

The Effect of Transformational Leadership Style on Employee Job Satisfaction and Organizational Commitment: An Empirical Investigation based on Licensed Commercial Banks in Kurunegala District, Sri Lanka

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ABSTRACT

Efficient human resources have been paid attention by most of the contemporary organizations due to its value and importance in achieving organizational goals and objectives. The most important component of these organizations are business leaders, as leadership is an essential skill to improve the organizations performance through increasing employee job satisfaction and in turn, the organizational commitment. Given the above context, the objective of this study was to investigate the impact of supervisors' transformational leadership style on creating job satisfaction and organizational commitment of employees in the banking sector. The study was conducted with the data collected from seventy employees, employed in six largest Licensed Commercial Banks established in five main Divisional Secretariat Divisions of Kurunegala district through a questionnaire based survey. In order to analyze the data both descriptive and inferential measures were used. Multiple Linear Regression and Pearson Correlation analysis were employed as inferential measures. The findings of the study concluded that, the transformational leadership style of the supervisor is positively and significantly related to both job satisfaction and organizational commitment of the employee while employee's job satisfaction is positively and significantly associated with their commitment to the work place. Therefore, the study suggests the importance of further improving of the leadership skills of the first and middle level managers of banking sector who are frequently dealing with the regular employees of the bank. This could be an efficient strategy to create and maintain the job satisfaction and committed behavior of those employees towards the organizations and in turn, to improve the performance of the employees.

KEYWORDS: *Job satisfaction, Licensed commercial banks, Organizational commitment, Transformational leadership style*

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1. Introduction

Human resources play an important role in today's organizations and it is the key to success or failure in any system or an organization. Human beings show different behaviors in interaction with different organizational contexts and their colleagues. Well-qualified and capable personnel are essential in achieving goals and objectives of any organization. The success of an organization depends on the hard working, loyal and actively involved managers and employees. Researchers have shown that a successfully functioning banking institution is characterized by its superior's appreciation of valuable role of human resources (Bushra et al., 2011).

Leadership is a process to influence people in order to get desired results. Leadership plays a vital role in determining the success and failure of the organization. Gill et al. (2006) identified that, leaders help to stimulate, motivate, encourage and recognize their followers in order to get key performance results. Organizations at present are more concerned about understanding, development and improvement of leadership skills of their employees. The management and social science literature comprised of different types and styles of leadership which can be found in different organizational and societal backgrounds.

Transformational leadership is one of the modern approaches towards leadership. Transformational leadership is the ability to motivate and to encourage intellectual stimulation through inspiration (Avolio et al., 2004). Transformational leaders allow employees to think creatively, analyze the problem from numerous angles and explore new and better solutions of the problem by using technology. Further, they fundamentally change the values, goals, and aspirations of followers who adopt the leader's values and, in the end, perform their work because it is consistent with their values and not because they expect to be rewarded. Gill et al. (2006) claimed that, organizations can reduce job stress and burn out by applying transformational leadership into the context.

In literature, job satisfaction and organizational commitment have received increased attention in studies of the work place. This is due to the general recognition that, these variables can be the major determinants of organizational performance and effectiveness. Job satisfaction includes a series of positive emotions and desires which people feel about their duty. It is said that, a person who has high job satisfaction it generally means that the person loves his job. Job satisfaction means a person's general attitude towards his/her job. Therefore, a person who has positive attitude towards his job, is satisfied with his job and and vice versa. This positive feeling of satisfaction helps a lot to the people's physical and mental health. It is evident that, more satisfied and happy employees would be more productive and profitable for the organization (Saari and Judge, 2004).

Organizational commitment is the 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 (Muthuveloo and Rose, 2005). Organizational commitment has significant importance as, committed workers have less intension to quit the job, less often absent and highly motivated to perform at advanced level.

