

PROFILING AUSTRALIAN SMALL BUSINESS LEADERSHIP

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Abstract

This study represents the first in-depth investigation of leadership in Australian small businesses (<100 employees) and was based on a nation-wide sample of 655 executives. The Multifactor Leadership Questionnaire (MLQ) (Bass & Avolio, 1997) was used to measure transformational, transactional, and laissez-faire leadership and the outcomes of extra effort and effectiveness. Significant differences among sub-groups were identified according to gender, experience, and level of seniority. This study is important for establishing new benchmarks for Australian small business leadership as perceived by executives themselves. Further research should examine the effects of leadership behaviours on strategic decision-making, change management, small business growth, and success.

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INTRODUCTION

A new enterprise begins with the founder's vision. However, for the business to prosper beyond the start-up phase, the founder-leader needs to communicate the vision for the business and develop followers with the capacity to implement that vision. According to George, Sleeth, and Siders (1999: 550), leaders play "a pivotal role in creating, articulating, sharing and inducing members to commit to [the] vision." Thus, "leadership is about articulating visions . . . and creating the environment within which things can be accomplished" (Richards & Engle, 1986: 206). There is general agreement that 'good' leadership is fundamental for effective organisational performance (Dunford, 1992). Further, there is an implicit understanding in the entrepreneurship literature that leadership is critical for small business performance, growth, and success. Nevertheless, there is a paucity of studies which examine leadership in small business. Although studies of leadership in an Australian context have been conducted (e.g., Sarros, Densten & Santora, 1999), the current study represents the first in-depth investigation of leadership in Australian small businesses that have fewer than 100 employees. The purpose of this paper is to examine the leadership profiles and two outcome variables, namely extra effort and effectiveness of an Australia-wide sample of small business executives.

LITERATURE REVIEW

Attempts to clarify small business leadership have focused on the characteristics of the founder-entrepreneur. For example, research has investigated the importance of the founder in the venture's creation and performance (e.g., Carland, Hoy & Carland, 1988; Greenberger & Sexton, 1988; Hisrich, 1986). The trait and cognitive approaches have been utilized in an attempt to differentiate between entrepreneurs and non-entrepreneurs or managers. For example, personality characteristics of entrepreneurs have been examined but numerous studies have failed to establish empirically the importance of an entrepreneur's personality in terms of small business success (Boshoff, Bennett & Owusu, 1992; Brockhaus & Horwitz, 1986; Gartner, 1988; Robinson, Stimpson, Huefner & Hunt, 1991). Further, personality traits are considered unreliable predictors of future behaviour (Ajzen, 1987, 1988; Gartner, 1989).

A foundation study by Kets De Vries (1977) drew on McClelland's (1975) theory concerning the entrepreneur's need for achievement, power, and affiliation to classify entrepreneurial leadership according to autocratic, directive, or democratic styles. This approach aimed to determine the behaviours that successful entrepreneurial leaders engage in rather than identifying the particular traits they possess. However, there is no universal set of entrepreneurial behaviours associated with leadership success (Hughes, Ginnett & Curphy, 1999). Further, such a descriptive classification of leadership styles fails to take into account the relationship between the leader and follower.

An alternative approach evident in the entrepreneurship literature has examined the leader's role in the enterprise growth process. This approach has drawn extensively on strategic management literature to examine processes including strategic analysis, planning, and decision-making (e.g., Kotey & Meredith, 1997; Lumpkin & Dess, 1996). Several studies have attempted to identify the growth aspirations of entrepreneurial leaders and the relationship to leaders' education, experience, industry, and achievement motivation (e.g., Davidsson, 1989; Kolvereid, 1992). Studies acknowledge that leadership is important for company turnaround in small and medium-sized firms (Harker & Sharma, 2000) and for change management and reengineering (McAdam, 2000). However, these studies fail to go beyond identifying leadership as important. A nation-wide study of 112 entrepreneurial companies in the U.S. conducted by Eggers, Leahy, and Churchill (1996) represents one of the few in-depth studies of the relationship among leadership, management, and culture in high performance entrepreneurial companies. The study examined leader task focus, relationship focus, personal impact, formal communication, and information processing and concluded that companies with higher levels of profit, sales, and return on investment had CEOs showing higher levels of both frequency and quality of leadership/management behaviours.

