

Assessing the Transformational Leadership and Employee Satisfaction equation: Mediating role of Leader Member exchange relationship

Vikram Singh*

Gulzar Singh Jamwal**

Dr. Ramandeep Kour***

* M.Phil Scholar, Department of commerce, University of Jammu, J&K

** Junior Accounts Officer, BSNL, Jammu, J&K

***Assistant Professor, Department of commerce, Cluster University of Jammu, J&K

ABSTRACT

Objective: The objective of this study is to assess the impact of transformational leadership on satisfaction of their respective employees in banking sector. Also identified that if LMX (Leader Member exchange) relationship has a mediating effect or not.

Design/methodology/approach: Sample size was selected by using purposive sampling and data were collected by distributing questionnaires to 220 employees working in Public and private sector banks. Structural Equation modeling was applied to analyse and interpret the data.

Findings: Research results revealed that transformational style adopted by banking leaders positively influences employees' satisfaction. The findings of the integrated model revealed that transformational leadership styles adopted by women leaders directly affects employee satisfaction. Further, the present study confirms that there is a mediating role of LMX in the relationship between transformational leadership style and employee's satisfaction.

Research limitations/implications: The study is confined to small sample size and one sector i.e. banking sector only.

Practical implications: In a competitive environment, managers working at administrative level in banks should extend new virtues to perform effectively, adaptable to change, more focuses on strategic thinking and intellectual values and lead to empowering others.

Keywords: Transformational Leadership, Employee satisfaction, Leader member exchange relationship

1. INTRODUCTION

Service organisations with effective administrators tend to innovate, respond to changes in markets and environments, creatively address challenges and sustain high performance. Inevitable changes in these organisations draw attention to the increasing significance of transformational leadership. Transformational leadership is defined as leadership approaches that causes change in individuals & social systems and stimulate employees to see problems in new ways and help them to develop their full potential that causes change in individuals and social systems. Enacted in its authentic form,

transformational leadership enhances the motivation, morale and performance of followers through a variety of mechanisms (Basu & Green, 1997). Gerstner and Day (1997) argued that transformational leadership seems theoretically related to the course of developing a unique leader-member exchange relationship (LMX). LMX has been found to be positively related to transformational leadership (Deluga, 1992). Moreover, transformational leadership is a process whereby ordinary people can bring forth the best in themselves and others too. Many studies have found that followers of transformational leaders reported high motivation and satisfaction with their job (Givens, 2008) because transformational leaders are seen as helpful, friendly and change agent in which followers use friendly approach frequently (Krishnan, 2004). By establishing high quality relationships transformational leaders, by example and by treatment convinces followers to work for achieving organisational goals by enhancing their performance. Further effective leaders express their transformational behaviours within a personal dynamic relational exchange context. Transformational leaders who are insensitive to the importance of follower's reciprocity expectations and the relational requirements of a high quality relationship (e.g. reciprocity, personal development and social bonding (Dvir et al., 2002) are likely to be less effective than they could be. It appears that it is through developing stronger dyadic social bonds that transformational leaders impact followers' performance (Wang et al, 2008). The relationship of superior- subordinate mediating between transformational leadership and employee performance has not been adequately explored.

The structure of the paper is as follows: Firstly, conceptual framework and hypothesis development are addressed. After that research methods used to test these hypotheses along with the results of hypotheses testing are presented in the next following sections. Lastly, the study ends with conclusions, limitations and directions for future research.

2. REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

Transformational leadership conceptualised by different researchers are categorised under four perspectives: idealised influence (Walumbwa & Hartnell, 2011; Shibru & Darshan (2011), inspirational motivation (Bodla & Nawaz, 2010); Bushra et al. (2011), intellectual stimulation and individualised consideration.

