p- ISSN: 2708-2474 e-ISSN: 2708-2482 L-ISSN: 2708-2474

Vol. VI, No. I (Winter 2021) Pages: 1 – 11



Cite Us



Touqeer Ahmed*

Aftab Haider[†]

Bushra Alvi‡



Impact of Transformational and Transactional Leadership styles on Employee Performance with Mediating Effect of Affective Commitment: A Study of Banking Sector of Pakistan

The research was escorted to probe the correlation between leadership styles on employee production through the mediation of Affective commitment in the National Bank of Pakistan. Simple random sampling was used to carry out the research using structured questionnaires, which were adopted from other researcher's studies. The questionnaires were based on a five-point Likert scale measuring all variables.144 questionnaires were distributed among middle-level employees of the National Bank of Pakistan, out of which all 144 were useable. This data was analyzed using SPSS. The descriptive statistics indicated a productive association between transformational & employee performance and show significant effect with that the other variable Transactional leadership shows significant positive impact on employee performance, whereas Affective commitment did mediate the relationship between independent variables & dependent variables.

Key Words: National Bank of Pakistan, Transactional Leadership, Transformational Leadership, Affective Commitment, Employee Performance

Introduction

Nowadays, the competitive environment between the organizations & their affairs around the world is increasing and fighting with many of provocation to meet organization tasks and putting hard work to be more effective from competitors. Leaders are playing an important part to achieve organizational goal and enhance employee's efficiency by motivating them in their workplace (Thompson 2011). According to Awosusi and Fasanmi (2014), considered as the important asset of the company or backbone of the organization. In this cutthroat era, it is very much important for enterprises to bring a change and keep pace with the development in order to maintain their position in the economy (Dhaifallah, 2013). Therefore it is necessary for the organization to take care of their employees because the more motivated employee is happier and satisfied with their job, results which in higher organizational commitment. A happy employee works with the organization with hard work. They show a loyal and positive attitude towards the organization and work for the organization interest, whereas unhappy and demotivated employees will not work for the organization interest (Aamodt, 2012). Employees quit their jobs, higher absentees, and fewer outcomes which cause the organization failure or low profit. in order to have motivated, loyal and satisfied customer, the organization must have motivated, satisfied and loyal employee as well.

According to <u>Jamaludin (2011)</u>, effective leaders utilize their leadership capacity for improvement of the subordination and organization. Leaders are considered an

^{*}MS Scholar, Department of Management Studies, Bahria University, Islamabad, Pakistan.

[†]Senior Assistant Professor, Department of Business Studies, Bahria University, Islamabad, Pakistan.

[‡]HR Officer, Head Office, Bahria University, Islamabad, Pakistan. Email: aftabhaider@bahria.edu.pk

important key element in maximizing the results and upheaval (Lievens et al., 2013). Raelin (2011) stated leadership is sprightly fastened to the application to which individuals are committed. Considerable of leaders is a dominant nature that has a significant connection with the individual work performance (Lian et al., 2011). Helpful leaders are always a part of an organization, where it can confirm to be an asset when a positive kind of planned arrangement is necessary. Certain leadership style helps to improve organization and employee performance. According to Naveed et al. (2011), there is a direct relationship between leadership style and employee job efficiency. The basic element affecting the performance of an organization is leadership and employee performance (Naveed et al., 2018). According to Oluseyi & Hammed (2009), Effective leadership helps to develop teamwork and the combination of individual and group goals. Success and failure of the organization are mainly dependent on the leaders; the more proactive leader, the more successful is organization.

