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ARTICLE

Impact of Transformational Leadership on Organizational Performance: A Case Study of Banks in Pakistan

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Abstract

This study analyzes the influence of transformational leadership on organizational performance among Pakistani banks. Statistical analysis of survey responses from 200 bank professionals, mostly branch managers, shows a positive link between transformational leadership and organizational performance, learning and innovation. The analysis also shows a negative relationship between organizational innovation and performance.

Key Words: Transformational Leadership, Organizational Learning, Organizational Innovation, Organizational Performance

Introduction

Transformational Leadership can be defined as the style of leadership that boosts up consciousness of collective interest among the organization's members and helps them to achieve their mutual goals. Theories of transformational leadership emphasize emotions, values and the importance of leadership focused on encouraging creativity and new ideas in employees (Bass, Avolio, Jung, & Berson, 2003; Montes, Moreno, & Morales, 2005). The style of leadership has been emphasized by many as one of the most important individual influences on firms' innovation, the reason being that leaders can directly decide to introduce novel ideas into an organization, establish specific goals, and encourage innovation initiatives from subordinates (Noruzy, Dalfard, Azhdari, Nazari-Shirkouhi, & Rezazadeh, 2013).

Individual, group and organizational outcome have been associated with leadership styles (Barling, Weber, & Kelloway, 1996). Transformational leadership is thought to achieve outstanding levels of outcome from their followers (Shin & Zhou, 2003). Leadership leads to procedural changes which organizations are facing in the dynamic competitive environment and no doubt the role that transformational leadership has in organizations is crucial.

A number of studies have analyzed the impact of transformational leadership on the performance of organization via intermediate constructs such as entrepreneurship (García-Morales, Lloréns-Montes, & Verdú-Jover, 2008), culture (Frese, Beimeel, & Schoenborn, 2003), similarity in top management teams (Calantone, Cavusgil, & Zhao, 2002), flexibility (Menguc, Auh, & Shih, 2007; Mohammad., (2012), knowledge management (Galoji, Ahmad, & Johari, 2012), enhancing human resource management (Zhu, Chew, & Spangler, 2005), and absorptive capacity (Garcia-Morales, Matias-Reche, &

Hurtado-Torres, 2008) and competitive strategies (Menguc, Auh, & Shih, 2007). Nevertheless, having a complete understanding of all the processes through which leaders exert this influence is still quite limited and mostly speculative (Bass, 1999, 2000). This research is first to analyze empirically the influence of transformational leadership on the performance of the organization through organizational learning and innovation.

Organizational Learning

Organizational learning is the competency “within an organization to maintain or improve performance based on experience. This activity involves knowledge acquisition (the development or creation of skills, insights, and relationships), knowledge sharing (the dissemination to others of what has been acquired by some), and knowledge utilization (integration of learning so that it is assimilated and broadly available and can be generalized to new situations) (DiBella, Nevis, & Gould, 1996). Organizational learning is a continuous process through which an organization increases and enhances the knowledge generated by individuals in a systematic way through cognitive and behavioral change, improvement and ultimately transforms this knowledge as a part of the overall organization's knowledge system. (Mohammad, 2012).

Organizational learning comprises positive connotations, the reason being that this form of learning is associated with performance improvements (Aragón-Correa, García-Morales, & Cordón-Pozo, 2007). Previous research studies assert relationship between leadership and organizational learning (McGill, Slocum, & Lei, 1992; Shao & Webber, 2006). Transformation leadership establishes teams and provides them with the required direction, required energy and required support to execute the processes of change and organizational learning Bass, 1999, 2000; McColl-Kennedy & Anderson, 2002.

The basic purpose of organizational learning is to improve the quality and quantity of performance, allowing the firm to increase and improve sales, to achieve more support and to create, maintain and enlarge its customer base. Further, organizations that learn and learn quickly increase strategic capability, enabling them to sustain a position of competitive advantage and improve their results. These attitudes, behaviors, and strategies of organizational learning guide organizations to superior long term performance García-Morales, Jiménez-Barrionuevo, & Gutiérrez-Gutiérrez, 2012.

Organizational Innovation

Innovations are an integral part that constitute and retain the success of an organization. They are significant because they establish the basis for the acquisition and retention of a long lasting competitive advantage (García-Morales, Jiménez-Barrionuevo, & Gutiérrez-Gutiérrez, 2012). Innovation may be defined in the following words: “A novel idea, thought, method, process or some device. It may also be defined as the act of developing a new product or procedure. The act may include invention and also the work that is required to bring an idea or concept into final form” (Kurland, Hertz-Lazarowitz, & Peretz, 2006). The aforesaid features when combined together enable an enhanced understanding of the robust relationships that exist between transformational leadership and those factors which positively influence organizational innovation (García-Morales, Jiménez-Barrionuevo, & Gutiérrez-Gutiérrez, 2012).

