

Moderating Role of Procedural Justice and Empowerment in Transformational Leadership with its impact on Organizational Commitment

ZUNNOORAIN KHAN

Lecturer City University of Science & Information Technology

Email: zunnoorainkhan@yahoo.com

SHAHZAD KHAN

Lecturer City University of Science & Information Technology

Email: Shahzadkhan.lecturer@gmail.com

SAQIB SHAHZAD

Lecturer City University of Science & Information Technology

Email: Saqibshahzad26@gmail.com

Abstract

The rationale of the present study is to find out the importance of transformational leadership and its impact on organizational commitment with the moderating role of procedural justice and empowerment in the private banking sector of Peshawar region. For data collection five point Likert scale questionnaire, consisting of 24 items were used. On the basis of simple random sampling sixteen private banks were selected. Total 300 questionnaires were distributed; out of which 250 received response rate was 83.5%. Organizational Commitment is positively related to Procedural Justice but the results were non-significant ($P > 0.01$), similarly Organizational Commitment is positively related to empowerment ($P < 0.01$), variance of these predictors were 12% which shows weak relevance however overall model shows significance ($P < 0.01$). Findings of the results explained that Organizational Commitment is positively related with transformational leadership ($P < 0.01$), variance of these two predictors were 16% which shows weak relevance but overall model shows significance ($P < 0.01$). In the recommendations part of the report, it has been advocated that banking organizations need to provide congenial work environment wherein employees feel they are taken care of in a just and unbiased manner.

Key Words: *Procedural Justice, Leadership, Organizational commitment Banking sector.*

Introduction

Banking sector is one of the vital forces for the economic development of the country mobilizes savings, and allocates funds for the most productive uses. Reference to the study of Jaffe *et al.* (2001) and Wachtel (2001) the function of banks is significant since they assign capital used for the uppermost value use, manage the risk and cost factors, in addition to produce economic activities. Pakistan's banking sector has also faced several problems and difficulties like other developing countries. The tight banking schedule and tough routine working has made the banking sector one of the stressed out working segments in Pakistan. Banking employees faced extended working hours with incompetent utilization of the technological equipments which makes strong reason for employees' dissatisfaction and low level of commitment. Young business graduates fanciest the banking sector but after joining mostly faced problems which may have an effect on their commitment level and in response, lift up issues like under-performance, absenteeism and turnover.

Banking sector has developed, by increase as well as bounds, during the preceding ten years or so, in Pakistan. The Private and multinational banks entrance in the banking sector has created a lot of employment. Private and multinational banks employed well experienced and competent workforce as compared to the other competing banks, with better remuneration and incentives. This approach can affect the output of employees in the existing banks. Therefore, it is very significant to find out the role and importance of transformational leadership in the banking sector because in such a scenario where organizations face concentrated competition and due to high inflationary trend the competent employees are attracted by comparatively better remuneration and facilities.

Transformational leaders are the ones who treat their employees with dignity and build trust and confidence of those who give them reports. Thus leaders are created by leaders showing that they can achieve their goals (Avolio et al 1991; Bass, 1990).

Organizational commitment gives out as an important prospect for several outcome variables. Employees those are organizationally committed demonstrate extra happiness and are expected to fit into place that reinforce the image of the organization with their competitor. Moreover, with this the rates of absenteeism as well as the employee turnover intentions express distinctively low interest and they are most attached with organizational tasks and put full potential to achieve it. (Meyer, Allen & Smith, 1993; Somers, 1995) Meyer and Herscovitch (2001) acknowledged, commitment has become constant as well as willing force that gives way to deeds and connect someone to follow them. By this we can assess that commitment in the direction of organization is basically a relationship or concerning of the individual towards the organization (Mathieu & Zajac, 1990).

Literature Review

Transformational Leadership:

Transformational leaders are those who are effective leaders, act as right hand for employees in increasing subordinates' performance level provide them with job satisfaction and increase their commitment to their organization. It is further noted that the effectiveness of charismatic leadership is more in group level performance rather than individualized level performance (DeGroot, Kiker, & Cross, 2000).

Organizational Commitment

Organizational commitment gives out as an important prospect for several outcome variables. Employees those are organizationally committed demonstrate extra happiness and are expected to fit into place that reinforce the image of the organization with their competitor. Moreover, with this the rates of absenteeism as well as the employee turnover intentions express distinctively low interest and they are most attached with organizational tasks and put full potential to achieve it. (Meyer, Allen & Smith, 1993; Somers, 1995)

Empowerment

Empowerment is one of the important factors among the organizational growth through which employees feel more strengthen in their decisions and can achieve the organizational goals with more meaningful ways. Empowerment gives the feeling of respect, ownership and most significantly sense of responsibility and these factors reinforce the role of an employee.

Procedural Justice

The purpose of procedural justice is to make an influence on the perception of employees and attract them towards organizational commitment which plays an integral role for organizations. Because it is impossible for employees to feel committed or adopt them to an organization that is perceived as unfair. Those employees who have low level of commitment they can leave organization every time.