Elements that contribute to job contentment and employee performance among employees like achievements, acknowledgement, communication, working styles, co-workers, job security, and team environment like freedom of speech etc. These elements contribute to enhance employee performance toward organization objectives (Rad & Yarmohammadian, 2006). The leader has a great influence on the employee attitude and employee motivation towards organizational goals. Leadership is very important to enhance productivity and to achieve organizational goal. Another study on leadership says that the leaders do not achieve organizational goal themselves. The leaders influence the organization results through subordinate and their follower's (Lord & Brown, 2004). In the banking industry, branch employees are considered to be the largest group of service providers. Due to the high level of competition in Pakistan, the demand for banking staff is increasing; competitor banks hire employees from different banks to acquire higher shares in the banking market (Damar, 2007). A major challenge for the banking organization is to retain talented employees in the organization while the number of employees is declining. According to Dorfmann & Zapf, 2001, more satisfied employee show more loyalty to the organization and work hard to achieve the organization intent. Good leadership builds good relationships with their subordinates and strengthens their self-confidence, and makes them feel important in the organization, which leads to increased employee loyalty towards the organization (Paracha et al., 2012). Key factors contributing to organizational outcomes are the leadership style involved and the commitment to employee engagement (Fatima et al., 2018). Therefore, it is important for the organization to have effective and attractive leadership for creating a vision, articulating the vision to the employees and coordinating and motivating the employees.

Literature Review

Leadership is the most continued research-based area from all around the world (Kuchler, 2008). The success of any organization leadership plays a vital role, whereas organization are adopting an appropriate leadership style in the organization for smooth working towards the organization success. Leaders influence the followers through different ways like motivation, rewards, bonus, decision making power, considering them in the important matters of organization, work appreciation and many others. Leaders are playing a very important role in the betterment of the organization (Lok & Crawford (2014). Leadership helps to identify the inner ability of the employees, motivate, encourage employees in order to achieve goals (Gill 2006). According to Kim (2012), leadership is an action and quality of the individual to impress other individuals of a group of individuals by their leadership style, strong vision towards achieving organizational tasks. The leader has a great influence on employees performing their tasks and duties, and the styles the leader uses have a remarkable impact on team member's morale (Cummings & Schwab, 2010). According to Mosadeghard (2003), he had pointed out that transactional leadership & transformational leadership have a positive effect on employee performance (Avolio et al., 2004). The leadership styles transformational and transactional in under observation in this research.

Transformational leadership

The abstraction of transformational transactional leadership is first initiated by burns (1978) in his exploration of political leadership. An appropriate leadership style is important for organizational interest (Parry & Thomson, 2010). Transformational leadership is that which create positive change in the follower. Transformational leaders transforming individual to help other individual to look out for each other they change the way of thinking of their employees, pay attention towards the organization, see the organization long term benefits, work for the interest of the organization and employee. According to Popper (2001), transformational leadership is considered for innovative change in organizations competition. Transformational leadership can flat the progress of change by enhancing the value of employees, subordinates and encourage the follower to achieve the vision and mission of the organization. Transformational leader values their subordinate to motivate them toward the accomplishment of the organization goal. They provide the direction, guideline, confidence, innovative thinking to line up their merit with the merit of the operation (Givens 2008). According to Bas (2002), there are four following facts of transformational leadership; Idealized Influence (II), Inspirational Motivation (IM), Intellectual Stimulation (IS), Individual Consideration (IC).

Idealized Influence (II)

is defined as having a transformational leadership style that behave and act in ways that result in their being ideal for their followers. These leaders are respected, admired and trusted. Idealized influence is the proportion which makes others feel comfortable, making

other prominent to engage with the leader (Bass (1990).

Inspirational Motivation (IM)

According to <u>Bass</u> (1990), this proportion is distinguishing by how effectively the leader liaises with a follower. Inspirational motivation is the dimension to which a leader describes the vision that inspires and motivate subordinate to perform more than expectations. A leader motivates their follower to have a strong sense of purpose, so they provide purpose and meaning to handle their group ahead.

Intellectual Stimulation (IS)

This dimension is distinguishing by the leader's capacity to able followers to adopt an innovative way for work and decision-maker in self-problem solving. A transformational leader has the quality to enhance the motivation of the follower through new ideas, adopt a creative method to solve the problem (Bass and Riggio, 2006).

Individual Consideration (IC)

Bass (1990) stated that how well the leader motivates the follower to develop themselves, how much and what kind of feedback leader show to his followers and what time leader takes to escort worker in the group.

