

TRANSACTIONAL LEADERSHIP STYLE AND ITS EFFECT ON ORGANIZATIONAL COMMITMENT: EMPLOYEE TRUST AS A MEDIATOR

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ABSTRACT: *The research seeks to examine the effect of leadership style on organizational commitment of employees by considering banking sector of Pakistan. It explores the mediation effect of employee trust between transactional leadership style and organizational commitment. Data from 350 banks were collected who were under at least one supervisor and also have work experience of more than six months. The regression result exposed that all dimensions of this leadership style significantly affect commitment as it displayed significant p-value. Sobel test was used to test the mediation effect of employee trust between transactional leadership style and organizational commitment. The result of hypotheses showed that employee trust significantly mediated the relationship of transactional leadership and organizational commitment of employees.*

Key words: Transactional Leadership; Organizational Commitment; Trust; Leadership Style

1. INTRODUCTION

There is an increasing interest in the role of leaders encouraging employees to take initiative, accept risk, stimulate improvement and manage the ambiguity. They share vision and always try to motivate employees to get maximum benefit. Leaders play a significant role in dealing with organizational matters. Many researchers have defined leader as a person that holds some dominant and self-motivated traits and lead people by showing a particular direction [1]. Such behaviors influence the management of an organization and is considered as a critical component in shaping an organizational effectiveness [2]. Leaders have been debated to play a significant role in describing organizational success across all levels that exist within an organization [3]. Transactional and transformational leadership styles have been focused from a last few decades [4,5,6]. Various researchers have tried to examine leadership styles and concluded that both have a significant effect on organization effectiveness [7], [8]. Leadership plays a vital role in delivering a medium in which employee's commitment can be enhanced. In general, if employees feel comfortable with the nature of the work and happy with their supervisor and co-workers then they will be more satisfied with their jobs and committed to their organizations. Durable association between employees and organization is crucial for keeping organization competitive. Previous literature has explored a positive association between leadership styles and organizational commitment [9,10,11,12]. Prior researches about leadership and organizational commitment has been conducted amongst members from different cultural backgrounds. Various styles of leadership such as transactional leadership style and its influence on employee organizational commitment have not been entirely debated particularly in the banking sector of Pakistan. This research has followed the recommendation given by Zhu and Akhtar [13]. They explored the mediation effect of trust between transformational leadership style and work outcomes and also suggested to explore trust as a mediator between other leadership style and work outcomes. This research tried to fill the gap of their research work. Banking system of Pakistan is a sector which has progressed a lot in the previous years (State bank of Pakistan). Keeping a durable supervisor and employee relationship can be the key to the critical success of banks. It is identified that if there is a strong relationship between employees and their leaders then the bank will be

more creative and more efficient. Consequently there will be less conflict and more loyalty.

Although the importance of leadership styles and trust in organization have been focused for the development of organizations, but there is inadequate published research which explored mediating role of two psychological dimensions of trust in the organization [13]. Existing research have mostly addressed the effect of transformational leadership style on work outcomes [14,15,16] but still there is a need to know about the effect of other leadership styles on other outcomes by focusing on the mediating role of trust particularly in the context of Pakistan. This research has been conducted to fill the gap in existing research by observing the effect of transactional leadership style on commitment by considering trust and its dimension as a mediator.

2. LITERATURE REVIEW

Leadership has been a key topic of research and a lot of empirical and theoretical studies have been done on this particular area [17], [18]. The concept of leadership has existed for as long as individuals have started work together, and it exists in all cultures. Yukl & Tracey [19] describes leadership as stimulating procedures that affects the understanding of happenings for supporters, the selection of goals for the group or organization, the drive of employees to succeed in achieving their objectives, the care of accommodating relations and group work, and the utilization of support and collaboration from persons outside the organization.

There are a lot of theories on leadership because every researcher has tried to view leadership concept in his own way. These theories can be categorized as follows [20]:

- Trait Theory
- Behavioral Theory
- Contingency Theory
- Visionary school of thought

Visionary school of thought is usually known as new leadership theory. Some researchers [21] have identified that this revival of interest seems to be supplemented by an approval of the difference between transactional and transformational leadership, with a high stress on the latter. Denison, Hooijberg & Quinn [22] compares transactional and transformational leadership with other differences in leadership such as relations oriented and task-oriented leadership [23] consideration-initiating structure as well [24]

and directive, participative or autocratic–democratic leadership [25]. Though, Avolio and Bass [26] asserts that the transactional–transformational model is a new pattern, neither substituting nor described by other models such as the relations oriented and task–oriented leadership model.

