Transformational and Transactional Leadership Styles as a Predictor of Individual Outcomes

Azman ISMAIL
Universiti Pertahanan Nasional, Malaysia
azisma08@gmail.com
Mohd Hamran MOHAMAD*
Universiti Pertahanan Nasional, Malaysia
hamran@upnm.edu.my
Hassan Al-Banna MOHAMED
Universiti Pertahanan Nasional, Malaysia
hassanalbanna@upnm.edu.my
Nurhana Mohamad RAFIUDDIN
Universiti Pertahanan Nasional, Malaysia
nurhana@upnm.edu.my
Karen Woon Pei ZHEN
Universiti Pertahanan Nasional, Malaysia
karen_wpz@yahoo.com

Abstract. *This study was conducted to measure the relationship between transformational and transactional leadership styles and individual outcomes (i.e., perceptions of justice and trust in the leaders) using 118 usable questionnaires gathered from employees who have worked in a US subsidiary firm in East Malaysia, Malaysia. The results of exploratory analysis confirmed that the measurement scales used in this study met the acceptable standards of validity and reliability analyses. Further, the outcomes of Pearson correlation analysis showed six important findings: first, transformational leadership significantly correlated with procedural justice. Second, transactional leadership significantly correlated with distributive justice. Third, transformational leadership significantly correlated with trust in the leaders. Fourth, transactional leadership significantly correlated with trust in the leaders. Statistically, this result confirms that transformational leadership is an important predictor of procedural justice, transactional is an important predictor of distributive justice, and both leadership styles are important predictors of trust in the leaders. In addition, implications and discussion are elaborated.*

1. Introduction

In the early studies of human resource development much describe on the characteristics of leadership behavior where it emphasizes more on the type of relationship between leaders and followers in organizations (Bass, Avolio, 1991, 1993, Howell, Avolio, 1993, Schriesheim et al., 1999). The type of such relationships can occur in two different forms: transformational leadership and transactional leadership (Burns, 1978, Bass, Avolio, 1991, 1993, MacKenzie et al., 2001, Rowold, 2008). Both leadership styles were first developed by Burns (1978) and this was expanded by Bass and Avolio (1991) to become the generic leadership model for dynamic organizations, which include four primary elements: first, individualized considerations is often viewed as leaders aware about employees concerns and developmental needs as well as providing the learning opportunities for them to grow in a supportive environment. Intellectual stimulations are usually seen as leaders develop followers' innovation and creativity in managing their tasks and responsibilities. Followers are encouraged to question their own way of doing things and sideline outdated principles and practices. Inspirational motivations are related to leaders frequently articulate future goals of the organization which are perceived as meaningful and challenging to the work and personal goals of the followers. The followers are motivated and inspired by the goals of the organization. Idealized influence is often referred to leaders who are very determined, persistent and always emphasized achievement in their mission. They take personal responsibility and display high moral standards and behavior. As such, they are well respected and trusted by their followers (Bass, 1985, Bass, Avolio, 1991, 1993, Twigg et al., 2008).

Transformational leadership concept is based on relational contract rather than on economic contract, where it takes the form of social exchange (subordinates obliged to their leaders and willing to contribute beyond the requirements of formal employment contracts), covenant (agreed commitment to the welfare of both parties to the exchange) and psychological contract, that is a set of beliefs held by a person regarding the terms of the exchange agreement to which that person is a party (Kanungo, Mendonca, 1996, MacKenzie et al., 2001, Rowold, 2008, Twigg et al., 2008). In this era of global competition, this leadership approach is often used to develop personality capabilities of leaders simply to create a positive transformational process, such as creating awareness amongst employees on the benefits of growth, importance of self-expression, motivation to perform at new and higher levels, encourage teaching and coaching which serves as a leverage for followers to perform beyond their expectations, changing their values and beliefs, and raising their

hierarchy of needs (Bass, Avolio, 1993, Gillespie, Mann, 2004, Twigg et al., 2008, Howell, Avolio, 1993).