Relationship between Transformational leadership and organizational commitment

By reviewing the last twenty years research work performed on leadership theories in which extensive work pass on to vision of leadership Sashkin (1988), charismatic Conger & Kanungo (1993) in addition to the role of transformational Avolio et al, 1999 Bass, 1985 Conger & Kanungo, 1994 Kouzes & Posner, 2002. All of the above mentioned theories have one common center of interest that is leaders who have the exceptional qualities they put extraordinary effects on their followers performance. Charismatic leaders are the source for employees to become committed to the organization's objectives and to the leader's McCann (2006). According to Barling et al (1996) affective commitment of employees can be improved by charismatic leadership furthermore; behavior of transformational leadership may give confidence to employees in both usual and unusual ways to build up employee's commitment in a much stronger way Bass, 1985.

Moderating role of Procedural Justice and Empowerment in transformational leadership

As organizations embrace and practice higher power sharing at the level of defining, organizing, and conducting task decisions, empowering employees with responsibilities and discretion to influence work outcomes would create a greater level of employee ownership, support, and trust and as a result, a greater development of high commitment and intention to stay among members of the organization (Eisenberger et al., 1986; Leana & Florkowski, 1992; Appelbaum et al (2000); Tsui et al., 1995; Meyer & Smith, 2000; Allen et al., 2003; Eby et al., 1999). Another investigation by Bhatnagar (2005) also revealed a positive relationship between psychological empowerment (meaning, competence, self-determination, and impact) and affective, continuance, and normative commitment. Workplace empowerment can also lead to trust building, work satisfaction and, as a result, an organizational affective commitment. Employees that work under transformational leaders take part in equitable relationship as they are highly motivated by their leaders. These elements enhance procedural justice, as procedural justice is all about the right that employees have given to take part in decision making processes.

To observe the importance of transformational leadership and organizational commitment as well as the moderating character of procedural justice and empowerment, this study empirically tests the following hypotheses based on the objectives developed.

H1: Transformational leadership positively effects the organizational commitment

H2: Empowerment positively moderates the result of transformational leadership on Organizational Commitment.

H3: Procedural Justice positively moderates the result of transformational leadership on organizational commitment

Methodology

The study is cross sectional as the data is collected in one point in time from individual to describe the relationship between the variables at that particular time. Sample size for this study is 300 and sample was selected through simple random sampling. The study has used survey approach for data collection. Response rate was 83.3% as 250 out of 300 questionnaires were retrieved. For data collection we selected sixteen private sector banks of Peshawar region. The data has been collected in such a way that it covers the issues related to the topic so the normal distribution will be applied on the quantitative data of this research report. For this research simple random sampling will be used. Five point likert scale questionnaires were selected for data collection.

Analysis

For analysis of the current study we proposed two models on the basis of multiple regressions;

$$M1 : TL = \beta + \beta_1 PJ + \beta_2 E + \mu$$

$$M2: OC = \epsilon_0 + \epsilon_1 TL + \mu$$

The following results has attained after inserting the multiple linear regression;

Table No; 1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.356 ^a	.127	.120	.52577

a. Predictors: (Constant), PJ, Empowerment

According to table 1 adjusted R- square in the above table describe us that dependent variable i.e. transformational leadership is influenced by 12% on independent variable i.e. Procedural Justice and Empowerment.

Table No; 2 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.898	2	4.949	17.903	.000 ^a
	Residual	68.278	247	.276		
	Total	78.177	249			

a. Predictors: (Constant), PJ, Empowerment

b. Dependent Variable: OC

Table No; 3 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.305	.188		12.230	.000
	Empowerment	.224	.060	.269	3.743	.000
	PJ	.099	.056	.127	1.760	.080

a. Dependent Variable: OC

$$OC = \beta + \beta_1 EMP + \beta_2 PJ + \mu$$

The estimated equation can be written as

$$OC = 2.305 + 0.224 EMP + 0.099PJ$$

OC is positively affected 0.224 by empowerment. The greater the empowerment the more will be OC. Simply OC is positively affected 0.099 by the Procedural Justice. Looking to the t-test results the coefficient of empowerment is significant at 1% level of significance while the coefficient of PJ is not significant.

The value of R² coefficient of determination is 0.127 which means that the value is not closer to 0 and that the relevance is weak and the model is not found fit. However the F-statistics shows that the overall model is significant at 1% level of significance.

Table No; 4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.400 ^a	.160	.157	.51455

a. Predictors: (Constant), Transformational

The adjusted R-square in the above table highlights that the dependent variable organizational commitment is 15% influenced by independent variable i.e. transformational leadership.

