Effect of Transformational Leadership on Employees' Job Satisfaction and Organizational Commitment in Banking Sector of Lahore (Pakistan)

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Abstract

The study was conducted with a purpose to investigate the relationship between transformational leadership and job satisfaction and organizational commitment of employees working in banking sector of Lahore (Pakistan). A 5 point Likert scale questionnaire, consisting of 35 items, divided into four parts was designed. Three banks were selected on simple random sampling basis. A total 200 questionnaires were circulated, out of which 133 questionnaires returned back were showing 66.5% response rate. The findings of the study concluded that transformational leadership positively effects job satisfaction and organizational commitment of employees.

Keywords: Transformational leadership, Job satisfaction, Organizational commitment, Banking sector.

Introduction

To run organizations smoothly, effectively and efficiently, the most valuable and indispensable factor organizations need is human resource (Mosadragh, 2003). Well-qualified and capable personnel are important in context of achieving goals and objectives of an organization. The success of an organization depends on the hard working, loyal and involved managers and employees. In this modern era where world has become a global village, firms are considered to be competitive on the basis of competence of their human resources. It is somewhat a difficult task to handle people who are physically, psychologically, culturally and ethnically different from each other. Management of employees is largely dependent on the quality of leadership organizations have (Albion & Gagliardi, 2007). Leadership is a bond which makes people to work together. Organizations at present are more concerned about understanding, development and improvement of their leadership. Transformational leadership is a modern approach towards leadership. Hall et al. (2008) defined transformational leadership as a system of changing and transforming people.

If leaders want to produce a positive influence on individuals, groups and organizations, then leadership should be broadened from old rigid autocratic style to friendly and contemporary style (Dess et al., 1998). Modern leaders perfectly adopt an attitude that support employees, provide them a vision, cultivate hope, encourage them to think innovatively, individualized consideration and broaden the communication. All these factors are the main features of transformational leadership style leading to boost up organizational strengths and increasing level of job satisfaction and organizational commitment in workforce. Job satisfaction is the degree to which a person is pleased or satisfied with his/her job or work. Success of organizations highly depends on its workforce. More satisfied and happy employees would be more productive and profitable for the organization (Saari & Judge, 2004). Job satisfaction helps to create positive attitudes in employees, boosts up their morals, improves their performance and creates pleasant relationship with their co-workers. Employees who are satisfied with their jobs tend to be more creative and innovative that help businesses to grow, flourish and bring positive changes according to market situations and thus making organizations able to compete at international level.

Leadership plays an important role in determining employees' commitment. Researchers have found that employees who are pleased with their supervisors/leaders and feel that they are being treated with respect and are valued by their management feel more attachment with their organizations (Stup, 2006). Muthuveloo and Rose (2005) defined organizational commitment as worker's level of involvement with his job and organization. Organizational commitment can be attributed as employees' loyalty and faithfulness towards organization and his intensions to be the part of that organization. Organizational commitment has significant importance because committed workers have less intension to quit the job, less often absent and highly motivated to perform at advanced level.

Service industry plays significant role in developing the economic life of a country. According to Chang (2000) service industry is the lifeblood of the economy and important for the success and progress of other related sectors. Thus, improve the image of the country. Financial sector of Pakistan comprise of regulators, micro finance companies, conventional banks, foreign banks, Islamic banks, stock markets and development finance institutions. At present, there are 39 Scheduled banks, 7 Micro finance banks and 8 Development finance institutions functioning in Pakistan (Government of Pakistan, 2010). While discussing the financial sector of Pakistan, it is analyzed that banks play dynamic and useful role in the growth and strength of a developing country like ours. Bank refers to a term we generally use for different kind of financial institutions. The objective of the study is to determine the effect of transformational leadership on job satisfaction and organizational commitment of employees working in banking sector of Lahore (Pakistan).

Literature Review

Leadership continued to be one of the most widely discussed topic by the researchers from all over the world (Kuchler, 2008). Jong and Hartog (2007) described leadership as a process to influence people in order to get desired results. Lok and Crawford (2004) proclaimed that leadership plays a vital role in determining the success and failure of a firm. Gill (2006) identified that leaders help to stimulate, motivate, encourage, and recognize their followers in order to get key performance results. There are many different styles of leadership. Mosadeghard (2003) had pointed out following styles of leadership: autocratic, bureaucratic, laissez-faire, charismatic, democratic, participative, situational, transactional, and transformational leadership. In this study, transformational leadership is will be under discussion.

