



Journal of Communication Management

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Article information:

To cite this document:

Linjuan Rita Men, Don W. Stacks, (2013) "The impact of leadership style and employee empowerment on perceived organizational reputation", Journal of Communication Management, Vol. 17 Issue: 2, pp.171-192, <https://doi.org/10.1108/13632541311318765>

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The impact of leadership style and employee empowerment on perceived organizational reputation

Perceived
organizational
reputation

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Received 22 February 2012

Revised 25 May 2012

Accepted 29 June 2012

Abstract

Purpose – The purpose of the current study is to examine the impact of organizational leadership style and employee empowerment on employees' perception of organizational reputation by testing a hypothesized model.

Design/methodology/approach – A quantitative on-line survey was conducted with 700 randomly selected employees from diverse work units of a *Fortune* 500 company in the United States in February 2011.

Findings – The results showed that transformational leadership positively influences employees' perception of organizational reputation, not only directly but also indirectly, through empowering employees. Transactional leadership has a significant negative direct effect on employees' perception of organizational reputation. Employees who feel more empowered in terms of perceived competence and decision-making control have a more favorable evaluation of organizational reputation.

Research limitations/implications – By building links between organizational reputation and the two internal antecedent factors, organizational leadership and employee empowerment, the current work extended the list of internal characteristics of excellent public relations, filled the research gap on leadership and empowerment study in public relations, and contributed to the increasing body of knowledge on internal communication.

Practical implications – The findings suggest that what determines the employees' views toward the company is how they feel they are treated and whether they have enough say in decision-making. To build a favorable internal reputation, communication professionals should educate organizational leaders of all levels and engage them in strategic, interactive, empowering, democratic and relational-oriented transformational leadership communication behavior.

Originality/value – This study was among the first empirical attempts to examine organizational leadership as an influencing factor for internal communication practice and outcomes.

Keywords Leadership, Leadership style, Employee empowerment, Organizational reputation, Internal communication, Employee behaviour

Paper type Research paper

The two-decade *Excellence* Study led by James E. Grunig and his colleagues showed that internal characteristics, such as a participative organizational culture, organic structures, symmetrical communication, and gender equality, are critical organizational determinants for best practices in public relations (Grunig *et al.*, 2002). These antecedent factors not only provide a hospitable environment for excellent external public relations practice, but also facilitate internal communication with employees, which affects employees' work attitudes and behavioral outcomes (Grunig *et al.*, 2002).



Journal of Communication
Management

Vol. 17 No. 2, 2013

pp. 171-192

© Emerald Group Publishing Limited

1363-254X

DOI 10.1108/13632541311318765

This research project won the Institute for Public Relations' 2010 "Ketchum Excellence in Public Relations Research Award."

However, one may also note that all these organizational contextual factors are tied to one concept – organizational leadership. According to Yukl (2006), strategic leadership in an organization directly or indirectly determines structural forms, organizational culture and climate, and communications. Different types of leadership advocate different styles of communication in influencing followers, constituting a major component of internal communication systems (Whitworth, 2011). Other researchers (i.e. Dowling, 2004; Men, 2011) also maintained that management competence and leadership behaviors can drive public relations outcomes such as perceived organizational reputation and quality relationships. However, as noted by Aldoory and Toth (2004), despite the extensive research on the construct of leadership in the disciplines of management, business, and marketing, a “strong scholarly discourse on leadership” is lacking in public relations (p. 157). Recently, initiatives have been undertaken to examine the characteristics of leadership in public relations (e.g. Choi and Choi, 2008; Jin, 2010; Werder and Holtzhausen, 2009). Nevertheless, little scholarly attention has been paid to understand whether and how leadership, as an organizational antecedent factor, influences public relations effectiveness.

Management scholars (i.e. Bass, 1999; Castro *et al.*, 2008) have demonstrated that effective leadership acts through empowering employees to engage them and improve work outcomes. Previous studies in public relations on empowerment have mainly focussed on two approaches: first, empowerment of public relations functions (i.e. why public relations managers should be part of or have access to the dominant coalition, and how to get them seated at the corporate decision-making table) (Grunig, 1992; Grunig *et al.*, 2002; Men, 2009); and, second, empowerment of minorities in public relations (Aldoory, 2003). However, research on how empowerment of strategic publics contributes to the effectiveness of public relations has been sparse. As an effort to extend the list of organizational contextual characteristics on excellent public relations, the present study examines how organizational leadership style and empowerment behavior influence internal public relations outcomes, in particular, employee perception of organizational reputation.

As noted by many public relations scholars (e.g. Grunig *et al.*, 2002; Ni, 2006; Rhee, 2004; White *et al.*, 2010), among the different strategic publics that organizations are facing, employees are no doubt the ones with whom organizations have the closest connection. Employees are spokespersons and ambassadors who represent organizations in the face of strategic publics (Rhee, 2004). With the aid of social media, employees are constructing their own information networks and dialogues and talking about companies both inside and outside (Grates, 2010). Favorable employee perception of the organization is related not only to job satisfaction, organizational performance, and achievement of organizational goals (i.e. Rosenfeld *et al.*, 2004; White *et al.*, 2010), but also helps build and protect organizational reputation in a turbulent environment because employees are viewed as credible sources to external stakeholders (Grunig *et al.*, 2002; Men, 2011; White *et al.*, 2010).

By building links between organizational reputation and the two internal antecedent factors, organizational leadership and employee empowerment, the current work will provide new empirical evidence on how organizational context affects public relations outcomes and extend the list of internal characteristics of excellent public relations. In addition, the thorough investigation into organizational leadership styles and employee empowerment will fill the research gap on leadership and empowerment study in public relations. It will also add to the increasing body of knowledge on internal communication.

