The Nexus Between Transformational Leadership and Firm Performance

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Abstract

The purpose of this study is to analyze the impact of transformational leadership on the performance of private banks located in Nawabshah, Pakistan. Additionally, it examines how employee self-efficacy and work engagement act as mediators in this relationship. Through non-probability convenience sampling, 100 participants from private banks were selected and data was collected using a Likert scale questionnaire. Structural equation modeling (SEM) was used for data analysis through Smart PLS software. By exploring the effects of transformational leadership on firm performance and the mediating roles of employee self-efficacy and work engagement, this study contributes new insights to the existing literature on leadership and firm performance. The findings have practical implications for managers and leaders in the private banking sector in Pakistan, highlighting the importance of transformational leadership in enhancing firm performance.

Keyword: Transformational Leadership; Firm Performance; Employee Self Efficacy; Work Engagement; Private Banking Sector

Introduction

The contemporary business environment is becoming increasingly complex and quickly changing, and understanding the factors that influence a business's performance is paramount (Meria et al., 2022). As intense rivalry, advancements in technology, and customer needs evolve rapidly, firms must make an effort to keep up with the competition (Judeh et al.,

2019). One of the main sources of debate revolves around whether or not organizational performance can be influenced by leadership style and behavior. Examples such as Howard Schultz making Starbucks the world's favorite brand, and Ahrendts' doubling of Burberry's revenue in five years (2013), suggest a positive relationship between management style and performance. Conversely, other researchers argue that appointing popular CEOs who boast a charismatic personality can not only increase executive pay expenditure (Lai et al., 2020) but also result in potentially negative consequences, as seen in the story of Jeff Skilling and Enron (Asada et al., 2021). A plethora of variables have been identified in the literature as having a potential influence on a firm's performance. These include entrepreneurial orientation (Santoso et al., 2019), information technology (Rabiul et al., 2022), business strategy (Azim et al., 2019), and leadership style (Park et al.,, 2022). The latter has particularly been highlighted to have a significant contribution to business performance outcomes. In the highly competitive surroundings of today's businesses, organizations are inundated face various challenges and strive to develop suitable strategies to obtain competitive advantage and meet operational performance targets (Zia et al., 2022). Leaders are seen to be integral in shaping business policies and, ultimately, influencing the organizational environment.

This research aims to explore how charismatic leadership influences the success of private banks in Nawabshah, Pakistan. Specifically, we investigate whether staff self-assurance and involvement in their work mediate this effect. Through this study, we intend to comprehend leaders' conduct within organizations, how they impact their companies' outcomes, and how leaders can craft a supportive atmosphere that inspires employees to attain their maximum abilities. We also hope to determine whether diverse leadership styles variably motivate workers and whether a transformational approach consistently performs better overall. Data collection will involve interviews with senior management and employees in Target banks in Nawabshah to understand the impact of transformational leadership on firm performance. Questions dealing with employee engagement and employee communication will also be included to gain insights into the motivational elements of transformational leadership. Additionally, a survey with employees in the banks will be conducted to better measure the mediating variables of self-efficacy and engagement. This research will provide evidence on the benefits of a transformational leadership style in terms of firm performance and the relationships it has with its employees, as well as improving the quality of research in the area of leadership. It is expected that this research will be beneficial to scholars, practitioners, and those generally interested in the area of leadership.

Literature Review

Leadership is a complex concept that encompasses many different approaches depending on the situation (Al Khajeh et al ., 2018). Adaptive leadership is an evolving approach which people use when they develop and demonstrate the ability to adjust their leadership style to fit the needs of their situation (Alblooshi et al., 2021). Rather than relying on a specific repertoire of leadership styles a leader applies, they adjust their style as needed to best suit the current environment (Fries et al., 2021). Adaptive leaders take into account the culture and values of an organization, the current goals of the organization, and the individual skills and personalities of the people they are leading (Alblooshi et al., 2021). This holistic approach allows them to provide guidance when needed, but also the flexibility to respond to the

current work environment (Al Khajeh et al ., 2018). They recognize that all of these elements will need to cooperate in order for the overall work goal to be accomplished. Adaptive leaders understand that they must lead differently in different contexts (Fries et al., 2021). For example, a boss that is leading a team on a project in a rapidly changing industry must be able to adjust their leadership style as new knowledge and technology is developed on the fly (Gandolfi et al., 2018). In this case, an adaptive leader must be able to quickly assess, adjust, and effectively respond to an ever-changing work environment. Adaptive leadership requires that a leader is constantly engaged with their team and the environment they are working in (Specchia et al., 2021). Leaders must be able to assess the current state of the organization and adjust their leadership style and response in order to reach the desired goals (Fries et al., 2021). This type of leadership is especially important in today's world and provides an effective way for leaders to successfully navigate complex and ever-changing problems.