The importance of vision and its relationship to performance has been examined in the entrepreneurship literature (e.g., Baum, Locke & Kirkpatrick, 1998; Brush & Bird, 1996; Filion, 1991; Miner, 1996; Sexton and Bowman-Upton, 1991). Most recently, Baum et al. (1998) collected data from 183 small firms (mean number of employees = 25) in the U.S. architectural woodwork industry. The results suggested that there is a direct relationship between vision and venture growth which may be affected by the degree of direct control of the entrepreneur-CEO. In other words, in small organisations, the link between vision and growth may be more direct than in larger organisations because of fewer layers of authority, and “the relative ease with which the entrepreneur-CEO can directly execute strategies, monitor events, and control outcomes on a daily basis” (Baum et al., 1998: 52). Aspects such as ‘monitoring events’ are similar to the notion of environmental sensitivity, where the leader assesses existing organisational shortcomings, environmental constraints, and organisational members’ abilities and needs which Conger and Kanungo (1998) consider to be a dimension of charismatic leadership. Charismatic leaders inspire and build emotional attachment and commitment among followers and articulate an idealized vision for the future (Daft, 1999). Therefore, the study by Baum et al. (1998) suggests that there may be differences in leadership behaviours in small organisations compared to large organisations. Further, Lowe, Kroeck, and Sivasubramaniam (1996) suggest that the size of the organisation, gender, and level of seniority may be potential moderators of the relationship between leadership and effectiveness and should be investigated.

The leadership literature provides an additional source of knowledge concerning the critical behaviours that leaders use to ensure small business success. The entrepreneurship literature recognizes the importance of visionary and inspirational behaviour. However, although these leadership behaviours are central to charismatic or transformational leadership, they are only part of the process whereby leaders influence followers to transcend self-interest for the sake of the organisation (Yukl & Van Fleet, 1982). Further, a common assumption evident in the literature is that entrepreneurs engage in transformational behaviours in order to encourage behaviour beyond expectations from followers (Bass, 1985). Although intuitively attractive, this proposition has not been substantiated in the entrepreneurship research. Empirical studies of leadership behaviour in small business are sparse and therefore, the current study aims to redress this deficiency in the research literature.

Leadership

A key concept of leadership underlying this study is the transformational leadership theory first developed by Burns (1978) and later refined and operationalized by Bass (1985) as the Multifactor Leadership Questionnaire (MLQ). The instrument incorporates three types of leadership, namely transactional, transformational and non-leadership. Bass and Avolio (1994a) view transactional leadership as an exchange of rewards for compliance that occurs between leaders and followers. In this study, there are three dimensions of transactional leadership as measured by the MLQ (5X), namely contingent reward, management-by-exception (active), and management-by-exception (passive). Contingent reward clarifies what is expected for what reward, and is a specific goal setting behaviour; management by exception (active) focuses on mistakes and exceptions and taking appropriate corrective action; and management by exception (passive) refers to taking action after mistakes and errors occur. The non-leadership factor of laissez-faire refers to the avoidance or absence of leadership.

In comparison to transactional leadership, transformational leadership is a more positively affirming approach to leading people and organisations. Bass and Avolio (1994a: 3) described transformational leaders as able to “motivate others to do more than they originally intended and often more than they thought possible.” Missions and visions are articulated by leaders that increase followers' sense of self-esteem and their beliefs about the value of their contributions to the job. Transformational leaders link organisational goals to the needs and beliefs of workers thereby raising the consciousness of followers by appealing to their higher ideals and values (Bass, 1985).

There are five dimensions of transformational leadership measured by the MLQ (5X) used in this study: Idealized attributes (formerly attributed charisma) promotes follower trust in the leader; idealized behaviours (formerly idealized influence) encourages followers to share common vision and goals; inspirational motivation raises workers' expectations and beliefs about the mission and vision through appeals to the emotions; intellectual stimulation questions assumptions and encourages creative problem

solving; and individualized consideration addresses individual needs through coaching and mentoring behaviour. All leaders display some degree of each style of leadership but effective leaders use transformational leadership more frequently than transactional and laissez-faire leadership (Bass & Avolio, 1994a).