Literature review

Perceived organizational reputation

Over the last several decades, both public relations scholars and professionals have strived to look for concepts to demonstrate public relations effectiveness (Yang, 2007). Organizational reputation is one of the key concepts that have generated the most scholarly attention. Hutton *et al.* (2001) stated, "Reputation management, if it is to emerge as a significant business function, clearly rests on a foundation of what is traditionally termed 'public relations'" (p. 248). Likewise, Murray and White (2005) noted that public relations has gradually become a central plank of strategic communication focussing on building and protecting reputation. In his public relations evaluation model, Stacks (2010) also pointed out that as a major public relations outcome, reputation interacts with other outcome variables such as trust, credibility, relationship, etc., to affect public relations efforts' return on expectation and return on investment for organizations.

There are a variety of definitions of organizational reputation in recent literature. Fombrun *et al.* (2000) defined reputation as "a collective assessment of a company's ability to provide valued outcomes to a representative group or stakeholders" (p. 243). Gotsi and Wilson (2001) emphasized the role of communication in creating reputation, maintaining that organizational reputation is a stakeholder's overall evaluation of a company over time based on the stakeholder's direct experiences with the company and any other form of communication. Barnett *et al.* (2006) identified three clusters of meaning for organizational reputation after reviewing 49 sources: reputation as a state of awareness, as an assessment, and as an asset.

Reputation resides in the eyes of external and internal publics. The current study examines internal reputation, broadly defined as the employees' overall evaluation of the organization. As noted by Grady (2010) and Men (2011, 2012a, b), the importance of employees as communication assets should never be overemphasized, especially in today's new media landscape. With the aid of social media, employees are increasingly empowered to communicate with others and initiate dialogues in the public domain. How the employees perceive the organization determines what they say publicly, and their opinions consequently become the basis for how other stakeholders and stockholders perceive the organizational reputation, because what employees say about the organization is often perceived to be more credible and authentic than messages from senior management or the public relations team (Kim and Rhee, 2011). In addition, the family and friends of employees can also serve as third-party endorsers for the organization (Stacks, 2010). Therefore, the contribution employees can make to enhance corporate reputation is considerable and often at no cost (Haywood, 2005).

Furthermore, good reputation in the eyes of employees reinforces employee commitment to the values, beliefs, mission, and objectives of the company. By building identification with the company, having the reputation as a good employer can fuel employee loyalty, motivation, and engagement, which in turn has been demonstrated to generate superior work performance and contribute to organizational effectiveness (Fombrun and van Riel, 2004). Management competence and quality of leadership arguably drive the favorable organizational reputation perceived by stakeholders (Dowling, 2004). However, scant empirical evidence exists to demonstrate the mechanism behind such a phenomenon. To fill the research gap, the present study takes a corporate insiders' perspective to examine how employees' perception of organizational reputation is shaped by organizational leadership style and behavior (i.e. empowering employees) at all levels.

Leadership style

Current leadership theories indicate that leadership behaviors can be categorized into two main styles: transformational leadership and transactional leadership (Bass and Avolio, 1997, 2000). Transformational leaders are charismatic. They motivate subordinates and appeal to their ideals and moral values by creating and representing an inspiring vision of the future (Bass and Avolio, 1997; Yukl, 2006). This form of leadership involves the creation of an emotional attachment between leaders and employees. Transformational leaders take a real interest in the well-being of their employees. As suggested by Jin (2010), transformational leadership integrates the elements of “empathy, compassion, sensitivity, relationship building, and innovation” (p. 174). It fosters a climate of trust, nurtures employees’ confidence, and encourages their individual development. In addition, transformational leadership includes the elements of participative decision making and sharing of power, as noted by Aldoory and Toth (2004).

Transactional leadership is an exchange process. It is a matter of contingent reinforcement of employees based on performances. It motivates subordinates by appealing to their personal desires, based on instrumental economic transactions. Transactional leaders generally use organizational bureaucracy, policy, power, and authority to maintain control; this style of leadership is occasionally referred to as authoritative (Bennett, 2009). Previous leadership scholars (e.g. Bass, 1985; Podsakoff *et al.*, 1990) have identified contingent reward, which involves leaders clarifying roles and task expectations and providing contingent rewards on the fulfillment of contractual obligations, as the principal behavior to represent transactional leadership because it “captures the exchange notion fundamental to transactional leader behavior” (Podsakoff *et al.*, 1990, p. 113).

Transactional and transformational leadership have been widely recognized as not mutually exclusive (e.g. Aldoory and Toth, 2004; Bass, 1999; Bass and Avolio, 1997, 2000; Laohavichien *et al.*, 2009; Werder and Holtzhausen, 2009; Yukl, 2006). Good leaders should know how to switch between a transformational and transactional leadership style in accordance with the situation (Vera and Crosan, 2004). However, transformational leadership has generated more scholarly attention across disciplines in the past decade due to its relationship-oriented nature and the rich empirical evidence on its positive influence on employee attitudes and behaviors (Yukl, 2006).