Idealised influence is the core of transformational leadership and advocated the highest level of moral reasoning and risk- taking capacity (Liaw et al., 2010). Such type of leaders is always willing to sacrifice their own gain for the good of their work group, organisation and community. They set high standards for work conduct and are role model for those standards (Dubinsky et al., 1995). Transformational leader, who practise inspirational motivation, encourage subordinate in generating enthusiasm and challenging the people (Simola et al., 2012). These leaders create clear understanding of expectations and demonstrate high commitment to organisational goals and shared vision. Transformational leaders behave in ways that motivate and inspire people around them by providing

meaning and challenge to their followers work (Medley & Larochelle, 1995). Innovation and creativity is the heart of intellectual stimulation factor (Kirkbride 2006). Leaders motivate creativity and challenge the old ways of doing as part of their regular job by intellectually stimulating their subordinates (Bodla & nawaz, 2010). These leaders cultivate the same skills in their followers. They work through difficulties and use their problem solving techniques for reaching decisions that reflect a mutual consensus between leaders and employees (Othman & Wanlabeh, 2012). Further, transformational leader results in mutual stimulation and elevation that converts follower into leaders and in turn leaders in to moral agents (Arnold & Barling, 2007). They enhance follower's capacity to think on their own, develop new ideas. The major goal of transformational leaders is to develop follower self management and self development so that they can feel satisfied and perform better job (Dvir et al., 2002). This phenomenon establishes a direct relationship between transformational leadership and satisfaction with leader (Ortiz et al., 2012).

Transformational leaders who use intellectual stimulation can challenge the status quo and stimulate their follower's effort to be innovative. Followers are positively encouraged to try new approaches (Ahanger, 2009). Individualised consideration deals with fundamental transformational leadership behaviours of treating individuals as important contributors to the organisation. Leaders who use this style of leadership give due consideration for their employee needs and coach them to bring sustainable development (Mohammad et al., 2012).

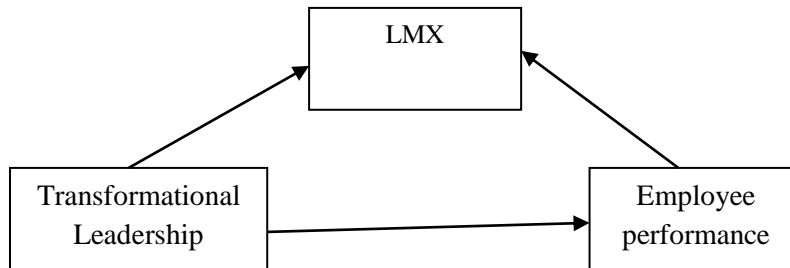
Transformational Leadership and Employee Satisfaction

Ismail et al., (2011) considered that in order to support the objectives, leaders often choose a particular interaction styles that represent the values, motivations, aspiration and expectation of both leaders and followers. Transformational leaders have more satisfied followers than non transformational leaders and are positively related to a subordinate's perceptions of leader effectiveness. Further, Yukl, Donnell & Taber (2009) found that LMX is positively correlated with subordinate performance. LMX theory asserted that high quality LMX relationships are characterised by high levels of trust, commitment & loyalty and contribute to elevated levels of member task performance. Erdogan & Enders (2007) evidenced that the relationship between LMX and employee performance was moderated by superior perceived organisational support. Duarte, Goodson & Klich (1993) found that high LMX followers were rated consistently high on performance regardless of their objective performance levels and tenure with their leader. Coglisier (2009) believed that follower ratings of job performance will be highest when leader and follower perceptions of LMX are similar & positive and lowest when both leader and follower perceive the relationship less favourably. High exchange relationships are developed with some employees, whereas lower exchange relationships are likely to be developed with other employees. Quality of leader-member exchange has been found to be positively related to follower's satisfaction, organizational commitment, role clarity, performance ratings given by leaders (Bauer & Green, 1996; Deluga, 1994). Hence, on the basis of this study following hypotheses are framed along with proposed model (Fig.1:

H1: Transformational leadership significantly and positively influences employee satisfaction.

H2: LMX acts as a mediator between Transformational Leadership and employee satisfaction

Fig.1: Proposed Model



3. RESEARCH METHODOLOGY

Generation of scale items

Transformational leadership are measured with the help of scales developed by Andotra and Kour (2017). Further, keeping in view the significance of transformational leadership in enhancing satisfaction of employees in service organisation, the study self-developed eighteen items through literature review.