Transformational leadership

Burns (1978) was the first person who gave the concept of transformational leadership. He claimed that transformational leadership is observed when leaders encouraged followers to boost up the level of their morals, motivation, beliefs, perceptions, and coalition with the objectives of the organization. Bass and Avolio (1995) forwarded the work of Burns and divided transformational leadership into four components; charismatic role modeling, individualized consideration, inspirational motivation, and intellectual stimulation. Schepers *et al.* (2005) claimed that transformational leaders allowed employees to think creatively, analyzed the problem from numerous angles and explored new and better solutions of the problem by using technology. Gill et al. (2006) claimed that organizations can reduce job stress and burn out by applying transformational leadership.

Job satisfaction

Job satisfaction is a topic which has derived attention of not only organizational employees but also of researchers (Lu *et al.*, 2005). Job satisfaction is the emotional response of an individual toward his or her job or place of job coming out from his or her experience from the job. Luthans (2007, p.141) defined job satisfaction as "a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience". Job satisfaction ultimately leads to job performance and organizational commitment which ensures organizational success (Spector, 2003).

In the explanation of job satisfaction, the job related characteristics are not enough and for complete understanding we need to consider the personal characteristics as well (Churchill et al., 1976; Staw and Ross, 1985; Fried and Ferris, 1987). Okpara (2004) identified five dimensions of job satisfaction: pay, promotion, supervision, work itself and coworkers. Oshagbemi (2003) determined the personal factors which relate to job satisfaction in the UK universities. He found that ranking, length of service, age and the individual's ability to do the work, contribute a lot in enhancing his satisfaction level. Okpara (2004) examined that whether the personal characteristics of the IT mangers are responsible for job satisfaction or not. The personal characteristics taken were experience, age, education and gender.

Organizational commitment

Luthans (2007, p.147.) stated organizational commitment as "an attitude reflecting employees' loyalty to their organization and is an ongoing process through which organizational participants express their concern for the organization and its continued success and well-being". Henkin and Marchiori (2003) defined organizational commitment as a feeling of employees which force them to be the part of their organization and recognize the goals, values, norms and ethical standards of an organization. Shaw (2003) identified three dimensions of organizational commitment: affective, continuance and normative commitment. Positive, sincere and utmost involvement of employee for its organization is called affective commitment.

Continuance commitment can be seen when individual is committed with the organization because of some specific benefits like pension, insurance, medical and other fringe benefits. Employees' Commitment with the organization because of the ethical standards or social norms is called normative commitment. According to Tella et al. (2007) Organizational commitment is the strongest motivator that highly affects persons' intentions to perform well, increases his efficiency, and improves his skills. Organizational commitment is important for organizations because it is a good predictor of organizational goals and objectives, productivity, absenteeism and turnover.

Relationship between transformational leadership and employees' job satisfaction

Although there are numerous leadership styles which could have an impact on employees' job satisfaction and their organizational commitment but we are mainly concerned with transformational leadership. We choose transformational leadership because of its supportive, productive and innovative nature. Cumming et al. (2010) stated that leadership that is concerned only with the output of the workers and do not care about their feelings failed to attain best efforts of the staff. The study suggested that transformational leadership should be adopted to improve workers satisfaction, selection, work environment and to avoid employee turnover. Miles and Mangold (2002) proclaimed that job satisfaction is facilitated by leaders' performance and effective supervisory interaction with employees. Leader's capability to identify and solve the conflicts of employees determined the employees' perception about leaders' performance. AL-Hussami (2007) concluded that transformational leadership positively effects the employees' job satisfaction. Hamidifar (2009) conducted a study in Islamic Azad University in Tehran and explored that among different leadership styles transformational positively determine the employees' job satisfaction. Employees are more satisfied with transformational leadership than any other style.