Conversely, transactional leadership concept is based on economic contract, economic exchange or cost-benefit concept which is done in the short-term (MacKenzie et al., 2001, Rowold, 2008, Seltzer, Bass, 1990). Relying on an economic based transaction, transactional leadership concept is developed based on two primary factors: contingent reward approach (rewards are provided in exchange for meeting agreed upon objectives or the ability of followers to perform tasks based on their leaders' wish) and management-by-exception (the leaders intervene when employees make mistakes by establishing visible mechanisms to implement proper rules) (Bass, Avolio, 1991, 1993, Howell, Avolio, 1993, Lowe et al., 1996, MacKenzie et al., 2001). In practice, transactional leadership is equally important as transformational leadership in order to help leaders increase organizational competitiveness in an era of global competition (Bass, Avolio, 1993, Howell, Avolio, 1993, Pillai et al., 1999).

Surprisingly, recent studies using a wide variety of samples have shown that the ability of leaders to properly use transformational and transactional leadership styles may have a significant impact on individual outcomes, especially followers' perceptions of justice (Greenberg, 1996, 2003, Tatum et al., 2003a, 2003b), and trust in the leaders (Konovsky, Pugh, 1994, Korsgaard et al., 1995, Pillai et al., 1999). Many scholars, such as Folger (1977), Brockner and Wiesenfeld (1996), Leventhal (1976, 1980), Leventhal et al. (1980), and Greenberg (1996, 2003), divide perceptions of justice in two major features: procedural justice and distributive justice. Procedural Justice is often defined as individuals perceive fairness about the process and systems used by their employers to allocate outcomes (e.g., rewards and recognition). While distributive justice is usually defined as individual's sense of fairness about the outcomes (e.g., rewards and recognition) received from their employers (Brockner, Wiesenfeld, 1996, Folger, Greenberg, 1985, Folger, Konovsky, 1989, Konovsky, Pugh, 1994, Greenberg, 1996, 2003). Although, a linkage of transformational and transactional styles to perceptions of justice has been well established, but the effect of different leadership styles on procedural justice and distributive justice is given less attention in leadership research literature (Bass, 1990, Podsakoff et al., 1990, Schriesheim et al., 1999).

Conversely, scholars like Fine and Holyfield, (1996), Bass (1990), Kramer and Isen (1994), Kramer and Tyler (1996), Mishra (1996), Lane and Bachmann (1998), and Gefen et al. (2008) conceptualize trust as a psychological state where an employee faith in and loyalty to the leaders, especially in the following aspects: can make good decisions and judgments, overcome obstacles, helpful, establish a cooperation between organizational members, good in leading followers when doing organizational projects,

provide correct information about the tasks, and give full commitment to organization (Cummings, Bromiley, 1996, Das, Teng, 1998, Fine, Holyfield, 1996, Podsakoff et al., 1990).

In a leadership framework, several scholars think that that transformational leadership style, transactional leadership style, and trust in the leaders are distinct constructs, but highly interrelated (Bass, Avolio, 1993, Konovsky, Pugh, 1994, MacKenzie et al., 2001, Schriesheim et al., 1999). For example, transformational style is relied on social exchange (e.g., follower development) and transactional style is based on economic exchange (e.g., reward contingent job) in managing followers to achieve job targets. The ability of leaders to properly implement transformational style may strongly invoke perceptions of procedural justice, transactional style may strongly increase invoke perceptions of distributive justice, and both leadership styles may lead to higher trust in the leaders. Although this relationship is interesting, little is known about the effect of transformational and transactional justice on individual outcomes in organizational leadership literature (Gefen et al., 2008, Korsgaard et al., 1995, Pillai et al., 1999). Hence, it motivates the researchers to further explore the issue.