Empirical researches support the relationship that exists between organizational learning and innovation (Waldman, Ramirez, House, & Puranam, 2001; McDonough, 2000; McGill, Slocum, & Lei, 1992; Geyery & Steyrer, 1998). Various types of learning and innovation are also interrelated. Generative learning, for instance, is the most innovative form

of organizational learning which takes place when an organization shows its willingness to question long-held assumptions regarding its mission, capabilities, customers, and strategy and to bring changes in its general practices, strategies, and values which the firm is following. This kind of learning makes the necessary foundations for essential innovations in products, processes, and technologies (Shao & Webber, 2006).

Various theories disclose the fact that organizational innovation is indispensable for organizational performance. Those organizations which concentrate on the speed of innovation receive a great market share that ultimately produces income and high profitability. The more valuable, imperfectly imitable and novel innovations are, the higher performance will be. (McGill, Slocum, & Lei, 1992).

Transformational Leadership and Organizational Performance

The style of leadership has been emphasized as one of the most important individual influences on firms' innovation, the reason being that leaders can directly decide to introduce new ideas into an organization, set specific goals, and encourage innovation initiatives from subordinates (Noruzi, Dalfard, Azhdari, Nazari-Shirkouhi, & Rezazadeh, 2013). Transformational leadership is a contemporary, hands-on approach that helps one lead people and brings change in organizations (Bhat, Rangnekar, & Barua, 2013). Srithongrun, (2011) defined transformational leadership as the style of leadership that leads to increased consciousness of shared interest among the members of the organization and it also helps them in achieving their collective goals. Various theories of transformational leadership put emphasis on values, emotions and the importance of leadership in order to encourage creativity in employees.

Score of research studies have concluded that transformational leadership has a positive influence on the performance of the followers and organizational outcomes. A number of comparative studies carried out by researchers have also testified that transformational leadership behaviors have a positive relation with subordinate effectiveness in multiple organizational settings (Zhu, Chew, & Spangler, 2005). Transformational leadership usually carries an effect on performance which is over and above the effect exerted by transactional leadership (Geyery & Steyrer, 1998). Transformational leaders possess charisma, deliver inspiration and also promote intellectual stimulation (Bass, Avolio, Jung, & Berson, 2003). Charisma is responsible for generating the pride, respect and faith that leaders work to inspire their employees to inculcate in themselves, their leaders, and the organizations for which they are working.

The term organizational performance refers to capability of a firm to materialize such objectives as high profit, good financial results, large market share, quality product, and survival at pre-determined time utilizing relevant strategy for action (Koontz and Donnell, 1993). Previous researchers found that there is direct influence of transformational leadership on organizational performance (Hall, Johnson, Wysocki, & Kepner, 2008; Howell & Avolio, 1993; Issa, 2010).

***H1:** A Positive association exists between transformational leadership and organizational Performance.*

Transformational Leadership and Organizational Learning

Previous studies proclaim relationship between leadership and organizational learning (McGill, Slocum, & Lei, 1992; Senge, 1994; Tushman & Nadler, 1986) It has been said that transformational leadership develops teams and offers them with the required direction, required energy, and required support so that the processes of change and

organizational learning can be induced (Bass, 1999; McDonough, 2000). The aforesaid style of leadership allows organizations enjoy learning through experimentation, exploration, and communication (Menguc, Auh, & Shih, 2007; Tushman & Nadler, 1986; Self, Armenakis, & Schraeder, 2007).

Transformational leader will be a catalytic agent, an advisor, an organizer and a trainer in organizational learning. Such a leadership style also lets the leader to compel him to learning, to become its main motivating force, and to offer whatsoever is required to overcome inner suspicion and outer problems and hurdles to institute learning within the organization (Kurland, Hertz-Lazarowitz, & Peretz, 2006). The impact of transformational leadership on organizational communication and the effect of communication on organizational learning result in an indirect effect of transformational style of leadership on the organizational learning through communication in the organization (Aragón-Correa et al., 2007; Schein, 1993; (Senge, 1994). Therefore, on the basis of the above opinions, the capacity for transformational leadership is considered to be one of the most important factor of developing organizational learning in firms (Maani and Benton, 1999; Slater and Narver, 1995).