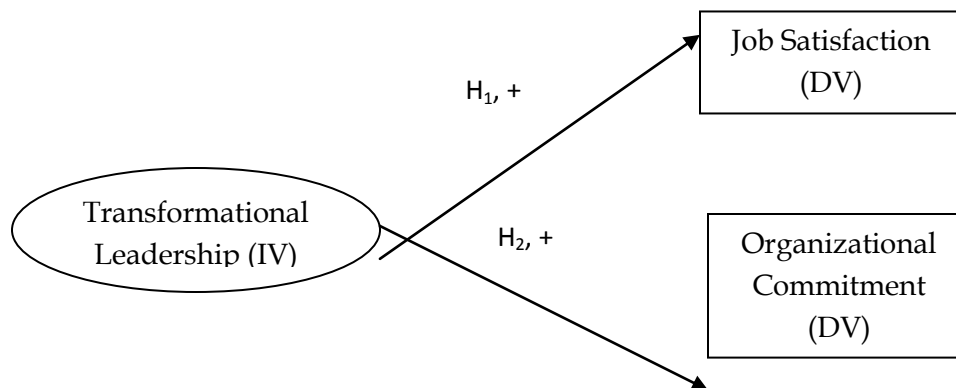**Relationship between transformational leadership and employees' organizational commitment**

Avolio et al. (2004) conducted a study on staff nurses in a public hospital of Singapore and stated that transformational leadership positively affects organizational commitment. Limsili and Ogunlana (2008) proclaimed that transformational leadership is a better leadership style and workers productivity and organizational commitment is facilitated by transformational leadership. Ismail and Yusuf (2009) studied the impact of transformational leadership on followers' commitment and concluded that there is significant positive relation between these two variables. Transformational leadership is the most effective leadership style in determining organizational commitment of employees.

On the bases of above literature study, following hypothesis are derived:
H_1: Transformational leadership positively relates with employees' job satisfaction.
H_2: Transformational leadership positively relates with employees' organizational commitment.

Theoretical Framework

The above research model is showing relationship between independent variable (IV) and dependent variables (DVs). Here, transformational leadership is working as IV while job satisfaction and organizational commitment are working as DVs. The model is showing that transformational leadership is positively affecting employees' job satisfaction and organizational commitment, on the basis of which H_1 and H_2 are derived.

Research Design

The study was conducted with a purpose to investigate the relationship between transformational leadership and job satisfaction and organizational commitment of employees working in banking sector of Lahore (Pakistan). Population of the study was banks functioning in Lahore, out of which three banks, Askari, Alfalah and Soneri were taken as sample through simple random sampling technique. Personally administered questionnaires had been used to collect data. Questionnaire was comprised of 35 items, out of which 20 questions analyzed transformational leadership, 7 questions were related to job satisfaction whereas 8 items measured organizational commitment of employees. 200 questionnaires were distributed in three sample banks out of which 133 were returned back showing   66.5% response rate. Reliability of the questionnaire was checked and it was found to be .82. For the purpose of analysis, data was put into SPSS 17.0. Statistical findings of the study are given below.

Findings of the Study

Demographic analysis

Table 1 exhibits the demographic information of this study. The population consisted of banking sector of Lahore and data had been collected from Askari Bank (56.4%), Soneri Bank (19.5%) and Bank Alfalah (24.1%). Survey respondents included 71.4% males and 28.6% females. 55% of the respondents belonged to 20-30 years of age, 34.4% employees belonged to 31-40 years of age. Employees having masters degree showed 54.9% of the sample, graduated employees were 41.4% of the sample

Whereas, 3.8% of the sample belonged to employees lying in a category other than mentioned above. Employees having experience less than 2 years comprised 33.9% of the sample, 2-5 years experienced employees were 48.8% of the sample, 6-10 years experienced employees comprised 7.1% of the sample whereas, 10.2% of the sample showed employees having experience of more than 10 years.

Table-1: Demographic Analysis

		Frequency	**Percentage**
Bank name	Askari bank	75	56.4%
	Soneri bank	26	19.5%
	Alfalah	32	24.1%
Qualification	Graduation	55	41.4%
	Masters	73	54.9%
	Others	5	3.8%
Gender	Male	95	71.4%
	Female	38	28.6%
Age	20-30	71	55.0%
	31-40	47	36.4%
	41-50	10	7.8%
	51-60	1	0.8%
Experience	0-2 yrs	43	33.9%
	2-5 yrs	62	48.8%
	5-10 yrs	9	7.1%
	10 above	13	10.2%

Descriptive Statistics

Table 2 represents the mean values of transformational leadership, overall job satisfaction, and organizational commitment. The 3.46 mean value for overall job satisfaction describes the satisfaction of employees with different dimensions of their job. The results show positive attitudes of employees towards their work which means employees are satisfied with their job. Aggregate mean value of 2.40 for transformational leadership explains the employees' views about a visionary and team oriented leadership style of the supervisor. Results show that employees are not happy with their supervisors or leaders. According to employees' responses, managers don't encourage their innovative thinking, and don't consider their personal feelings before acting or implementing a decision. The mean value for organizational commitment is calculated as 3.26 depict the level of emotional attachment that workers have with their organizations.

