Effect of Leadership Style on Organizational Performance (A Case of Islamic Banking Industry in Pakistan)

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Abstract

The current study is an attempt to explore the relationship of leadership styles and organizational performance. Transformational and transactional leadership styles were chosen as independent variables, while the performance of organization is chosen as dependent variable. Inspirational motivation, Individual Consideration and Charisma are constructs of Transformational leadership style, while constructive reward system and Corrective management system are constructs of transactional leadership style. Employees' satisfaction is taken as measure of organizational performance. The study has its focus on Islamic banks of Peshawar, Pakistan. The data is collected with the help of questionnaire. The findings of the study show that, constructive reward system, inspirational motivation and Charisma have significant positive relationship with employees' satisfaction. While, corrective Management system and Individual consideration have positive insignificant in relationship with employees' satisfaction.

Keywords: Leadership Styles, Employees' satisfaction, Inspirational Motivation, Charisma

Introduction

The thought and meaning of leadership and style can depend on people or circumstances. The term „leadership" can be seen in different spheres of life, for example, governmental issues, economics, studying, social works and so on. Last reviews about leadership represent it as personal ability. Messick and Kramer (2004) showed that the person's leadership skills depend on his qualities and individual capacities as well as on the qualities of the circumstance and place where the person is in the moment. Since individuals can become a part of the team in other to accomplish certain individual targets, the degree of their activity in the team depends on how much they believe that their participation will help them to get their foreordained targets. A person will also help the team only in case if he knows that through it his own targets and objectives will be achieved; if not, the individual's enthusiasm will decrease. Leadership style in an organization is one of the variables that assume a critical job in upgrading or

impeding the enthusiasm and duty of the people in the team. In this manner, Glantz (2002) accentuates the requirement of the manager to discover his leadership style.

Profit making and accomplishment of development and liquidity status are the biggest targets of any small organization. That's why, organizations allocate scarce resources to competing for ends. During the process they provide work, products and services, buy products and services and, in this way, add the value to the development of the society and economy in general. Unamaka (1995) shows that in a large number of pakistani small organizations, the effectiveness of this procedure is significantly controlled by the accessibility of and access to staff, fund, apparatus, resources and the possibility of making their products and services accessible to their local people and the country in general. The degree to which individuals from the company contribute in harnessing the resources of the association similarly relies upon how good the managers (leaders) of the association realize and apply proper leadership style in playing out their roles as managers and leaders. Hence, proficiency in resources mobilization, assignment, usage and upgrade of organizational performance relies on a vast degree, on leadership style, among different variables.

Purpose of The Study

The purpose of the study is to evaluate the effect of leadership style on organisational performance of Islamic Banking Industry of Pakistan.

Literature Review
Leadership Styles and Performance

According to the literature, leadership is the most significant part of organizational behaviour. The collaborative effect of management can only be made possible through the capabilities of leadership. According to Lee and Chuang (2009), a good leadership does not only inspires the ability to achieve high efficiency by subordinates but also meets the needs that are important to achieve the organizational goals. Stogdill (1957) explained leadership as a behaviour of an individual to reach common goals.

Several studies suggest that there must be a significant relationship between the style of leadership and organizational performance. The markets in the present time have a high competition related to price, performance and low returns. According to different studies, leadership behavior can improve the performance of the organization in order to meet new challenges (McGrath and MacMillan, 2000; Teece, Pisano and Shuen, 1997).

The organizational performance is the ability of an organization to complete objectives such as high-quality product, broad market share, high profit and survival in the market for a pre-determined time using accurate strategy (Koontz and Donnell, 1993)

The organizational performance also measures how an organization is performing in terms of market share, profit and product quality in relation to other products in the same market. In other words, it is the performance of the people working inside the organization in terms of development, growth, revenue and profit.

Research Methodology
Sample frame and Sampling Technique and data Collection

The study is conducted in Peshawar, KP, Pakistan. There are 6 full fledge Islamic banks working in Peshawar with more than 30 branches throughout the city. Employees of all these banks are considered as population of the study. 60 respondents out of these have been asked to participate in the study. As the questionnaire were handed over to employees by the researcher and collected back, therefore due to direct connection, the response rate is 100%. The respondents belong to the top level management, middle level management and lower level management. The data collected is primary and was subjected to further analysis.

Variables of the study
Dependant Variable
The current study is using organizational performance as dependant variable. There are many indictors for the measurement of organizational performance. For instance, profitability, extra efforts from employees, effectiveness and satisfaction of employees. The current study is using employee's satisfaction as a dependant variable as suggested by Bass (1990) and House et al (1997).

Independent Variables
The current study is using leadership style of the executives of an organization as an independent variable. The current study has taken into consideration both these types of leadership as an independent variable. In addition, transformational leadership style is measured through three broad constructs i.e., Individual consideration, Inspirational Motivation and the feature of Charisma in a leader. While transactional leadership style is measured through two broad constructs i.e., the promotion of constructive reward system in an organization and Corrective management system.