The MLQ includes three outcome variables, namely extra effort, effectiveness, and satisfaction. The current study examined two outcomes: Extra effort to investigate the capacity of transformational leadership to increase the effort expended by followers and thus achieve performance beyond expectation from followers, and effectiveness in terms of the leader contributing to organisational effectiveness and performance.

Lowe et al. (1996) in a meta-analysis of 39 studies examined the relationship between leadership behaviour and effectiveness using the MLQ. Overall, transformational leadership behaviours correlated more strongly and consistently with leadership effectiveness than transactional leadership behaviours. Contingent reward was correlated with leadership effectiveness in some studies, but passive management by exception did not enhance leadership effectiveness.

Many studies have been conducted of gender differences in leadership (e.g., Alimo-Metcalfe & Alban-Metcalfe, 2001; Bass, Avolio & Atwater, 1996; Eagly & Johnson, 1990). The study by Bass, Avolio, and Atwater (1996) concluded that women leaders were at least if not more transformational than men and were perceived as practising less management by exception (passive) and laissez-faire leadership than men. In one of the few studies to examine gender differences for small business leaders conducted in the U.S., women entrepreneurs had higher scores on task focus, while male and female entrepreneurs scored equally well on relationship-oriented skills (Leahy & Eggers, 1998). However, the research on gender-based differences in leadership is inconclusive and Yukl (1998) has warned that there are serious flaws in much of the research which make it difficult to interpret the results. For example, studies are prone to contamination from extraneous variables. The current study examined gender differences in leadership behaviour for the sample but also took into account other variables known to affect leader behaviour such as level of seniority, years as an executive, and years in current position.

Lowe et al. (1996) suggest that leadership behaviour is moderated by the level of leadership within the organisation. Based on studies of large organisations in military, industrial, and educational settings, Avolio and Bass (1988) suggest that transformational leadership is evident at all levels in organisations but is more likely at higher levels. The current study examined whether these findings are supported in small business.

The main objective of this paper is to explore the leadership profiles of Australian executives in companies with fewer than 100 employees in order to provide a foundation for future studies of the relationships among leadership, organisational growth, innovation, and business success.

METHOD

A stratified random sample of 5000 members was selected from the population of 21,461 members of the Australian Institute of Management. A number of mail-outs to the sample resulted in a final total sample of 1,918 useable responses (a 39% response rate) of which 655 were from respondents in firms with fewer than 100 employees.

Sample

There was a close similarity between the sample and the AIM membership when classified by state. In terms of type of organisation, over a quarter (28%) were involved in service industries, 16% in manufacturing, and 12 % in retailing/wholesaling. Only 6% were involved in information technology/communications and a further 3% in primary industry including farming and mining. Around three-quarters of the sample (78%) were males and 22% were females which was almost identical to the gender composition of the AIM membership. Over half of the respondents (58%) were aged under 49 years and around one-third of respondents (32%) were aged 50-59 years. In terms of highest level of education attained, 10% of the sample had attended high school only, while over a quarter (30%) had undertaken post-secondary technical

courses and a quarter (26%) had completed masters degrees. Around one-third of the sample (30%) were at the top level of the organisation (Chief Executive or Operating Officer), 23% were classified as upper level executives (Vice President, Director, Board Level Professional), and almost half of the sample (47%) were middle level executives (Department Executive, Superintendent, Plant Manager, Senior Professional Staff). While 20% of respondents had been in their current position for under 18 months, 21% had been in their current position for between 18 months and three years, 25% for between three and eight years, and one-third of respondents had been in their current position for more than eight years. Although 22% had been an executive for less than six years and 20% had been an executive for between six and 12 years, more than half the sample (57%) had been an executive for more than 12 years.

Instrumentation

The study used the Multifactor Leadership Questionnaire (MLQ) Form 5X first developed by Bass (1985) and subsequently modified (Bass & Avolio, 1993, 1994a, 1997) to measure transformational and transactional leadership behaviours. The forerunner of the MLQ (5X) is the MLQ (5R) which has been used extensively in international leadership research. Reliabilities for the MLQ (5X) established by Bass and Avolio (1997: 72) are as follows, with reliabilities (self-scored) for the same leadership factors established by this study shown in the accompanying sets of parentheses: Idealized attributes, 0.86 (0.67); idealized behaviours, 0.85 (0.68); inspirational motivation, 0.88 (0.78); individualized consideration, 0.86 (0.75); intellectual stimulation, 0.89 (0.74); contingent reward, 0.85 (0.61); management by exception (active), 0.76 (0.73); management by exception (passive), 0.85 (0.72); and laissez-faire, 0.81 (0.77).

