



Examining the Impact of Transformational Leadership on the Strategic Decision Effectiveness of Jordanian Microfinance Companies

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ABSTRACT

This study aims to investigate the effect of transformational leadership on strategic decision effectiveness. A survey method was employed for the collection of data from microfinance companies in Jordan. The data were analyzed using multiple regression techniques to empirically test the study hypothesis. The results demonstrate that transformational leadership positively affects strategic decision effectiveness. Organizations should invest more to build transformational leadership capability for their managers and provide them with adequate training programs in different aspects of transformational leadership. In addition, if these organizations seek to enhance strategic decisions effectiveness, they should focus on attracting and hiring managers who have transformational leadership attributes. Moreover, they should also take into consideration other factors, such the ability to create managerial acceptance of decisions, generate new ideas, and provide innovative alternatives and choices for the enhancement of strategic decision effectiveness. Hence, the current study, compared to existing literature, contributes to the awareness of the effect of transformational leadership on strategic decision effectiveness, especially in Jordan's business settings.

Keywords: Transformational Leadership, Strategic Decision Effectiveness, Microfinance Companies

JEL Classification: M1

1. INTRODUCTION

Strategic decision making, potentially one of the most important processes in an organization, guides the allocation of an organization's resources and activities, thereby enabling it to compete (Eisenhardt and Zbaracki, 1992; Lim, 2012; Mintzberg et al., 1976). Organizations need to make strategic decisions efficiently in order to keep pace with aggressive competitors, changing technologies, and the ever-present threat of new entrants. Often, these decisions are complex, ambiguous, and ill-structured. Managers often face an ill-defined problem or opportunity, lack complete information, and do not know the range of plausible alternatives and their

consequences. Therefore, the right leadership style is needed for the organization to be successful. If the right leadership style is not followed, the organization will not be able to achieve its business objectives.

Prior researchers demonstrated the effects of leadership styles on various organizational outcomes in various sectors, so less attention has been given to linking transformational leadership with strategic decision effectiveness. Thus, the purpose of this study is to determine whether there is significant empirical evidence of a link between transformational leadership and strategic decision effectiveness in Jordan's microfinance sector.

2. STATEMENT OF THE PROBLEM

Ineffective strategic decisions harm the future of organizations, waste their resources, and make them unable to adapt to changing business environments. Therefore, there is an urgent need in organizations of all types and sizes to increase the effectiveness of their strategic decisions to be able to compete and survive. Many factors can contribute to increasing and ensuring the effectiveness of strategic decisions, particularly leadership style. Although previous studies have not identified the leadership style that best enhances the effectiveness of strategic decisions, one of the potential leadership styles that can improve strategic decision effectiveness is transformational leadership, since transformational leaders have a clearer vision and stronger sense of purpose, look at problems from many different angles, and have the courage and skills to reinvent and build an organization's capability to succeed in today's times of dynamic change and scarce resources. However, empirical evidence concerning the effect of transformational leadership on strategic decision effectiveness is almost nonexistent. Thus, the current study seeks to detect the effect of transformational leadership on strategic decision effectiveness in Jordanian microfinance companies by answering the following questions:

- What is the level of exercising transformational leadership in Jordanian microfinance companies?
- What is the level of strategic decision effectiveness in Jordanian microfinance companies?
- Is there a relationship between transformational leadership and strategic decision effectiveness in Jordan's microfinance sector?

3. THE STUDY'S SIGNIFICANCE

The importance of this study stems from its contribution to bridging the gap in the related literature by providing empirical evidence regarding the role of transformational leadership in enhancing strategic decision effectiveness. In addition, it is expected that the results of this study will contribute to promoting the ability of top management in the target companies to exercise transformational leadership and increase the effectiveness of its strategic decisions.

4. STUDY OBJECTIVES

The present study seeks to:

- Identify the level of the exercise of transformational leadership in Jordanian microfinance companies.
- Identify the level of strategic decision effectiveness in Jordanian microfinance companies.
- Detect the nature of the relationship between transformational leadership and strategic decision effectiveness in Jordanian microfinance companies.

5. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

5.1. Transformational Leadership

Many leadership theories exist, and an approach attracting significant attention over the past several decades has been transformational

leadership. Burns first introduced the term transformational leadership in 1978. According to Burns (1978), transformational leadership describes a leader who identifies change, develops a vision and plan of action for achieving the desired change, and executes the change with the help and commitment of group members/followers. This concept of transformational leadership was subsequently developed by other scholars (e.g., Avolio et al., 2004; Erkutlu, 2008; Gill et al., 2010). For instance, Avolio et al. (2004) described transformational leadership as leadership that inspires followers and helps to form a culture that adapts to change. Gill et al. (2010) also described transformational leadership as the process of exercising influence on followers in order to make a radical changes in their attitudes and to build a commitment toward the organization's mission, vision, and objectives. According to Erkutlu (2008), transformational leadership describes a leader's ability to motivate followers to place the needs of the organization above that of the followers' needs.

Unlike other leadership styles, transformational leadership has been adopted and utilized heavily by organizations from different sizes and sectors in the recent years, since the previous studies confirmed that transformational leadership enhances employee performance (Ullah et al., 2018), increases the effective organizational conflict management behavior (Odetunde, 2013), affects corporate entrepreneurship and financial performance of the organizations (Shafique and Kalyar, 2018; Ocak and Ozturk, 2018), enhances a knowledge-sharing climate and behavior, improves interpersonal trust and organizational learning of an organization (Park and Eun-Jee, 2018), promotes employee creativity (Jyoti and Dev, 2015), increases employee job satisfaction and organizational performance (Muterera et al., 2018), increases organizational commitment (Allen et al., 2017; Mesu et al., 2015), cultivates organizational citizenship behavior, thereby improving employee's sustainable performance (Jiang et al., 2017), and enhances R&D performance, leading to competitive product/process development capability and organizational development (Sökmen and Aksoy, 2017).

Bass and Avolio (1995) categorized transformational leadership into four components:

1. Idealized Influence: Is the extent to which leaders are able to obtain their followers' admiration, trust, confidence and respect, which in turn makes them a role model (Bass, 1985).
2. Intellectual Stimulation: Is the extent to which a leader is able to stimulate the followers' intellectual and analytical efforts and encourage their critical thinking, through increasing their awareness regarding the challenges that face the organization, and encouraging them to adopt innovative solutions for the problems they face (Walumbwa et al., 2005).
3. Inspirational Motivation: Is the leader's ability to articulate a vision that is appealing and inspiring to followers (Bass, 1985). Leaders with inspirational motivation challenge subordinates with high standards, communicate optimism about future goals, and provide meaning for the task at hand (Bass, 1985).
4. Individualized Consideration: Is the degree a leader pays attention to followers' needs, acts as a mentor, coach and friend to followers and listens to their concerns and needs (Bass, 1985). A leader with this trait pays special attention to an individual's abilities, aspirations, and needs to further

enhance the followers' confidence in responding to problems facing the organization (Avolio et al., 2004).

The current study utilized Bass and Avolio's (1995) four components to measure transformational leadership. The four components of transformational leadership introduced by Bass and Avolio (1995) has received much attention in organization and management literature, and continues to be heavily utilized for research.

5.2. Strategic Decision Effectiveness

Strategic decision-making is a mental process that depends largely on imagination and the ability to innovate and create. However, many scholars defined strategic decisions from different perspectives. For example, Alfadl (2008) pointed out that strategic decisions are decisions related to the development of the organization's policy and require substantial resources and investments, the consequences of which are serious for the future and vitality of the organization. Moreover, Alshammari (2006) clarified that the strategic decisions are future-oriented decisions and express what the organization desires to achieve in the future and provide a structured framework for making a decisions at a lower levels. Kazan (2005) stated that strategic decisions are decisions that "have multiple objectives and alternatives, long term impacts, multiple constituencies within the company, involve multiple disciplines and multiple decision makers, and always involve various degrees of risk and uncertainty."

Unlike many other decisions, strategic decisions deal with the long-run future of an entire organization and have three characteristics (Wheelen and Hunger, 2017):

1. Rare: Strategic decisions are unusual and typically have no precedent to follow.
2. Consequential: Strategic decisions commit substantial resources and demand a great deal of commitment from people at all levels.
3. Directive: Strategic decisions set precedents for lesser decisions and future actions throughout an organization (Hickson et al., 1986).