According to Almonte and Ponce (2006), there is a superiority of the transactional leadership style above the transformational leadership style and laissez-faire Transactional leadership gain importance in the past few decades along with transformational leadership style, transformational leadership and transactional leadership. Both leadership styles are linked with organizational performance. The transactional leadership style manages the subordinates through a rewards and punishment system (Robbins 2005). It is the prime responsibility of the leader to focus on the goals of the organization by describing the role, responsibility and task requirements (Dubrin, 2014).

According to Sadeghi and Pihie (2016), there is an exchange between leaders and follower in the transactional leadership that lead the organization towards positive outcomes. The transactional leadership style appreciates positive outcomes and gives reward to followers, whereas they give punishment for negative outcomes. According to Avolio (2006), there is four transactional leadership style approaches, Contingent Reward, Management by Exception-Active, Management by Exception-Passive, Laissez-Faire. In these, all approaches leader defines goals, role, and responsibility to the subordinates and observe their performance and awarded rewards and punishment on the basis of positive and negative outcomes. Kinicki and Kreitner (2007) stated that employee efficiency is individual power to complete organization goal on time or before time. Transactional leadership style earns employees high commitment and employee loyalty towards organization when employees perform their task on time achieve given task and get rewarded through the different way which results in high motivation towards task-related work and high loyalty towards an organization that leads the organization towards high profitability in the competitive environment.

According to Warden (2011), "people are machines", this statement describes that people are entirely dependent on the leader. Landa (2008) stated that transformational leader has strong emotional brainpower and they appear as a leader throughout group gluiness; leadership enhances the significance, level of motivation, and morals of their subordinate (Bass, 1999). According to Fairholm (2011), transformational leadership style centre on the important side of the organization interaction, like vision, mission, decisions. culture. values. teamwork development, and services. Transformational leadership was linked with high-performance task, high mutual support, and high outcomes belief, lower damaging effect, and lower assessment. ultimatum Transformational leadership proved to be more useful for many organization successes like military, hospitals,

teaching industry, transportation industry, and banking sectors.

Transactional Leadership

Transaction means change so; transactional leadership mean exchange between employee and the leaders. According to Kuhnert & Lewis (2013), transactional leadership is interchange between leaders and his followers to gain desired outcomes where follower fulfil leader interest and leaders fulfill followers expectations which involve promises, follower leaders commitments based on respect and trust. According to Bass (2008) affective leaders identify the needs and interest of the followers and accommodate the needs and interest of their followers through giving them contingent rewards, appreciations, honor and promises for those who complete their task and commitment of the leaders or the organization. Transactional leadership style manages the subordinates through rewards and punishment system (Robbins 2005). It is prime responsibility of the leader to focus on goals of the organization with describing the role, responsibility and task requirements (Dubrin, 2014).

According to Sadeghi and Pihie (2016) there is exchange between leaders and follower in the transactional leadership that lead organization towards positive outcomes. According to avolio (2006) transactional leadership style has four further approaches, Contingent Management by Exception-Active, Management by Exception-Passive, Laissez-Faire. In these all approaches leader defines goals, role, and responsibility to the subordinates and observe their performance and awarded rewards and punishment on the basis of positive and negative outcomes. Bums, (1978) stated that the main thing of exchange is only compensations, employee follow instruction, leader rewarded employees it may be positive or negative. Mutera (2012) revealed in his study both transactional leadership style and transformational leaderships style had positive impact on employee performance. Paracha et al., (2012) conduct a research on some private school they

founded that transactional leadership style and transformational leadership style both relate with employee performance and they founded that transactional leadership style had more positive impact on employee performance then transactional leadership style.