H2: A positive association exists between transformational leadership and organizational learning.

Transformational Leadership and Organizational Innovation

The literature on strategy topic highlights styles of leadership as an important power that has effects on organizational innovation (Kanter, 1983; McDonough, 2000; Van de Ven, 1986). Wide agreement currently testifies that a collective and participatory leadership style (transformational) has the prestige of being more likely to enhance innovation within an organization (Kanter, 1983) as compared to the transactional styles of leadership (Gumusluoglu & Ilsev, 2009). The perceptions of the managers regarding their role in the organizations in which they are working has a very strongly influence on their capability to enhance such leadership in the organization. Various characteristics of transformational leadership are relevant for organizational innovation (Gumusluoglu & Ilsev, 2009; Kurland, Hertz-Lazarowitz, & Peretz, 2006).

One of the qualities of transformational leaders is that they have an interactive vision; they provide maximum attention to producing effective communication and also to sharing values (Adair, 1990) and motivating employees to form such an appropriate environment so that innovative teams can be developed (Tushman and Nadler, 1986). They support collective processes of organizational learning reciprocal trust between organization members and leaders (Scott and Bruce, 1994), and favorable attitudes toward proactively, risk (Marcus et al., 1992) and creativity (Hansen, Nohria, & Tierney, 1999).

Transformational leaders possess a charisma, offer inspiration, and encourage intellectual stimulation. All these features encourage communication procedures and organizational learning that empower organizations to be more innovative (Bass, 1999, 2000; Bass, Avolio, Jung, & Berson, 2003). Transformational leadership influences innovation in an indirect way through the communication process (García-Morales, 2004; Tushman and Nadler, 1986) and the continuous process of organizational knowledge creation.

H3: A positive association exists between transformational leadership and organizational innovation.

Organizational Learning and Organizational Performance

The extensive literature stresses the importance of organizational learning for the survival of a company's and its effective performance (Argyris and Schön, 1996; Fiol and Lyles, 1985; Senge, 1990). Nevertheless, empirical research to analyze this relationship is limited, for the reason that various hurdles, such as vagueness or the time delay between the two (today's learning will affect tomorrow's performance) and the likelihood that external factors camouflage the results of learning. Research must analyze empirically the impact of organizational learning on performance in technological firms. However, limited knowledge is available related to the mechanisms that transmute organizational learning into performance (Crossan & Inkpen, 1995). In order to proclaim that a rise in organizational learning results in growth in organizational performance is inaccurate, since it is highly unlikely that learning always improves an organization's results (Hoopes and Postrel, 1999; Crossan & Inkpen, 1995). Nevertheless, commonly, organizational learning is found to have a positive impact on performance improvements. This positive impact normally happens in both technological companies and manufacturing organizations (Argyris and Schön, 1996; Fiol and Lyles, 1985; Senge, 1990). Organizations that show an increased breadth, depth, and greater speed of organizational learning usually have greater performance degrees (Hurley and Hult, 1998).

Those organizations which encourage the learning spirit sacrifice immediate performance in order to gain future performance, because immediate performance is due to the organizational learning drawn from yesterday, while future performance will be an outcome of today's learning process (Senge, 1990).

H4: A positive association exists between organizational learning and organizational performance.

Organizational Innovation and Organizational Performance

Various theories expose the fact that organizational innovation is inevitable for better performance. As per marketing theories, those organizations that focus on speed of innovation receive a greater market share, which ultimately produces greater income and greater profitability. Different strategic theories proclaim that those organizations that adopt an innovation first are better able to create isolation mechanisms. Since knowledge of the innovation is not accessible for competitors, these mechanisms safeguard profit margins, allowing the firm to gain some important benefits. In the same way, the theory of resources and capabilities asserts that the, resources capabilities and technologies required to adopt the innovation lead to external copying more tough and enable firms to endure their competitive advantages and gain greater organizational performance (Lengnick-Hall, 1992; Lieberman and Montgomery, 1988).

Even though previous research widely recommends that there exists a positive link between organizational innovation and organizational performance (Zollo & Winter, 2002; Zahra et al., 2000) or between various facets of organizational innovation (innovation design or speed, flexibility) and organizational performance (Calantone et al., 2002; Capron, 1999; Danneels and Kleinschmidt, 2001). The literature on innovation also consists of various empirical studies that are found to be supporting this relationship, as has been done by various works that use econometric methods to show the relationship empirically (Lööf and Heshmati, 2002). The higher valued, imperfectly imitable and unique innovations (such as technological) are the greater performance will be (Srithongrungrung, 2011).