In today's business environment, organizations have become more careful regarding the effectiveness of their strategic decisions, since this type of decision deals with the long-run future of an entire organization. Harrison and Pelletier (1998) stated that effective strategic decisions are those that result in the attainment of their objectives within the constraints that have to be observed to bring about such attainment. There is no agreed-upon set of dimensions of strategic decision effectiveness among scholars. However, the literature suggests that the following dimensions are considered the most important indicators by which judge the effectiveness of strategic decisions and have been adopted in the current study:

1. Decision Suitability: Reflects the extent to which the strategic decision fits the company's internal and external conditions and capabilities (Almasoudi, 2009).
2. Decision Acceptance: Reflects the degree to which the strategic decision acquires the consensus of organizational members (Abumandil and Hassan, 2016).
3. Decision Quality: The quality of decision is influenced by the comprehensiveness of thinking, searching for new ideas,

and viewing the decision from different perspectives in light of goal that seek to achieve it through providing a new and innovative alternatives and choices (Abumandil and Hassan, 2016; Fisher et al., 2003).

Prior research has shown a number of factors that lead to improving the effectiveness of strategic decisions; these factors include the experience level of the management team (Azam et al., 2018), the ability to manage tension and create managerial acceptance of decisions (Calabretta et al., 2017), the ability to minimize the conflict levels and increase the level of collaboration among the organization's members (Hurt and Abebe, 2015), the ability to identify individual differences and exploit motivations (Borrero et al., 2017), and the ability to create shared values, facilitate information exchange, and encourage cooperative behavior (Gu et al., 2016).

5.3. Transformational Leadership and Strategic Decision Effectiveness

Prior studies assert an indirect relationship between transformational leadership and strategic decision effectiveness (Çelik et al., 2016). Transformational leadership enhances a knowledge-sharing climate and behavior and increases interpersonal trust (Park and Eun-Jee, 2018), which leads to the exchange of information smoothly among the organization's members and thus improves the effectiveness of strategic decisions (Gu et al., 2016). Transformational leadership enables organizations to manage conflict effectively (Odetunde, 2013) and creates teams, thereby improving strategic decision effectiveness through minimizing the level of conflict (Hurt and Abebe, 2015) and creating cooperative behavior among the organization's members (Gu et al., 2016). In addition, transformational leadership increases organizational commitment (Allen et al., 2017; Mesu et al., 2015), making the organization's members accept the decisions since they are in line with organizational goals, thereby promoting the effectiveness of strategic decisions (Calabretta et al., 2017). Moreover, this style builds and enhances personal trust among the organization's members which, in turn, enhances the effectiveness of strategic decisions (Parayitam and Dooley, 2007).

Finally, transformational leadership produces a better awareness and acceptance of the organization's mission and promotes a shared vision among organization's members and their leader (García-Morales et al., 2012), thus increasing the effectiveness of strategic decisions.

On the basis of these arguments, the study hypothesis is formulated as follows:

H1: A transformational leadership has a positive effect on strategic decision effectiveness.

5.4. Study Model

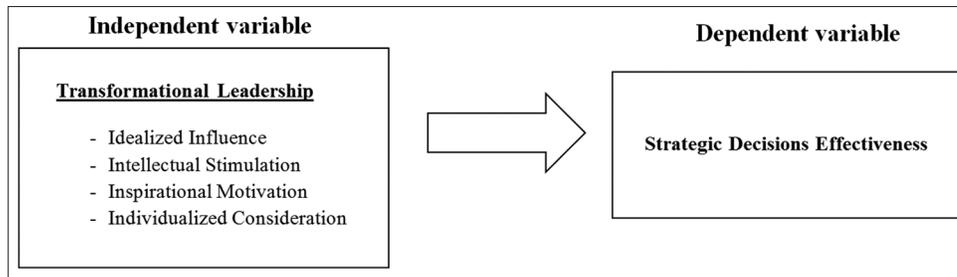
Study model is presented in Figure 1.

6. METHODOLOGY

6.1. Research Design

This study used the descriptive analytical methodology. The previous literature was reviewed in order to build the theoretical framework of the study. In addition, a questionnaire was distributed

Figure 1: Study model



Source: Prepared by the authors based on the literature review

to collect the data, and statistical methods were utilized to analyze the collected data.

6.2. Study Population and Sample

The population of current study consisted of all microfinance companies registered at Jordan Microfinance Network-TANMEYAH, amounting to nine companies with 190 branches. The sampling unit and analysis was composed from all head of branches in order to obtain their perception regarding their top management.