Leadership style and perceived organizational reputation

Transformational leadership has been consistently found to be associated with superior work performance and employee attitudes such as trust in leaders, job satisfaction, team/organizational commitment, and loyalty (e.g. Behling and McFillen, 1996; DeGroot *et al.*, 2000; Dum Dum *et al.*, 2002; Judge and Piccolo, 2004; Lowe *et al.*, 1996; Rowold and Rohmann, 2009; Zagoršek *et al.*, 2009). For example, Rowold and Rohmann (2009) indicated that transformational leadership is more associated with positive emotions experienced by employees, whereas transactional leadership is more associated with negative emotions. Transformational leaders inspire and motivate employees by clearly articulating a promising and compelling vision for the future. A unique and well communicated organizational vision distinguishes the organization from its competitors, which is a key attribute of organizational reputation (Fombrun and van Riel, 2004). Transformational leaders provide support and coaching to employees, and build good relationships with them, which could also nurture

employees' favorable perception of the organizational reputation (Men, 2012b; Yang, 2007). By contrast, transactional leadership offers rewards (or threatens punishments) for the performance of desired behaviors and exerts more control. This type of leadership results in compliance and can be effective in some circumstances, but is less likely to generate trust and commitment to work (Zagoršek *et al.*, 2009), emotional appeal, and positive evaluation of the organizational reputation. Therefore:

H1. Transformational leadership is positively associated with perceived organizational reputation by employees.

H2. Transactional leadership is negatively associated with perceived organizational reputation by employees.

Employee empowerment

Previous studies suggest that organizational leadership influences employees' attitudes and behavior through empowering them (e.g. Behling and McFillen, 1996; Bass, 1999; Epitropaki and Martin, 2005). J.E. Grunig (1992) defined empowerment as the symmetrical concept of power, which means collaborating to increase the power of everyone in the organization, to the benefit of everyone in the organization. In contrast, the asymmetrical concept of power involves leaders trying to control and make others dependent on them. In effective management literature, the conceptualization of empowerment mainly falls into two categories as discussed by Chiles and Zorn (1995): first, the perception of self-efficacy/competence, which focusses on individuals' sense of competence and second, the perceived control ability/decision-making authority, which views empowerment as shared power to make decisions. A large portion of the management literature (i.e. Conger and Kanungo, 1988; Spreitzer, 1995) stresses the personal psychological aspect of empowerment and holds that a person will feel more empowered if he has the skills and abilities to do his job effectively. Other theorists (i.e. Kanter, 1983; Parker and Price, 1994) asserted that to become empowered, a person must have the freedom or authority to make necessary decisions in performing his tasks or job. In a synthesis of these two approaches, Chiles and Zorn (1995) conceptualized employee empowerment as both a perception and a process to foster employee competence and control. As a perception, employee empowerment refers to the symbolic construction of the personal state as "characterized by competence, or the skill and ability to act effectively, and control, or the opportunity and authority to act" (Chiles and Zorn, 1995, p. 2).

Agreeing with Chiles and Zorn (1995), the present study holds that self-efficacy or competence is a necessary but insufficient condition for employee empowerment. When the employees believe they possess the skills and competence to perform, they may not have the authority or freedom delegated by their managers to make necessary decisions. To attain true empowerment, employees must be both competent and have certain control to make necessary decisions; either aspect alone is inadequate for true empowerment.

Employee empowerment and perceived organizational reputation

Previous studies (e.g. Brown and Peterson, 1993; Fulford and Enz, 1995; Kirkman and Rosen, 1999; Laschinger *et al.*, 2001; Men, 2011) have found a significant positive relationship between employee empowerment and work attitudes and performance. As pointed out by Kirkman and Rosen (1999), empowered employees who have more

autonomy in decision making are more satisfied with their jobs, and more committed to the team and organization. Spreitzer (1995) also noted that empowered employees with a stronger sense of competence and self-determination help nurture an engaging, transparent, and participative organizational climate, which is critical for a favorable work environment. Fombrun (1996) argued that when employees are empowered and involved in decision making, they are more likely to feel good about the company. Likewise, Men (2011) found empowered employees perceive a better relationship with the organization. Therefore:

- H3. Employee empowerment (H3a: perceived competence, H3b: perceived control) is positively associated with perceived organizational reputation by employees.*

Leadership style and employee empowerment

Scholars have identified the important role that organizational leadership plays in empowering employees (e.g. Castro *et al.*, 2008; Hackman and Johnson, 2004; Spreitzer, 1995; Yukl, 2006). According to Spreitzer (1995), two work context factors determine employees' feeling of empowerment: information and rewards. Specifically, information about the organization's mission and performance are crucial for empowering employees. Transformational leaders can empower employees by articulating clear organizational future goals, generating employee enthusiasm for worthy causes, and expressing high performance expectation from employees (Yukl, 2006). In addition, transformational leaders really care about the well-being of followers. Thus, they invite open and participative communication to discover the followers' needs and involve them in the decision-making process (Hackman and Johnson, 2004).

A second critical factor for empowerment is an incentive system to reward employee performance (Spreitzer, 1995). Performance-based rewards, often associated with transactional leadership, may recognize and reinforce employee competencies and participation. However, an over-reliance on rewards and punishments will create the perception of a lack of delegation and trust among employees (Bass and Avolio, 1997). Overall, a negative relationship should be expected between transactional leadership and empowerment:

- H4. Transformational leadership is positively associated with employee empowerment in terms of perceived competence (H4a) and perceived control (H4b).*
- H5. Transactional leadership is negatively associated with employee empowerment in terms of perceived competence (H5a) and perceived control (H5b).*

The mediating role of employee empowerment

Behling and McFillen (1996) posited that employees' feeling of empowerment is crucial to the ability of transformational leadership to have a positive influence on the responses of employees. In a similar vein, Epitropaki and Martin (2005) suggested that by empowering employees, transformational leaders can create a perception among employees that they are being taken seriously, listened to, and valued as members of the organization.

Following Bass's (1999) notion that employee empowerment is a potential mediator for transformational leadership effects, Castro *et al.* (2008) demonstrated that employee

empowerment (including perceived competence and control) mediates the relationship between transformational leadership and employee attitudes, specifically, job satisfaction and affective commitment to the organization. Following their line of reasoning, this study posits the mediating role of employee empowerment in the influence of transformational leadership on perceived organizational reputation by employees:

H6. Employee empowerment mediates the influence of transformational leadership on perceived organizational reputation by employees.