Service industry plays a significant role in developing the economic life of a country. According to Chang (2000), service industry is the lifeblood of the economy and highly important for the success and progress of other related sectors. Thus, improve the image of the country. Financial sector of Sri Lanka consist of 33 licensed banks and 46 licensed financial institutions (Central Bank Annual Report, 2013). While discussing the role of financial sector of Sri Lanka it is identified that, banks play dynamic and useful role in the growth and strength of the country. At the end of December 2013, the banking sector comprised 24 Licensed Commercial Banks (LCBs) and nine Licensed Specialized Banks (LSBs). Even though, a large number of licensed banks exist in the country, the stability of the financial system is primarily dependent on the performance and financial strength of the six largest LCBs, consisting of the two state banks and the four largest domestic private commercial banks. These six banks, which are generally, referred as the Systemically Important Banks comprised of two state owned and four privately owned banks (Central Bank Annual Report, 2013). Given the importance of LCBs to the country's economy, those six banks were selected as the sampling frame for the present study.

2. Statement of the Problem

The social science and management related literature shows that there are contradictory views and arguments regarding the relationship of managers leadership style with employee job satisfaction and organizational commitment. Therefore, it is apparent that the current knowledge is not sufficient to predict the above relationship especially with respect to Sri Lankan business sector. Thus, there is an urgent need to investigate and communicate the relationship of leadership style with employee job satisfaction and organizational commitment under Sri Lankan context. Being an economically important sector, banking industry today receives much of the attention of various researchers and scholars. As an industry which belongs to the service sector, people working in the industry plays a vital role in the development of it. The well being and the satisfaction of the employees who are working in the banks contribute lot to the higher performance of the entire banking industry. However, there are no much empirical studies found in the literature addressed directly to the above aspects especially under the context of Sri Lankan banking industry.

Therefore, the purpose of this present study is to fill this important research gap by addressing the need of investigating the relationship of managers leadership style with employee job satisfaction and organizational commitment in banking sector in Sri Lanka.

3. Objectives of the Study

On this background, the general objective of this study was to determine the impact of manager's transformational leadership style on job satisfaction and organizational commitment of employees working in six largest LCBs in Sri Lanka with special reference to the banks operating in Kurunegala district.

4. Review of Literature

In the social science literature, there are numerous studies supporting the existence of a relationship between the leadership styles with employee job satisfaction organizational commitment. The past studies show mixed results by arguing on both positive and negative relationships between the above variables. The relationships suggest that, the managers can influence the employee job satisfaction, commitment and productivity by adopting an appropriate leadership style. It is widely accepted that, the employee job satisfaction has a major impact on the activities in an organization. The employees, who are satisfied with their work, tend to be more productive and more efficient (Bibu and Mos, 2012).

Yun (2007) stated that, the transformational style, conducted within work teams, has a positive effect on job satisfaction. Hamidifar (2009) conducted a study in Islamic Azad University in Tehran and explored that, among different leadership styles transformational leadership style positively determine the employees' job satisfaction. A study conducted in the education system of Israel with a number of 745 teachers found that, under the effect of transformational style, the degree of employee satisfaction increases positively (Bogler, 2001).

Avolio et al. (2004) conducted a study on staff nurses in a public hospital in Singapore and stated that transformational leadership style can positively influence the organizational commitment. Limsili and Ogunlana (2008) proclaimed that, transformational leadership is a better leadership style that can influence the workers productivity and organizational commitment. Studies have highlighted that, the employees' job satisfaction is the antecedent of organizational commitment and claims a positive correlation between the two variables (Tsai et al., 2010). This study has further highlighted that, the job satisfaction does not influence directly the employees' performance but in turn, it helps increasing it through the organizational commitment. Many of the other studies showed that, there is a positive relationship between organizational commitment and job satisfaction (Limsili and Ogunlana, 2008).

5. Methodology

5.1 Theoretical Framework

The study used Manager's Transformational Leadership Style (TLS) as the dependent variable while, employees' Job Satisfaction (JS) and Organizational Commitment (OC) as the independent variables to explore the objectives (Figure 1).