Transformational leadership is an effective leadership style that motivates, encourages, leads by example, and inspires employees to exceed their expectations and achieve long-term organizational goals (Sousa et al., 2021). The key components of this approach include creating an inspiring vision for the organization, focusing on the personal development of employees, motivating them with the power of encouragement, setting high performance standards, and continuously challenging and monitoring the performance standards (Huertas-Valdivia et al., 2019). This style of leadership is applicable in situations where the leader needs to prompt a group of people to work hard or involve in activities that are out of their comfort zone (Abasilim et al ., 2019). Transformational leadership often impresses upon followers the importance of focusing on the results of their actions and helping them to adjust these results. It helps followers to bring about major improvements in processes, structures, resources, and people (Yukl, 2013).

Research Methodology

This research having non probability situations in context of the identification of population and accessibility and response rate. Non-probability sampling is a type of sampling technique wherein samples are collected in a manner that does not give all the individuals in the target population equal chances of being selected as part of the sample (Kumar & Srivastava, 2019). This sampling technique is more commonly used for convenience purposes. Such type of sampling technique is dependent on the availability and convenience of the researcher to select the sample (Li, Yuen, & Chen, 2018). As compared to probability sampling, this technique offers more flexibility both in terms of selection and composition of the sample group as this method relies heavily on the judgment and experience of the researcher (Beaman, 2017).

This research involved collecting data from a total of 100 participants. A total of 120 questionnaires were distributed, but only 100 were returned. The remaining 20 were not included due to incomplete or inaccurate responses. According to Hanss et al. (2010) Structural Equation Modeling (SEM) is a widely used tool in modern social science research for examining the relationships between latent variables and their measureable indicators. Smart PLS is a user-friendly part of the Partial Least Squares (PLS) structure modelling algorithm that enables SEM to be used for analysing multi-group and multi-level datasets. Smart PLS has various advantages when compared to other methods for SEM such as its

ability to predict latent variables better and its low computational cost.
Furthermore, Smart PLS can compare structural and predictive models and provide insights into the stability and validity of the models. In conclusion, Smart PLS is a reliable and efficient tool that can be used for SEM in multi-group and multi-level data analysis, offering researchers a more effective way of understanding and interpreting the relationships between latent variables and their indicators. Thus this research also utilized SEM analysis via Smart PLS software.

Data Analysis and interpretation

Descriptive statistics

Descriptive statistics play a crucial role in providing meaningful insights and understanding of data for researchers in various fields (Fisher & Marshall, 2009). This statistical tool allows for the summarization, organization, and representation of data in a concise and comprehensible manner, aiding in drawing significant conclusions (Nick, 2007). Researchers can collect, analyze and present data using descriptive statistics, including measures such as averages, frequencies, and percentages (Kaur et al., 2018).
In this study, the central tendencies and dispersion statistics of all latent variables were found to be significant. The mean values for all variables were above 3.5, indicating a high level of reliability among the respondents' responses. This also validates the internal consistency reliability of the responses. A detailed table of the entire scale is presented below.

