

# Impact of Narcissistic Leadership on Employees' Counterproductive Work Behavior under Mediating Role of Psychological Contract Breach and Moderating Role of Psychological Capital

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## Abstract

*This study investigates the effect of narcissistic leadership on employees' counterproductive work behavior under the lens of social exchange theory. The mediating role of psychological contract breach and moderating effect of psychological capital is also analyzed in said causal relationship. Using convenience sampling technique, data was collected from 302 middle tier employees working across banking sector of Pakistan. Data was analyzed through statistical techniques in SPSS. The results disclosed that narcissistic leader (NL) behavior significantly affects psychological contract breach (PCB) and counterproductive work behavior (CWB) of employees. PCB positively effects CWB and partially mediates between NL and CWB. Contrary to expectation the moderation role of psychological capital (PsyCap) between NL and CWB is not established. Thus, implications are provided for targeted sector and discussion is elaborated for similar sectors as well.*

**Keywords:** Narcissistic Leadership (NL), Psychological Capital (PsyCap), Psychological Contract Breach (PCB), Counterproductive work Behavior (CWB).

## Introduction

Human resources play a significant role in effective functioning of any organization (Mosadragh, 2003). Organizational goals cannot be achieved without highly competent, committed, and engaged staff and managers. Organizational success highly depends upon the leaders' behavior with their employees (Albion & Gagliardi, 2007). Leadership provides bond which actually enable employees to work together for organization success. Leadership is meant to influence followers in right direction (Slocum & Hellriegel, 1982). Leaders not only give direction but also support followers to achieve the desired outcomes. Conger and Kanungo (1994) raised an issue of ineffective leadership in organizations. Thus, the concept narcissist was defined by March and Olsen (1975) as "self-admiration or excessive love, which is actually psychological condition categorized by self-preoccupation, lack of empathy, and highly sensitive self-esteem". The American Psychiatric Association (APA) describes that Narcissistic Personality Disorder

uncover these symptoms like pervasive pattern of grandiosity, in fantasy, accompanied by admiration desire and lack of empathy for other across leaders (APA, 2000). Although the desires of personal satisfaction and fame sometimes motivates a narcissistic leader in the direction of positive, bold and transformative innovation (Maccoby, 2000, 2004), but even then, narcissistic leaders cannot be stopped to damage system. Narcissists are notoriously poor, over involved and abusive managers (Hogan & Curphy, 1994). Narcissistic leaders resist advisers' suggestions, take credit for successes, and blame others for their own failures and shortcomings (Hogan, Raskin, & Fazzini, 1990). Such acts by narcissist leader seems to effect psychological contract mechanism of employees. The psychological contract is an unwritten or informal agreement of employment which identifies shared duties and responsibilities. (Rodgers, 2007). The research findings show that behaviors of employees are directly influenced by leader's behavior. Psychological contract breach arises when employees feel that the organization is unable to meet their expectations (Robinson & Rousseau 1994; Robinson & Morrison 1995; Morrison & Robinson 1997). According to Equity Theory presented by John Stacey Adams (1965), when the efforts and hard work contributed by the employees does not bring the desired results, then employees think that equity is violated by the employer. Therefore, as per "Social Exchange Theory", if reciprocal returns are not given to employees, then they may breach the psychological contract and will not be willing to fulfill their responsibilities. It's evident from pervious researches that PCB leads towards negative behavioral reactions (Knights & Kennedy, 2005). Consequently, the employees exhibit deviant work behaviors mainly in the form of conuterproductive work behavior (CWB) to reverse the productive capacity of organization. Therefore, in this research study, psychological contract breach (PCB) is used as mediator to reveal the relationship mechanism between NL and CWB. Howeve, the positivity has great impact on employees as we witness the same in the form of ancient Greek philosophy i. e Pygmalion effect. Luthans (2002) draw our attention on such positive behaviors i.e. psychological capital is also one of the kind of positive behaviors that has positive impact on surrounding and it focuses on positive organizational behavior (Abbas & Raja, 2011). Numerous studies have focused and tested the relationship between employees' attitude and psychological capital (PsyCap). Psychological capital helps to reduce negative behaviors like workplace deviance and increases positive outcomes (Avey, Luthans, & Youssef, 2010). In terms of leadership style, narcissism is generally regarded as a destructive leadership trait (Godkin & Allcorn, 2011), and research studies identified destructive leader traits and its influence on employees' attitudes and job commitment (Schaubroeck et al., 2007; Griffin & O'Leary-Kelly, 2004). According to Chao, Cheung and Wu (2011), deviance at workplace was positively related with psychological contract breach and external attribution style and power distance acts as a moderator between the relationships. Hence, this study is one step ahead to address the theoretical gap by investigating casual effect between narcissistic leadership and counterproductive work behaviors (CWB) under mediating and moderating mechanism. The study intends to gain the objective of harmful effects of narcissistic leadership across service oriented sector of developing country, Pakistan. Such objective discloses the possible mediating role of psychological contract breach (PCB) and moderating role of psychological capital (PsyCap) in proposed causal relationship