Employee Performance

Over the past few decade's organizations are continuously working on team building so that their efficiency process could be increased. Hartnell & Walumbwa (2011) argued that there is a positive association between employee production and leadership styles; furthermore, he uses the word performance to explain it as a key determinant for attaining the organizational objectives and can be used as a determinant to measure how effectively and efficiently an employee is working. Harris & Ogbonna (2017) stated that more attention and importance should be given to computing the relationship between leadership styles and employee performance. According to Gadot (2006), organizations are mainly concerned with the improvement of employees, and they consider this as the main target to be followed up in organizations. Howell, Merenda (2007) Goodwin, (2009) explained that many researchers have explained research that to achieve organizational goals, objectives and to work on increasing employee performance, transformational leadership plays a significant role in increasing job satisfaction. According to Myron (2015), those employees working in an autocratic environment where the leaders have all the authority to make a decision in this situation, employee feel inferior in doing jobs and in making the decision to perform their own tasks, but in transformational leadership, employees have some permissive powers to take decisions due to which their performance enhanced and employee feel more motivated and engaged with the work-related task. Paracha et al. (2012) stated that both leadership style, transformational leadership and transactional leadership style both linked with employee performance and have a positive impact on employee performance. Harris & Ogbonna (2017) stated that more consideration and importance should be given to measure the leadership styles and employee performance. Avolio & Zhu (2008) stated that transactional leadership has a great effect on the follower's abilities and can impact their behaviors in increasing the satisfaction and performance their employees. of transformational leadership, employees have some permissive powers to take decisions due to which their performance enhanced employee feel more motivated and engaged with the work-related task. Paracha et al. (2012) stated that both leadership style transformational leadership and transactional leadership style both linked with employee performance and a positive impact employee on performance.

Affective Commitment

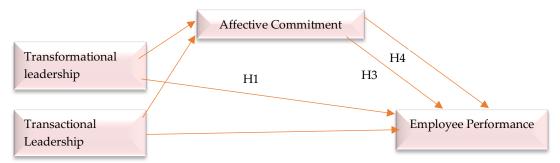
In the current time of change, employees are considered as the most important key factor and the most important assets of the organization. According to Millar et al. (2017) motivated employees are important for the organization and separates the successful business from others. According to Walumbwa & Lawler (2012) employees' performance and employees' commitment towards their organization is very important for survival in today's competitive world. Organizational commitment can be described psychological attachment to the organization where employees show readiness for doing a job, a situation in which employees feel motivated and satisfied to perform job and situation where the turnover rate, absentees' rate is very low in an organization. Organizational commitment can be defined as employee emotional attachment his involvement in the organization. Organization commitments predict different work variable like job performance, citizenship behavior, and turnover and organizational commitment generally have 3 dimensions i-e affective commitment, continuous commitment and normative commitment. Where effective commitment is related to having affection for the job, Continuous commitment is related to having a fear of loss, and normative commitment is related to a commitment to stay in the organization. Affectively committed employees are motivated and satisfied with the organization and having a positive feeling of fellowship and recognition that enhance their engagement in the organization affairs, their motivation to complete the organizational goal, and wish to remain the part of an organization (Meyer & Allen 2002). According to Nyengane (2018) said the quality of leadership they have in their organization show employee commitment. Therefore, it can be logically assumed that leadership has a positive

relationship with the development of employee affective commitment.

Research Hypothesis

- H1: Transformational leadership has a positive impact on Employee Performance.
- **H2:** Transactional leadership has a positive impact on Employee Performance.
- H3: Relationship between Transformational leadership and Employee Performance mediates by Affective commitment.
- **H4:** Affective commitment mediates the relationship between Transactional leadership and Employee Performance.

Theoretical Framework



Research Methodologies

Measures

Transformational leadership is measured by using a scale (Fatima et al., 2016) which consists of 8 items. Transactional leadership is measured by using a scale (Millar et al.,2017) which consists of 8 items. To measure the affective commitment scale of (Allen and Mayer, 1990) is used, which consist of 7 items, and the employee performance is measured using a scale developed by (Baritur, 2017) which consist of 7 items. Questionnaires consist of a total of 30 items.

Sampling

A subset of the population that represents the overall population is considered a sample size. The sample size for this study is selected according to the table of Krejcie and Morgan (1970) to get more accuracy as the population of this study is 230; as per the table of Krejcie and Morgan (1970), it falls under the slab of 144 sample size.

