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The Mediating Role of Job Satisfaction between Transformational Leadership and Organizational Commitment within the SMEs of Karachi

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Abstract

The mediating role of job satisfaction between transformational leadership style and the organizational commitment within the SMEs in Karachi is the aim of this study. The correlation between variables is explored through quantitative methods. Total 190 respondents participated from 49 SMEs in Karachi. The results showed that job satisfaction has significant mediating role between variables of interest. This study confirmed that there is a positive strong correlation between transformational leadership and organizational commitment. Employees having high job satisfaction showed higher organizational commitment. Females scored more in comparison to males in terms of overall organizational commitment. However, males have high affective and normative while females have high continuance commitment.

Key words: Organizational commitment, transformational leadership, job satisfaction, SMEs

1. Introduction

In this modern era of globalization where there is competition all around a well-managed employee participation and performance leads to effective and efficient organizational performance is the center of focus is human resource (Shah, 2009; Haque and Yamoah, 2014). There are various researchers who explained about the link between employee commitment and organizational performance however, some argued about the leadership aspect, its roles, style, and the impact that it creates to employee commitment in the organization. Moreover, Quality leadership plays an important part in overall success of an organization it connects people and allows them to enhance their skills in their particular fields (Tsai, 2011). Another important aspect is the leadership style which has been explained by various researchers that is having a contemporary style rather than the autocratic style which was being followed in the past as employees are more effective with this transformational leadership style specially the female workers in the eastern world as it was mentioned by (Haque, et al., 2015). This style of leadership focuses on the organizations strengths, works for the betterment of the workers by setting goals, and helps them achieve those goals keeping in consideration their necessities and their competencies and skill levels. Conversely, leaders have adopted transformational leadership style aiming to increase job satisfaction (JS) of the workers. Thus, they have increased individual consideration and enhanced their communication by giving some power to the workers with more innovation that supports their ultimate vision however research says that some small and medium sized business managers in Karachi are going with the old school of thought of following the traditional bureaucratic style of leadership. There is also an interesting aspect that is being discussed by researchers, which is how female workers differ from male workers in SME's when it comes to organizational commitment.

The aim of study is to investigate the mediating role of job satisfaction between transformational leadership and organisational commitment of employees in SMEs of Karachi, Pakistan.

2. Literature Review

SMEs of Pakistan

As a remedy for many economic issues confronting the LDCs, the experts extensively consider SMEs now a day. Particularly; small informal integrated pulsating sectors are expected to unravel issues like unemployment, low growth and poverty. Promotional policies with irregular results have been designed for these sectors by SAARC. The planners with faith in SMEs have realized the importance of flexible production methods to commence manufacturing anywhere, any level by inter-firm linkages. Individual SAARC regions experiences and indicates general economic environment born of practical industrial policy as a catalyst of SMEs growth globally. Extensively, Pakistan's industrialization strategy foundation had been significant manufacturing which recorded 8.78% growth rate during 1950-2013 with constant support by set of macroeconomic policy measure (SMEDA, 2015). Insignificant sector also registered remarkable increase of 5.06% during 1950-2013 without direct assistance by policy support. It operated under the umbrella of significant manufacturing sector (SMEDA, 2015). A unique feature of Pakistan's manufacturing sector is diversified product textile (24.02%), Chemicals (15.17%), food (13.77%), and others. It is mandatory to notice that small, large and medium except automobiles, steel, fertilizer, heavy engineering, etc comprises the sector (SMEDA, 2015).

According to the statistics showed by the government, when the estimated amount of outcome was increased to 67,541 million from 19,683 million during 1987-1997, sector of Pakistan's SME also recorded an improving growth of 14.7% and on the other hand, during this period, growth of 5.8% was recorded by several industries of Household manufacturers as well. The following data represents the theory that manufacturing units employing less than 100 workers are linked to SMEs (SMEDA, 2015). Furthermore, SMEs contributed in improving economy, employment and reducing poverty of Pakistan and it is shown in the figures that around 90% of every private sector manufacturing units employ not more than 99 workers and 78% of non-agricultural labour force gets employed by SMEs. Their contribution to our GDP is 32%, more than 140 billion Rupees to exports and maximize the profit by 25% of exported manufacture (GoP, 2015).