### **Hypotheses Development**

In the following section, the relationships between various variables of the study have been discussed and hypotheses have been developed.

### **Narcissistic Leadership, Psychological Contract Breach and Counterproductive Work Behaviors**

"Narcissus" is the word derived from Greek methodology which means a young person fell in love with his own image. In (1898), Havelock Ellis defines narcissism as a medical situation of self-obsessed person. According to Freud (1931), narcissistic personality is specific personality types who are very strong in external composer, confident and arrogant. Later and Horney (1939) further explored that the personality traits displayed by narcissist are "self-inflation, self-admiration, and admiration expectations from others, on qualities that the narcissist does not actually possess". Narcissistic is a personality disorder declared by

American Psychiatric Association (APA). According to them, if a person is having inflated / superior view along with high admiration desire and very less empathy for others then person is suffering through this personality disorder (APA, 2000). Few basic traits of narcissism are defined by Campbell (2010) as a person who has high self-obsession, superiority complex, high power need and low self-esteem. Early leadership researchers focused that support, guidance and feedback is important for leaders' success and employees' performance (Yukl, 1998) but later in 1970s and 1980s, there was a shift in paradigm. They focused more on impact of leader on environment and organizational behavior rather than the employee's performance (Salancik & Pfeffer, 1977).

The best way to deal with narcissistic leader is the acceptance of the fact that their leader is an emotionally unstable person and it is almost impossible to change such kind of person so leave the organization or to be calm, obedient and never confront boss on face directly under his supervision (Humphreys et al., 2010; Rosenthal & Pittinsky, 2006; Raskin & Hall, 1979). Considering the portraying ability of narcissistic persons, they have tendency to grow as leaders within the organization and the harmful effects on organizational effectiveness. Organizations need to pay special attention in selection criteria for leaders, so to avoid narcissistic leadership on top levels and its damage to organization as well (Grijalva & Harms, 2014; Blair, Hoffman & Helland, 2008).

Counterproductive work behavior is described as "employee's voluntary behavior to violate significant organizational norms, which threatens the organizational well-being" (Bennett & Robinson, 2000). Counterproductive work behaviors include harassment, creating hurdles and conflicts, spread rumors and violation of organizations' code of conduct and policies deliberately. Consequently, narcissism also possess negative and toxic qualities. It is somewhat intuitive that narcissism will also be related and responsible for negative workplace behavior such as workplace deviance (Grijalva & Harms, 2014). Certainly, narcissist person has high tendency to act aggressively when their self-esteem is in danger (Bushman & Baumeister, 1998). Threatened Egotism and Aggression Theory given by Penney & Spector (2002) says if a person is not only high in self-esteem but also is "hypersensitive to threats" will go through to more negative emotions like frustration, fear, anger, aggression and these negative emotions will give rise to destructive outcomes. Consequently, they found that narcissistic person will experience more anger, which triggers them to commit more counterproductive work behaviors. Therefore, the theory of "threatened egotism and aggression" provides that there is positive relationship between narcissism and counterproductive behaviors.

Narcissism is a negative variable and creates many problems. It can also cause very serious harm to many of human recourse practices directly; as literature concluded that narcissism is one of the reason of many counterproductive behaviors depict by employee particularly bullying and aggression (Bushman & Baumeister, 1998). Workplace aggression can take many forms like substance use, emotional volatility and bullying at workplace which can bring lots of risk to organization. On the basis of above arguments, we hypothesize that

**H<sub>1</sub>:** Narcissistic leadership positively affects counterproductive work behaviors.

**H<sub>2</sub>:** Narcissistic leadership positively affects psychological contract breach.

### **Mediating Role of Psychological Contract Breach**

Psychological contract is explained by Rousseau (1989) as "the belief that a promise has been made and a consideration offered in exchange is required, binding the parties to some set of reciprocal same favor". While joining the organization, employee knows that he is signing the agreement in which he has to provide certain services to the organization and at the same time, he perceives that organization reciprocate the same in the form of salary, benefits and career growth opportunities. Robinson and Rousseau (1994) concluded that psychological contract breach can be experienced by both employer and employees. PCB was first introduced by Barnard (1938) and later the concept was provided in detail by March & Simon

(1958). According to them, it is an employer responsibility to provide certain inducements in exchange of services provided by employee. These are mutual perceptions created by oral, written and actions exhibited by both employee and organization.