Data Collection

A total of 220 questionnaires were distributed among employees working in private & private banks, Response rate came to be 100%. The sample of the study comprised of all 144 branches of twenty- one public and seven private banks operating in Jammu, North India. Since the functioning of all public and private banks is at par with other banks across India, the results of the study are equally applicable for all public and private banks of India.

Data analysis

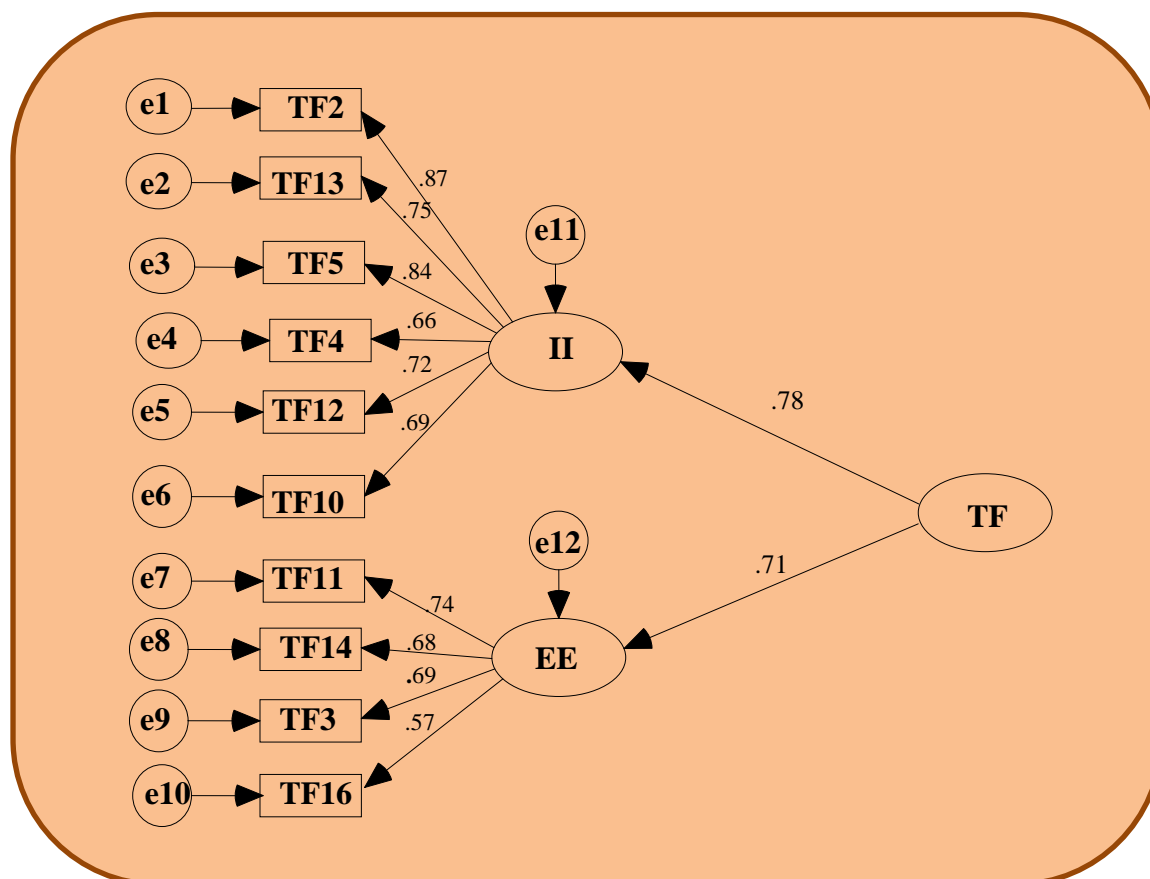
In this step, all the variables are developed and validate by using exploratory and confirmatory factor analyses. First, exploratory factor analysis was performed on the transformational leadership scale. The study identifies two factors (i.e. 12 items out of total 16 items) after 4 iterations. Kaiser–Meyer–Oklin coefficient of 0.793 and Barlett’s test significance of 0.000 are applied which shows that the data are suitable for applying this technique. A principal factor method with a varimax rotation is applied to the scale. Based on Eigen values over one and the achievement of an explained variance of 66.884%, a two-factor solution is considered. The second variable i.e. employee satisfaction are purified having two factors shows the value of Kaiser–Meyer–Oklin coefficient of 0.856 and Barlett’s test significance of 0.000 and the last factor LMX relationship comprises of two factors having the value KMO and Barlett’s test significance satisfying threshold criteria.