6.3. Data Collection Procedures and Response Rate

Data were collected via self-administered survey available on paper. The main round of survey was conducted in Jordan between August and September, 2018. Initially, 190 questionnaires were distributed, and a total of 185 questionnaires were returned. The response rate of returned questionnaires was 97.36%.

6.4. Measures

Transformational Leadership: The authors used 16 items that provided by Bass and Riggio (2006) and adopted from Alahmad (2016) to measure the transformational leadership constructs (idealized influence, intellectual stimulation, inspirational motivation, individualized consideration). Each construct was measured on a 4-item scale. A 5-point Likert scale was used, where 1 is equal to “strongly disagree” and 5 is equal to “strongly agree.”

Strategic Decision Effectiveness: The authors used 12 items based on the extensive literature review to measure strategic decision effectiveness. Decision suitability was measured by a 6-item scale, while decision quality and decision acceptance was measured by a 3-item scale for each of them. A 5-point Likert scale was used, where 1 is equal to “strongly disagree” and 5 is equal to “strongly agree.”

Demographic Variables: The authors used four demographic questions regarding respondents (Gender, Age, Experience, and Education).

7. INSTRUMENT VALIDITY AND RELIABILITY

7.1. Instrument Reliability

The reliability of the survey instruments utilized in this study was tested based on Cronbach’s alpha (Table 1). An instrument which confirms a reliability score of 0.60 and above is generally

Table 1: Reliability of survey instrument (n=185)

Variable	Cronbach’s alpha
Idealized influence	0.88
Intellectual stimulation	0.92
Inspirational motivation	0.91
Individualized consideration	0.88
Decision suitability	0.80
Decision acceptance	0.83
Decision quality	0.87
Instrument as a whole	0.85

considered adequate. However, a coefficient alpha of 0.70 at the minimum is generally acceptable for hypothesis testing (Hair et al., 2018). The results from Table 1 show that the values of Cronbach’s alpha for all variables are >0.70.

7.2. Instrument Validity

The validity of the questionnaire was verified by:

- **Content Validity:** By obtaining opinions and suggestions from the faculty members. In addition, the questionnaire was reviewed by 10 persons from the study population. After suggestions and comments were all reviewed, unreliable or redundant questions were eliminated.
- **Construct Validity:** The most widely used method to test construct validity is factor analysis. Factor analysis is concerned with exploring the patterns of relationships among a number of variables (Hair et al., 2018). In this study, confirmatory factor analysis was utilized to evaluate the validity of the proposed model constructs. A measurement model was estimated for the seven constructs included in the proposed model. These constructs include idealized influence, intellectual stimulation, inspirational motivation, individualized consideration, decision suitability, decision acceptance, and decision quality. The measurement model fit statistics indicate an adequate level of fit. The value Chi-square (χ^2) statistic, $\chi^2 = 21.892$ at 28 degrees of freedom, has a statistical significance level of 0.1559, which is well above the minimum level of 0.05 and is also well above the recommended levels of 0.1. The Goodness-of-Fit Index (GFI) is 0.906, which is quite high. The Adjusted GFI is 0.860.

8. RESPONDENTS’ CHARACTERISTICS

Among the 185 respondents, 110 (59.5%) and 75 (40.5%) were male and female, respectively. The largest categories of respondent age were 35—fewer than 40 years (59.46%). Regarding

educational level, 67% of respondents held a bachelor's degree, 28% held a master's degree, and 5% held a doctoral degree. In respect to working experience, 63% of the respondents indicated that they had worked for their current firms >5 years.

9. STUDY RESULTS AND DISCUSSION

9.1. Statistical Analysis

The results of Table 2 show that the arithmetic mean of transformational leadership in Jordanian microfinance companies is 3.50. This value reflects a moderate level of transformational leadership, therefore the target companies need to exploit the transformational leadership in efficient way in order to obtain the advantages and benefits provided by this leadership style.

The results of Table 3 point out that the arithmetic mean of strategic decisions' effectiveness of Jordanian microfinance companies is 3.55. This value reflects a moderate level of strategic decisions effectiveness, therefore the target companies need to be aware regarding the factors that lead to enhance the level of their strategic decisions' effectiveness.