Psychological contract is defined as “the mutual expectations held by employees and employer regarding the terms and conditions of the exchange relationship” (Kotter, 1973; Rousseau & Tijoriwala, 1998). Employee is motivated to seek equity in organization by giving services. According to Adams’ Equity theory (Adams, 1965) and social exchange theory given by Blau (1964), when employees perceive that fairness and justice is not maintained by the organization then employee becomes de-motivated. Moreover when organization fails to provide the reciprocal returns, employees may feel a breach of psychological contract and become reluctant to meet their own responsibilities (Robinson, 1995). Literature concluded that negative behaviors’ are the outcomes of PCB (Turnley & Feldman 1999, 2000; Knights & Kennedy 2005). Therefore, boss is the most influential factor in transforming and molding employee behaviors and beliefs (Trautman, 2004).

A counterproductive work behavior refers to workplace deviance which is purposely acted by the employees to violate organization discipline and to damage the well-being of its members (Sackett & Devore 2001). Counterproductive work behaviors are hot topic for researchers due to huge losses it cost to organizations. One of the analysis calculated that internet misuse by employees costs \$ 85 billion per year to one of American business (Latto, 2007). Likewise, another workplace violence costs them \$ 120 billion (Matchulat, 2007). Literature proves that there is a positive relationship between psychological contract breach and counterproductive work behaviors (Fox & Spector 1999; Marcus & Schuler 2004; Herscovis et al. 2007). As per equity theory, when psychological contract is breached, then employee perform negative behaviors to gain equity either by taking companies material at home or being absent from work. Lim (1996) found that job insecurity which is transactional psychological contract has positive relationship with deviance. Those employees who are not looking for long term relationship with organizations and reciprocal exchange exhibit more counterproductive behaviors (CWBs) (Luksyte, Spitzmueller & Maynard, 2011).

It is evident from findings that there is a significant relationship between PCB and the negative emotional experience such as anger and frustration (Robinson & Morrison 2000), which triggers negative behaviors like counterproductive work behaviors (Martinko, Gundlach, & Douglas, 2002). When employees suffer from breach feeling, they devote less effort so that urge to resist unfair situation could be satisfied (Carrell & Ditttrich, 1978). Jensen et al. (2010) explored that PCB is the triggering factor behind counterproductive work behavior (CWB), that is, breach in psychological contract initiates employee’s CWB.

**H<sub>3</sub>:** Psychological contract breach positively affects counterproductive work behaviors.

**H<sub>4</sub>:** PCB mediates the relationship between narcissistic leadership and counterproductive work behaviors.

### **Moderating effect of Psychological Capital**

Psychological capital is a latest developed construct that is used to emphasize positive organizational behavior (Abbas & Raja, 2011). Psychological capital is defined as “Individual’s positive psychological state of mind and it can be categorized in four parts i.e. self-efficacy, optimism, hope and resilience (Sridevi & Srinivasan, 2012).

Numerous studies have highlighted the significance of these positive organizational behaviors. These positive facets also help in preventing emergence of negative behaviors in organizations so industrial psychologists has been supporting significance of positive psychology of individuals. Moreover, psychologists believe that these positive individuals’ strengths, abilities and virtues can be nurtured. Individuals’ psychological needs can be satisfied through social and environmental factors. Employees feel empowered when they have self-efficacy and sense of competence which leads towards positive behaviors



like commitment, ownership and extra role performance (Shahnawaz and Jafri, 2009; Hurter, 2008; Avey et al, 2010).

These psychological resources and advancement can also play profound role in reduction of negative behaviors like counterproductive work behavior and turnover intentions. It is evident from previous studies that these turnover intentions and deviance at workplace bring huge cost and damage to organization (Luthans, et al., 2007). Luthans et al., (2008) recommended that PsyCap is a personality trait and can be changed with training and experience. This change in level of PsyCap among respondents over time was recorded and proven in one of the study conducted by Peterson (Luthans et al., 2011). Positive workplace outcomes are outcomes of PsyCap (Luthans, et al., 2008; William & Turnley, 2015).