In the next phase, all the respective variables are validated through confirmatory factor analysis.

Transformational Style

Confirmatory factor analysis is performed on the transformational leadership construct which consists of three factors namely, 'Intellectual stimulation', 'Employee encouragement' and 'Individual consideration'. The factor comprises of six items, four items (second factor) and three items (third factor) respectively. The measurement model for transformational leadership indicates good fit as model indices statistics are within the acceptable range that is, $\chi^2/df = 2.986$, NFI= 0.948, RFI=0.927, IFI= 0.967, TLI= 0.953 CFI= 0.966 and RMSEA= 0.077 after deleting one factor namely, 'Individual consideration'. The validity and reliability of the model is also established through AVE, CR and good values of SR estimates.

Measurement Model of Transformational Style



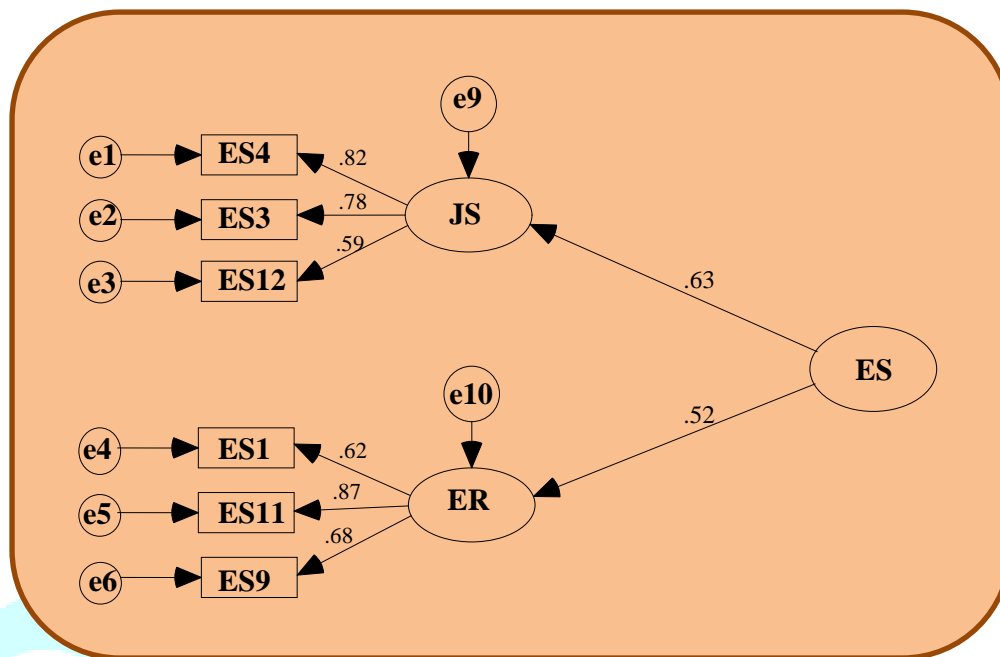
Keywords: TF-Transformational style, II (Intellectual stimulation) & EE (Employee encouragement) are the observed variables, TF2- TF16 are the indicators and e1- e12 are the error terms.

Employee Satisfaction

A second order CFA is performed on employee satisfaction dimension, which comprises of three factors resulting from EFA i.e. 'Job satisfaction', 'Efforts recognition' and 'Employee encouragement'. Each factor comprises of four, three and two items respectively. The Second order CFA is performed on employee satisfaction construct yields good model fit results as CMIN/DF= 1.937, GFI= 0.997, AGFI= 0.982, NFI= 0.996, TLI= 0.993, CFI= 0.943 and RMSEA= 0.047. The model is found to be valid and reliable after deleting one factor namely, 'Employee encouragement'. The alpha value is

0.935 and composite reliability came out to be 0.88, thereby indicating that factors are reliable. Model has been proved to be valid, as AVE came out to be 0.59.