In view of the preceding discussion on leadership style and employee empowerment in association with employees' evaluation of organizational reputation, the conceptual model to be tested in the present study can be drawn as seen in Figure 1.

Method

To test the proposed model, a quantitative survey method was used because it provided a cost-effective and efficient way of collecting data from large populations (Stacks, 2010). In February 2011, an on-line survey was conducted with 700 randomly selected employees at different levels of positions from diverse work units of a Fortune 500 company in the USA[1].

Sample

A total of 166 employees completed the on-line survey with a response rate of 23.7 percent. The average age of the respondents was 45 years, and the company and position tenures were 16.5 years and three years, respectively. A total of 32 percent of the respondents were women; 68 percent were men. At least 78 percent of the respondents held a college degree. Respondents were employees from different levels of position, of which 17.8 percent were non-management, 36.5 percent were lower-level management, and 42.7 percent were middle-level management and above.

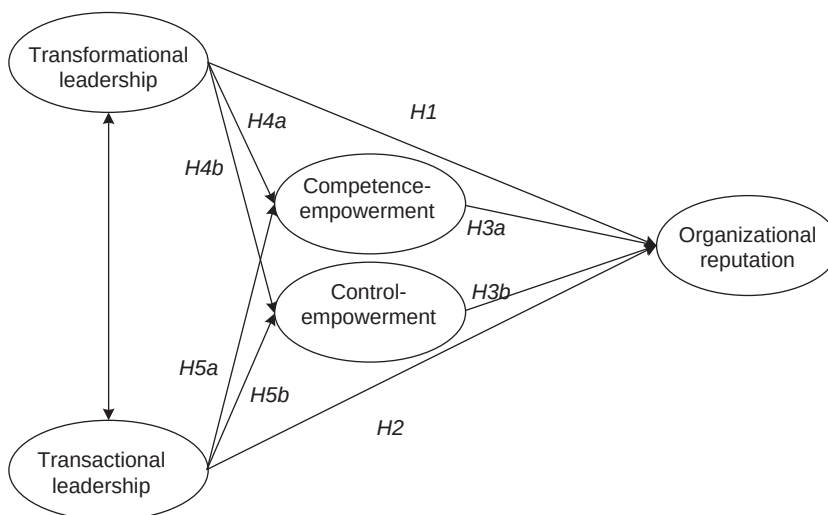


Figure 1.
Conceptual model of the
impact of leadership style
and employee
empowerment on
perceived organizational
reputation

For specific procedures, 20 randomly selected companies were reached out to from the 2010 Fortune 500 list. They were introduced to the study and invited to participate. One company agreed to participate in the current research. The on-line survey link was then provided to the contact person (the Chief Communication Officer of the company) by e-mail; the contact person distributed the on-line questionnaire to a random list of employees to complete within a two-week period in February 2011. Respondents were assured of data confidentiality. The on-line questionnaire included Likert-scale questions consisting of three domains, including employees' perception of management leadership, corporate reputation, feeling of empowerment, and demographic questions.

Before the actual administration of the questionnaire to the participant company, the instrument was pretested with 30 employees generated by convenience sampling from a Fortune 100 software company in the USA to ensure the validity of the instrument. Based on respondents' feedback, three items were slightly reworded to avoid ambiguity and confusion. For example, the item, "Leaders in my department trust me to make appropriate decisions [...]" was changed to "My manager trusts me to make appropriate decisions [...]."

Measures

Leadership style[2]. The measure of leadership style in the current study was adopted from Podsakoff *et al.* (1990) transformational leadership inventory (TLI) and their contingency reward measure of transactional leadership. Strong evidence from prior empirical studies supports the reliability and validity of these scales (e.g. Podsakoff *et al.*, 1990, 1996; Pillai and Williams, 1998; Spreitzer *et al.*, 2005; Viator, 2001).

The 22 items (e.g. "My manager paints an interesting picture of the future for us," "My manager provides a good model to follow") of the TLI were used to measure six factors of transformational leadership (articulating a vision, providing an appropriate model, fostering the acceptance of group goals, high performance expectations, individualized support, and intellectual stimulation) ($\alpha = 0.95$)[3], and five items measured contingency-reward transactional leadership (e.g. "My manager always gives me positive feedback when I perform well," "My manager gives me special recognition when my work is very good") ($\alpha = 0.93$).

Employee empowerment. The measure of employee empowerment was adapted from Chiles and Zorn's (1995) and Spreitzer's (1995) empowerment scales, incorporating both perspectives of competence and control. Four items (e.g. "I feel competent to perform the tasks required for my position," "I feel adequately prepared to perform my job") were used to measure employees' feeling of competence ($\alpha = 0.89$). Another four items (e.g. "My manager trusts me to make the appropriate decisions in my job," and "I have significant autonomy in determining how I do my job") were used to measure employees' feeling of control ($\alpha = 0.88$).

Perceived organizational reputation by employees. The measure of perceived organizational reputation by employees was adopted from the Harris-Fombrun Corporate Reputation Quotient (Fombrun *et al.*, 2000; Fombrun and van Riel, 2004), which, to date, has been proved as "a valid, reliable, and robust tool for measuring corporate reputation" (Gardberg and Fombrun, 2002). A total of 20 questions (e.g. "I feel good about the company," "The company is a good place to work") ($\alpha = 0.96$) were included to ask employees' overall evaluation of the company on aspects of emotional appeal, products and services, financial performance, vision and leadership, work environment, and social responsibility.