Avolio and Bass introduced the full range leadership theory that is abbreviated as FRLT [26]. FRLT represents three typologies of behavior of leaders, which are known as transformational, transactional, and non-transactional or laissez-faire leadership. Theories of Transactional and transformational leadership have gained considerably more importance over the past two decades [27]. Transactional leadership occurs when leaders and employees are involved in the give-and-take situation to meet their own self-benefits [28]. Transactional leadership encourages employees by focusing on their self-interest and it is centered on give-and-take relationship, whereby employee obedience is swapped with anticipated rewards. There are three dimensions of transactional leadership which are contingent rewards, Active management by exception, Passive management by exception [29]. In contingent reward dimension of transactional leadership, the leader provides a clear understanding to the employees by his/her own participation about what the employees should do to be rewarded for their services [30]. It is described as providing a sufficient interchange of valued and appreciated possessions for employee support. Contingent reward dimension is the most energetic aspect of transactional leadership, but is less active than transformational leadership [31], because one can involve in contingent reward without ever actually involved in employees just like executing a pay for performance plan. In active management by exception, the leader monitors employee's performance and make corrective actions when the employees fail to meet the criteria or standards [32]. It includes observing performance and taking curative action when needed [33]. In passive management by exception dimension, the leader does not care about the employee's actions. He/she only responds and takes corrective action when the problem arises [32]. This dimension means interfering only when complications become severe. Active and passive management by exception includes imposing rules to evade mistakes. They preserve the method of handling and leader's attentional possessions for those dealings that need the leader's attention.

Many researches have been done on the relationship between leadership and commitment. Mowday *et al.* [34] described organizational commitment as the power of the individual through which he/she can be identified and their level of participation in a specific organization. Transactional leaders make clear to their employees about their responsibilities, the beliefs the leaders have, the tasks that must be completed and the paybacks to the self-interests of the employees for obedience. Thus, transactional leader with all its components can influence organizational commitment as it has been found in previous researches [35][36, 37].

H₁: Transactional leadership style has a significant impact on organizational commitment.

H1a: Contingent rewards have a significant impact on organizational commitment.

H1b: Management by exception (Active) has a significant impact on organizational commitment.

H1c: Management by exception (Passive) has a significant impact on organizational commitment.

Many researchers have concluded that there is a positive relationships between transactional leadership behavior and trust in leadership [38,39, 40, 41]. When employees feel fairness survives within the transactional nature of the leadership behaviors such as contingent reward, active management by exception, and passive management by exception, then this leadership style may be regarded as a sign for leader goodwill.

H₂: Transactional leadership style has a significant relationship with employee trust (cognition-based and affect-based).

H2a: Contingent reward provided has a significant relationship with employee trust (cognition-based and affect-based).

H2b: Management by exception (Active) has a significant relationship with employee trust (cognition-based and affect-based).

H2c: Management by exception (Passive) has a significant relationship with employee trust (cognition-based and affect-based).

Blau's [42] origination of social exchange theory emphasized the role of trust in the development and maintenance of a social exchange relationship, there is a lack of research that has studied the role of trust in clarifying the social exchange foundation of employee work outcomes [43]. Liou [44] concluded that trust in the leader and the organization was a best predictor of commitment to the organization. Ruppel and Harrington [45] have explored the relationship between trust and organizational commitment. They stated that if employees have a high level of trust, then he/ she will be more committed to the organization.

H₃: Employee trust (cognition-based and affect-based) has significant impact on organizational commitment.

According to social exchange theory, the fundamental relationship between trust and commitment results from the belief of widespread mutuality, which holds that distrust raises distrust and as such would also aid to reduce commitment in the relationship and shift the deal or transaction to one of more uninterrupted short-term exchanges [46]. Shared commitment is an essential part of the practical social exchange because it certifies that partners will suggest the determination and make the investments essential to yield jointly desirable outcomes. Jung and Avolio [47] have also explored the mediating role of trust between transactional leadership. They concluded that transactional leadership effects performance while trust plays mediating role in this relationship. On the basis of previous studies following hypothesis have been developed:

H₄: Employee trust plays a mediating role between transactional leadership style and organizational commitment.