Econometric Model
The current study has its focus on finding the relationship between the style of leadership and organizational performance. The econometric model that can express the relationship between dependent and independent variables are depicted as follow.

$$ES = \alpha \pm \beta 1(Insp) \pm \beta 2(Indiv) \pm \beta 3(Chr) \pm \beta 4(Correct) \pm \beta 5(Construct)\mu$$

While;
ES stands for Employees' satisfaction
α stands for the constant term
β stands for coefficient
Insp stands for inspirational Motivation
Indiv stands for individual consideration
Chr stands for Charisma
Correct Stands for corrective Management
Construct stands for Constructive Reward System
μ stands for the error term

Data Analysis
Reliability of the Scale
Selecting the appropriate scale to include, depends upon its reliability. Reliability of a scale can be assessed from a number of ways. One of these is the internal consistency of the scale. It refers to the degree to which the items that make up the scale are connected with each other. In this regard, the commonly used indicator is Cronbach alpha. Its optimum value should be 0.7 and not greater than 0.8 (DeVillis, 2003). Looking at the table below (4.3) the Cronbach alpha values and the number of item in each scale are given. In the first row, the Cronbach alpha value for Employee satisfaction is given. It is 0.772 with number of items as 2. Similarly, the constructive reward system has a value of 0.731, Corrective Management as 0.690, Inspirational Motivation as 0.715, Individual Consideration as 0.596 and Charisma as 0.747. In this way, it can safely be said that the scales of the study are consistent in terms of defining their particular constructs.

Table 4.1 Reliability Statistics

Scale	Cronbach's Alpha	N of Items
Employee Satisfaction	0.772	2
Constructive Reward System	0.731	4
Corrective Management	0.690	4
Inspirational Motivation	0.715	2
Individual Consideration	0.596	3
Charisma	0.747	2

Regression

The current study has utilized Employees' satisfaction as dependent variable while individual consideration, inspirational motivation, Charisma, constructive reward system and corrective management system as independent variables. The multiple regression model is as follow.

$$Es= 0.102(CR)+0.027(CM)+0.055(IC)+0.124(IM)+0.29(Ch)$$

Where, ES= Employees Satisfaction, CR= Constructive reward System, CM= Corrective Mgt IC= Individual Consideration, IM= Inspirational Motivation and Ch= Charisma

The output from the regression model has been shown in the table 4.2. The first column shows the independent variables used in the model. The standardized coefficients are the beta values that show the degree of variance in dependant variable explained by a particular independent variable. The beta value for constructive reward system is 0.102 which means that if there is an increase of one unit in constructive reward system, it will increase the employees' satisfaction by 0.10 units and vice versa. Similarly, corrective management has a beta value of 0.027 showing a weak relationship with employees' satisfaction. Same is the case with the beta value of individual consideration which is equal to 0.055. The beta value of inspirational motivation is 0.124 and Charisma is 0.29.

The next important measure in the table 4.5 is t values of each independent variable. T value of an independent variable determine that whether or not its relationship with dependent variable is significant. In this regard the standard value for t at 5 % level of confidence is equal to 1.96. It means that if the t value of an independent variable is equal to or greater than 1.96, its relationship with dependent variable is considered as significant and vice versa. It is to keep in mind that the t value is always taken into absolute terms. By looking at the t values in the below table 4.2, constructive reward system, inspirational motivation and Charisma have t values greater than 1.96, hence their relationship with employees' motivation is considered as significant. While, corrective Management system and Individual consideration have t values less than 1.96, hence considered as insignificant in relationship with employees' satisfaction.

Another important measure in the regression output table 4.2 is p values labelled as sig. It is basically, the probability of committing type 1 error. Type 1 error refers to the situation in which an incorrect null hypothesis is accepted mistakenly when actually it need to be rejected. Therefore, p value of an independent variable shows the exact chance of accepting an incorrect null hypothesis. In this way, lessor the p value, lower will be the chance of committing mistake and greater will be the accuracy of our results. P value also tell us that the beta coefficients of

independent variables are consistent and do not obtained by chance. It means that the results are significant and persistent. For this purpose, at 5 % level of confidence, the optimum value for p is 0.05. It means that if the p value of an independent variable is less than or equal to 0.05, its relationship with dependent variable will be considered as significant and its coefficient value will be persistent and vice versa.

Looking at the table below 4.2, constructive reward system, Inspirational motivation and Charisma have p values less than 0.05, hence we reject our null hypothesis for these three variables and concluded that these three variables have significant relationship with Employees' satisfaction. While Corrective management system and individual consideration have insignificant relationship with Employees' satisfaction.

Table 4.2 Regression Coefficients

Model		Standardized Coefficients			Collinearity Statistics	
		Beta	T	Sig.	Tolerance	VIF
	Constructive Reward	.102	3.125	.025	.774	1.291
	Corrective Management	.027	.208	.171	.863	1.158
	Individual Consideration	.055	.352	.286	.728	1.373
	Inspirational Motivation	.124	2.042	.0291	.861	1.162
	Charisma	.29	3.103	.0220	.661	1.514

Conclusion

The current study is an attempt to explore the relationship of leadership styles and organizational performance. For this purpose, transformational and transactional leadership styles were chosen as independent variables, while the performance of organization is chosen as dependent variable. Transformational leadership style is measured through its constructs i.e., Inspirational motivation, Individual Consideration and the presence of Chrisma in a leader. While transactional leadership style is measured through two broad constructs i.e., the promotion of constructive reward system in an organization and Corrective management system. All these constructs are measured through the scale developed by Bass (1990). Employees' satisfaction is taken as measure of organizational performance. The study is conducted in Islamic banks of Peshawar, Pakistan. There are 6full fledge Islamic banks in Peshawar with more than 30 branches in the city. The data is collected with the help of questionnaire from 60 respondents belonging to different levels of employment.

The data is analysed with the help of SPSS. The preliminary tests were performed for the satisfaction of assumptions of CLRM. For instance, linearity, normality, multi co linearity, heteroscedasticity, autocorrelation and outliers in data were checked and found that the data is free from all these problems. In order to explore the relationship between dependent and independent variables, regression was performed. The findings of the study show that both the

leadership styles are directly related with the employees' performance. In addition, constructive reward system, inspirational motivation and Charisma have significant positive relationship with employees' satisfaction. While, corrective Management system and Individual consideration have positive insignificant in relationship with employees' satisfaction.

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