2.1 Leadership

According to the Malcolm Baldrige National Award, who described leadership in its major values, senior leaders of the organizations should be setting the directions and diverting focus of customers, and making high expectations and values more clear and visible (Gray, Field, & Brown, 2010). These directions, expectations and values must be meeting the needs of company's stakeholders. To build knowledge and capabilities, have an innovative perception and to get excellence, your leader must make certain the formation of systems, methods, and strategies so these strategies and values could also be helpful for a leader in directing and instructing for all activities and decisions of the firm (ibid). Senior leader should be the one who has a personality to inspire and motivate the employees to do their part and become an encouragement for the whole workforce to learn, develop, to do their work in more innovating and creative way (Gray et al., 2010). "*Leadership plays a key role in determining the success and failure of a firm*" (Lok & Crawford, 2004). On the other hand, de Jong & Hartog (2010) argued "*leadership is a process to persuade people in order to get desired results*".

2.2 Transformational leadership

According to Burns (1978), who was the first person who brought up the concept of transformational leadership, transformational leadership takes place when leaders motivate their followers to increase the level of their moral beliefs and values, perceptions, & coalition to meet the objectives of the organization. Bass & Avolio (2006) came up with a further development by dividing the leadership into four components:

1. Individualized Consideration
2. Inspirational Motivation
3. Charismatic Role of Modeling
4. Intellectual Stimulation.

"The transformational style of leadership has characteristics of charisma, individual consideration, intellectual stimulation, and inspirational motivation whereas transactional leadership is characterized by contingent reward and management-by-exception" (Schepers et

al., 2005). Interestingly, “*Job stress and burnout leads to job dissatisfaction which will result in lower workers’ performance and a decrease in their efficiency and performance. Organizations, by applying transformational leadership can reduce job stress and burn out (Gill et al., 2010)*”. Further investigation by Zopiatis & Constanti (2010) revealed that the relationship between different styles of leadership of hospitality managers in Cyprus that employees have emotional instability. The study showed that transformational leadership contributes as a revealing factor for own achievements and having unhelpful relationship with emotional exhaustion and frustration. Employees’ productivity can be increased with the help of transactional leadership style but it has irrelevant relations with depersonalization and emotional exhaustion. By wrapping up the discussion, we can say that those leaders who follow transformational leadership style are proved more effective, optimistic and much advantageous rather than those who follow bureaucratic leadership, which can be easily seen in SMEs.

2.3 Job Satisfaction

Job satisfaction (JS) shows the emotional stability of individuals towards their jobs, or place where they work, so it has become a subject which attracts the researchers as well rather business unit employees (Lu et al, 2012). Another definition of job satisfaction given by Luthans et al., (2007), “*a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experience.*” Job satisfaction is seen as a common behaviour of employees by Faizan & Zehra (2016), concerning about how they work and where they work and there are other factors as well that may affect job satisfaction in different ways. As many researchers have defined that job satisfaction can be affected by different other parameters, so overall job satisfaction will be our core focus in this study. The higher the level of job satisfaction, the more efficiently an employee performs. This relationship between organizational performance and worker’s job satisfaction was formed in 2010 (Arnett), by explaining it more specifically that customer satisfaction will take place when the employees are satisfied so they would be able to perform their duties in a more better way. They further dragged their study by relating supervisor’s leadership style with employee’s job satisfaction,

that if the employees get the right to contribute in making decisions with seniors, it will regulate their confidence and sincerity towards their job and this will increase employees' job satisfaction in result, which may be favourable for the organization performance.

2.4 Organizational commitment (OC)

“It is an attitude reflecting employees' loyalty to their organization and is an ongoing process through which organizational participants express their concern for the organization and its continued success and well-being” (Luthans et al., 2007). According to Mowday et al., (1979), organizational commitment (OC) is defined as one of the employees' emotions, which make them understanding the values, norms, and goals of their organization and to become an affective part of their workplace. Interestingly, organizational commitment is a psychological bond between worker, work, and workplace (Haque & Yamoah, 2014; Haque & Aston, 2016; Haque et al., 2016).