Measurement Model of Employee Satisfaction

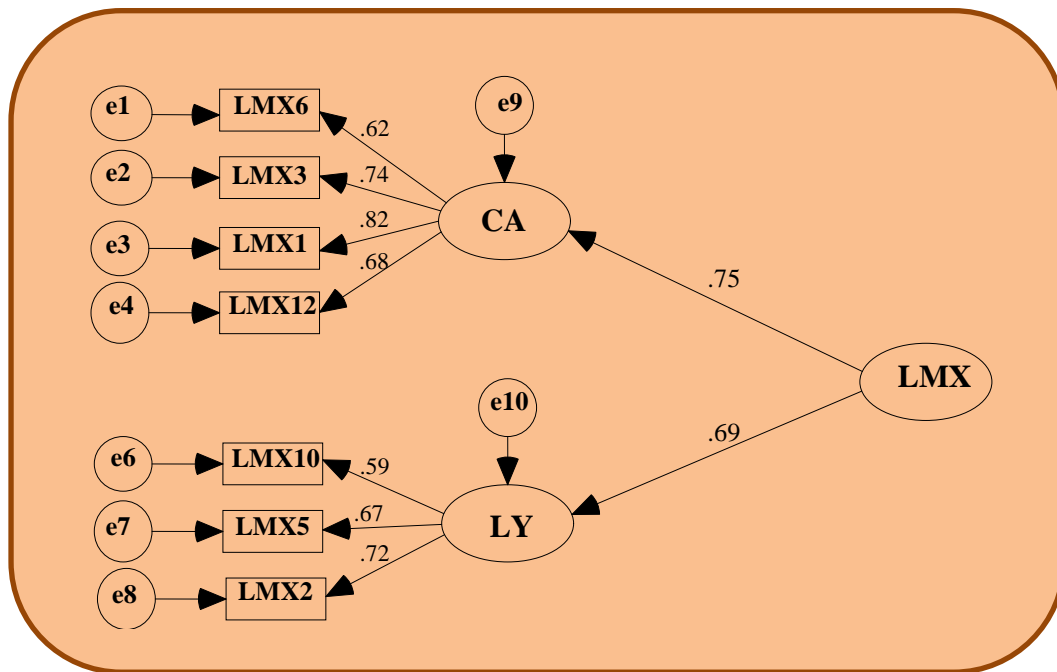


Keywords: ES- Employee satisfaction, JS (Job satisfaction) & ER (Efforts recognition) are the observed variables, ES1- ES12 are the indicators and e1- e10 are the error terms.

LMX

A second order CFA is performed on LMX dimension, which comprises of two factors resulting from EFA i.e. 'Cooperative association', 'Good relations' and 'Loyalty'. Each factor comprises of six and three items respectively. The dimensionality of the LMX are assessed by a good fit model, as depicted by the good values of fit indices i.e. GFI (0.978), AGFI (0.924), CFI (0.989), TLI (0.978), NFI (0.982), χ^2/df (2.558), RMR (0.013) and RMSEA (0.035). The model is found to be valid and reliable after deleting two items of factor 'Cooperative association'. Model has been proved to be valid, as AVE came out to be 0.65 and composite reliability came out to be 0.74, thereby indicating that factors are reliable (Table 5.3). Out of the two factors, factor 'Cooperative association' emerged to be strongest contributor of LMX with its regression weight as 0.75.

Measurement Model of LMX



Keywords: LMX- Leader member exchange relationship, CA (Cooperative association) & LY (Loyalty) are the observed variables, LMX1- LMX12 are the indicators and e1- e10 are the error terms.

4. RELIABILITY AND VALIDITY

The reliability and validity of the constructs in present study is evidenced by using psychometric analyses which is discussed below:

Cronbach alpha: The alpha value for transformational leadership scale is arrived at 0.782. The construct employee satisfaction having alpha value found to be excellent that is 0.898 and the value of alpha in case of LMX came to be 0.766. Therefore, the above result of three constructs shows satisfactory internal consistency of the respective scales.