2. Objective of the study

This study has four major objectives: first, to measure the relationship between transformational leadership and procedural justice. Second, to measure the relationship between transactional leadership and distributive justice. Third, to measure the relationship between transformational leadership and trust in the leaders. Fourth, to measure the relationship between transactional leadership and trust in the leaders.

3. Literature review

Transformational leadership, transactional leadership and perceptions of justice

Human resource development literature highlights that many scholars make interpretations about the relationship between leadership and perceptions of justice based on their observations and understanding about leadership behavior theory (Avolio et al., 1995, Bass, 1990, Howell, Avolio, 1993, Liangding et al., 2007, Schrieshem et al., 1999) and organizational justice theory (Folger, Konovsky, 1989, Konovsky, Pugh, 1994, Lind, Tyler, 1988, Tyler, Degoey, 1996). Outcomes of this study generally show that leaders who properly implementing both transformational and transactional leadership styles will strongly invoke followers' perceptions of justice about the leadership styles

(Alexander, Ruderman, 1987, Folger, Konovsky, 1989, Korsgaard et al., 1995, Lind, Tyler, 1988).

Organization justice addresses two major theories: procedural justice theories and distributive justice theories (Folger, Cropanzano, 2001, Greenberg, 1996, 2003). Procedural justice theories emphasize on fairness about the process and systems and/or methods used to distribute outcomes or make decisions (Lind, Tyler, 1988, Tyler, Lind, 1992, Walker et al., 1979), such as consistency, bias suppression, accuracy, correct ability, ethicality, and representativeness (Leventhal, 1976,1980). Application of this theory in a leadership model shows that the ability of leaders to properly use transformational process in planning and administering jobs (e.g., clarity of policy and work process, communication openness, participation, and empowerment) tends to invoke followers' perceptions of procedural justice in organizations (Korsgaard et al., 1995, Pillai et al., 1999).

Distributive justice theories explain that fairness of outcomes will exist if employees perceive that they receive outcomes equitable with their contributions (Adams, 1963, 1965, Hegtvedt, Markovsky, 1995, Konovsky, Pugh, 1994, Thibaut, Walker, 1975), such as equity rule (recognize contribution), needs rule (promote personal welfare) and equality rule (preserve social harmony) (Leventhal, 1976, 1980, Leventhal et al., 1980). Application of this theory in leadership model shows that the ability of leaders to properly use transactional process in planning and administering jobs (e.g., no discrimination, obey to work regulation, adequacy of reward, and warning when mistakes are made) will invoke followers' perceptions of distributive justice in organizations (Gefen et al., 2008, Korsgaard et al., 1995, Pillai et al., 1999).

Transformational leadership, transactional leadership and trust in the leaders

Many previous studies on organizational leadership were done using a direct effects model and found that properly implemented transformational and transactional leadership styles had increased followers' trust in the leaders (Greenberg, 1996, 2003, Pillai et al., 1999, Tatum et al., 2003a, 2003b). For example, two surveys about organizational leadership based on different samples, such as 192 and 155 matched leaders and subordinates in US organizations (Pillai et al., 1999), and 40 executives using a 360 degree feedback survey (Bradberry, Tatum, 2002; Tatum et al., 2003a, 2003b) found that the ability of leaders to properly implement transformational style (i.e., managers who focus on developing followers, creating a future vision, neglecting a status quo, looking a head and establishing new purposes) and transactional style (i.e., managers who focus on tasks, explaining expectations, solving immediate problems, and

rewarding performance) in managing organizational functions had been an important predictor of trust in the leaders in the organizations.