9.2. Hypothesis Testing

In order to test the assumptions underlying regression analysis, a variance inflation factory (VIF) test, and a tolerance test were conducted to ensure that there is no multicollinearity between the variables. In addition, a skewness test was conducted to ensure that the data follows the normal distribution (Sekaran & Bougie, 2013). Table 4 shows the results of these tests.

Table 2: Arithmetic means and standard deviations of respondents' answers on the independent variable (transformational leadership)

Items	Mean±SD	Importance level
My leader		
Talks about their most important values and beliefs	3.71±0.715	High
Specifies the importance of having a strong sense of purpose	3.42±0.831	Moderate
Considers the moral and ethical consequences of decision	3.84±0.793	High
Emphasizes the importance of having a collective sense of mission	3.59±0.775	Moderate
Idealized influence	3.64±0.779	
Re-examines critical assumptions to question whether they are	3.53±0.839	Moderate
Seeks differing perspectives when solving problems	3.61±0.875	Moderate
Gets his/her to look at problems from many different angles	3.77±0.827	High
Suggests new ways of looking at how to complete assignments	3.47±0.814	Moderate
Intellectual stimulation	3.60±0.839	
Talks optimistically about the future	3.49±0.792	Moderate
Talks enthusiastically about what needs to be accomplished	3.38±0.808	Moderate
Articulates a compelling vision of the future	3.47±0.869	Moderate
Expresses confidence that goals will be achieved	3.63±0.882	Moderate
Inspirational motivation	3.49±0.838	
Spends time teaching and coaching	2.97±0.863	Moderate
Treats me as individuals rather than just as a member of a group	3.05±0.849	Moderate
Considers an individual as having different needs, abilities, and aspirations from others	3.56±0.867	Moderate
Helps me to develop my strengths	3.41±0.874	Moderate
Individualized consideration	3.25±0.863	
Transformational leadership	3.50±0.830	

Table 3: Arithmetic means and standard deviations of respondents' answers on the dependent variable (strategic decisions effectiveness)

Items	Mean±SD	Importance level
The strategic decisions are in line with the company goals	3.84±0.804	High
The strategic decisions achieve the desired results	3.69±0.893	High
There is no barriers to implement the strategic decisions	3.46±0.871	Moderate
The strategic decisions fit the company's internal conditions and capabilities (Strengths and weakness)	3.77±0.795	High
The strategic decisions fit the company's external conditions (opportunities and threats)	3.72±0.774	High
The strategic decisions are implemented easily	3.51±0.816	Moderate
Decision suitability	3.67±0.826	
The strategic decisions have a wide acceptance by a company's staff	3.48±0.885	Moderate
There is a high consensus among top management team on strategic decisions	3.37±0.870	Moderate
A company's staff are committed to implement the strategic decisions	3.68±0.855	High
Decision acceptance	3.51±0.870	
The strategic decisions are viewed from different perspectives	3.58±0.809	Moderate
The strategic decisions are characterized by a comprehensive thinking	3.37±0.797	Moderate
The strategic decisions are based on a new and innovative alternatives and choices	3.44±0.822	Moderate
Decision quality	3.46±0.809	
Strategic decisions effectiveness	3.55±0.835	

The results of Table 4 demonstrate that the values of VIF for all variables were <10 , and the values of the tolerance test were >0.05 ; hence, there is no multicollinearity problem between the variables. In addition, the results indicate that the values of skewness were <1 ; thus, the data follow normal distribution (Hair et al., 2018). Based on these findings, the study hypothesis was tested as follows:

Table 5 shows the results from the linear regression analysis with transformational leadership dimensions as independent variables, and strategic decisions effectiveness as the dependent variable.

Overall, the regression model was statistically significant, $R^2 = 0.46$, adjusted $R^2 0.40$, $F = 18.441$, $P < 0.001$. The R^2 value of .46 indicated that (46%) of the variance in strategic decisions effectiveness was explained in the model.

The results of Table 5 also indicate that transformational leadership dimensions have a positive impact on the strategic decisions effectiveness, since the t-statistic associated with the beta values for transformational leadership dimensions is significant, as follows: Idealized influence ($t = 3.803$, $\beta = 0.405$, $P < 0.001$), intellectual stimulation ($t = 3.614$, $\beta = 0.429$, $P < 0.001$), inspirational motivation ($t = 3.588$, $\beta = 0.391$, $P < 0.001$), and individualized consideration ($t = 2.985$, $\beta = 0.229$, $P < 0.001$).