Theoretical framework:

The proposed model of this research has been shown in the

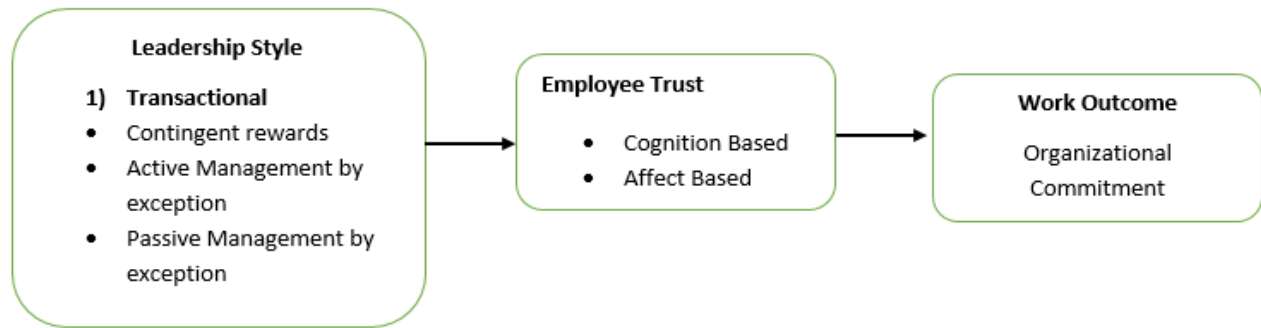


Figure 1. Theoretical Framework

The main objectives of this research were as follows:

- To find out the relationship between transactional leadership style and organizational commitment
- To examine the relationship between transactional leadership style and trust
- To find out the effect of trust on organizational commitment of employees.
- To examine whether employee trust mediates the relationship between transactional leadership style and organizational commitment.

3. METHODS

3.1 Sample and Procedure

The number of employees working in banks of Pakistan are 152,634 and it formed the population of this study. The questionnaires were distributed among 350 bank employees by using purposive sampling technique. Unit of analysis for this study was individuals. The criteria for selecting respondent was defined before distributing questionnaires. The criteria for selecting purposive sample was as follows:

- Individual should be an employee of any bank operating in Lahore.
- He/she should have bank experience of at least six months.
- An employee should have one leader or supervisor.
- An individual must be literate enough to fill out the questionnaire (due to this reason tea boys, security guards and riders have not been considered for sample selection).

Some of the banks were very helpful and distributed the questionnaire to relevant employees immediately. Hence, with the support of bank managers, data was collected easily from the respondents working in banks of Lahore. 331 employees responded back and after collecting these filled questionnaires, the data was entered in MS Excel software to check missing values and unengaged responses. After dealing with missing values and unengaged responses, only 304 questionnaires were found to be fully filled in. So the

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response rate was 86.85% that was quite impressive. Further data was entered into SPSS software to check the reliability of data by using Cronbach’s Alpha. After then regression and Sobel test was applied to check mediation.

3.2 Measurement of Variables

1. Transactional Leadership Style

Transactional leadership has been measured using 12 items from Avolio and Bass’s [48] Multifactor Leadership Questionnaire rater form 5X-Short (MLQ). Participants were asked to specify the leadership behavior of their supervisors on five-point Likert-type scales ranging from 1 (Not at all) to 5 (Frequently if not always). 12 Items includes contingent reward dimension, management by exception (active) and management by exception (passive). The Cronbach’s alpha for transactional leadership and its component was $\alpha = 0.766$.

2. Employee trust

Cognition-based trust and affect-based trust scales has been adapted from McAllister’s [49] study. Six items were used to measure cognition-based trust. Participants responded to five-point Likert scales ranging from strongly disagree to strongly agree. Five items were used to measure affect-based trust using five-point Likert scale ranging from strongly disagree to strongly agree. The Cronbach’s alpha for employee trust, including cognition based and affect based dimension was $\alpha = 0.896$.

3. Organizational commitment

The instrument to measure organizational commitment was developed by Porter and his colleagues which is known as Organizational Commitment Questionnaire (OCQ). They identified 15 items to measure organizational commitment [50]. This research also used OCQ items to measure this variable. Responses to each item were measured on a 5-point scale ranging from strongly disagree to strongly agree. The Cronbach’s alpha for commitment was $\alpha = 0.727$.