The literature has been used as foundation of developing a conceptual framework for this study as shown in Figure 1.
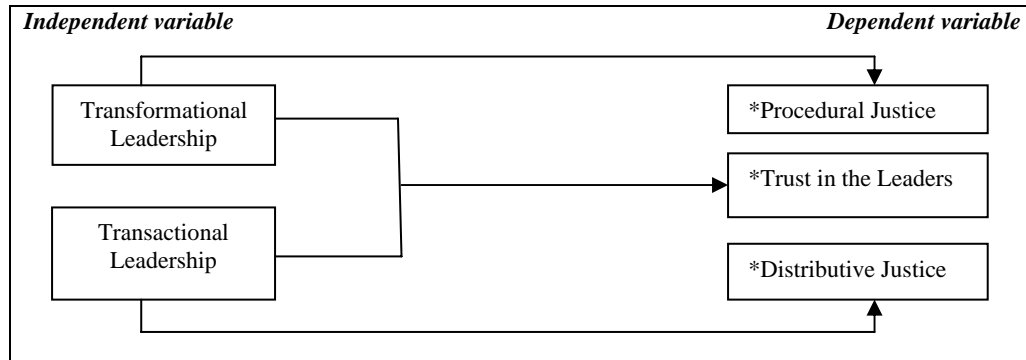

Figure 1. *Conceptual framework*

Note: * are individual outcomes

Based on the framework, it can be hypothesized that:

H1: There is significant relationship between transformational leadership and procedural justice.

H2: There is significant relationship between transactional leadership and distributive justice.

H3: There is significant relationship between transformational leadership and trust in the leaders.

H4: There is significant relationship between transactional leadership and trust in the leaders.

4. Methodology

Research design

This study used a cross-sectional method which allowed the researchers to integrate the leadership research literature, in-depth interview, pilot study and the actual survey as a main procedure to collect data. The use of such methods may gather accurate, less bias and high quality data (Cresswell, 1998, Sekaran, 2000). In the first step of data collection, in-depth interviews were conducted involving four experienced employees, namely one HR manager, one supervisor, and two experienced supporting administrative staffs. This interview enhanced the understanding of the researchers on the nature of transformational and transactional leadership styles, trust in the leader

characteristics, as well as the relationship between such variables in the organization. The information gathered from the interviews was used to develop the content of questionnaires for a pilot study. Subsequently, the pilot study was done by discussing pilot questionnaires with the participants. Feedbacks from the participants were used to verify the content and format of survey questionnaire for an actual study. Back translation technique was used to translate the content of questionnaires in Malay and English in order to increase the validity and reliability of the instrument (Hulland, 1999, Wright, 1996).

Measures

The survey questionnaires have four sections as shown in Table 1. These items were measured using a 7-item scale ranging from "strongly disagree/dissatisfied" (1) to "strongly agree/satisfied" (7). Demographic variables were used as controlling variables because the study focused on employee attitudes.

Table 1

Item validity

Variable	Item	Source
Transformational Leadership	1. Instills pride in me 2. Spends time teaching and coaching 3. Considers moral and ethical consequences 4. Views me as having different needs, abilities, and aspirations 5. Listens to my concerns 6. Encourages me to perform 7. Increases my motivation 8. Encourages me to think more creatively 9. Sets challenging standards 10. Gets me to rethink never-questioned ideas	15 items adapted from Bass and Avolio's (1991) multi factor leadership questionnaire.
Transactional Leadership	11. Makes clear expectation 12. Will take action before problems are chronic 13. Tells us standards to carry out work 14. Works out agreements with me 15. Monitors my performance and keeps track of mistake	
Procedural Justice	1. Treats subordinates fairly 2. I can participate in decision making 3. Pay and benefits are allocated according to proper procedures	7 items adapted from Moorman's (1991) perceptions of justice scale
Distributive Justice	1. Pay and benefits are given fairly according to my effort and needs 2. Receives rewards as promised by leader 3. My pay is fair compared to the pays of my colleagues 4. My leader will punish me fairly if I often make mistakes in my work	
Trust in Leaders	1. My leader can make good decisions & judgments 2. I am ready to trust my leader to overcome any obstacle 3. My leader is good in leading us when doing organizational projects 4. I give full commitment to work with my leader 5. My leader's ideas/opinions are useful for me in doing my job 6. I believe that my leader will provide correct info bout the tasks for me 7. I can share my ideas and thoughts with my leader	7 items adapted from Marlowe and Nyhan's (1992) trust to leaders scale