2.4.1 Types of Organisational Commitment

According to Haque and Yamoah (2014), the components of organizational commitment are employees' recognition, attachment and real involvement (Faizan & Zehra, 2016; Haque et al., 2016). It is observed in many experimental studies that affective commitment shows the actual involvement an employee carries, normative commitment shows how an employee is recognized and employees' attachment is continuance commitment, as these components were related with organizational commitment (Mowday et al., 1979).

2.4.2 Job satisfaction and organizational commitment

According to an investigation of Wu & Norman (2006), job satisfaction has positive relationship with organizational commitment but the nature is not clear. Moreover, Fang (2001) argued that employees' job satisfaction significantly related with organizational commitment but negatively affected by job stress (Haque & Aston, 2016). Gunlu et al., (2010) related employee's job satisfaction with its characteristics and organizational commitment by identifying its impact over it. The output shows that employee's intrinsic and extrinsic job satisfaction is strongly and closely related with normative commitment. There is strong relationship between subordinate's age, level of pay, education, and extrinsic job satisfaction.

According to Popoola (2009), employee's job satisfaction, level of control and socio-economic factors (e.g., age, gender, qualifications, marital status, salary, duration of work etc.) has positive impact on organizational commitment, and it is determined by these factors as well. The quality of work is also affected by job satisfaction and it increases when employees improve job commitment, strong impact on productivity and small rate of absenteeism is seen.

2.5 Hypothesis

H1: Transformational leadership has significant positive relationship with organizational commitment.

3. Research Methodology

The study specifically shows the IT services and consumer goods, carried out on the SMEs in Karachi. The study specifically shows the IT services and consumer goods, carried out on the SMEs In Karachi. According to the list of Karachi Stock Exchange - KSE (2016), there are 560 SMEs registered. The list of these SMEs is available at the desk of KSE at I.I Chundrigarh road from where it has been attained. Presently, there are 121 registered Information Technology Service providers, 76 consumer good service suppliers, and 58 Loan service providing institutions functioning in Karachi (KSE, 2016). Employees of SMEs, dealing in services especially, in Karachi are the target population of this study. For the sampling frame, all registered SMEs was taken as sample. Non-probability convenience sampling technique was used from the sampling frame information technology, loan, and household goods services. Target population for this study was SMEs operating in Karachi specifically dealing in services. This study has 190 respondents for sample size where Kinra (2006) showed that most of the researchers use a model range of 150 to 300. Researchers used semi-structured questionnaire chosen for collecting data from the organizations. The use of email took place when the number of questionnaires was needed to be circulated to ensure genuineness and increase the rate of response.

Multifactor leadership questionnaire developed by Bruce & Avolio (2009) was used to measure the respondents' perception about the transformational leadership. The MLQ 5-point

Likert scale was used, where (1) Not at all (2) Once in a while (3) Sometimes (4) Fairly Often and (5) Frequently, then researcher used (1) Strongly Disagree (2) Disagree (3) Neutral (4) Agree and (5) Strongly Agree and in later portion of questionnaire 1=completely unsatisfied and 5=completely satisfied, to determine the overall job satisfaction of employees, as suggested by Cook (2009). Lastly, Haque & Aston (2016) questionnaire was partially used for measuring organizational commitment. Cronbachs' alpha value ($\alpha=.75$) confirmed that instrument is valid and reliable.

3.1 Data Collection and Analysis tool

The data for research work was collected from targeted organizations individual male and female employees by means of Primary resources using Self-administered questionnaires from September 2016 until December 2016. In total 700 questionnaires were circulated for SMEs employees in Karachi. Recorded response was 27.1%, (190 out of 1200) sent filled forms. Data was analysed by SPSS 23.0. Research related variables were coded and entered on the most widely used statistical software package i.e. SPSS 23.0. It is user friendly and cost effective for quantitative research in social sciences (Prabhakar, 2008). Employees' response about transformational leadership, job satisfaction, and organizational commitment were scored.