Analysis of data

Quantitative data were analysed using SPSS 10.0. A Pearson correlation matrix was calculated to determine the strength of relationships among leadership factors, extra effort, and effectiveness. Analyses of variance and *t*-tests were conducted to assess the differences between and among group mean scores for leadership factors by background variables including gender, education, and level of seniority. A post-hoc Scheffé test was used to identify significant differences among sub-groups in each ANOVA equation.

RESULTS

As indicated in Table 1, Australian small business executives perceived their most frequently used leadership behaviour to be inspirational motivation (IM) followed by individualized consideration (IC), contingent reward (CR), intellectual stimulation (IS), and idealized behaviour (IB). Idealized attributes (IA) registered the lowest mean score for transformational leadership but was higher than the means for the transactional factors of management by exception (active), management by exception (passive) and laissez-faire. In other words, executives in the study considered that they used all transformational leadership behaviours as well as the transactional behaviours of contingent reward fairly often. The findings show that Australian executives in small business perceive themselves as more likely to use visionary (IM), coaching (IC), reward (CR), and role modelling (IB) leadership behaviours that challenge workers (IS) ahead of appeals to charismatic leadership approaches (IA). In contrast, the transactional leadership behaviours of management by exception (active) and management by exception (passive) are perceived as being used less frequently while laissez-faire is considered to be hardly used at all. In terms of outcomes, small business executives perceived their leadership behaviors encouraged others to expend extra effort and were effective 'fairly often'.

Table 1 indicates that all the transformational leadership factors were positively and moderately correlated. There was a significant positive relationship between contingent reward and all transformational factors and between management by exception (active) and transformational factors except inspirational motivation and individualized consideration. There were significant negative relationships for management by exception (passive) and laissez-faire with all transformational factors. There were significant positive correlations for all transformational leadership factors and contingent reward with extra effort and effectiveness, and significant negative correlations for management by exception (passive) and laissez-faire with extra effort and effectiveness.

Table 1 about here

Table 2 indicates significant differences in mean scores of respondents classified by gender with females recording significantly higher scores for idealized behaviour, inspirational motivation, individualized consideration, and contingent reward. There was a significant difference in mean scores for extra effort with females recording significantly higher scores than males.

Table 2 about here

There were no significant differences in mean scores for leadership behaviours for respondents classified by education, age, or years as an executive. However, respondents with more than eight years in their current position recorded significantly higher levels of management by exception (active and passive) compared with executives with three or fewer years in their current position.

Leadership Behaviours by Level of Seniority

Table 3 indicates that there were significant differences in mean scores for respondents classified by level of seniority. Top level executives recorded significantly higher scores on every transformational leadership factor apart from individualized consideration. There was no significant difference in the frequency of use of management by exception (active), management by exception (passive), and laissez-faire for top, upper, and middle level executives. Upper level executives recorded significantly higher scores on inspirational motivation and contingent reward compared with middle level respondents.

Insert Table 3 about here

DISCUSSION

The current study clarifies leadership in small business according to a comprehensive range of leadership behaviours. The findings indicate that overall, small business executives perceived themselves using all leadership behaviours as measured by the MLQ, with transformational leadership being used more frequently than transactional and laissez-faire leadership. These results are in contrast to previous entrepreneurship research which emphasized the importance of visionary behaviour but overlooked the role of other leadership behaviours (e.g., Baum et al., 1998; Filion, 1991). The results suggest that small business leaders perceive that they have the capacity to get the most from their people by “nurturing and promoting the skills and talents of individuals in pursuit of [organisational] goals” (Sarros et al., 1999: 63). While transactional leadership promotes stability, transformational leadership creates significant change in the organisation and its members (Bass, 1985; Daft, 1999). Therefore, transformational leadership behaviours are important for enhancing the ability to cope in a rapidly changing environment.