Data analysis

Data analysis was conducted using SPSS 18.0 for Windows. A $p < 0.05$ significance level was used for all statistical tests performed. The proposed model (Figure 1) and all hypotheses were tested with structural equation modeling (SEM) AMOS 18.0 software. Multiple criteria were used in the present study to evaluate the goodness of model fit including the χ^2 , the comparative fit index (CFI), the root mean square error of approximation (RMSEA), and standardized root mean square residual (SRMR) indices[4]. Additionally, a multivariate analysis of variance was conducted to examine whether and how demographic variables (i.e. gender, education level, and level of position) influence the examined variables.

Results

Table I reports the means, standard deviations, and correlations for the study variables. Results showed managers in the participant company demonstrated both transformational leadership ($M = 5.31$, $SD = 0.93$) and transactional leadership ($M = 5.22$, $SD = 0.25$). Employees were empowered in terms of sense of competence and decision-making control, but the ratings of control level ($M = 5.51$, $SD = 1.09$) appeared slightly lower than that of competence level ($M = 6.17$, $SD = 1.09$). Employees in the sample had an overall positive evaluation of the participant company's reputation ($M = 5.75$, $SD = 0.89$). No significant effects of demographic variables on dependent variables were found.

Analysis of SEM

The analysis and interpretation of the proposed model was a two-stage process: first, an assessment of the construct validity of the measurement model using confirmatory factor analysis (CFA), and second, an assessment of the structural model. In the tested model, transformational leadership and perceived organizational reputation were specified as latent variables with multiple indicators; contingent reward transactional leadership, employees' feeling of competence, and feeling of control were specified as observed variables. The maximum likelihood method was employed for model estimation.

Measurement (CFA) model

The test of the initial measurement model indicated an unsatisfactory fit to the data: $\chi^2(83) = 252.25$, $p < 0.001$, $\chi^2/df = 3.04$, RMSEA = 0.11 (90 percent CI = 0.096-0.127), SRMR = 0.07, CFI = 0.90. Thus, interpreting any individual parameter estimates is not

	Mean	SD	1	2	3	4	5
1. Transformational leadership	5.31	0.93	1.00				
2. Transactional leadership	5.22	1.25	0.62** ^a	1.00			
3. Competence-empowerment	6.17	0.75	0.11	0.03	1.00		
4. Control-empowerment	5.51	1.09	0.50**	0.44**	0.31**	1.00	
5. Perceived organizational reputation	5.75	0.89	0.50**	0.13	0.34**	0.49**	1.00

Notes: ^aSince the exogenous variables of transformational and transactional leadership had a relatively high correlation ($r = 0.62$), multicollinearity was diagnosed using multiple regression statistics. The tolerances were over the cutoff (0.02), indicating that no multicollinearity was detected.

**Correlation is significant at $p < 0.01$ (two-tailed)

Table I.
Descriptive of leadership
style, employee
empowerment, and
organizational reputation
measures (mean,
standard deviation,
and correlations)

appropriate. The model was modified accordingly. According to Byrne (2001), “forcing large error terms to be uncorrelated is rarely appropriate with real data” (p. 111); furthermore, allowing error covariance within the same construct can sometimes explain content redundancy. Following this line of thinking and based on model modification indices, the model was modified by adding error covariances as depicted in Figure 2[5]. The modified model demonstrated an adequate fit to the data: $\chi^2(77) = 161.71$, $p < 0.001$, $\chi^2/df = 2.1$, RMSEA = 0.08 (0.06-0.09), SRMR = 0.06, CFI = 0.95. The high standardized loadings in the measurement model revealed that latent variables – transformational leadership and perceived organizational reputation – have good construct validities.

Before estimating the hypothesized model, the multivariate normality assumption of SEM was evaluated in AMOS. Results indicated that the sample data showed a significant positive multivariate kurtosis; therefore, bootstrapping ($n = 2,000$ samples) using maximum likelihood method was performed to address the multivariate non-normality of the data[6]. A bias-corrected 90 percent CI was provided for each bootstrap estimate. The bootstrap parameter estimations did not deviate from those based on normal theory; that is, significant results in Figure 2 remained significant in the bootstrapping process, and non-significant results remained non-significant.

Structural model

The hypothesized structural model demonstrates a good fit to the data: $\chi^2(77) = 161.71$, $p < 0.001$, $\chi^2/df = 2.1$, RMSEA = 0.08 (0.06-0.09), SRMR = 0.06, CFI = 0.95[7]. The results showed that all standardized path coefficients were statistically significant except for the effect of transformational leadership and transactional leadership on employees’ feeling of competence. For parsimony, the model was trimmed by deleting