Table No; 5 ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.516	1	12.516	47.273	.000 ^a
	Residual	65.661	248	.265		
	Total	78.177	249			

a. Predictors: (Constant), Transformational

b. Dependent Variable: OC

Table No; 6 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.224	.176		12.636	.000
	Transformational	.344	.050	.400	6.876	.000

a. Dependent Variable: OC

$$OC = \text{£}0 + \text{£}1 \text{ TL} + \mu$$

The estimated equation can be written as $OC = 2.224 + 0.344 \text{ TL}$

OC is positively 0.344 by transformational leadership. The greater the transformational leadership the more will be OC. According to t-test results the coefficient of transformational leadership is significant at 1% level of significance.

According to the regression table value of R^2 is 0.160 which means that 16% variation is explained by these two predictor variable which shows weak relevance and the whole model is not found fit. However the F-statistics shows that the overall model is significant at 1% level of significance. When looking to the t-value results which show that if the value of transformational leadership increases by 100% then it can influence organizational commitment by 40%.

Conclusions

The study at hand acknowledges the relationship that exists between transformational relationship and how it impacts organizational commitment within a real-time setting. From the empirical and theoretical findings as established in the report, it can be fairly concluded that “transformational leadership” has played a significant role as far as Pakistan’s growing banking sector is concerned.

Findings of this study further illustrated that “organizational leaders” have traditionally played an effective role as far as harnessing the element of organizational commitment is concerned. It was also observed that wherever leaders opted for innovative ways of doing things and lead by example, the followers (subordinates and juniors) exerted increased effort into their routine work.

This “extra” effort has naturally resulted in improved performance towards the attainment of individual and team goals, thereby translating in positive outcomes for the productivity of an organization. While transformational leadership and organizational commitment are closely intertwined in a positive relationship, the study shows insignificant results on the relationship that exists between procedural justice and organizational commitment, however the relationship is positive.

From the statistical data and qualitative analysis following the assessment of several Peshawar based private banks; it was observed that there does not exist any significant correlation between provisions of procedural justice and amplified organizational commitment. One of the key factors influencing internal work environment and relationships within private banks is “strong reference system” and “political meddling” which exist in recruitment and promotion processes.

During interview and focus discussions with employees of these private banks, they feel added pressure and job insecurity which in turn adversely affect their day-to-day work. Also, the employees feel exploited

owing to multiple reasons such as lack of appreciation, lower wages, absence of fringe benefits, lack of professional development opportunities, etc.

In the recommendations part of the report, it has been advocated that banking organizations need to provide congenial work environment wherein employees feel they are taken care of in a just and unbiased manner. This can be ensured through the introduction of a comprehensive organization-wide promotion, feedback and evaluation system.

When closely looking at the role of employee empowerment towards organizational commitment, it can also be concluded that employees feel more confident across their present roles and tasks when they are given some levels of empowerment as far as their scope of work is concerned.

Employee empowerment and enablement also has an advantageous effect on the quality of customer services provided by a private banking institution. Since the cruse of the affairs of the banking sector is the provision/offering of services to their customers as such customer experience is rooted in customer perception which he/she takes from his/her banking experience. This is where “more autonomy” to employees within acceptable limits will add up to their organizational commitment and strategic orientation.

References

- Alexander, S. & Ruderman, M., (1987). The role of procedural and distributive justice in organizational behaviours. *Social Justice Research*. 1, 177-198.
- Allen, N.J. & Meyer, J.P., (1996). Affective continuance and normative commitment to the organization: an examination of construct validity. *Journal of Vocational Behavior*. 61(1), 20-52.
- Dumdum, U. R., Lowe, K. B. & Avolio, B., (2002). A meta-analysis of transformational and transactional leadership correlates of effectiveness and satisfaction: an update and extension. In B.J. Avolio & F.J. Yammarino (Eds.). *Transformational and charismatic leadership: The road ahead*. 2, 35–66.
- Eberlin, R.J. & Tatum, B.C., (2008). Making just decisions: organizational justice, decision making, and leadership. *Management Decision*. 46(2), 310-329.
- Folger, R. & Konovsky, M.A., (1989). Effects of procedural and distributive justice on reactions to pay raise decisions. *Academy of Management Journal*. 32, 115–130
- Greenberg, J. & Scott, B.A., (2005). Organizational justice: where do we stand? In J.A. Colquitt & J. Greenberg (Eds.), *The handbook of organizational justice*. pp. 589–619
- Jung, D., & Sosik, J., (2002). Transformational leadership in work groups: the role of empowerment, cohesiveness and collective-efficacy on perceived group performance. *Small Group Research*. 33, 313-336
- Ozaralli, N., (2002). Effects of transformational leadership on empowerment and team effectiveness. *Leadership & Organization Development Journal*. 24(6), 335-344.
- Wachtel, P., (2001). Growth and finance: what do we know and how do we know it? *International Finance*. 4(3), 335–362
- Zhu, W., Chew, K.H., & Spangler, W.D., (2005). CEO transformational leadership and organizational outcomes: The mediating role of human-capital-enhancing human resource management. *The Leadership Quarterly*. 16, 39-52.