Firms with higher innovation will gain a better reaction from the environment, gaining more easily the abilities required to upsurge organizational performance and unite a sustainable competitive advantage (Calantone et al., 2002; Hurley and Hult, 1998). The practice of not promoting innovative projects and undertakings will have a negative effect on productivity and organizational performance (Lööf and Heshmati, 2002). Innovation as a dimension of entrepreneurship has a direct impact on the performance of the organization (Zahra et al., 2000).

H5: A Positive association exists between organizational innovation and organizational performance.

Organizational Learning and Organizational Innovation

The widespread literature available on organizational innovation has gained significant contributions from various works of different scholars on organizational learning in the previous decade. Most of these research endeavors observe a positive relationship between organizational learning and organizational innovation (Calantone et al., 2002; Tushman and Nadler, 1986). Various types of organizational learning (generative/adaptive) and innovation (radical/incremental) are interrelated. The deeper the level of innovation reaches, the higher the level of learning required. Hence, the more innovative are the products, services or methods, the greater would be the degree of critical capacity, skill and new and relevant knowledge (Senge et al., 1994). The creation of the organizational knowledge is the continuous process that reinforces innovation, not knowledge in itself (Nonaka & Takeuchi, 1995). Moreover, organizational innovation is dependent upon the organization's knowledge base, which in turn is promoted by organizational learning (Cohen & Levinthal, 1990)

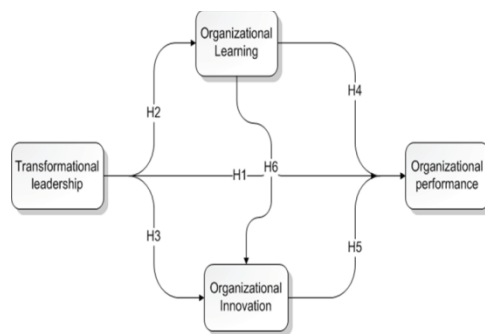
Organizational learning encourages creativity (Sánchez and Mahoney, 1996; Yli-Renko et al., 2001), stimulates new knowledge and ideas enhances capability to understand and apply these ideas. Such organizations have the capability and knowledge to forecast and know needs of the customers, possess more and better state-of-the art technology, and use that technology to innovate. They also possess a stronger aptitude to understand competitors' strengths and weaknesses and thus to learn from their successes and failures and to produce more innovative capability as compared to competitors (Calantone et al., 2002).

The aforesaid ideas have recently started receiving empirical attention. Hurley and Hult (1998) focused on a huge agency of the United State federal government in order to show a positive relationship between organizational innovation and a culture which has the norm of laying emphases on adaptation, innovation, and learning. In another research, Srithongrun, (2011) analyze a sample of innovator firms to show that more complex innovative activities urge firms to coordinate and exchange information between users and producers, which implies strong interactive learning.

H6: A Positive association exists between organizational learning and organizational innovation.

Methodology

This section describes the methodology, including sample size of the research, sources used to get the data and statistical tools used for the analysis.



Source: García-Morales et al. (2012)

Data Collection and Analysis

A cross sectional survey method is used for the present study and the questionnaire used draws on the previous researchers (García-Morales et al. 2012) and is adapted through appropriate modification to align with the Pakistani context which helps establish the ecological validity and reliability of the instrument. The questionnaire is made up of two parts namely; Part I) Personal information of the respondents and background section with 7 items; Part II) Transformation Leadership, Organizational Learning, Organizational Innovation and Organizational Performances perceived by the Area, Regional and Branch Managers and contains 3, 4, 9 and 10 items respectively. Total 250 survey questionnaires were distributed using snowballing technique to the Area, Regional and Branch Managers in 27 large public and private banks in Pakistan. Therefore, 200 were considered for the data analysis.

SEM technique comprises of two parts that are done separately. The first part is measurement model stage that is performed to specify how the latent independent variables are measured with respect to Observed dependent variables. The 2nd part is structural model stage; this stage specifies the interrelationship of latent variables between constructs (Prussia, Anderson, & Manz, 1998).

This analysis of the two separate models is tremendously important (Hair et al 2006, schumacker & Lomaz 2004). They are presented as a path diagram because of the complex nature of the models, that highlights the relationship between both the measured variables and construct (Hair et al 2006). The structural model was analyzed by using AMOS 18.

