Leadership and Performance Relationship: Culture Matters

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Abstract—The aim of the study was twofold: to examine the effect of transformational leadership on organizational performance and secondly, to explore the mediating role of organizational culture in the relationship between transformational leadership and organizational performance. A purposive sample of 265 managers from banking sector of Pakistan was selected for the study. Transformational leadership was found to positively and significantly affect organizational performance along with the mediating role of organizational culture in the relationship between transformational leadership and organizational performance.

Index Terms—Organizational culture, organizational performance, transformational leadership.

I. INTRODUCTION

Organizations competing in the modern environment are focusing on the factors that increase performance. In recent years, a heavy body of research is evident of the situations where leader's positive moods affect team members' feelings and behaviors [1] [2]. Transformational leadership in this regards is considered to be an important factor having a positive influence on the performance at individual and organizational level [3].

Transformational leaders are a source of motivation for their followers. They help them to perform beyond their self interest resulting in increased degree of satisfaction and performance above the expected level [4]. They make them visualize that what could be achieved if extra ordinary efforts are made [5]. Thus, it is expected from leaders to encourage people to achieve more than they imagine [6]-[7].

Transformational leadership plays a vital role in maintaining effective performance. For example, followers who recognize any relationship among their performance and the goals and values of the organization, they increase their efforts in positively contributing towards the organizational goals [8]-[9]. DeGroot, Kiker, and Cross [8] in a meta-analytic review, validated the claims about the effectiveness of transformational leadership. They reconfirmed positive relationship of charismatic leadership with performance and exhibited positive connection among leaders' effectiveness and transformational leadership.

Organizational culture in this regards has received much attention as the past literature claimed organizational culture to play a vital role in shaping different organizational outcomes [10]-[11]. Culture is defined as comparatively

constant set of values, assumptions and behavioral patterns possessed by a group of people [11]. In the organizational context it is defined as a set of values that directs employees' behavior appropriately [12].

Leadership plays the role of backbone in formulating culture of an organization [13]-[14]. Leaders are the ones who articulate organization culture by setting the values and beliefs, guiding the appropriate employee behavior and reinforcing rewards and sanctions [15]. Past literature reveals that an organization reflects the values of the employees, customer requirements and the behavior of its early founders or leaders [14], [16], [17].

The organizations have strong culture only if they demonstrate a well- incorporated and effective set of explicit principles, attitudes, and performance patterns, that help in performing at a higher level [18]. It is assumed that better performance of any organization depends on the level with which norms of culture is generally shared [19]-[20] [21]. According to Scholz [22] the connection between culture and performance is due to the supposed position that culture can encourage competitive benefit [22].

Past literature reveals that the organizations with strong cultures ensure improved organizational performance [23] [24]. Organizational performance is described as achieving the goals and performance patterns by implementing plans and strategies in the right direction in order to feel satisfied with the work performed [25]. The performance of any organization depends on the level with which norms of culture is generally shared [26]-[27]. When the culture is shared among the employees of any organization then it will help the management to predict the response of employees towards any specific option [28]. The connection between culture and performance is due to the supposed position that culture can encourage competitive benefit [29].

Due to underlying importance of organizational culture, Cooke, and Szumal [30] designed a framework for organizational culture. They examined it as contextual factor between underlying values and assumptions of organization and the firm environment. Chi et al. [31] found that the leadership not only have a direct effect on performance, but also indirectly lead to performance through various mediating processes.

Based on the basis of the above mentioned literature following hypotheses are developed.

A. Hypotheses

H_1: Transformational leadership perceptions have a positive impact on organizational performance.

H_2: Organizational culture mediates between transformational leadership and organizational performance.

II. METHODOLOGY

A. Sample

A purposive sample of 265 managers from banking sector of Pakistan was selected for the study.

B. Instruments

Transformational leadership facet of MLQ-5X, developed by Bass & Avolio [32] organizational culture instrument developed by Daniel, & Mishra [33] and organizational performance developed by Qureshi, et.al., [34] was used for the study. The scales consisted of 10, 8 and 10 items respectively and were anchored at five points Likert type scale ranging from1 (strongly disagree) to 5(strongly agree).