Therefore, it is hypothesized that,

- H1: Manager's transformational leadership style significantly affect to the employees' job satisfaction
 H2: Manager's transformational leadership style significantly affect to the employees' organizational commitment
 H3: There is a significant relationship between employees' job satisfaction and organizational commitment

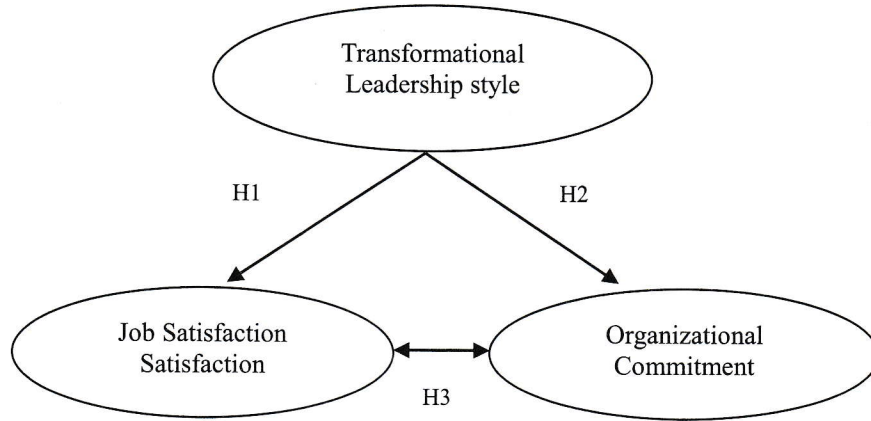


Figure 1: Relationship between hypothesized variables

5.2 Empirical Model

The Multiple Linear Regression model is expressed as,

$$Y = \beta_0 + \beta_1 JSI + \beta_2 OCI + \beta_3 GEN + \beta_4 AGE + \beta_5 EDU + \beta_6 EXP + \varepsilon \quad (1)$$

Where;

Y= Index for Transformational Leadership Style (TLSI)

$\beta_0 - \beta_6$ = Regression coefficients

JSI = Index for Job Satisfaction

OCI = Index for Organizational Commitment

GEN = Gender

AGE = Age

EDU= Educational level

EXP= Experience

ε = error term

5.3 Study Area and Data Collection

The data were collected from six largest LCBs located in five Divisional Secretariat (DS) divisions namely; Pannala, Rideegama, Kurunegala, Kuliypitiya and Mawathagama in Kurunegala district. The DS divisions were selected according to the highest population density. Prior to the real survey, the pilot survey was carried out in order to validate the questionnaire (n=12). The real survey was conducted with six largest LCBs in selected DS divisions from March to April 2015. The structured questionnaire was distributed among 70 employees, taking five employees from each LCB.

5.4 Measures of the Variables

Job satisfaction

The Warr et al. (1979) job satisfaction questionnaire was used to measure the job satisfaction of employees. This instrument has widely used by other researchers in this field and it comprised of 10 items that relate to different aspects of the work or work environment. Respondents indicate their level of satisfaction with each of these aspects by responding on a five point rating scale ranging from "very dissatisfied" (1) to "very satisfied" (5).

Organizational Commitment

It was measured by the Organizational Commitment Questionnaire (OCQ) developed by Mowday, et al. (1982), and the questionnaire was administered to the non-managerial level employees. The OCQ has 10 items, and for each item, a statement was given (for example, "I really care about the fate of this bank") and employees respond using a five point likert scale, ranging from "strongly disagree" (1) to "strongly agree" (5).

Leadership Style

This variable was measured by using Bass and Avolio's (1995) Multifactor Leadership Questionnaire (MLQ form 5X). The MLQ 5X uses 36 items to measure nine subscales. However, only selected ten statements were used for the purpose of this study. These items were rated using a five-point scale with anchors labeled as; 0 = not at all, 1= once in a while, 2= sometimes, 3= fairly often, 4= frequently and 5 = if not always.