Data Analysis and Results

In the present study 85 % respondents were male while the 15 % were female. 12 % of the respondents were less than 30 years of age, 30 % between 31-35 years. 28 % between 35-40 years while respondents who are among the age of 49 years and above is 30 %. The maximum number of respondents was lying in the age group of 31-35 years and 49 years and above. As the percentage shows that 80 % of the respondents were Branch Managers, 12 % were Area Managers, 2 % were Regional Managers and remaining 6 % were Vice Presidents. 19 % of the respondents were having higher education, 25 % were having maximum education while 56 % were having post graduate qualification. Data shows that 68 % of the respondents were having the experience of less than 5 years in the current position, 23 % were having the experience of 5 to 10 years in the current position, 7 % of the respondents were having the experience of 15-20 years in the existing position while 2 % were in the current position for 20 years to above.

Reliability of Constructs

Reliability of the endogenous and exogenous variables in the model is measured through the Cronbach alpha. Table shows CFA results which were performed to determine the factor loadings for each item, along with its reliability scales (i.e. Cronbach’s alpha and co-efficient Rho). Factor loading above than 0.50 indicated fitness of the item to latent constructs (Fornell and Larcker, 1981). Further the construct have reliability indicators above than 0.70 are considerably internally consistent (Hair et.al., 1995; Nunnally & Bernstein, 1994). Constructs having Average variation extraction above 0.50 are producing considerable variation (Hair et.al.,2004). Questionnaire consists of the four constructs including one exogenous and endogenous variables. Construct Transformational Leadership is measured through 03 items, ranging factor loadings 0.60 to 0.79, Cronbach Aplha above 0.7. Table 1 shows the factor loading and reliability analysis.

Table 1: Factor Loading & Reliability Analysis

Latent Constructs	Items	Alpha Value	Factor Loading Range
Transformational Leadership	03	0.722	0.60-0.79
Organizational Learning	04	0.676	0.55-0.66
Organizational Innovation	09	0.911	0.58-0.80
Organizational Performance	06	0.874	0.64-0.80
OVERALL	22	0.798	0.55-0.80

Construct Transformational Leadership is measured by 3 items and has the reliability of 0.722 and factor loading range of 0.60-0.79. Construct Organizational Learning measured by the 04 items and has the reliability of 0.676, factor loading range 0.55 to 0.66. Organizational Innovation is measured through 09 items, ranging factor loading 0.58 to 0.80, Cronbach’s alpha 0.911. Organizational Performance has 06 items with factor loading range 0.64-0.80, Cronbach’s alpha at 0.84. This indicates that the questionnaire has the sufficient internal consistency, factor loadings and composite reliability.

Response for Transformational Leadership

The following table gives inside of the factor “Transformational Leadership”

Table 2: Transformational Leadership

Sr #	Statement	Mean	Standard Deviation
1	My leader transmits the organization’s mission, reason for being and purpose to all employees	4.115	0.627
2	He/she increases employees level of enthusiasm	3.925	0.820
3	He/she emphasizes the use of employees intelligence	4.02	0.520
Overall		4.02	0.655

As the matter under consideration is impact of transformational leadership on organizational performance, the first trait is transformational leadership that is ability of leader to be charismatic. The data reveals that the average is 4.02 which shows that on

average almost all respondents believe that their leader possesses the qualities of transformational leader. Three statements were made for this construct. The respondents showed the most favorable attitude towards the first statement which was regarding the transmission of organization’s mission and purpose of being to all employees. The mean for this statement was 4.115 with standard deviation of 0.627.

Response for Organizational Learning

The second construct is the organizational learning. Four different questions were asked for this variable/indicator. The respondents showed the most positive response for the fourth item which states that their bank is the learning organization.

Table 3: Organizational Learning

Sr #	Statement	Mean	Standard Deviation
1	In the past 3 years, organization’s emphasis is on developing new products and services	4.3	0.702
2	Increased rate of introduction of new products or services to the market during the past 3 years	4.01	1.0024
3	Organization’s spending is on new products and services development activities	4.095	0.854
4	Number of new products and services have been added by the bank and are there in the market for all clients during the past 3 years	4.155	0.897
5	There are number of new products and services that the organization has introduced for the first time in the market during the past 3 years	3.75	1.026
6	Investment is being made in developing proprietary technologies	3.695	0.881
7	Bank’s emphasis is on technological innovation during the past 3 years	4.055	0.983
8	Bank’s emphasis is on pioneering technological developments in its industry	3.875	0.982
9	Emphasis is on creating proprietary technologies	3.375	0.753
	Overall	3.923	0.898

The mean for this statement was 4.415 with a standard deviation of 0.636. The overall mean for organizational learning is 4.088 with a standard deviation of 0.772.

