty avoidance to accept goals that break new ground. As another example, leaders may need to link goals to past traditions and enduring values to motivate teams with high tradition.

Second, researchers may wish to explore the challenge of establishing legitimacy as a leader in teams with varying values. Avolio and Bass (1995) argued that leaders need to establish credibility and supportive relationships with followers before seeking to encourage self-sacrifice or higher levels of performance. The sequence in which leaders should introduce transformational leadership behaviors to maximize follower acceptance may depend on the influence of team values. For example, in low power distance teams, transformational leaders may need to focus initially on developing trust by engaging in a subset of transformational leadership behaviors, such as showing concern for followers' needs and modeling desired behaviors.

Limitations

Although the present sample was occupationally homogeneous and thus was well matched across societies, the single organizational context may affect the generalizability of the findings. Future studies should ideally include teams from multiple organizations and examine additional types of values, such as uncertainty avoidance (Hofstede, 1980) and tradition (Schwartz, 1992), to understand more fully how values affect the relationship between leader behavior and team performance.

The leaders were first-line branch managers and thus they were not subject to all the challenges faced by senior leaders, who must lead teams of managers in communicating vision, implementing strategy, and building strong organizational values among a broad base of employees. Future researchers may wish to test our model with senior leaders to see whether their teams' response to transformational leadership is also shaped by team values. Furthermore, analyses of longitudinal data on leadership behavior, team processes, and team performance will afford greater confidence in causal inferences.

Conclusion

As workforces rapidly diversify and organizations expand internationally, leaders face a pressing need to tailor their behaviors to followers with varied values. Our findings indicate that teams of subordinates vary substantially in the degree to which they embrace transformational leadership and derive superior performance from it and that team power distance and team collectivism are significant constructs driving these differences. Future research should explore how leaders can best harness the power of such team values to maximize team performance.

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