4. ANALYSIS AND RESULTS

Reliability of the questionnaire was assessed through Cronbach’s alpha coefficient (see table.1). The table is as follow

Table. 1				
Reliability analysis				
Variables		Cronbach's Alpha		Items
Transactional Leadership		0.766		12
1.	Contingent Reward	0.839		4
2.	Management By Exception (Active)	0.740		4
3.	Management By Exception (Passive)	0.688		4
Trust		0.896		11
1.	Cognition-Based Trust	0.766		6
2.	Affect-Based Trust	0.895		5
Organizational Commitment		0.727		15
Table. 2		B	F	Sig.
Hypothesis H _{1a}	(Constant)	2.970	10.603	0.001
	Contingent Reward	.087		
Dependent Variable: Organizational Commitment				

Organizational commitment of employees increased 0.154 for each unit of management by exception (active) dimension.

Table. 3		B	F	Sig.
Hypothesis H _{1b}	(Constant)	2.739	23.88	0.000
	Management by exception (active)	0.154		
Dependent Variable: Organizational Commitment				
Table. 4		B	F	Sig.
Hypothesis H _{1c}	(Constant)	3.509	12.062	0.001
	Management by exception (passive)	-0.108		
Dependent Variable: Organizational Commitment				
Table. 5		B	F	Sig.
Hypothesis H ₁	(Constant)	2.966	5.082	0.025
	Transactional Leadership	0.098		
Dependent Variable: Organizational Commitment				
Table. 6		B	F	Sig.
Hypothesis H _{2a}	(Constant)	1.913	153.387	0.000
	Contingent Reward	0.456		
Dependent Variable: Employee Trust				
Table. 7		B	F	Sig.
Hypothesis H _{2b}	(Constant)	2.373	37.015	0.000
	Management by Exception, active	0.312		
Dependent Variable: Employee Trust				

Table. 8		B	F	Sig.
Hypothesis H _{2c}	(Constant)	3.222	2.887	0.090
	Management by Exception, passive	0.089		
Dependent Variable: Employee Trust				

Table. 9		B	F	Sig.
Hypothesis H ₂	(Constant)	1.520	102.321	0.000
	Transactional Leadership	0.635		
Dependent Variable: Employee Trust				
Table. 10		B	F	Sig.
Hypothesis H ₃	(Constant)	3.034	3.662	0.057
	Trust	0.066		
Dependent Variable: Organizational Commitment				

. Table.11 Mediation test

Sobel	P value	Percentage of the total effect that is mediated	Ratio of the indirect to the direct effect	Goodman test	P value	Goodman II test	P value	Percentage of the total effect that is mediated	Ratio of the indirect to the direct effect
3.39802	.002507	43.554782	.735611	3.462	.002766	3.43549	.002654	43.554782	.735611

A linear regression was calculated to predict organizational commitment based on the dimension of transactional leadership that is managed by exception (active) (see table.3). A significant regression equation was found ($F(1, 302) = 23.88, p < 0.05$). Employees' predicted organizational commitment is equal to $2.739 + 0.154$ (management by exception, active).

A linear regression was calculated to predict organizational commitment based on the dimension of transactional leadership that is managed by exception (passive) (see table.4). A significant regression equation was found ($F(1, 302) = 12.062, p < 0.05$). Employees' predicted organizational commitment is equal to $3.509 - 0.108$ (management by exception, passive).

Organizational commitment of employee's decreased 0.108 for each unit of management by exception (passive) dimension. It shows inverse relation between organizational commitment of employees and management by exception (passive).

A linear regression was calculated to predict organizational commitment based on transactional leadership cumulatively (see table.5). A significant regression equation was found ($F(1, 302) = 5.082, p < 0.05$). Employees' predicted organizational commitment is equal to $2.966 + 0.098$ (transactional leadership). Organizational commitment of employees increased 0.098 for each unit of transactional leadership.

A linear regression was calculated to predict employee trust based on the dimension of transactional leadership, i.e., contingent reward (see table.6). A significant regression equation was found ($F(1, 302) = 153.387, p < 0.05$). Employees' predicted trust is equal to $1.913 + 0.456$ (contingent reward). Employees trust increased 0.456 for each unit of contingent reward.

A linear regression was calculated to predict employee trust based on the dimension of transactional leadership i.e., management by exception (active) (see table.7). A significant regression equation was found ($F(1, 302) = 37.015, p < 0.05$). Employees' predicted trust is equal to $2.373 + 0.312$ (Management by Exception, active). Employees trust increased 0.312 for each unit of Management by Exception (active).

A linear regression was calculated to predict employee trust based on the dimension of transactional leadership i.e., management by exception (passive) (see table.8). An insignificant regression equation was found ($F(1, 302) = 2.887, p > 0.05$). An insignificant p-value shows that management by exception (passive) brings no change in dependent variable or it doesn't predict employees' trust.