III. RESULTS

A. Confirmatory Factor Analysis

The construst vaidity and other psychometric propoerties of data were assessed by confirmatory factor analysis. The results of CFA revealed that all the items of 'Culture' indicate good fit with the value of 46.454 of $\chi 2$ statistics (degree of freedom=20), and 2.32 for $\chi 2$/df ratio which meets with the benchmark criteria i.e less than 3.00. With regard to the factor loadings, the standardized coefficient estimates are .54, .68, .41, .38, .51, .38, .40 and .44 for respective items of culture which meet with the bench mark criteria (i.e. > 0.3). The value of R^2 for these items is .30, 0.46, 0.17, 0.14, 0.26, 0.14, 0.16, and 0.19 respectively which represents the degree of variation due to 'Culture' in each of its indicator. Appling CFA, the items of 'Organizational Performance' indicate good fit with the value of 83.202 for $\chi 2$ statistics (degree of freedom=35), and the ratio of $\chi 2$ to df having a value of 2.37. According to the factor loadings, the value of coefficient estimates are 0.423, 0.432, 0.43, 0.391, 0.335, 0.402, 0.503, 0.672, 0.409 and 0.527 for respective items of 'Performance' which meet with the benchmark value (i.e. > .3). R^2 was found to be 0.25, 0.16, 0.18, 0.18, 0.15, 0.19, 0.11, 0.45, 0.17 and 0.28 respectively for all items which shows the degree of variation caused by the factor 'Performance' in each indicator. The construct validity of 'Transformational Leadership' was also analysed by Confirmatory Factor Analysis. The revised model of 'Transformational Leadership', with 10 items, indicates good fit with the value of 92.079 for chi square (df =35), with the ratio of chi square to df equal to 2.63. The value of adjusted goodness of fit index (AGFI), goodness of fit index (GFI), comparative fit index (CFI) and Tucker-Lewis index (TLI) was 0.905, 0.940, 0.796and 0.738. The values of GFI and AGFI meet with the benchmark value [23] [24]. The value of CFI and TLI are very close to the benchmark value and may be accepted with precaution. The statistical value for Root mean square error of approximation is .079 which shows good fit as it is less than the benchmark value of 0.08 [25]. The value of the standardized coefficient estimates are 0.321, 0.555, 0.418, 0.427, 0.388, 0.471, 0.336, 0.397, 0.583 and 0.335for respective items of 'Transformational Leadership' which meet with the benchmark criteria (i.e. > .3) with regard to the factor loadings. The R^2 was calculated equal to 0.10, 0.22, 0.18, 0.18, 0.15, 0.31, 0.11,

0.34, 0.16 and 0.11 respectively which expresses the percentage of variation by the factor 'Transformational Leadership' in each indicator.

TABLE I: DEMOGRAPHICS STATISTICS (N = 265)

		Percentage
Institution Type	Public	37
	Private	73
Management Level	Top	26
	Middle	60
	Low	14
Experience	1-5 yrs	10
	6-10 yrs	50
	10-15yrs	30
	More than 15 yrs	10
Qualification	Bachelors	34
	Masters	60
	M Phil / MS	6
	Doctoral	0
Gender	Male	68
	Female	32
Age	Between 20-30yYrs	60
	Between 31-40 yrs	24
	Between 41-50yYrs	10
	51 & Above	6

Table I describes the demographic distribution of the sample.

TABLE II: DESCRIPTIVE STATISTICS, RELIABILITY AND CORRELATION MATRIX FOR ALL THE VARIABLES (N=265)

	Variables	Mean	S.D.	I	II	III
I	Organizational Performance	3.45	.588	(.73)		
II	Transformational Leadership	3.47	.557	.524*	(.80)	
III	Organizational Culture	3.41	.598	.618*	.400*	(.75)

*p<.001

The Table above shows the descriptive statistics, reliability and correlation coefficients of the study variables. The table indicates that all the reliability values (in parenthesis) are higher than 0.70 revealing that the instruments are reliable to be used in the current context [35]. Moreover, mean values range from 3.41 of Organizational Culture to 3.47 for Transformational Leadership. Table I also shows that all the variables are positively and significantly related. Organizational Performance is positively and significantly related with Transformational Leadership (r=.524, p<.001), and Organizational Culture (r=.618, p<.001). Transformational Leadership is also positively and significantly related with Organizational Culture (r=.400, p<.001).

B. Mediation Analysis

Barron & Kenny [36] proposed the following assumptions for establishing mediation. First, the criterion variable should be correlated with the predictor. Secondly, there should be a correlation between the independent variable and the mediator, and thirdly, there should be a relationship between mediating variable and the dependent variable. In this case mediator will play the role of predictor and dependent variable will be the outcome variable. In order to establish full mediation beta weights should reduce and turn insignificant. However, if beta weights reduce and still remain significant, partial mediation exists.

TABLE III: THE MEDIATING EFFECT OF ORGANIZATIONAL CULTURE

Model	β
Model 1	
Transformational Leadership → Organizational Performance	.52*
Model 2	
Transformational leadership → Organizational Culture → Organizational performance	.17

* (p<0.001)