5.5 Data Analysis

Both descriptive and inferential statistics were used to analyze the data. Descriptive analysis was performed to get an overall idea about the sample. Multiple Linear Regression and Pearson Correlation were used to determine the impact of transformational leadership on job satisfaction and organizational commitment of banking sector employees. The data were analyzed using Statistical Package for Social Science (SPSS) 16.0 version.

5.6 Reliability Analysis

The Reliability Analysis was employed to measure the internal consistency of multiple likert scale statements of transformational leadership style, job satisfaction and organizational commitment. This analysis results Cronbach's alpha as the measure of scale reliability of the responses obtained for the given set of statements. Cronbach's alpha is a measure of internal consistency, thereby it measures how closely related a set of items are as a group.

5.7 Development of Indices

Responses of employees on transformational leadership style, job satisfaction and organizational commitment were obtained by a set of statements rated on five point likert scale. For ease of analysis, three indices were prepared using these statements. The developed indices are ranging from point two to one.

The Job Satisfaction Index (JSI) was developed as follows:

$$JSI = \frac{\sum_{k=1}^K X_k}{K \times Max_x} \quad (2)$$

Where,

X_k = Score given to the statement by the k^{th} respondent

Max_x = Maximum score that could be given by a respondent

K = Total number of statement in a group

Similarly, Organizational Commitment Index (OCI) and Transformational Leadership Style Index (TLSI) were developed.

6. Results and Discussion

6.1 Descriptive Statistic

The sample comprised 58.6% of male employees and 41.4 % of female employees. With respect to the age, 40% of the employees were fallen in the category of 21-30 while another 34.2% of the employees belonged to 31-40 age category. Majority of the employees had followed Diploma in Banking as their highest level of education. Out of the total employees, 41.4% employees had 1-5 years of experience in banking sector (Table 1).

Table 1. Descriptive statistics

Variables	Category	Percentage (%)
Gender	Male	58.6
	Female	41.4
Age	21-30 years	40.0
	31- 40 years	34.2
	41-50 years	18.6
	Above 50 years	7.2
Level of education	Above Bachelor Degree	15.7
	Bachelor degree	30.0
	Dip. in Banking	40.0
	Up to A/L	14.3
Experience	1-5 year	41.4
	6-10 year	25.7
	11-15 year	11.4
	Above 15 year	21.5

6.2 Reliability Analysis

The reliability analysis results Cronbach's alpha to evaluate the internal consistency of the questionnaire. The results of Cronbach's alpha were 0.885, 0.854 and 0.843 with respect to the transformational leadership style, job satisfaction and organizational commitment.

According to the Hair et al., (1998), it is acceptable when Cronbach's alpha is higher than 0.7. Consequently, the statements used in this study have high internal consistency since the Cronbach's alpha of each dimension is over 0.7.

6.3 Outcome of Pearson Correlation Analysis

The correlation between transformational leadership style, job satisfaction and organizational commitment were examined using the Pearson correlation analysis (Table 2). The results showed that, transformational leadership style is positively and significantly related to the organizational commitment with a correlation coefficient (r) of 0.498 at 0.05 significance level. Further, transformational leadership style is positively and significantly related to the job satisfaction ($r=0.624$). This indicates that, the transformational leadership style used by bank managers has enhanced employees' job satisfaction and organizational commitment. It also implies, if managers consider, motivate, assist to solve problems and fight welfare for their employees, it can create positive organizational commitment and further increase job satisfaction. Besides, managers can always increase organizational commitment by providing rewards to induce employees to work hard.

Table 2. Results of the Pearson correlation analysis

		Transformational leadership style	Job satisfaction	Organizational commitment
Transformational leadership style	Correlation	1.000	0.624	0.498
	Sig. (2 tailed)		0.000**	0.000**
Job satisfaction	Correlation		1.000	0.692
	Sig. (2 tailed)			0.000**
Organizational commitment	Correlation			1.000
	Sig. (2 tailed)			

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

Meanwhile, organizational commitment is positively and significantly related to the job satisfaction with a correlation coefficient of 0.692 at 0.05 significance level. It revealed that, employees are willing to stay and devote themselves to accomplish their job objectives, because they have the same values and goals within the organization.