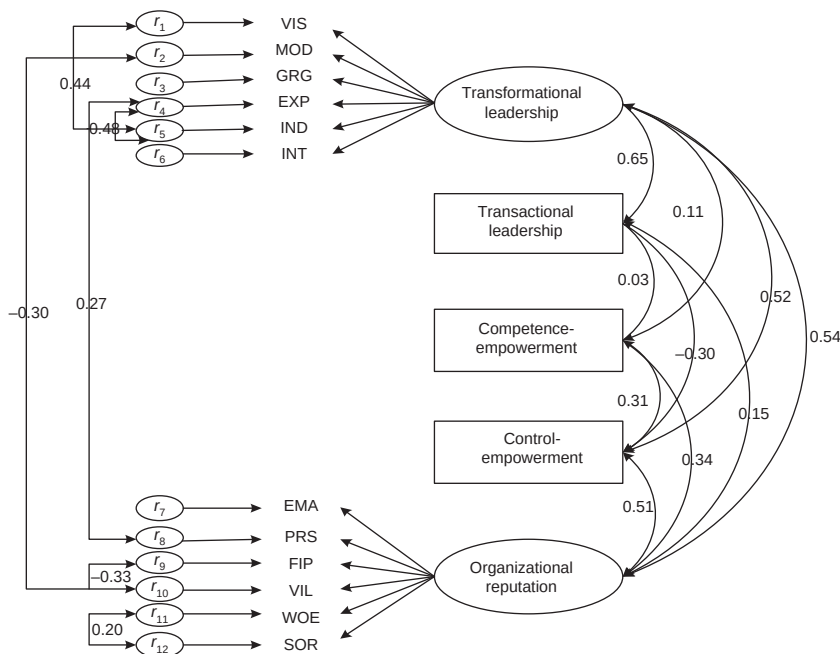


Figure 2.
Confirmatory factor
analysis (CFA) of the
measurement model

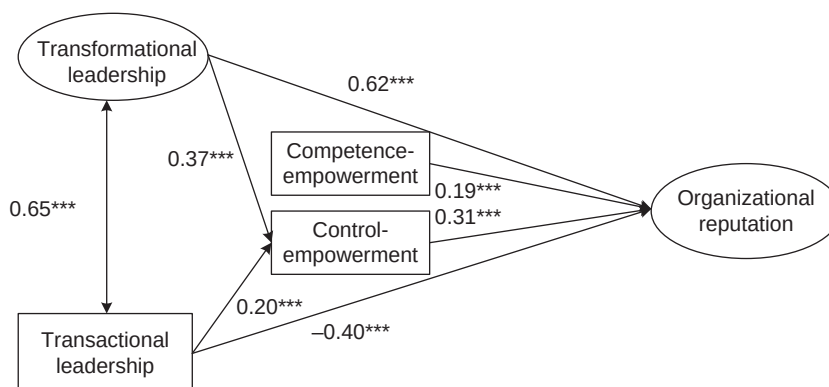
the two non-significant paths. The simplified model was recalculated and compared to the hypothesized model via nested model comparison. The model fit change was not statistically significant, although the hypothesized model fit the data slightly better than the simplified model: $\Delta\chi^2(2, n = 166) = 2.50, p = 0.286$. Therefore, the more parsimonious model was retained (see Figure 3).

In addition, to identify the best-fitting model, three other alternative models, all of which are theoretically plausible, were compared to the simpler model. In alternative model 1, employees' perceived competence and control could fully mediate the influence of transformational and transactional leadership on employees' perception of organizational reputation (i.e. the direct links between leadership style and perceived organizational reputation were removed). In alternative model 2, transformational and transactional leadership did not influence competence and control aspects of empowerment; hence, transformational and transactional leadership and employees' feeling of competence and control independently influence employees' evaluation of organizational reputation. In alternative model 3, the direct links between employees' feeling of competence, feeling of control, and perceived organizational reputation were removed; that is, employees' feeling of competence, control, and perceived organizational reputation were all predicted outcomes of leadership style.

As demonstrated in Table II, all three alternative model fits were significantly worse than the hypothesized and the simplified model. The χ^2 differences of the three alternative models ranged from 34.07 to 54.82 (all $p < 0.001$), and thus offered support for the superiority of the hypothesized partial mediation model. The path coefficients of the retained parsimonious model are presented in Figure 3.

Test of hypotheses

As presented in Figure 3, consistent with the literature, transformational leadership was found to covariate with transactional leadership, $\beta = 0.65, p < 0.001$. An effective leader could demonstrate both transformational and transactional leadership styles.



Notes: For the sake of brevity, only the path model is demonstrated. The CFA model pattern coefficients, error terms of indicators, and disturbances of endogenous variables were omitted from the figure. Coefficients are standardized regression weights.

*** $p < 0.001$

Figure 3.
Results of the retained
(simplified) model with the
deleted non-significant
paths

Direct effects. *H1* and *H2* proposed the direct effect of transformational and transactional leadership on employees' perception of organizational reputation. As indicated in Figure 3, both *H1* and *H2* were supported; transformational leadership had a large[8] positive effect on perceived organizational reputation by employees, $\beta = 0.62, p < 0.001$. In contrast, transactional leadership was found to have a large negative effect on employees' perception of organizational reputation, $\beta = -0.40, p < 0.001$.

H3 predicted the positive effects of employees' feeling of competence and feeling of control on perceived organizational reputation. The results showed support for *H3a* and *H3b*. Employees' perceived competence had a moderate positive effect on employees' evaluation of organizational reputation, $\beta = 0.19, p < 0.001$; employees' perceived decision-making control had a large positive effect on employees' evaluation of organizational reputation, $\beta = 0.31, p < 0.001$.

H4 and *H5* predicted the effects of transformational and transactional leadership on employees' feeling of empowerment, in terms of competence and decision-making control. *H4* was partially supported by the data and *H5* was rejected. Specifically, transformational leadership had a large positive effect on employees' feeling of control, $\beta = 0.37, p < 0.001$, but no significant effect on employees' feeling of competence. Transactional leadership had a moderate positive effect on employees' feeling of control, $\beta = 0.20, p < 0.001$, but no significant effect on employees' feeling of competence.

Indirect (mediation) effects. Significant paths in *H1, H2, H3, H4b, and H5b* indicated that employees' feeling of control partially mediates the effect of transformational leadership on employees' perception of organizational reputation. For a closer examination, a formal significant test of indirect effects using a bootstrap procedure ($n = 2,000$ samples) was conducted. The results demonstrated that the indirect effects in paths from transformational leadership to perceived organizational reputation by employees through employees' feeling of control were significant, $\beta = 0.16, p < 0.001$ (95 percent CI: 0.092-0.247). Hence, *H6* was partially supported.