Inspirational motivation is the most frequently used transformational leadership behaviour in this study. This finding is understandable given that the use of vision is essential for gaining workforce support when there is a need to seize opportunities for growth and development (Conger, 1991; Sexton & Bowman-Upton, 1991). The lower mean scores for idealized attributes and idealized behaviours suggest that small business executives do not perceive themselves as strong role models or as being highly charismatic. The results are consistent with the findings in a previous study of leadership which concluded that Australian executives see themselves as pragmatic and egalitarian (Sarros et al., 1999).

There were significant positive correlations for all transformational leadership factors and contingent reward with extra effort and effectiveness, while there were significant negative correlations for management by

exception (passive) and laissez-faire with extra effort and effectiveness. The findings support the research literature that transformational leadership together with contingent reward has a stronger association with achieving effective outcomes and performance beyond expectation than other transactional leadership behaviours (Lowe et al., 1996). Further, the results are consistent with the study by Baum et al. (1998) which concluded that entrepreneurial vision significantly affects organisational performance.

Consistent with the findings of previous research (e.g., Bass & Avolio, 1994b), female executives in our study perceived themselves using transformational leadership behaviours and contingent reward significantly more frequently than males. Females perceived themselves as encouraging a significantly greater amount of extra effort from others than male respondents. However, although the results were significant, the small differences mean that knowing the gender of a leader is of little practical value in predicting individual behaviour. Consequently, the results should be interpreted with caution.

The findings that executives with more than eight years in their current position recorded significantly higher scores for management by exception (active and passive) than executives with three or fewer years in their current position is interesting given that management by exception (passive) does not enhance leadership effectiveness (Yukl, 1998). The results may reflect the pressures leaders are under in small business, and the lack of resources to handle situations which could lead them to postpone taking action until the status quo is broken. Parry (1996) suggests that high levels of transactional leadership indicate only basic leadership competency among leaders and may reflect a lack of formal leadership training. Consequently, to improve effectiveness, small business leaders need to be more proactive in order to anticipate outcomes and to take appropriate action.

The results suggest that transformational leadership is evident at all levels of small business examined in the study but that top level respondents were perceived to practise transformational leadership more frequently than respondents at upper or middle levels. The results support the research by Avolio and Bass (1988) but are contrary to the findings of the meta-analysis by Lowe et al. (1996) which found that mean scores for transformational leadership were higher for lower level leaders than higher level leaders. Therefore, top level executives should be encouraged to mentor others at lower levels in business in order to build more cohesive, forward-thinking companies.

The results have implications for training and development of leaders in small business. Given that management by exception (passive) depresses extra effort and reduces organisational effectiveness, leaders need to be aware that the use of transformational leadership behaviours could be more appropriate in terms of encouraging others to exert effort beyond the ordinary and for improving leadership effectiveness. Further, training in transformational leadership should be targeted towards executives at the top levels of organisations to enable a cascading effect (Bass, 1985) where transformational leadership can progressively filter down through the levels of the organisation.

Limitations

Our study was delimited to the membership base of the Australian Institute of Management and may not be fully representative of Australian executives in small business, particularly micro-business. Therefore, the findings should be viewed with some degree of caution in terms of their generalizability. The mean scores for all MLQ variables are generally higher for transformational leadership than those recorded by studies where leaders are rated by other organisation members. Several studies have demonstrated that self-ratings tend to be more inflated than either superior or subordinate ratings as self-raters tend to have a healthy sense of self-esteem (Bass & Avolio, 1997; Sosik & Megerian, 1999; Yammarino & Atwater, 1997). A further limitation of the study relates to the use of the MLQ. There has been considerable criticism of the MLQ content and construct validity (e.g., Conger & Kanungo, 1998; Yukl, 1998) and use of the instrument may be problematic. Therefore, conclusions relating to the relationships among leadership factors and effectiveness may be limited by the extent to which the MLQ accurately portrays leadership (Lowe et al., 1996).

CONCLUSION

The study provides a foundation for improving the understanding of leadership and outcomes such as extra effort and effectiveness in small business. The study suggests that Australian small business executives do not see themselves as highly charismatic but they seem confident in their capacity to inspire others and to take control when necessary in order to produce positive business outcomes. Significant differences among sub-groups were identified by the study according to gender, experience, and level of seniority which require investigation. Further research should examine the effects of leadership behaviours on strategic decision-making, change management, small business growth, and success. This study is important for establishing new benchmarks for Australian small business leadership as perceived by executives themselves and as measured by the MLQ.