Table 0-1 Alpha, Central Tendencies and Dispersion

Variable	Cronbach's Alpha	Mean	Std. Deviation
Inspirational Motivation	0.782	3.43	1.45
Intellectual Stimulation	0.769	4.21	1.21
Individualized Consideration	0.752	4.03	1.38
Work Engagement	0.801	3.96	1.30
Self-efficacy	0.797	3.64	1.27
Firm Performance	0.823	4.29	1.09

The values for the variables of inspirational motivation, intellectual stimulation, individualized consideration, work engagement, self-efficacy, and firm performance are displayed in this table together with their respective reliability (Cronbach's alpha), central tendency (mean), and dispersion (standard deviation). The internal consistency of the items inside each variable is indicated by the reliability values, sometimes referred to as Cronbach's alpha. A variable's reliability increases with its alpha value; values above 0.70 are often regarded as satisfactory. The average scores for each variable are shown by the central tendency, which are represented by the mean values. The average scores on the scale for Inspirational Motivation (3.43), Intellectual Stimulation (4.21), Individualized Consideration (4.03), Work Engagement (3.96), and Self-efficacy (3.64) fall within the range of 1 to 5. This suggests that most participants believe their leaders demonstrate these transformational leadership traits, and they also think they are reasonably engaged and self-sufficient. This variance between the scores and the mean is indicated by the standard deviations, which are the dispersion values.

Factor Analysis

"Factor analysis is a frequently used statistical method in measurement modeling that helps to uncover the underlying associations within a set of variables" (Rummel, 1988). By identifying common factors driving the correlations among variables, it simplifies the model and makes it easier to understand (Kim & Mueller, 1978). Essentially, factor analysis reduces the complexity of the model by grouping variables into a smaller number of factors, thus facilitating simpler and more clear-cut analysis (Harman, 1976). Moreover, it aids in pinpointing the key variables that greatly influence the relationships between the variables in question (Gorsuch, 2014). This proves useful in model building, as it allows for the elimination of non-essential variables and the identification of those that are most crucial for further analysis (Gorsuch, 2014). In essence, factor analysis is an invaluable tool for exploring the hidden connections among variables and streamlining the research process for improved interpretation of findings (Gorsuch, 2014).

Table 0-2 Outer Loading (Factor Analysis)

Sr No.	Item Code	IM	IS	IC	SE	WE	FP
1	IM1	0.765					
2	IM2	0.734					
3	IM3	0.721					
4	IS1		0.743				
5	IS2		0.761				
6	IS3		0.782				
7	IS4		0.773				
8	IC2			0.811			
9	IC3			0.792			
10	IC4			0.810			
11	SE1				0.758		
12	SE2				0.768		
13	SE3				0.724		
14	SE4				0.710		
15	WE1					0.812	
16	WE3					0.709	
17	WE4					0.732	
18	WE5					0.721	
19	WE7					0.789	
20	WE9					0.782	
21	WE12					0.743	
22	WE13					0.801	
23	WE15					0.823	
24	FP1						0.731
25	FP2						0.832
26	FP3						0.809
27	FP5						0.765

28	FP8						0.793
29	FP9						0.804

The above table shows the outer loading values for each item used in the factor analysis for the research on the impact of transformational leadership on firm performance, mediated by employee self-efficacy and work engagement in private banking sector at Nawabshah, Pakistan. The factor analysis is a statistical method used to identify underlying factors or dimensions within a set of variables. The items under each factor (IM, IS, IC, SE, WE, and FP) represent the different aspects or dimensions of transformational leadership, employee self-efficacy, work engagement, and firm performance. The outer loading values measure the strength of the relationship between each item and its respective factor. A higher outer loading value indicates a stronger relationship, and values above 0.7 are considered to have high factor loadings.

In this table, the items for factor IM, representing inspirational motivation, have the highest loadings, ranging from 0.721 to 0.765. This suggests that the three items under this factor have a strong relationship with inspirational motivation. Similarly, the items for factor IS, representing intellectual stimulation, also have high loadings, ranging from 0.743 to 0.782, indicating a strong relationship between the items and this factor. The items for factor IC, individualized consideration, also have high loadings, with values ranging from 0.792 to 0.811, indicating a strong relationship between the items and this factor. For factor SE, representing self-efficacy, the four items have strong loadings, ranging from 0.710 to 0.758. This suggests a strong relationship between self-efficacy and the items used to measure it. For factor WE, representing work engagement, the highest loading values range from 0.721 to 0.823, indicating a strong relationship between work engagement and the items used to measure it. Finally, for factor FP, representing firm performance, the five items have high loadings, ranging from 0.731 to 0.832, indicating a strong relationship between the items and firm performance. Based on these results, we can conclude that all the factors (IM, IS, IC, SE, WE, and FP) have a strong relationship with their respective items, indicating the validity of the measurement used in the research.