Unit of analysis and sample

The targeted population for this study is 2,660 employees who have worked in the studied organization. In the first step of data collection procedure, the researchers met the HR Department to get their opinions about the rules for distributing survey questionnaires in its organizations. Considering the organizational rules, a quota sampling was used to determine the number of sample size based on the period of study and budget constraints. After that, a convenient sampling was chosen to distribute survey questionnaires since the list of registered employees was not made available to the researchers and the situation did not allow the researchers to choose respondents randomly. As such, 150 survey questionnaires were distributed to the employees who are willing to answer the questionnaires through contact persons (i.e., secretary of department heads, senior supporting staff and/or assistant managers) of the organizations. Out of a total of 150 questionnaires, 118 usable questionnaires were returned to the researchers, yielding 78.7 percent response rate. The number of this sample exceeds the minimum sample of 30 participants as required by probability sampling technique, showing that it may be analyzed using inferential statistics (Sekaran, 2000). The survey questionnaires were answered by participants voluntarily based on their consents.

Data analysis

A statistical package for social science (SPSS) version 16.0 was used to analyze the questionnaire data. Firstly, exploratory factor analysis was used to assess the validity and reliability of measurement scales (Hair et al., 1998). Secondly, Pearson correlation analysis and descriptive statistics were conducted to determine the collinear problem, further confirm the validity and reliability of constructs and thus test research hypotheses (Tabachnick et al., 2001, Yaacob, 2008).

5. Findings

Participant characteristics

Table 2 shows the participant's characteristics. Majority of respondents were male (64.4 percent), age between 26 to 30 years old (33.9 percent), Malay (42.4 percent), diploma holders (30.5 percent), lower-level management workers (75.4 percent), workers who worked more than years 10 (26.3 percent).

Table 2

Participant characteristics (N=118)

Participant characteristics	Sub-Profile	Percentage
Gender	Male	64.4
	Female	35.6
Age	18-20	4.2
	21-25	29.7
	26-30	33.9
	31-35	18.6
	36-40	8.5
	> 41	5.1
Race	Malay	42.4
	Chinese	17.8
	Indian	0.8
	Bumiputera	33.9
	Others	5.1
Education level	SPM/MCE/Senior Cambridge	29.7
	STPM/HSC	12.7
	Diploma	30.5
	Degree	16.9
	Others	10.2
Job Category	Middle-level Management	24.6
	Lower-level Management	75.4
Length of Service	<1 year	10.2
	1-3 years	25.4
	4-6 years	21.2
	7-9 years	16.9
	> 10 years	26.3

Notes:
SPM/MCE: Sijil Pelajaran Malaysia/ Malaysia Certificate of Education
STPM/HSC: Sijil Tinggi Pelajaran Malaysia/ Higher School Certificate

Validity and reliability analyses for measurement scales

Table 3 respectively show the results of validity and reliability analyses for measurement scale. The original survey questionnaires consisted of 29 items, which related to five variables: transformational leadership (10 items), transactional leadership (5 items), procedural justice (3 items), distributive justice (4 items), and trust in the leaders (7 items). A factor analysis with the varimax rotation was first done for four variables with 40 items. After that, Kaiser-Mayer-Olkin Test (KMO), which is a measure of sampling adequacy, was conducted for each variable and the results indicated that it was acceptable. Relying on Hair et al. (1998) and Nunally and Bernstein's (1994) guidelines, these statistical analyses showed that (1) the value of factor analysis for all items that represent each research variable was 0.4 and more, an indication that the items met the acceptable standard of validity analysis, (2) all research

variables exceeded the acceptable standard of Kaiser-Meyer-Olkin's value of 0.6, were significant in Bartlett's test of sphericity, (3) all research variables had eigenvalues larger than 1, (4) the items for each research variable exceeded factor loadings of 0.50 (Hair et al., 1998), and (5) all research variables exceeded the acceptable standard of reliability analysis of 0.70 (Nunally, Bernstein, 1994). These statistical analyses confirmed that measurement scales used in this study have met the acceptable standard of validity and reliability analyses as shown in Table 3.