In order to understand CWBs, it is essential to focus on its origin. According to Fox and Spector (1999), limitations at workplace is the main cause of CWBs. They also highlighted that employers who have incompetent staff and teams are more prone to CWBs due to disruption in work by less cooperative colleagues so they are more vulnerable to CWBs due to low PsyCap.

Norman et al., (2010) concluded that relationship of PsyCap and CWBs is moderated by organization identity in such a way that employees having high PsyCap are less engaged in workplace deviance as compare to employees who have low PsyCap. Similarly, a study by Zagenczyk et al., (2011) found that employees with high machiavellian exhibit low citizenship behavior because they are likely to look for transactional psychological contracts and as a result show high deviant behavior. Therefore, employees with low PsyCap perceived that the contract is transactional and they would engage in organizational deviant behavior more in contrary to employees with higher PsyCap as they tend to perceive that psychological contract is relational.

It is evident from literature that PsyCap is positively related with organizational citizenship behaviors (OCB). Employees with high PsyCap show more OCB and engage less in CWBs (Norman et. al., 2010). Psychological contract creates a continuing model of mental employment relationship, which exists on understanding of expectations among both employee and employer with guided actions by both parties (Rousseau, 2004). Psychological contract breach occurs when one party feels that other party is failing to fulfill its obligations and expectations (Morrison & Robinson, 1997; Robinson & Rousseau, 1994; Aselage & Eisenberger, 2003; Raja et al., 2004).

**H<sub>5</sub>:** PsyCap moderates the relationship between NL and CWB in such a way that relationship gets weaker when PsyCap is high.

### Theoretical Framework

On the basis of above discussion and hypotheses, theoretical framework of this study is developed which is given below.

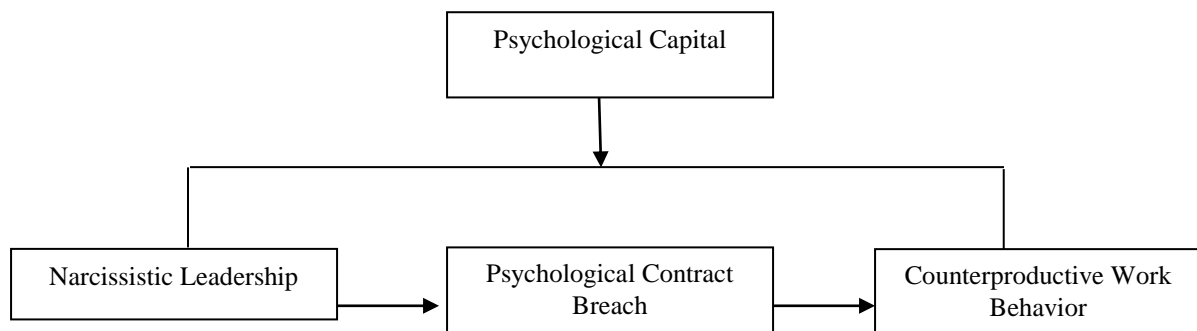


Figure 1. Theoretical Framework

## Methodology

This research study was quantitative in nature. The population of current study consisted of middle tier employees of private banks across major cities of Punjab, Pakistan. The data was collected in a cross-sectional manner through non-probability convenience sampling technique. Approximately 350 questionnaires were distributed among employees of private banks, out of which, 302 were completely filled. The questionnaires also included a section on demographic information. A cover letter was also attached at the beginning of the questionnaire which clearly explained the purpose of data collection. Furthermore, participants were assured that their personal information and responses would remain anonymous and confidential. This ensured impartial responses on the part of the respondents.

All four variables in present study were measured by using 05 Likert scale ranging from “Strongly Disagreed” = 1 to “Strongly Agree” = 5. Except CWBs which was measured on 05 point Likert scale ranging from 1 = “once” to 5= “everyday”.

Narcissistic leadership was measured using 06 item scale developed by Hochwarter and Thomas, (2012). One sample item is “My boss really likes to be the center of attention”. Robinson and Morrison (2000) 05 item scale was used for measurement of PCB. One sample item is “My employer has broken many of its promises to me even though I have upheld my side of the deal”. CWBs was measured using 10 item scale of Fox and Spector (1999). One of the sample item scales is “Employees purposely wasted company materials / supplies”. PsyCap was measured using Psychological Capital Questionnaire (PCQ – 12) scale of Luthans, Youssef and Avolio (2007b). One of the item scale is “I feel confident in representing my work area in meetings with management”.