This supports the hypothesis that transformational leadership, employee self-efficacy, and work engagement have a positive impact on firm performance in the private banking sector in Nawabshah, Pakistan.

Path Coefficients (Hypotheses Testing)

A crucial statistical tool for determining the direction and degree of relationships between several variables is the path coefficient (Kim, M. S. 2021) (Sarstedt, M., & Cheah, J.H., 2019). Path coefficients, which are employed in data analysis tools such as Smart PLS, are essential for evaluating the validity of conjectures pertaining to latent variables in the underlying equation model. Scientists may use the coefficients to support their beliefs and use this approach to determine the degree to which various latent variables are connected to one another (Hair J. et al, 2016). Through the evaluation of the path coefficients' statistical significance, researchers may verify the presence of a link between the variables under investigation. Path coefficients are frequently used in marketing research to assess how marketing campaigns affect consumer behavior.

Table 0-3 Path Coefficient Analysis

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
IM -> SE	0.431	0.216	0.049	8.796	0.000
IM -> WE	0.312	0.126	0.031	10.06	0.000
IS -> SE	0.354	0.079	0.028	12.64	0.003
IS -> WE	0.398	0.115	0.040	9.95	0.004
IC -> SE	0.341	0.041	0.015	22.73	0.006
IC -> WE	0.471	0.115	0.040	11.77	0.004
TL(SE) -> FP	0.383	0.123	0.042	9.11	0.003
TL(WE) -> FP	0.492	0.303	0.043	11.44	0.000

The research's path coefficient analysis findings are shown in this table. The standard errors demonstrate the accuracy of the estimations, whilst the beta values reflect the direction and strength of the correlations between the variables. The model's coefficients' significance is shown by the t-statistics and p-values.

Hypothesis One: According to the first hypothesis, self-efficacy (SE) is positively impacted by inspiring motivation (IM). A statistically significant positive correlation between IM and SE is demonstrated by the results, which have a beta value of 0.431 and a p-value of 0.000. This implies that there is a chance of a favorable effect on employee self-efficacy when leaders encourage and inspire their staff.

Hypothesis Two: The second hypothesis put out the idea that work engagement (WE) is positively impacted by inspiring motivation. The findings, which show a substantial positive correlation between IM and WE with a beta value of 0.312 and a p-value of 0.000, are consistent with this theory. This suggests that higher levels of job engagement might result from leaders who inspire and drive their staff.

Hypothesis Three: According to the third hypothesis, self-efficacy (SE) is positively impacted by intellectual stimulation (IS). With a beta value of 0.354 and a p-value of 0.003, the data show a statistically significant positive association between IS and SE, supporting this hypothesis. This suggests that leaders that provide their staff members opportunities for intellectual stimulation may see a rise in self-efficacy.

Hypothesis Four: The fourth hypothesis put out the idea that work engagement is positively impacted by intellectual stimulation. The findings, which show a substantial positive correlation between IS and WE with a beta value of 0.398 and a p-value of 0.004, further provide weight to this theory. This shows that executives that encourage intellectual stimulation may see a rise in workers' engagement at work.

Conclusion and Recommendation

The findings suggest that, in the private banking industry, transformational leadership positively impacts employee self-efficacy and job engagement in addition to company success. This emphasizes how crucial it is to apply transformational leadership techniques

that work in this industry. Furthermore, the results indicate that effective leadership and a favorable work atmosphere are crucial elements in fostering employee self-efficacy and job satisfaction, which in turn results in enhanced company performance.
Nevertheless, there are many drawbacks to this study, including the small sample size and the use of proprietary instruments. Furthermore, the study's breadth is constrained by its narrow emphasis on only three variables: job engagement, employee self-efficacy, and transformational leadership. To better examine and comprehend this phenomenon, future research should take into account a bigger and more varied sample, in addition to the inclusion of additional leadership styles and organizational characteristics.

The study concludes that employee self-efficacy and job engagement operate as a mediating factors in the link between transformational leadership and business performance in Nawabshah, Pakistan's private banking industry. According to these results, companies have to concentrate on producing transformational leaders who can successfully encourage and inspire their workforce, which would boost overall business performance. The study's shortcomings emphasize the necessity of more investigation to completely comprehend and explain this link.

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