6.4 Outcome of the Multiple Linear Regression

Using the multiple linear regression, the impact of transformational leadership styles on job satisfaction, organizational commitment and demographic variables were examined (Table 3). It was revealed that, the regression model was significant (Probability value=0.000) and the model explains 67.5% of the variance. The probability value of the job satisfaction was 0.013 and the coefficient was positive (0.243). This indicates that, there is a positive and strong relationship between transformational leadership style and job satisfaction at 0.05 significance level. This implies banking sector employees were satisfied with transformational leadership style currently exhibited by their managers.

This study proved that, by adopting transformational leadership style, leaders can achieve more satisfied staff. If employees are satisfied with their job, they will perform better, which will lead organization toward success. Employees who are working for the transformational leader have higher level of job satisfaction. This finding is worthwhile, as it shows that transformational leadership style which is a modern concept in the subject of leadership is being liked by the employees of the organization.

The results further indicate that, there is a positive and significant relationship between transformational leadership style and organizational commitment at 5% significance level (Probability value= 0.000). The study found that, if managers encourage employees' innovative thinking, spend time to teach and coach them, consider their personnel feelings before implementing a decision, helps them to develop their strength it will increase the level of emotional attachment that employees have attached with their organizations. Employees will feel pride to be a part of it, find similarity between their own values and organizational values and ready to accept any type of job assignment for the smooth running of the organization.

Table 3. Results of the multiple linear regression analysis

Variables	Coefficient	Probability
Job satisfaction	0.243	0.013*
Organizational commitment	0.559	0.000*
Gender	0.022	0.111
Age	-0.017	0.131
Education	-0.0005	0.942
Experience	0.016	0.078**
Constant	0.152	0.039

*Significant at 5% level, **Significant at 10% level; Adj.R2=67.5%; Probability value of the regression model=0.000.

Among the demographic variables, only the experience of employees had positive and significant relationship with transformational leadership style. It implies, if the leader follows the transformational leadership style and its behavior, it will positively affect the employees to retain in their jobs and in the organization. However, the relationship between transformational leadership style and gender, age and level of education were not found to be statistically significant (Table 3).

7. Conclusions

Productivity and performance of an organization depend upon the job satisfaction and organizational commitment of its employees and escort to growing profit. Transformational leadership style is an approach that enhanced the interpersonal relationship between leader and employee and it is a way to create highest level of job satisfaction and organizational commitment of employees. The leader who follows the transformational leadership style also helps the employees to become more creative, innovative, bring such new ideas which allow the organization to grow competitively adapt itself to the changing external environment. Fortunately, this type of transformational leadership style is being exercised by the managers of licensed commercial banks in Kurunegala district.

The study investigated the impact of transformational leadership styles on job satisfaction and organizational commitment of the employees. As indicated before, the results showed a significant and positive relationship between transformational leadership style and organizational commitment, transformational leadership style and job satisfaction and organizational commitment and job satisfaction of banking sector employees. The results of this concluded that, if managers adopt transformational leadership behaviour, they can develop employees who are satisfied on their job and committed to the organization.

Adopting a transformational leadership style is recommended, since the employees feel satisfied, oriented and committed to their work and organization. Managers should be concerned with maintaining job satisfaction and employees commitment through optimal reward methods. Further, they must take into account the effects that their transformational leadership style may have on the level of employee job satisfaction, organizational commitment and be able to adapt it to multiple situations in the banking sector. The managers must be aware of the style that is approved by their employees and that influences in a positive way of their work and have a balanced job satisfaction and organizational commitment. Further, it is recommended that, administration of LCBs can focus more on developing the leadership skills of their middle and first line managers as a strategy to improve the level of job satisfaction and organizational commitment of their employees.

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