This study uses the procedure explained in literature to examine the mediating role of variable between the predictor and outcome variable [37]-[38]. Table 1 represents the impact of Transformatinal Leadership on Organizational performance using two models i.e. direct and indirect model. These models are described in detail below.
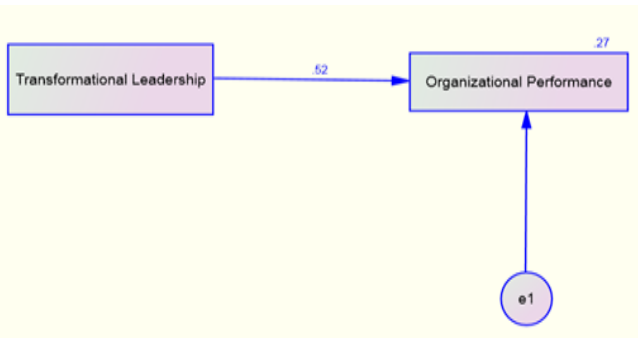

Fig. 1. Structural equation model showing affect of transformational leadership on organizational performance without mediation

Fig. 1 reveals the affect of Transformational Leadership on Organizational Performance without mediating variable. Transformational Leadership is found to have a positive and significant effect on the performance of organization (β=0.52, p<0.001). Furthermore, 27% variance is brought in Organizational Performance due to Transformational Leadership.

Fig. 2 reveals the mediating role of Culture of an organiztaion between Transformatinal Form of Leadership and the Performance of Firm. Transformational Leadership has a positive and significant effect on the Performance of Organization (β=0.33, p<0.001) by including Organizational Culture as mediator in the model. Organizational Culture is also significantly related to both the Organizational

performance and Transformationa Leadership (p<0.001). Transformational Leadership explains 16% variance in Organizational Culture and Organizational Culture explains 47% variance in Organizational Performance. The value of regression coefficient (β) between Transormational Leadership and Organizational Performance declines from 0.52 to 0.33 in the presence of Organizational Culture as mediating variable. Further, a partial mediation of Organizational Culture was found between Transformational Leadership and Organizational Performance.
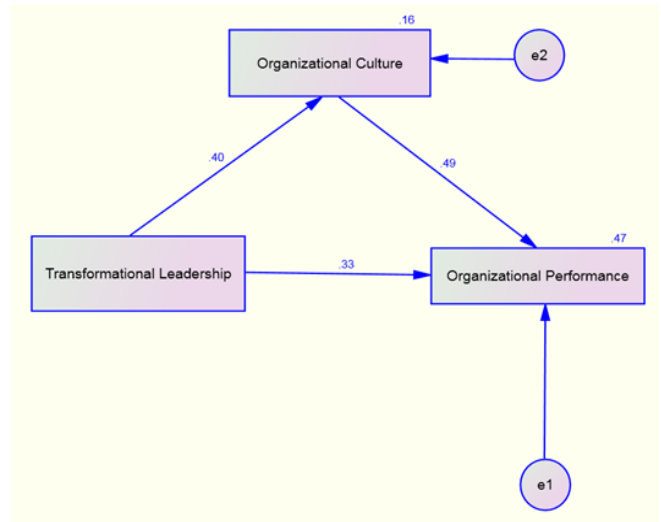

Fig. 2. Structural equation model showing affect of transformational leadership on organizational performance with organizational culture as mediating variable

IV. DISCUSSION

Past literature is evident of the attention given in order to examine the effect of leadership especially, transformational leadership on organizational performance. In the last decade, relatively new concept was developed. Transformational leadership was conceptualized as plays an important role in the creation of organizational culture which in turn affects organizational performance. However, there is lack of empirical evidence investigating the existence and nature of this link.

The present study was aimed at examining the impact of transformational leadership on organizational performance along with exploring the mediating function of culture of organization in the association between transformational leadership and organization performance. Findings based on 265 managers from the banking sector of Pakistan supports our proposition that organizational performance is positively influenced by transformational leadership. The results established transformational leadership facilitating performance of organization. The results are also supported by past studies. For example, meta-analyses empirically confirmed the positive association between the two constructs [39]. Transformational leaders when compared with transactional leaders were found to be better predictor of performance within the organization [40].

The hypothesized role of culture of organization between

transformational leadership and organization performance as a mediator was also supported. The findings are also consistent with the previous literature. The transformational leaders have the ability to provide a clear, practical and credible vision to their followers. Therefore, followers can align their efforts with the organization goals, can speculate the future development of organization which motivates them to achieve the organization vision and achieving the performance [41]-[43]. The study conducted by [44] also supports the findings.

V. LIMITATIONS AND FUTURE RESEARCH

The study may be limited due to its cross-sectional study design. The assessment of the perception of leadership, its interrelationship with and its impact on performance requires a comparatively long period of time. A longitudinal design is supposed to analyze the relationship in a more comprehensive manner. Therefore, the future researches can be carried out with a longitudinal design.

Furthermore, future studies should have a more enriched model by having comparisons over time. There may be comparisons with organizations which are culturally diverse and the current study may be replicated in other cultures as well. Likewise, confirmation of the existing findings may be sought by examining employees from other professions such as teachers, employees from telecommunication organizations, etc.

Present study examines the variable uni-dimensionally. Future studies should examine the said model while examining the facets of the study variables.

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