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Table 1: Means, Standard Deviations, Reliabilities and Correlations for MLQ Factors (N=655)

MLQ Factors	Mean	SD	α^a	IA	IB	IM	IS	IC	CR	MBE (A)	MBE (P)	LF
IA	3.02	0.51	0.67									
IB	3.12	0.55	0.68	0.46**								
IM	3.29	0.52	0.78	0.45**	0.55**							
IS	3.17	0.49	0.74	0.31**	0.40**	0.42**						
IC	3.28	0.49	0.75	0.37**	0.37**	0.42**	0.50**					
CR	3.20	0.51	0.75	0.41**	0.43**	0.50**	0.39**	0.52**				
MBE (A)	1.80	0.79	0.73	0.13**	0.10**	0.33	0.08*	0.28	0.07			
MBE (P)	1.13	0.63	0.72	-0.02	-0.05	-0.12**	-0.15**	-0.13**	-0.13**	0.20**		
LF	0.57	0.52	0.77	-0.04	-0.06	-0.17**	-0.11**	-0.12**	-0.24**	0.14**	0.37**	
Extra Effort	3.03	0.57	0.70	0.48**	0.43**	0.55**	0.40**	0.45**	0.46**	0.14	-0.14**	-0.11**
Effectiveness	3.30	0.46	0.59	0.44**	0.35**	0.49**	0.34**	0.42**	0.44**	0.12	-0.18**	-0.28**

^a Cronbach alpha coefficient. * $p < .05$; ** $p < .01$; Original response categories for MLQ factors: 0 = Not at all; 1 = Once in a while; 2 = Sometimes; 3 = Fairly often; 4 = Frequently, if not always; IA: Idealized Attributes; IB: Idealized Behaviors; IM: Inspirational Motivation; IS: Intellectual Stimulation; IC: Individualized Consideration; CR: Contingent Reward; MBE (A): Management by Exception (Active); MBE (P): Management by Exception (Passive); LF: Laissez-faire.

Table 2: T-tests for Mean Scores of Respondents on MLQ Classified by Gender (N=648)

MLQ Factors	Males (n=505)	Females (n=143)	t
Idealized Attributes	3.00	3.08	-1.84
Idealized Behavior	3.09	3.22	-2.80**
Inspirational Motivation	3.25	3.43	-3.80***
Intellectual Stimulation	3.15	3.21	-1.22
Individualized Consideration	3.25	3.40	-3.22***
Contingent Reward	3.18	3.31	-2.85*
MBE Active	1.81	1.73	1.13
MBE Passive	1.16	1.04	1.89
Laissez-faire	0.57	0.56	0.29
Extra Effort	2.99	3.13	-2.50*
Effectiveness	3.29	3.36	-1.71

Original response categories for MLQ factors: 0 = Not at all; 1 = Once in a while; 2 = Sometimes; 3 = Fairly often; 4 = Frequently, if not always.

* $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$

Table 3: One-Way ANOVA for Mean Scores of Respondents on the MLQ Classified by Level of Seniority (N=655)

MLQ Factors	Organisational Level			F	Sig.Diff Groups
	1 (n=301)	2 (n=148)	3 (n=197)		
Idealized Attributes	3.08	3.04	2.91	6.87**	1-3
Idealized Behavior	3.21	3.09	3.01	8.24***	1-3
Inspirational Motivation	3.38	3.31	3.16	10.75***	1-3,2-3
Intellectual Stimulation	3.24	3.16	3.07	7.00***	1-3
Individualized Consideration	3.32	3.30	3.24	1.68	None
Contingent Reward	3.27	3.23	3.10	6.25**	1-3,2-3
MBE (Active)	1.74	1.83	1.87	1.11	None
MBE (Passive)	1.13	1.13	1.15	4.14	None
Laissez-faire	0.55	0.54	0.63	1.04	None
Extra Effort	3.10	3.04	2.90	7.03***	1-3
Effectiveness	3.33	3.36	3.25	3.03	None

Note: 1 = Top; 2 = Upper; 3 = Middle

Original response categories for MLQ factors: 0 = Not at all; 1 = Once in a while; 2 = Sometimes; 3 = Fairly often; 4 = Frequently, if not always.

* $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$