9.3. Results Discussion and Recommendations

The current study empirically tested the impact of transformational leadership in terms of idealized influence, intellectual stimulation, inspirational motivation, and individualized consideration on strategic decision effectiveness of microfinance companies in the Jordan context. The study results revealed that transformational leadership has a statistically positive impact on strategic decisions' effectiveness. Transformational leadership enables the leader to obtain the admiration and trust of followers, and this pushes the followers to concur with the leader's decisions (Barbuto and Burbach, 2006). Via transformational leadership, leaders pay

Table 4: The results of variance inflation factory, tolerance, and skewness tests

Variables	VIF	Tolerance	Skewness
Idealized influence	2.693	0.562	-0.421
Intellectual stimulation	2.747	0.537	-0.403
Inspirational motivation	2.795	0.479	-0.404
Individualized consideration			

Table 5: Hypotheses testing results

Variable	B	T	Significance t
Constant	0.449	3.902	0.009
Idealized influence	0.405	3.803	0.001
Intellectual stimulation	0.429	3.614	0
Inspirational motivation	0.391	3.588	0
Individualized consideration	0.229	2.985	0.003
R (0.68)			
R ² (0.46)			
Adjusted R ² (0.40)			
F-Value (18.441)			
Significance F (0.005)			
$P \leq 0.01$			

*Predictors: (Constant), idealized influence, intellectual stimulation, inspirational motivation, individualized consideration

attention to the followers' special needs, build trust with them and know the weaknesses and strengths in their performance. As a result, leaders can make effective strategic decisions in light of their followers' strengths and overcome their weaknesses (Avolio et al., 1991). Transformational leaders stimulate their followers through listening to their ideas and suggestions (Krishnan, 1998), thus enriching strategic alternatives by different angles and perspectives.

Transformational leaders' behaviors and actions generate a challenge among followers, and these behaviors clarify the expectations for followers and encourage a spirit of teamwork and commitment to the organization's goals and strategic decision implementation (Bass and Avolio, 1994).

The study results are consistent with the literature. Transformational leadership enhances a knowledge-sharing climate and behavior and increases interpersonal trust (Park and Eun-Jee, 2018), which leads to the smooth exchange of information among the organization's members, thus improving the effectiveness of strategic decisions (Gu et al., 2016). Transformational leadership enables organizations to manage conflict effectively (Odetunde, 2013) and creates teams, thereby improving strategic decisions' effectiveness through minimizing the levels of conflict (Hurt and Abebe, 2015) and creating a cooperation behavior among an organization's members (Gu et al., 2016). In addition, transformational leadership increases organizational commitment (Allen et al., 2017; Mesu et al., 2015), and this makes the organization's members accept the decisions since they are in line with the organizational goals, thus promoting the effectiveness of strategic decisions (Calabretta et al., 2017). Moreover, this style builds and enhances the personal trust among the organization's members which, in turn, enhances the effectiveness of strategic decisions (Parayitam and Dooley, 2007). Finally, transformational leadership produces better awareness and acceptance of the organization's mission and promotes a shared vision among organization's members and their leader (García-Morales et al., 2012), thus increasing the effectiveness of strategic decisions.

On the basis of the study's results, organizations should invest more in building transformational leadership capability for their managers, and provide them with adequate training programs in different aspects of transformational leadership. In addition, if these organizations are aiming to enhance strategic decision effectiveness, they should focus on attracting and hiring managers who have transformational leadership attributes. Moreover, they should also take into consideration other factors like the ability to create managerial acceptance of decisions, generate new ideas, and provide innovative alternatives and choices for the enhancement of strategic decision effectiveness.

10. LIMITATIONS AND FUTURE RESEARCH

Despite the significant contributions of this study, it does have several limitations. First of all, the external validity of the study findings can be limited, given that this study was empirically tested with companies from only one sector in one country. Therefore,

one must proceed with caution in generalizing the study findings to other sectors' and countries' contexts. Further investigations with an extended number of sectors and countries should be conducted in order to increase the generalizability of the findings.

Another limitation of this study is that both the dependent and independent variables were examined by perceptual measures from the same respondents. Although statistical analyses verify the minimal risk of potential biases, a direct measure for study variables (particularly for strategic decisions effectiveness) would have made the study findings more sound and reliable.

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