Table 3

The results of validity and reliability analysis for measurement scale

Measure	Item	Factor loadings	KMO	Bartlett's test of sphericity	Eigenvalue	Variance explained	Cronbach alpha
Transformational Leadership	10	0.48 to 0.84	0.93	1024.39, p=.000	6.925	69.26	0.950
Transactional Leadership	5	0.45 to 0.81	0.83	237.22, p=.000	3.109	62.18	0.844
Procedural Justice	3	0.52 to 0.69	0.67	160.87, p=.000	2.275	75.85	0.838
Distributive Justice	4	0.52 to 0.78	0.80	197.50, p=.000	2.752	68.81	0.848
Trust in Leaders	7	0.50 to 0.73	0.92	657.77, p=.000	5.045	72.08	0.935

Analysis of constructs

Table 4 shows the result of Pearson correlation analysis and descriptive statistics. The mean numbers for the variables are from 4.1 to 4.9, signifying that the levels of transformational leadership, transactional leadership, procedural justice, distributive justice and trust in the leaders ranging from high (4) to highest level (7). The correlation coefficients for the relationship between the independent variable (i.e., transformational leadership and transactional leadership) and the dependent variable (i.e., procedural justice, distributive justice and trust in the leaders) were less than 0.90, indicating the data were not affected by serious collinear problem (Hair et al., 1998). The measurement scales that had validity and reliability were used to test research hypotheses.

Table 4

Pearson correlation analysis and descriptive statistics

Variables	Mean	Standard deviation	Pearson correlation (r)				
			1	2	3	4	5
1. Transformational Leadership	4.7	1.48	(1)				
2. Transactional Leadership	4.9	1.26	0.76**	(1)			
3. Procedural Justice	4.6	1.55	0.78**	0.64**	(1)		
4. Distributive Justice	4.1	1.47	0.65**	0.61**	0.72**	(1)	
5. Trust in the Leaders	4.9	1.36	0.80**	0.71**	0.80**	0.69**	(1)

Note: Significant at **$p<0.01$ Reliability estimation are shown diagonally (value 1)

Outcomes of testing hypothesis

As described in Table 4, the results of Pearson correlation analysis showed four important findings: first, transformational leadership positively and significantly correlated with procedural justice (r=0.78, p<0.01), therefore H1 was supported. Second, transactional leadership positively and significantly correlated with distributive justice (r=0.61, p<0.01), therefore H2 was supported. Third, transformational leadership positively and significantly correlated with trust in the leaders (r=0.80, p<0.01), therefore H3 was supported. Finally, transactional leadership positively and significantly correlated with trust in the leaders (r=0.71, p<0.01), therefore H4 was supported. Statistically, this finding demonstrates that transformational leadership is an important predictor of procedural justice, transactional leadership is an important predictor of distributive justice, and both leadership styles are important predictors of trust in the leaders.

6. Discussion and implications

Findings of this study generally demonstrate that transformational leadership is an important predictor of procedure justice, but transactional leadership is an important predictor of distributive justice. Hence, both leadership styles are important predictors of trust in the leaders. In the context of this study, majority of employees perceived the transformational and transactional styles are actively implemented in job execution, perceived justice about the procedures of allocating outcomes is high, and perceived justice about the allocation of outcomes is high and perceived trust in the leaders is high. This situation shows that the ability of leaders to properly implement transformational and transactional styles may lead to increased positive individual outcomes, especially perceptions of justice and trust in the leaders in the studied organization.