A linear regression was calculated to predict employee trust based on transactional leadership cumulatively (see table.9).

A significant regression equation was found ($F(1, 302) = 102.321, p < 0.05$). Employees' predicted trust is equal to $1.520 + 0.635$ (transactional leadership). Employees trust increased 0.635 for each unit of transactional leadership.

A linear regression was calculated to predict organizational commitment based on trust (see table.10). A highly insignificant regression equation was found ($F(1, 302) = 3.662, p > 0.05$). An insignificant p-value shows that employee trust on the leader

brings no change in dependent variable or it doesn't predict organizational commitment of employees.

The following table shows the result of mediation for H_4 . Sobel test and the Goodman test indicates that the mediation is statistically significant as its p-values is less than 0.05 (see table.11). Therefore, it can be concluded that the mediation is statistically significant, representing that the relationship between transactional leadership style and organizational commitment of employees is mediated by trust. The value in table below, under the heading of percentage of total effect that is mediated, is used to get an approximation of the amount of mediation. In this case, the percent mediated is 43.55% which means that trust accounted for 43.55% of the effect of transactional leadership causing organizational commitment of employees. However, additional measure of effect of the mediator is the ratio of indirect to the direct effect. The measure in this study was 0.735, signifying that the mediated (indirect) effect is 73.5% of the direct effect of transactional leadership style on organizational commitment

FINDINGS AND CONCLUSION

In light of the literature review and responses from the respondents of questionnaire, research findings has been presented as follows:

- This research has verified that there is a significant relationship between transactional leadership style and organizational commitment. It has been concluded that transactional leadership style can influence commitment of employees in the context of Pakistan.
- Transactional leadership style except management by exception (passive) dimension has significant impact on employee trust. In passive management by exception dimension, the leader does not care about follower's actions. He/she only responds and takes corrective action when the problem arises. So this dimension didn't show a significant relation with employee trust.
- Employee trust has no significant impact on organizational commitment. This finding is contrasting with previous research. Culture difference might be a reason of this contradictory result.
- This research has also concluded that trust plays a mediating role between transactional leadership style and organizational commitment of employees.

From the abovementioned findings, it can be concluded that leadership styles plays a vital role in delivering a medium in which employee's commitment can be enhanced. If employees feel comfortable with the nature of the work and happy with their supervisor and co-workers then they will be more satisfied with their jobs and committed to their organizations. This study makes significant contribution in the field of organizational behavior in general and leadership in actual. This research contributes in recognizing the effects of transactional leadership style on organizational commitment of employees in the banking sector of Pakistan. The researcher has also examined the factor of trust by considering it as mediator. This study contributes as it has filled the gap suggested by Zhu and Akhtar. According to this research it can be stated that trust plays a mediating role between transactional leadership style and organizational commitment of employees. So these findings add extra knowledge in existing literature. This research can be helpful for leaders to stimulate feasible work environment and to motivate its followers. The findings of this research can assist organizations and leaders to achieve their desired outcomes by focusing on trust and their leadership style. Moreover this also provides guidelines about how leaders can affect followers and their work outcomes by developing trust. This research has produced new information regarding the significance of leadership styles in banking sector of Pakistan. This information offers the chance to consider how leadership style relates to organizational work outcomes.

5. LIMITATIONS AND FUTURE RESEARCH

Some limitations of this study have been recognized here. First, the nature of this study is cross sectional in nature which means that data has been collected from number of employees within a singles point of time. Followers may become more committed with the passage of time and their intention to leave may reduce. So by considering this, future research with longitudinal or experimental designs should be conducted. Future research should collect data in different point of times from the same individuals. Banking sector of Lahore has been focused in this study, it may be possible that private sector banks' employees behave differently than public sector employees of Pakistan. This research has not provided any comparison regarding both sector employees' behavior so future research can focus on this issue. Researchers can compare the leadership behaviors of managers in public and private sector banks and identify the key influence of those behaviors on work outcomes. Finally, the range of this study is limited to only one types of work outcome that is organizational commitment. Future research can examine other work outcomes, such as extra-role behaviors and job stress. In this research, organizational commitment has been considered as a whole. This study has not focused on the types of commitment i.e., normative, affective and continuance commitment. Future research can also explore the relationship between cognition and affect-based trust and types of organizational commitment. Questionnaire was used as a data collection tool. It may be possible that other data collection tools such as interviews produce different results so it is recommended for future research to consider interviewing method for data collection.

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