Discussion and conclusion

The systemic nature of organizations determines that the public relations function interacts with other subsystems in the achievement of organizational goals. Moreover, it is influenced by organizational contextual factors, such as organizational culture, structure, internal communication system, employee satisfaction, and gender equality (Grunig *et al.*, 2002). The current study represents an extensive effort to explore how

Table II.
Fit indices of the
hypothesized, simplified,
and alternative models

Model	χ^2	df	χ^2/df	$\Delta\chi^2$	Sig. of Δ	CFI	RMSEA	SRMR
Hypothesized Model	161.71	7	2.1	—	—	0.95	0.08 (0.06-0.09)	0.06
Simplified Model	164.22	7	2.08	2.50	0.286	0.95	0.08 (0.06-0.10)	0.07
Alternative 1	207.35	8	2.56	43.13	0.000	0.92	0.10 (0.08-0.11)	0.13
Alternative 2	219.04	8	2.70	54.82	0.000	0.92	0.10 (0.09-0.12)	0.14
Alternative 3	198.29	8	2.45	34.07	0.000	0.93	0.09 (0.08-0.11)	0.11

public relations effectiveness is affected by organizational antecedents. Specifically, the purpose was to examine the influences of organizational leadership style on employees' perception of organizational reputation and the mediation role of employee empowerment on such influences.

Leadership style and perceived organizational reputation

The results revealed that transformational leadership positively influences employees' perception of organizational reputation, not only directly but also indirectly, through empowering employees. Leadership behaviors, such as communicating shared vision and high performance expectations, providing an appropriate role model, fostering collaboration among employees to achieve collective goals, stimulating new perspectives and ideas, emphasizing the quality of relationships with employees, and showing concern about employees' individual feelings and welfare directly cultivate employees' favorable overall perception of the organization. The findings are in line with previous literature on the positive association between transformational leadership and employees' job attitude (e.g. Castro *et al.*, 2008; Yukl, 1999; Rafferty and Griffin, 2006), satisfaction, organizational commitment (e.g. Castro *et al.*, 2008; Rafferty and Griffin, 2004), and positive emotions such as joy, pride, admiration, and enthusiasm (Rowold and Rohmann, 2009). Through sharing power with employees and engaging them in the decision-making process, transformational leaders make employees feel more accepted, trusted, and valued, thus also shaping employees' favorable evaluation of the organization.

In contrast, transactional leadership represented by contingent reward behavior in the current study demonstrated a large negative effect on employees' perception of organizational reputation. When managers mainly focus on economic and instrumental transactions in treating employees, as well as when they exert more control, employees tend to evaluate the organization less favorably. This concurs with the findings from previous studies that, although transactional leadership can be effective or even necessary under certain circumstances considering that it meets employees' fundamental utilitarian needs, it is less likely to generate trust and commitment to work compared to transformational leadership (Zagoršek *et al.*, 2009). An over-reliance on rewards and punishment to exert influence may make employees feel not fully trusted, leading to employees' negative perception of organizational reputation.

The existing literature on reputation (i.e. Dowling, 2004; Fombrun *et al.*, 2000; Helm, 2005) has identified management competence and quality of leadership as among the major reputation drivers. Findings of the present study provide new evidence from an employee perspective that effective leadership such as transformational leadership (strategic, charismatic, inspiring, democratic, and relational oriented) shapes employees' positive perception of the organizational reputation, whereas transaction-based authoritarian leadership does not. As noted by Yukl (1994), leadership plays an important role in creating an organizational climate and constituting an internal environment, which influence employees' attitudes and motivation. To develop favorable internal reputation which can generate positive word-of-mouth and supportive behavior (Hong and Yang, 2011), the transformational leadership style should thereby be advocated rather than the transactional leadership style, as evidenced by the current study.

Empowerment and perceived organizational reputation

The results suggest that the more employees feel competent or having the ability or skill to perform, the more favorably they perceive organizational reputation; the more

employees feel having control ability or authority in decision making, the more favorably they perceive organizational reputation. The findings are consistent with those in previous studies in management and public relations (e.g. Brown and Peterson, 1993; Fombrun *et al.*, 2000; Fulford and Enz, 1995; Kirkman and Rosen, 1999; Laschinger *et al.*, 2001; Men, 2011) that employee empowerment leads to employee satisfaction, commitment, trust, loyalty, and quality organization-employee relationship. When employees are psychologically empowered, they feel more self-efficacy and confidence in achieving self-fulfillment and meaningfulness and in exerting influence (Spreitzer, 1995). Therefore, employees are more likely to be satisfied and committed to the organization. When employees are delegated more power and authority in decision making, they are more likely to trust the organization and agree on the mutual influence in the relationship (Men, 2011). Organization-public outcomes (i.e. trust, control mutuality, commitment, and satisfaction) are found to positively influence publics' cognitive representation of the company (Yang and Grunig); thus, the positive association between employee empowerment and perceived organizational reputation revealed by the present study is thereby expected.

Meanwhile, in predicting employees' evaluation of organizational reputation, employees' feeling of control (i.e. managerial empowerment) plays a more important role than feeling of competence (i.e. psychological empowerment). The finding reflects Fombrun *et al.*'s (2000) claim that reputable companies are usually characterized by a participative culture and willingness to share power with employees and engage them in the decision-making process.

Leadership style and employee empowerment

With regard to the linkage between leadership style and employee empowerment, the present study revealed that transformational and transactional leadership are both positively associated with employees' feeling of control; in other words, managerial empowerment, with the former demonstrating stronger effects. Thus, transformational leaders are more likely to delegate power to employees and involve them in decision making than transactional leaders, supporting claims in existing literature (Aldoory and Toth, 2004; Behling and McFillen, 1996; Bass, 1999; Spreitzer, 1995). Surprisingly, neither transformational nor transactional leadership was found to be significantly related to employees' feeling of competence, or individual psychological empowerment. One possible explanation may be that employees' psychological empowerment or self-efficacy depends on a host of factors where other individual difference variables, such as locus of control, may play a much more important role (Menon, 2001). Leadership could indirectly influence employees' competence level under certain circumstances through intellectual stimulation or emphasis on a worthy cause (Menon, 2001); it remains a non-determinant according to the current study.