The third construct is organizational innovation which has been measured by 9 different items. Results show that respondents show the most favorable response in favor of the first item which states that in the past 3 years, organization’s emphasis is on developing new products and services. The mean of the item was found to be 4.3 with a standard deviation of 0.702. The overall mean for the construct has found to be 3.923 with the average standard deviation of 0.898.

Table 4: Organizational Innovation

Sr #	Statement	Mean	Standard Deviation
1	Under his/her leadership, the organization has acquired and shared much new & relevant knowledge that has provided competitive advantage to the bank.	4.1	0.776
2	The bank’s staff has acquired some critical capacities and skills that are providing competitive advantage	3.815	0.757
3	Bank’s improvements have been influenced fundamentally by new knowledge entering the organization (knowledge used)	4.02	0.920
4	The Bank is a learning organization	4.415	0.636
Overall		4.088	0.772

Response for Organizational Performance

The last indicator/variable of the research is Organizational Performance which has been measured by 6 items. Results show that the respondents agreed that during the last three years, there had been a tremendous growth in sales of bank’s main products. Mean of the item was found to be 4.185 with a standard deviation of 0.777. The overall mean of the construct was found to be 3.9725 with the average standard deviation of 0.871.

Table 5: Organizational Performance

Sr #	Statement	Mean	Standard Deviation
1	Economic profitability or ROA (return on assets) has increased during the last 3 years	3.895	0.853
2	Financial profitability or ROE (Return on Equity) has considerably increased during the last 3 years	3.97	0.924
3	Return on Sales (percentage of profits over billing volume) has increased during the last 3 years	3.745	0.833
4	During the last 3 years, market share of the bank is in its main products has increased	4.03	0.977
5	Bank’s market share is in its main services in the market	4.01	0.862
6	During the last 3 years, there has been a tremendous growth in sales of bank’s main products	4.185	0.777
Overall		3.9725	0.871

Confirmatory Factor Analysis Results

Further constructions are treated with Confirmatory Factor Analysis to analyze their dimensions and variation extraction through each dimension. Confirmatory Factor Analysis (CFA) is a statistical technique used to verify the factor structure of a set of observed variables. CFA allows the researcher to test the hypothesis that a relationship between observed variables and their underlying latent constructs exists. The researcher uses knowledge of the theory, empirical research, or both, postulates the relationship pattern a

priori and then tests the hypothesis statistically. The study employed Confirmatory Factor analysis on four latent construct with Transformational Leadership having 3 Items, Organizational Learning having 4 items, Organizational Innovation with 9 Items and Organizational Performance having 10 Items. As the constructs are already determined, that is why Confirmatory factor analysis was used.

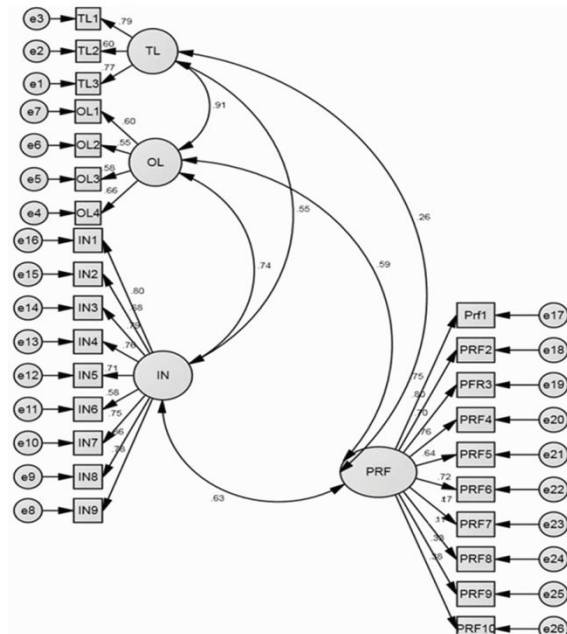


Figure 2: Confirmatory Factor Analysis Results

Each items loading should be greater than 0.5 in order to be able for consideration. The following Table 6 shows the item loading of all items of our latent constructs:

Table 6: Transformational Leadership

Item	Statement	Factor Loading
TL1	My leader transmits the organization’s mission, reason for being and purpose to all employees	0.70
TL2	He/she increases employees level of enthusiasm	0.60
TL3	He/she emphasizes the use of employees intelligence	0.77

Since the factor loading of last 4 items of last construct is less than 0.5, therefore they were excluded in subsequent phase and the new model developed.