## Results

### Descriptive Statistics

The sample size of this study was 302. There were 218 males and 84 female respondents. Eighty two percent respondents had done bachelors and master degrees. Moreover, 23.8% respondents were in salary bracket of (PRs. 15K – PRs. 30K), 34.8% in (PRs. 31K – PRs. 50K) and 41.4 % respondents were taking salaries above PRs. 50K.

### Control Variables

One way ANOVA test was performed to find out the control variable causing variation in dependent variable. The control variables identified for CWB are gender, experience, and age ( $P < 0.05$ ). The controlled variables for NL are gender and age ( $P < 0.05$ ). Salary is the only control variable for PCB and two variables salary and experience are identified for PsyCap ( $P < 0.05$ ).

### Correlation Analysis

The results of correlation analysis are presented in the table I. It has been found that the narcissistic leadership is significantly and positively correlated with dependent variable, i.e. counterproductive work behavior ( $r = .412^{**}$ ,  $p \leq 0.01$ ) which also provide initial support to the first hypothesis. The result also reveals that narcissistic leadership is also significantly and positively related to mediator psychological contract breach ( $r = .211^{**}$ ,  $p \leq 0.01$ ). Similarly, significantly positive relation was found between psychological contract breach and CWBs ( $r = .214^{**}$ ,  $p \leq 0.01$ ) which provide initial support to hypothesis 3. On the other hand, psychological capital is negatively related to psychological contract breach ( $-0.88$ ) and significantly and negatively related to CWB ( $-.155^{**}$   $p \leq 0.01$ ).

Table I: Correlation Analysis

	NL	PCB	CWB	PsyCap
NL	1 (.920)			
PCB	.211**	1 (.636)		
CWB	.412**	.214**	1 (.941)	
PsyCap	.180**	.088	-.151**	1 (.860)

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

Parentheses in the table indicate Cronbach Alpha Values.

NL- Narcissistic Leadership, PCB- Psychological Contract Breach, CWB- Counterproductive Work Behavior, PsyCap- Psychological Capital

### Regression Analysis

This study was comprised on moderated model. The results are presented in table II. The beta value of interactive term and moderating variable carries  $\beta = .009$  (ns) and  $R^2 = .242$ . Thus, hypothesis 5 i.e. "PsyCap moderates the relationship between NL and CWB in such a way that relationship gets weaker when PsyCap is high" So, it is concluded that PsyCap is not moderating the relationship between narcissistic leadership and CWB as beta value of interaction term is insignificant.

Table II: Moderated Regression Analysis

Predictors	CWB		
	$\beta$	$R^2$	$\Delta R^2$
<b>Step 1</b>			
Control variables		0.029	0.029
<b>Step 2</b>			
Narcissistic Leadership	.456***		
Psychological Capital	-.473***	0.242	.
<b>Step 3</b>			
Narcissistic Leadership *	.009(ns)	0.251	0.009(ns)
Psychological Capital			

\* $p < .05$ ; \*\* $p < .01$ ; \*\*\* $p < .001$ ; ns = not significant

### Mediated Regression Analysis

In order to check the mediating effect, present study opted mediation analysis presented by Barron and Kenny in 1986. The analysis with requisite conditions is mentioned as under:

Table III: Mediation Analysis

Predictors	PCB			CWBs		
	$\beta$	$R^2$	$\Delta R^2$	$\beta$	$R^2$	$\Delta R^2$
<b>Main Effect:</b>						
NL						
<b>Step I:</b>						
<b>Control</b>						
		0.042			0.029	
<b>Variables</b>						
<b>Step II:</b>						
NL	.132***	0.045	0.003***	.411***	0.182	.152***
<b>Step II:</b>						
PCB				.324***	0.069	0.039***
<b>Step III:</b>						
NL				0.387***	0.200	0.171***

Results of regression analysis showed that the narcissistic leadership has a significant effect on counter productive work behavior ( $\beta = .411$ ,  $p < .001$ ). Thus  $H_1$  is accepted. Narcissistic leadership significantly affects psychological contract breach ( $\beta = .132$ ,  $p < .001$ ), leading to acceptance of  $H_2$ . The hypothesis  $H_3$  is also accepted as results shows that psychological contract breach significantly impacts counter productive work behavior ( $\beta = .324$ ,  $p < .005$ ). Partial mediation occurs as mediating role of PCB between NL and CWB is reflected as beta value dropped from .411 to .387 with  $p < .001$ . Hence indirect effect is .024 and actual percentage change of .171, thus leading to acceptance of  $H_4$ .