Research Results

Descriptive Statistics

	Mean	Skewness	Kurtosis
TTL	4.22	-1.97	1.204
TTR	4.06	-0.44	0.180
TEP	4.11	-0.860	1.734
TAC	4.01	-0.19	-0.184

Table 2. Reliability and Validity Analysis

Variables	Cronbach's Alpha
Transformational Leadership	0.736
Transactional Leadership	0.876
Affective Commitment	0.729
Employee Performance	0.874

Table 3. Descriptive Statistics

	Range	Min	Max	Mean	Std. Deviation
TTL	4	1.33	5	4.22	.592
TTR	3.11	3	4.11	4.06	.484
TEP	3.43	2	4.34	4.11	.481
TAC	2.25	1.49	4.00	4.01	.468

Table 4. Correlations

		TTL	TTR	TEP	TAC
TTL	Pearson Correlation	1	.603**	.618**	.440**
			.000	.000	.000
		144	144	144	144
TTR	Pearson Correlation	.603**	1	.541**	.463**
		.000		.000	.000
		144	144	144	144
TEP	Pearson Correlation	.618**	.541**	1	.511**
		.000	.000		.000
		144	144	144	144
TAC	Pearson Correlation	.440**	.463**	.511**	1
		.000	.000	.000	
		144	144	144	144

Table 5. Regression

Model	R	R Squ	Adj R Squ
1	.618a	.382	.378

Table 6

Model		Mean Square	F	Sig.
1	Regression	12.628	87.905	$.000^{b}$
		.144		
	Total			

Table 7

	Standardized Coefficients Beta	T	Sig.
		8.743	.000
TTL	.618	9.376	.000

Table 8

R	R Square
.541ª	.293

Table 9

Model		Sum of Squares	F	Sig.
1	Regression	9.679	58.866	.000b
	Total	33.026		

Table 10

	Standardized Coefficients Beta	T	Sig.
1		6.736	.000
TTR	.541	7.672	.000

Table 11

R	R Square	Adjusted R Square
.440a	.194	.188

Table 12

Model		Mean Square	F	Sig.
1	Regression	6.070	34.099	.000b
		.178		
	Total			

Table 13

	Standardized Coefficients	т	C: a
Model	Beta	1	Sig.
1		10.021	.000
TTL	.440	5.839	.000

Table 14

Model	R	R Squ	Adj R Squ
1	.463a	.215	.209

Table 14

Model		Mean Square	F	Sig.
1	Regression	6.728	38.811	.000ь
		.173		
	Total			

Table 15

Model	Standardized Coefficients Beta	Т	Sig.
1,104.61	2000	7.455	.000
TTR	.463	6.230	.000

Table 16

R	R Square	Adjusted R Square
.511ª	.261	.256

Table 17

Model		Mean Square	F	Sig.
1	Regression	8.618	50.134	.000b

Total

Table 18

		Standardized C	Standardized Coefficients				
Model		Beta	T	Sig.			
1			6.712	.000			
	TAC	.511	7.081	.000			

Mediation Through Process Macro by Preacher and Hayes Outcome Variable

TEP

Model

R	R-sq	MSE	F	df1	df2	p
.6731	.4530	.1281	58.3902	2.0000	141.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	1.2203	.2813	4.3383	.0000	.6642	1.7764
TTL	.3959	.0563	7.0369	.0000	.2847	.5071
TAC	.3039	.0712	4.2681	.0000	.1631	.4446

Direct Effect of X on Y

Effect	se	t	p	LLCI	ULCI
.3959	.0563	7.0369	.0000	.2847	.5071

Indirect Effect(s) of X on Y

	Effect	BootSE	BootLLCI	BootULCI
TAC	.1057	.0324	.0501	.1782

Utcome Variable

TEP

R	R-sq	MSE	F	df1	df2	p
.6157	.3791	.1454	43.0523	2.0000	141.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	1.1836	.3176	3.7266	.0003	.5557	1.8115
TTR	.3850	.0743	5.1813	.0000	.2381	.5319
TAC	.3398	.0769	4.4214	.0000	.1879	.4918

Direct Effect

Effect	se	t	t	LLCI	ULCI
.3850	.0743	5.1813	.0000	.2381	.5319

Indirect Effect

	Effect	BootSE	BootLLCI	BootULCI
TAC	.1522	.0428	.0775	.2460

Conclusion

As per the results of the analysis in the study, it is analyzed that transformational leadership style has a positive impact on employee performance, transformational leadership style has favorable effect people achievement, commitment partially mediates the relationship between transformational leadership employee performance, and lastly, affective commitment partially mediates the relationship between transactional leadership and employee performance. As per our findings, we came to know that our 4 hypotheses are accepted as assumed.