Implications of the study

The present study has important implications for public relations scholars, professionals, and top management. Theoretically, first, it extends the efforts in examining possible internal drivers for organizational reputation, revealing that transformational leadership style and employee empowerment behavior shape employees' favorable perception of organizational reputation, which could generate positive word-of-mouth, and in turn contributing to the building and protection of external organizational reputation (Men, 2011; Kim and Rhee, 2011).

Second, by demonstrating the impact of leadership style and employee empowerment on one of the major public relations outcomes, organizational reputation, from the employee perspective, this study suggests new antecedent factors to add to the list of internal characteristics for excellent public relations. Other than organizational infrastructures (i.e. organizational structure, culture, gender equality), leadership style and behaviors also interact with public relations functions and contribute to public relations effectiveness.

Third, the current research adds to the growing body of knowledge on leadership in public relations by showing how the two major leadership styles, transformational and transactional leadership, are related to public relations outcomes, suggesting a new direction for leadership study in the context of public relations. It also advances the understanding of the concept of “empowerment” in public relations by incorporating two distinct major approaches in conceptualizing empowerment, namely, psychological empowerment (i.e. competence) and managerial empowerment (i.e. control). In addition, as an exploratory effort, this study provides empirical evidence showing why the empowerment of strategic publics (Grunig *et al.*, 2002) matters for public relations effectiveness. Finally, by focussing on how to shape internal (employee) publics’ favorable perception of the organization through effective leadership, the current study contributes to the growing literature on internal communication.

The present work also provides pragmatic implications for public relations professionals and organizational managers. By demonstrating the influence of organizational leadership style and employee empowerment on perceived organizational reputation by employees, it suggests that public relations can be affected by management effectiveness and leadership behavior. The realm of public relations interacts with other subsystems in the organization in the achievement of business goals and objectives. Therefore, for best practices of public relations, in addition to developing effective public relations/communication strategies, public relations professionals must inform and educate organizational leaders and engage them in relationship-oriented transformational leadership behavior that can facilitate public relations activities and contribute to public relations effectiveness. In addition, L. Grunig *et al.* (2002) noted that organizations that empower their employees in general are more likely to empower their public relations function and external publics. Therefore, for public relations managers to become empowered (i.e. gain access to the dominant coalition), transformational leadership style accompanied by power sharing with employees should be advocated. Furthermore, for top management, the current study suggests that effective leadership behaviors (i.e. transformational leadership) not only affect employees’ motivation, productivity, and performance (Castro *et al.*, 2008), but also shape employees’ favorable cognitive presentation of the organization, which constitutes reliable sources for external publics to form their perception of organizational reputation.

Limitations and future research directions

Despite the pioneering explorations of the present study, several limitations were encountered and should be addressed in future research. One possible limitation was the use of sample from one single company in one particular industry. However, the value of the current work lies in its theoretical examinations rather than its generalizability. A second limitation was the common source measurement; that is, the data were collected only from employees’ perspective. To provide a more

comprehensive understanding of how organizational leadership style influence public relations outcomes, insights from public relations professionals and organizational leaders should be incorporated. In future research, a wider range of samples from different types of organizations across various industries should be used to test the proposed model and generalize the findings. Qualitative research methods such as in-depth interviews with organizational leaders and public relations professionals can be applied to provide thorough explanations while incorporating different perspectives to the research problems. Considering that leadership in the context of public relations has not been fully explored, future research should be devoted to investigate how leadership factors interact with public relations functions to contribute to communication effectiveness; for example, how managers with different leadership styles choose communication worldviews and strategies (i.e. symmetrical vs asymmetrical communication; one-way communication vs two-way communication), and how leadership is associated with other public relations outcomes such as relationships and public engagement.

Notes

1. The company is a Fortune 500 Energy company providing electrical service for over one million customers in the USA.
2. TLI was used in the current study to measure transformational leadership rather than the standard leadership instrument, multifactor leadership questionnaire (Bass, 1990; Avolio and Bass, 2004) because TLI was suggested to be a more construct-valid measure (e.g. Schriesheim and Scandura, personal communication, December 12, 2010). Questions asked respondents "evaluation of their direct supervisors" leadership.
3. α 's in parentheses throughout the paper report the reliabilities of the measures in the current study.
4. According to Hu and Bentler (1999), the CFI value approaching 1.0 suggests a better fit; RMSEAs below 0.05 suggest a good fit, and SRMR values below 0.08 suggest a good fit of the model to the data.
5. Six error covariances (r_{1-75} , r_{4-75} , r_{10-711} , r_{11-712} , r_{4-78} , r_{2-713}) were found. The magnitude of these covariances ranged from 0.20 to 0.48.
6. According to Kline (1998) and Byrne (2001), bootstrapping is a procedure in which one takes repeated, smaller random samples of an existing sample to develop empirical estimates of standard errors of any parameter. It is a common procedure used to address multivariate non-normality issues.
7. The model was estimated by allowing the disturbances of feeling of competence and feeling of control to covariate because the two variables share a common factor-employee empowerment.
8. According to the rule of thumb proposed by Keith (2006), a standardized coefficient (β) of <0.05 suggests a negligible effect; a standardized coefficient of 0.05-0.10 suggests a small but meaningful effect; a standardized coefficient of 0.10-0.25 means a moderate effect, and a standardized coefficient of above 0.25 represents a large effect.

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