Table 7: Organizational Learning

Item	Statement	Factor Loading
OL1	Under his/her leadership, the organization has acquired and shared much new & relevant knowledge that has provided competitive advantage to the bank	0.60
OL2	The bank's staff has acquired some critical capacities and skills that are providing competitive advantage	0.55
OL3	Bank's improvements have been influenced fundamentally by new knowledge entering the organization (knowledge used)	0.58
OL4	The bank is a learning organization	0.66

Table 8: Organizational Innovation

Item	Statement	Factor Loading
IN1	In the past 3 years, organization's emphasis is on developing new products and services	0.80
IN2	Increased rate of introduction of new products or services to the market during the past 3 years	0.66
IN3	Organization's spending is on new products and services development activities	0.79
IN4	Number of new products and services have been added by the bank and are there in the market for all clients during the past 3 years	0.76
IN5	There are number of new products and services that the organization has introduced for the first time in the market during the past 3 years	0.71
IN6	Investment is being made in developing proprietary technologies	0.58
IN7	Bank's emphasis is on technological innovation during the past 3 years	0.75
IN8	Bank's emphasis is on pioneering technological developments in its industry	0.78
IN9	Emphasis is on creating proprietary technologies	0.79

Table 9: Organizational Performance

Item	Statement	Factor Loading
PRF1	Economic profitability or ROA (return on assets) has increased during the last 3 years	0.75
PRF2	Financial profitability or ROE (Return on Equity) has considerably increased during the last 3 years	0.80
PRF3	Return on Sales (percentage of profits over billing volume) has increased during the last 3 years	0.70
PRF4	During the last 3 years, market share of the bank is in its main products has increased	0.76
PRF5	Bank's market share is in its main services in the market	0.64
PRF6	During the last 3 Years, there has been a tremendous growth in sales of bank's main products	0.72
PRF7	I intend to switch to the bank offering higher pay	0.4
PRF8	The physical working conditions are very comfortable to work in	0.11
PRF9	Spirit of Cooperation and teamwork exists in the organization	0.38
PRF10	My organization assists me to gain more working experience in the job that I am doing	0.23

Model Fit Summary (Structural Analysis)

Concerning the criteria in order to evaluate model fit, the study is based on the (Bagozzi, Yi, & Nassen, 1998)) proposed preliminary fit criteria; overall model fit, and fit of internal structure of the model. The model provides an acceptable fit to the data, i.e. the values of NFI, CFI, RMSEA, GFI and AGFI were found according to the cut points in both the measurement models.

Model fit can achieve by testing the modification indices. GFI i.e. Goodness of fit index, RMSEA i.e. Root Mean Square Error Approximation and chi-square statistic are the indices that are usually used for measures that are called absolute fit measures.

These measures find out the degree to which the overall model predicts the observed covariance or correlation matrix. NFI i.e. Normal Fit Index, CFI i.e. confirmatory fit Index and AGFI i.e. Adjusted Goodness-of-fit Index are the indices of measures that are known as incremental fit measures. These measures compare the proposed model to some baseline model, most often referred to as the null model.

The null model should be some realistic model that all other models should be expected to exceed. The evaluation of model fit covered in the study depends on scholars example that are given as follow: (Byrne, 2013) proposed a goodness-of-fit model as measured by the GFI, claiming that GFI index must exceed 0.80.

According to (Gefen, Straub, & Boudreau, 2000), it is a basic criterion that both indices of NFI and IFI exceed 0.90 for acceptable model fitness, while the recommended fit values for CFI should be more than 0.90 and AGFI more than 0.80. In general, if the value of χ^2/df is smaller than 5, it is considered to be a good fit. Conversely, a RMSEA of less than 0.08 suggests a good fit. Table 11 indicates the values of Fit indices are well above or equal to the standards. This shows that the model exhibits complete fitness of its variables. That supports our **H1** that a mediation model which allows for both direct and indirect relationships of climate with health will best fit the data.

Table 10: Model Fit Summary

Fitness Indices	Standard Values	Achieved Values
GFI	Greater or equal to 0.90	0.910
NFI	Greater or equal to 0.90	0.861
RMSEA	p<0.08	0.081
CFI	Greater or equal to 0.90	0.0.90
AGFI	Greater or equal to 0.80	0.82
Chi Square (χ^2/df)	Less than 3	2.97

Analysis of Model

SEM technique comprises of two parts that are done separately. The first part is measurement model stage that is performed to specify how the latent independent variables are measured with respect to Observed dependent variables. The 2nd part is structural model stage; this stage specifies the interrelationship of latent variables between constructs (Hair et al 2006). This analysis of the two separate models is tremendously important. (Hair et al

2006, Schumacker & Lomax, 2004). They are presented as a path diagram because of the complex nature of the models, that highlights the relationship between both the measured variables and construct and (Hair et al 2006).