The results show that employees are somewhat loyal to their organizations, feel pride to be a part of it, find similarity between their own values and organization values, and ready to accept any type of job assignment for the smooth running of organization but not at a very large scale.

Table-2: Descriptive Statistics

	Mean	Std. Deviation
Job satisfaction	3.4629	.62075
Transformational leadership	2.4034	.45424
Org. commitment	3.2632	. 77488

Table 3 shows the results of regression analysis, which demonstrate the dependence of overall job satisfaction and organizational commitment (dependent variables) on transformational leadership (independent variable). Value of R explains the strength of association between independent variables and dependent variables and R value lies between 0-1 (Ibrahim et al., 2006). The R value near to 1, shows a strong association between IVs and DVs and vice versa. The results of the study are as following:

1-Regression analysis of transformational leadership and overall job satisfaction shows that 37% change in overall job satisfaction is due to the transformational leadership while remaining 63% is the unexplained variability. R value as .61 shows a strong and significant (F=78.356, P<.05) relationship between transformational leadership and overall job satisfaction. Thus, our model is fit. Regression coefficients (β) of transformational leadership as .83 shows that 1 unit change in transformational leadership will bring .83 unit changes in overall job satisfaction in positive direction.

2- Regression analysis of transformational leadership and organizational commitment shows that 16% change in organizational commitment is due to the transformational leadership, while remaining 84% is the unexplained variability. R value as .40 shows a moderate and significant (F=25.244, P<.05) relationship between transformational leadership and organizational commitment and our model is fit. Regression coefficients (β) of transformational leadership as .68 which illustrates that 1 unit in transformational leadership will bring .70 unit changes in organizational commitment in positive direction.

Table-1.3: Regression Analysis

Relationship	R	R Square	F	Sig	B
TL → JS	.61	.37	78.356	.000	.83
TL → OC	.40	.16	25.244	.000	.68

TL= Transformational Leadership
JS= Job Satisfaction
OC= Organizational Commitment

Interpretation

1- The hypothesis 1 states that a positive relationship exists between transformational leadership and employees' job satisfaction. On the bases of above statistical findings it has been found that transformational leadership has significantly positive effect at level of overall job satisfaction. Transformational leadership brings 42% change in overall job satisfaction. Therefore the findings of the study support the hypothesis 1 and prove that by adopting transformational leadership style, leaders can achieve more satisfied staff. If employees are satisfied with their jobs they will perform better which will lead organizations towards success. Employees who are working for transformational leader have higher level of job satisfaction. This finding is valuable because it shows that transformational leadership which is a modern concept in the subject of leadership is being liked by the employees of the organizations.

2- The hypothesis 2 of the study predicts a positive relationship between transformational leadership and employees' organizational commitment. Statistical findings suggest that transformational leadership positively relates with organizational commitment of the sampled employees. Transformational leadership brings 16% change in organizational commitment which exhibits a positive and moderate relationship between transformational leadership and organizational commitment. On the bass of these findings we can conclude that hypothesis 2 of the study has been accepted.

The study found that if managers encourage employees' innovative thinking, spends time to teach and coach them, consider their personal feelings before implementing a decision, helps them to develop their strengths, it will increase the level of emotional attachment that workers have with their organizations. Employees will feel pride to be a part of it, find similarity between their own values and organization values, and ready to accept any type of job assignment for the smooth running of organization.

Conclusion

Productivity and performance of an organization depend upon the job satisfaction and organizational commitment of its employees and escort to growing profits. Transformational leadership, an approach of enhanced interpersonal relationship between supervisor and subordinate, is a way to create higher level of job satisfaction and organizational commitment of employees. Transformational leaders also help employees to become more creative, innovative and bring such new ideas which allow the organization to grow competitively and adapt itself to the changing external environment. Unfortunately, this type of leadership is not being exercised by the managers of conventional bank of Lahore. The results of this study concluded that if managers adopt transformational leadership behaviour, they can get better satisfied and committed employees.

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