The implications of this study can be divided into three major aspects: theoretical contribution, robustness of research methodology, and contribution to practitioners. In terms of theoretical contribution, this study reveals that the ability of leaders to properly implement transformational leadership can lead to increased followers' perceptions of procedural justice. These findings have supported studies by Tyler and Lind (1992), Korsgaard et al. (1995) and Pilliai et al. (1999). Conversely, the ability of leaders to properly implement transactional leadership can lead to increased followers' perceptions of distributive justice. These findings have supported studies by Hegtvedt and Markovsky (1995), Leventhal (1980), and Gefen et al. (2008). Further, the ability of leaders to properly implement transformational and transactional leadership styles can lead to higher followers' trust in the leaders. These

findings have supported studies by Pillai et al. (1999), Bradberry and Tatum (2002), Greenberg (2003), and Tatum et al. (2003b).

With respect to the robustness of the research methodology, the measurement scales used in this study had exceeded an acceptable standard of validity and reliability analyses. This situation could lead to the production of accurate and reliable findings.

Regarding practical contributions, the findings of this study can be used as a guideline to improve leadership behaviour in dynamic organizations. This objective may be achieved if organizations consider several plausible suggestions: firstly, choose the appropriate recruitment policy. For example, leaders need to review the performance of all employees and design better rewards to motivate and retain high performing employees. These employees may help to sustain and increase organizational competitiveness. Secondly, properly designing and administering management development program. For example, leaders need to design training content based on the up to date knowledge, relevant skills, and good moral values. In order to increase the effectiveness of training content, leaders to find trainers who can use different teaching and learning techniques in order to help trainees transfer what they learn in the workplace. Thirdly, promote participative decision making. For example, leaders need to use participation style whereby they hear intelligent and practical suggestions from experienced employees before making a final decision. This practice may help to design appropriate job specifications and improve the process of doing the various job categories in organizations. If these suggestions are heavily considered, this may improve quality of relationship between leaders and followers in order to achieve organizational strategy and goals.

7. Conclusions

This study confirms that transformational leadership is an important predictor of procedural justice and transactional leadership is an important predictor of distributive justice. While the ability of leaders to properly implement both leadership styles has been an important predictor of followers' trust in the leaders. These findings have supported all research hypotheses and broadened leadership research literature mostly published in Western countries. Therefore, current research and practice within the organizational leadership models needs to consider justice perceptions and trust in the leaders as critical dimensions of leadership behavior. This study further suggests that the ability of leaders to properly implement transformational and transactional styles in planning and administering jobs will strongly increase positive attitudinal and behavioral outcomes (e.g., satisfaction, commitment, performance and good

work ethics). Thus, these positive outcomes may lead to sustained and enhanced organizational competitiveness in a global economy.

The conclusion drawn from the results of this study should consider the following limitations. Firstly, this study used a cross-sectional design as a main procedure to collect data once during the duration of this study. Therefore, it did not capture the developmental issues such as intra-individual change and restrictions of making inference to participants and/or causal connections between variables of interest. Secondly, the translation of the survey instrument into the Malay language was one of the challenges encountered by the researchers during the study. Moreover, this study was based on self-reported data, taking only perspectives of employees. Further research is needed taking into consideration the perspectives of other employees within the organization to minimize the limitations of self-reported data. In addition, this study included only two outcome variables that could correlate significantly with each other. In this sense, focusing on alternative outcome variables such as performance, commitment and organizational citizenship might be an alternative way to shed light at the relationships between leadership behavior and individual outcomes. This research may be replicated in different organizational context and work environments. In other words, applying the research design to other professions and cross-company comparison is another recommendation for future research to generalize the applicability of the dimensions of the leadership behavior in the Malaysian context. Finally, a different approach, such as an in depth qualitative study, is advised especially when focusing on specific variables. The importance of these issues needs to be further discussed in future researches.

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