The structural model was analyzed by using AMOS 18. The final result of SEM for this study is presented in the Figure 3.

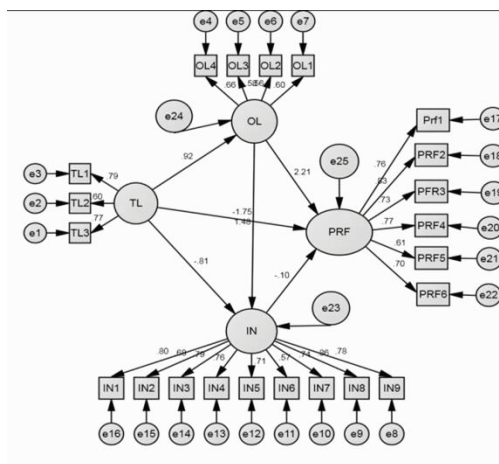


Figure 3: SEM result

According to Figure 3, the hypotheses are tested, and is tested regarding the association between Transformational Leadership and Organizational Learning, the standard coefficient of Transformational Leadership and Organizational Performance is 1.48 with a p-value less than 0.05 which provide enough evidence to reject null and accept H1 which claims the positive relationship between transformational leadership and Organizational Performance.

Coefficient of relationship between Transformational Leadership and Organizational Learning is 0.92 and p value of 0.01 indicates the positive and significant relationship between Transformational Leadership and Organizational Learning which accept the H2. Path coefficient of Transformational Leadership with organizational innovation is -0.81 and p value 0.041 indicates the evidence to accept H3.

Increased Organizational learning will positively affect the Organizational Performance. H4 is stated as Organizational Learning positively relates with Organizational Performance. Path coefficient between Organizational Learning and Organizational Performance is 2.21 and p value 0.00 depicts the acceptance of the hypothesis H4.

H5 states positive association between Organizational Innovation and Organizational Performance. Coefficient of relationship between Organizational Innovation and Organizational Performance is -0.10 and p value greater than 0.05 which indicated the evidence to reject H5.

So there is negative relationship between Organizational Innovation and Organizational Performance. H6 states that a positive association exists between Organizational Innovation and Organizational Learning. According to the results, path coefficient of Organizational Learning and Organizational Innovation is -.175 with a p-value 0.03 which provides enough evidence to reject null hypothesis and accept H6.

Discussion and Conclusion

The results show that there exists a strong relationship between transformational leadership and organizational performance. Banks need transformational leadership to improve their organizational performance and the effect is further enhanced with the combined effect of organizational learning and organizational innovation. The results also show that there exists a positive relationship between transformational leadership and organizational learning which is confirmed by other studies (Radzi, Hui, Jenatabadi, Kasim, & Radu, 2013). The more the leader exerts influence as transformational leader, the more is the organizational learning. Study established relationship of the Transformational Leadership and Organizational Learning so organizations which are striving for improving learning should focus on transformational leadership in organization in order to improve organizational learning. The study also verifies a positive relationship between transformational leadership and organizational innovation which is also supported the other studies (Sanders and Shipton, 2012). Transformational leaders encourage the processes that emphasize the processes of innovation thus enabling the organization and employees to get acquainted with new and innovative technologies.

Relationship between organizational learning and organizational innovation was also found to be positive. This might be expected based on the previous research organizational learning and organizational innovation is the positively related with each other (Radzi et al, 2013). The more the organizational learning, the more is the organizational innovation. The innovative organization learns and knows how to make and keep itself competent. Through learning, the organization can change its behavior and thus renew and reinvent its technology and production to avoid falling into stagnation and to permit organizational innovation. Different organizations will find themselves in different states of evolution in learning. Organizational learning prevents stagnation and encourages continuous innovation. Finally, the present study exposed a negative relationship of the Innovation and performance which reveals the negative effects of technological change on performance that could be the resistance to the change. Organizations should keep focus on the employee behavior during innovation process. It definitely requires continuous communication to impose technical changes.

Limitations and Future Research Directions

Transformational leadership as an area of academic research is relatively at early stages in Pakistan. The result of this study can be used as a benchmark for other developing countries. This would hopefully add significant contribution to the conceptual and empirical research in this evolving area. The qualitative techniques can also be employed to further explore the nature and variables in this study. Future researches may include the banks of other regions and/or corporate sectors.

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