Limitations of the Study

Despite our contribution, the current research has few constraints in terms of time and finance. Although a sufficient number of middle-level employees were selected for this work, this study only focuses on the banking sector of NBP where the head office of NBP (National Bank of Pakistan) is located in Karachi NBP Jhelum Region was taken for a study that restricts this study to generalize in other offices in Pakistan. One more limitation is the cross-sectional design of the study. This study only focuses on middle

level employees.

Future Recommendations

Under the results of the analysis, some recommendations are given for further studies. Research can be conducted with different employees of NBP like higher-level employees in future because this research is done in the context of middle-level employees. It can be done on higher-level employees with the framework. The same framework can conduct in the same sector of different cities of Pakistan. Large sample size can be selected for more precision of results. The same framework can apply to different industry with different in nature like banking, manufacturing, education, tourism, insurance, etc. It is suggested that data from different banking industries of different countries can be collected to concrete the result, or the same framework can be replicated in different countries or geographic location. Different data collection methods can be used for future studies, like interviews and observation, etc. In the last qualitative research, this method can be used for further work.

References

- Awosusi Chaudhry, A. Q., & Javed, H. (2012). Impact of Transactional and Laissez Faire Leadership Style on Motivation. International Journal of Business and Social Science, 3(7), 258-264.
- Bass, & Avolio. (2017). Effect of Leadership Style on Employee Performance. *Arabian Journal of Business Management Review*.
- Bass, B. M., Avolio, B. J., Jung, D. I., & Berson, Y. (2007). Predicting Unit Performance by Assessing Transformational and Transactional Leadership. *Journal of Applied Psychology*, 88(2), 207.
- Bushra, F., Usman, A., Naveed, A. (2011). Effect of Transformational Leadership on Employees' Job Satisfaction and Organizational Commitment in Banking Sector of Lahore (Pakistan). *International Journal of Business and Social Science*, 2(18): 261–267.
- Irwan PANCASILA, Siswoyo HARYONO, Beni Agus SULISTYO, Le Thanh TUNG / Journal of Asian Finance, Economics and Business Vol 7 No 6 (2020) 387 – 397.
- Jamaludin, Z. (2011). Do transactional, transformational and spiritual leadership styles distinct? A conceptual insight. *Journal of Global Business and Economics*, 2(1), 73-85.
- Lievens, F., Geit, P., & Coetsier, P. (2013). Identification of transformational leadership qualities: An examination of potential biases. European Journal of Work and Organizational Psychology, 6(4), 415-430.
- Mintzberg, H. (2010). Shifting the trajectory of civilization. *Oxford Leadership Journal*, 1(2).

- Nyengane, M. H. (2018). The relationship between leadership style and employee commitment: an exploratory study in an electricity utility of south Africa. (Unpublished Masters of Business Administration), Rhodes University, South Africa.
- Odumeru, J. A. & Ifeanyi, G. O. (2013). "Transformational vs transactional leadership theories: evidence in literature", International Review of Management and Business Research, 1(2), 355-361.
- Paracha, M. U., Qamar, A., Mirza, A., Hassan, I., & Waqas, H. (2012). Impact of leadership style (transformational & transactional leadership) on employee performance & mediating role of job satisfaction: Study of private school (educator) in Pakistan. Global Journal of Management and Business Research, 12(4), 55-64.
- Shaukat, M. Z., Senin, A. A., & Ahmed, I. (2012). An exchange perspective of job satisfaction: A study of banking sector of Pakistan. Business Management Dynamics, 1(12), 59-65.
- Stup, R. E. (2006). Human resource management and dairy employee organizational commitment. The Pennsylvania State University, PENNSYLVANIA.
- Thompson, M. (2011). The Anywhere Leader: How to The Lead and Succeed in any Business Environment. San Francisco, California: Jossey-Bass.