## Discussion

Narcissistic leadership style and its impact on employees' job behaviors was the focus of this study. Psychological contract breach has been studied as mediator and PsyCap was used as moderator. According to Cumming, Hayduk and Estabrooks (2005), leaders who do not focus on outcomes and not concerned about employees' feelings fail to bring out employees best performance and efforts. So, bad leaders like narcissistic leaders damage the organizations. So, this study suggested that narcissistic leader's growth should be prevented to avoid harm to organization and deviance should be viewed as a serious threat.

The hypotheses  $H_1$   $H_2$ ,  $H_3$   $H_4$  were fully supported while  $H_5$  was not supported. As per the findings of the survey, our first hypothesis i.e. narcissistic leadership has positive impact on CWB is fully supported by previous literature i.e. narcissism is positively related to deviant counterproductive behaviors (Penny & Spector, 2002). According to Morf and Rhodewalt (2001), narcissistic leaders will be involving more in those behaviors that ultimately harm organization and employees. Blickel et al., (2006) concluded that narcissism can be serious and very dominating factor to give rise CWBs.

Narcissistic Leadership increases the PsyCap breach. Few studies have proven that PCB give rise to negative attitudes and behaviors (Turnley and Feldman 1999; Knights and Kennedy 2005). So role of leaders is crucial in transforming and shaping beliefs and attitudes of the employees (Trautman, 2004).

As per Adams Equity Theory, employees want to maintain equity between the inputs and outputs given by employer. When the exchange is not as per employees' expectations then they balance the equity by reducing efforts or engaging in deviant behaviors (Adams, 1964; Carrell & Ditttrich, 1978).



Previous studies by Marcus and Schuler (2004) and Hershcovis et al. (2007) indicate that PCB and CWB are significantly correlated when employees perceive that they do not obtain the reciprocal return from the organization. They indulge in more counterproductive work behaviors in order to restore the reciprocity. Narcissus person / leader also possess toxic qualities. It is somewhat intuitive that narcissism will also be related and responsible for negative workplace behavior such as CWB, workplace deviance etc. (Grijalva and Harms 2014).

Earlier studies show significant relationship between PCB and the negative emotional experience, such as anger and frustration (Robinson & Morrison 2000), which triggers negative behaviors like counterproductive work behaviors (Martinko, Gundlach, & Douglas, 2002). When employees are suffering through breach feeling, they devote less effort, so that urge to resistance for unfair situation could be satisfied (Carrell & Ditrach, 1978). This study provides evidence that middle tier employees working in private sector banks experienced narcissistic leadership due to more diverse working mechanism across this service sector. The leaders faced lots of work pressure and revenue attainment targets which stimulated them to pass such aspects to employees in a narcissistic manner. Resultantly the leader acts in negative ways which leads to craft CWB across employees under PCB mediation. Due to consistent PCB the PC of employees falls and does not act as moderator under such circumstances.

### **Managerial Implications**

The results of study shows that narcissistic leadership has negative impact on employees' behavior. If the leaders exhibit destructive actions then employees do depict negative behaviors in the form of deviance, which not only harm employees but also damages organizations prestige. The study was carried out in banking sector, which is one of the most challenging and demanding profession now a days. Like every service industry, banking also depends upon the way customers are treated. If employees are not satisfied then how they can provide quality service to customers. In service industry "word of mouth" plays very important role. If any employees are not pleased then it damages organizational goodwill in long run and business also. Therefore, the role of leader and the working environment created by leader are of high significance.

Based on findings of the study, few recommendations are offered for managers and leaders. Firstly, narcissist leaders are responsible for deviant behaviors in employees so banking sector should have strong succession planning in order to avoid the growth of narcissistic person to top level management which helps in minimizing deviance in employees. Secondly, narcissistic leaders are also responsible for breach of psychological contract between employee and employer therefore leader selection and environment created by leader must carefully be monitored. Finally, organizations must have good management and leadership development programs to avoid and minimize narcissism in leaders and deviance in employees.

### **Limitations and Future Research Directions**

In this research, only followers' approach was studied and what they feel of their leader. Future study may be conducted on leader's point of view and reactions. The psychological contract breach can be experience by both employee and employer so breach from employer's point view can be studied in future to understand the organizations in a better way. Future researchers can use larger sample size for better results. Culture variables like power distance can be used as moderator to analyze the role culture plays in transforming leaders and employees' behaviors.

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