Composite reliability: Composite reliabilities of the scales using CFA are also assessed (Hair et al., 2009). The composite reliability values for transformational leadership, employee satisfaction and LMX are found to be 0.892, 0.798 and 0.956 respectively which indicates that the measurement scales are highly reliable.

Validity

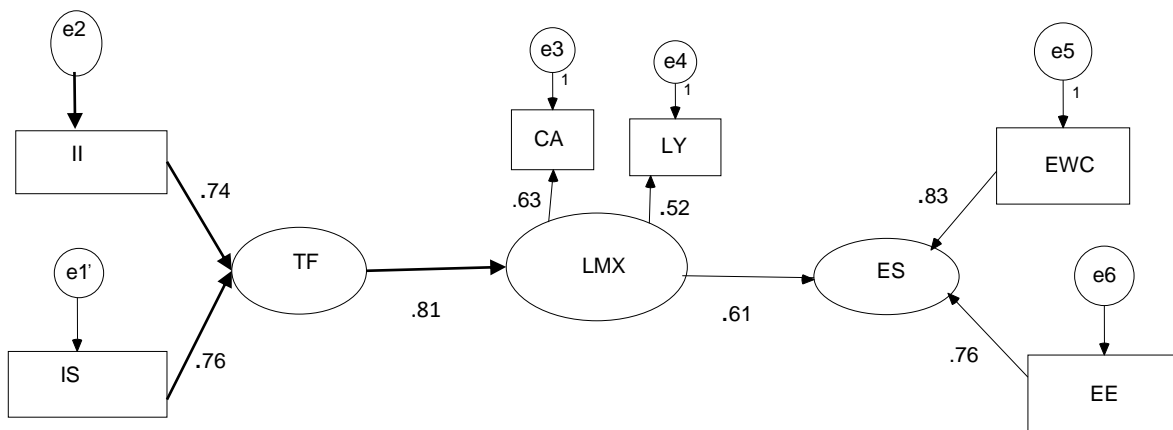
Convergent validity: The present study also computes convergent validity of the measurement scales by using AVE. The AVE with recommended value of 0.50 or higher provides evidence for convergent validity (Malhotra & Dash, 2010). The AVE value of transformational leadership (0.736), employee satisfaction (0.746) and LMX (0.785) reflect good validity of the constructs.

Discriminant validity: After find out convergent validity, the discriminant validity of transformational leadership, employee satisfaction and LMX is assessed by comparing the square root of AVE with correlation coefficient. That is, discriminant validity is obtained when the square root of AVE of a

construct is larger than correlation coefficient of two constructs (Hair *et al.*, 2009 and Malhotra and Dash, 2010).

5. RESULTS OF HYPOTHESES TESTING

Structural Equation Modeling is applied to assess the hypotheses. The model fitness indices- $\chi^2/df=2.282$, NFI= 0.930, RFI= 0.909, IFI= 0.959, TLI= 0.947, CFI= 0.959 and RMSEA= 0.067 reflected good model fit. The first path traced the relationship between transformational leadership and employee satisfaction which is H1, which argues that transformational leadership significantly and positively contributes towards enhancing employee satisfaction, is accepted as the value of standardised regression weight (SRW) is moderate and positive that is, 0.54. This finding is in line with Dasborough & Ashkanasy (2002) and Krishnan (2005) who remarked that dimensions of LMX namely, mutual respect, trust and the overall quality of the working relationships are significantly and positively related to transformational leadership style. The next path reflected the significant and positive relationship between LMX and employees satisfaction (SRW= 0.65, $P < .01$) which ensure that vigorous relationship between employees and managers results in good interpersonal satisfaction. Similar to the study findings, Volmer, Niessen, Spurk, Linz & Abele (2011) confirmed the positive impact of both LMX on employee satisfaction and employee satisfaction on LMX. The last path i.e. the mediating role of LMX in the relationship between transformational leadership and employee satisfaction is assessed by using Product of Co-efficient Approach or Sobel Test Statistics. For this, first of all the direct relationships i.e. the relationship between transformational leadership & LMX, the relationship between LMX & employee satisfaction and the relationship between transformational leadership & employee satisfaction is computed. In the next step, indirect relationship between transformational leadership & employee satisfaction i.e. the mediating role of LMX is assessed by applying Sobel calculator. The SRW values of the indirect relationship is used to estimate the value of Sobel statistics and the respective Sobel statistical value is arrived at 3.12 & p-value is less than 0.05 which is found to be significant for the indirect affect as it satisfies the threshold criterion (statistics value= <1.96). Hence, the hypothesis stands accepted i.e. LMX acts as a mediator in the relationship between transformational leadership styles and employee satisfaction.