3.2 Descriptive Statistic

In this study, 255 registered companies dealing in household consumer goods, I.T service providers, and Loan service providers operating in Karachi were approached by researchers. However, 31 I.T service providing SMEs, 11 household goods providers SMEs, and 7 Loan providers gave consent to circulate survey questionnaire. The questionnaire consisted of 16 items, divided into three categories; organisational commitment, job satisfaction and transformational leadership respectively. Majority of the respondents were males (58%), having Bachelor's Degrees (47%), lies between 30-to-45 age bracket (35%) years and on average having the experience of 3-to-5 years (68%).

4. Results and Discussions

Pearson Correlation Analysis and Descriptive Statistics				
Variables	Mean	Standard		Pearson

		Deviation	Correlation		
			1	2	3
Transformational Leadership	4.89	1.43	(1)		
Organizational Commitment	4.21	1.29	0.66**	(1)	
Job Satisfaction	5.19	0.92	0.43**	0.49**	(1)

Results of Stepwise Regression Analysis			
Variables	Dependent Variables (Organizational Commitment)		
	AC	NC	CC
<u>Control Variables</u>			
Gender	0.15	0.13	0.11
Age	0.38	.29	.25
Education	-.03	-.07	-.03
<u>Independent variable</u>			
Transformational Leadership		0.53***	0.43***
<u>Mediating Variable</u>			
Job Satisfaction			0.20*
R ²	.12	.35	.38
Adjust R Square	.066	.315	.341
R Square Chance	.114	.243	.031
F	2.643	8.639***	8.535***
FΔ R square	2.643	41.209***	5.406***
Note: *p<0.02, **p<0.01, ***p<0.001			

The above table shows the mediating effect of job satisfaction in Step 3 of the process and reveals that the relationship between job satisfaction and transformational leadership practices significantly correlated with the organizational commitment ($\beta=.20$, $p<0.05$), therefore, we do not reject H1. Additionally, relationship explains that connection between JS and OC into the analysis in Step 2, transformational leadership practices was found to be significantly correlated with the organizational commitment ($\beta=.53$, $p<0.001$). In terms of explanatory power, the inclusion of empowerment in Step 2 has explained 35 percent of the variance in dependent variable. As shown in Step 3 (after the establishing the connection between JS and OC into the analysis), the previous significant relationship between transformational leadership practices and organizational commitment did not change to non-significant (Step 3: $\beta=.43$, $p<0.001$), but the strength of such relationships were decreased. In terms of explanatory power, the job satisfaction in Step 3 had explained 39 percent of the variance in

dependent variable. This result confirms that the job satisfaction into the analysis has increased the strength of relationship between transformational leadership and the organizational commitment, which sends a signal that job satisfaction, does act as a full mediating variable in the organization.

Hence, this study confirms that job satisfaction has a mediating effect in creating positive significant relationship between transformational leadership and the organizational commitment in the SMEs of Karachi. The additional analysis confirmed that females have higher continuance commitment therefore, this study confirms the findings of Haque & Yamoah (2014) and Haque & Aston (2016). Moreover, the study also showed that employees having higher job satisfaction tend to have higher commitment. Hence, this study contributes to the theoretical aspect by confirming the work of Shamir and Chen (2003). Additionally, the earlier work of Wu and Norman (2010) is also confirmed by finding positive relationship between JS and OC. In addition to that, study also support the work of Faizan and Zehra (2016) that job satisfaction and style of leadership not only improves the organizational commitment but also the working quality of the individuals within the organizational setting.

5. Conclusion

Present study confirms that job satisfaction does act as a full mediating role in the relationship between transformational leadership and the organizational commitment within the SMEs in Karachi. Hence, this result supports and contributes towards extended leadership research literature widely published in the Eastern organizational settings. Therefore, current research and practices within transformational leadership models needs to improve the working quality through developing different modes. These modes shall be effective in improving job satisfaction, as it is a critical aspect of the organisational success. Leaders exhibiting transformational leadership intakes job satisfaction as pivotal aspect for efficiently and effectively managing organizational functionalities because it enhances organizational commitment that may strongly motivate positive subsequent attitudinal and behavioural outcomes. Hence, in the competitive business environment, these various positive outcomes could be effective for the leaders and organizations in retaining and sustaining

competitiveness through valuable employees.

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