Fig 1: Hypotheses Testing Through SEM

Keywords: TF- Transformational style, II- Idealised influence, IS- Intellectual stimulation, LMX- Leader member exchange relationship, CA- Cooperative association, LY- Loyalty, EWC- Explicit work capacity, EE- Employee encouragement are the observed variables, e1- e6 are the error terms.

7. CONCLUSION AND STRATEGIC IMPLICATIONS

Leadership is the focal point of activity by which the goals and objectives of the service organisation are accomplished and have an effect on achievement and failure of the organisation. Transformational leadership empowers subordinates towards free thinking, makes them independent individuals capable of exercising leadership. Effective leaders also exhibit high levels of transformational leadership, which is based on the leader's personal behaviours and has a substantial impact on followers. They inspire follower's values by helping the follower to align these values with the values of the organisation. They develop follower's commitment to shared vision and goals for an organisation or unit, challenge them to be innovative problem solvers and also develop follower's leadership capacity via coaching, mentoring and provision of both challenge and support for pursuit of organisational goals. To remain competitive and sustainable, an organisation must ensure that their employees keep on giving their best which is possible when they perform according to the goals and objectives of organisation. In this context transformational leadership can act as agent to improve employee/teachers performance by maintaining/establishing positive leader member relations, developing relational identification and satisfaction with the leader. The present paper has an attempt to offers new insight into leadership behaviour by identifying the influence of transformational leadership in enhancing employee's satisfaction and building cordial interpersonal relations. In a competitive environment, bank managers should adopt new virtues to achieve the heights of effective leaders by considering approaches that are adaptable to employees, pay attention to strategic thinking and place an increasing emphasis on statesmanship. The findings of the study revealed that managers in banking sector are efficient in their administrative roles and have a positive effect on the significant subscales of employee satisfaction.

However the study suffers from certain limitations. The present study has examined the relationship between transformational leadership and employee satisfaction and other variables such as transactional leadership, charismatic leadership etc. were not considered. The significant role of these variables could be examined to further enhance the impact of leadership styles on employee's satisfaction and performance which ultimately influences organisational performance. To sum up, effective leadership provides supervision, direction and control in the service organisations that motivate their employees to achieve their desired goals & job satisfaction. Moreover, effective leader adopt suitable leadership style to meet the upcoming demands of the prevalent situation in which they work. Therefore, effective leadership involves the strategic integration of diverse leadership styles which resulted into efficient and effective management of subordinates, improved employee performance and organisational development.

REFERENCES

- Arnold, K.A., & Barling, N.T.J. (2007). Transformational leadership and psychological well being: The mediating role of meaning full work. *Journal of Occupational and Health Psychology*, 12(3), 193-203.
- Bodla, M.A., & Nawaz, M. M. (2010). Transformational leadership style and its relationship with satisfaction. *Interdisciplinary Journal of Contemporary Research in Business*, 2(1), 370-381.
- Bushra, F., Usman, A., & Naveed, A. (2011). Effect of Transformational leadership on employee job satisfaction and organisational commitment in banking sector of Lahore (Pakistan). *International Journal of Business and Social Science*, 2(18), 261-267.
- Coglisier, C. C., & Schriesheim, C. A. (2000). Exploring work unit context and leader-member exchange: A multi-level perspective. *Journal of Organisational Behavior*, 21(5), 487-511.
- Dasborough, M. T., & Ashkanasy, N. M. (2002). Emotion and attribution of intentionality in leader-member relationships. *The Leadership Quarterly*, 13(5), 615-634.
- Duarte, N. T., Goodson, J. R., & Klich, N.R. (1993). How do I like the? Let me appraise the ways. *Journal of Organisational Behaviour*, 14(1), 239-249.
- Dvir, T., Eden, D., Avolio, B.J. & Shamir, B. (2002). Impact of transformational leadership on follower's development and performance: A field experiment. *Academy of Management Journal*, 45(4), 735-744.
- Erdogan, B., & Enders, J. (2007). Support from the top: Supervisors' perceived organizational support as a moderator of leader-member exchange to satisfaction and performance relationships. *Journal of Applied Psychology*, 92(2), 321-336.

- Givens, R.J. (2008). Transformational leadership: The impact of organisational and personal outcomes. *Emerging Leadership Journeys*, 1(1), 4-24.
- Hair, J.F., Black, W.C., Babin, B.J., & Anderson, R.E. (2009). *Multivariate data analysis* (7th ed.). Englewood Cliffs, N.J. Prentice Hall.
- Ismail, A., Mohamed, H., Sulaiman, A., and Yusuf, M. (2011), 'An empirical study of the relationship between transformational leadership, empowerment and organisational commitment', *Business and Economics Research Journal*, 2 (1), 89-107.
- Kour, Ramandeep and Andotra, Neetu (2017). Impact of Women Leadership Behaviour on Employees' Job satisfaction: An Empirical Study of Banking sector of Jammu district of J&K. *International Journal on Leadership*, 5(2), 70-78.
- Krishnan, V. R. (2005). Transformational leadership and outcomes- Role of relationship duration. *Leadership & Organisation Development Journal*, 26(6), 442-457.
- Krishnan, V.R. (2004). Impact of transformational leadership on followers influence strategies. *Leadership and Organisation Development Journal*, 25 (1), 58-72.
- Liaw, Y.J., Chi, N.W., & Chuang, A. (2010). Examining the mechanisms linking transformational leadership, employee customer orientation and service performance: The mediating roles of perceived supervisor and coworker support. *Journal of Business Psychology*, 25(3), 477-492.
- Malhotra, N.K., & Dash, S. (2010). *Marketing research: An applied orientation* (6th edition). New Delhi, Pearson Education.
- Mohammad, T. R., M, Javad and Shirin, N. (2012), 'Impact of leadership development on employees' performance', *International Journal of Business, Humanities and Technology*, 2 (5), 154-159.
- Ortiz, M.P., Willoughby, M. & Armengot, C.R. (2012). Performance in franchising: The effects of different management styles. *The Service Industry Journal*, 32 (16), 2507-2525.
- Othman, A. & Wanlabeh, N. (2012). Teacher's perspectives on leadership practices and motivation in Islamic private schools, Southern Thailand. *Asian Education and Development Studies*, 1 (3), 237-250.
- Shibru, B., & Darshan, G.M. (2011). Effects of transformational on subordinate job satisfaction in leather companies in Ethiopia's. *International Journal of Business Management*, 2(5), 284-296.
- Simola, S., Barling, J., & Turner, N. (2012) .Transformational leadership and leader's mode of care reasoning. *Journal of Business Ethics*, 108(4), 229-237.

- Volmer, J., Niessen, C., Spurk, D., Linz, A., & Abele, A. E. (2011). Reciprocal relationships between leader–member exchange (LMX) and job satisfaction: A cross-lagged analysis. *Applied Psychology*, 60(4), 522-545.
- Walumbwa, F. O., & Hartnell, C. A. (2011). Understanding transformational leadership-employee performance links: The role of relational identification and self-efficacy. *Journal of Occupational and Organisational Psychology*, 84(1), 153-172.
- Yukl, G., O'Donnell, M., & Taber, T. (2009). Influence of leader behaviours on the leader-member exchange relationship. *Journal of Managerial Psychology*, 24(4), 289-299.

