

# IMPACT OF TRANSFORMATIONAL LEADERSHIP ON PSYCHOLOGICAL EMPOWERMENT AND JOB SATISFACTION RELATIONSHIP: A CASE OF YEMENI BANKING

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## ABSTRACT

The banking sector of Yemen is under threat due to the lack of confidence and trust of the prospective clients that hindered economic development of the country. The study aimed to measure a moderating effect of transformational leadership on employees' psychological empowerment and job satisfaction relationship so that attitudes of the Yemeni can be bumped towards banking. In this study, 160 employees were surveyed in different branches of four banks in Yemen. The data were analyzed in four stages namely, reliability and validity analysis, descriptive analysis, multivariate analysis, and hypotheses testing analysis. The study revealed a significant positive relationship between employees' psychological empowerment and transformational leadership towards their job satisfaction level. If the policy makers consider the findings and undertake necessary measures, the Yemeni banking is expected to be accelerated which will contribute to the economy of the country.

**Keywords:** transformational leadership, psychological empowerment, job satisfaction.

## INTRODUCTION

Global business environment, in the recent time, has become very competitive (Guest, 2007) and organizations are facing enormous challenges irrespective of their technology, size, and policies in the unpredictable marketplace (Ramlall, 2004). It is widely acknowledged that organization's human asset regarded as most valuable and crucial in achieving its goals (Emami *et al.*, 2013). Therefore, both academicians and practitioners became more conscious about employees' job satisfaction so that

loyal and capable employees can be retained. Similarly, scholars have been directed their study to discover the antecedents of employee job satisfaction both in terms of financial benefits and other human aspects of job. It is argued that a correlation between job satisfaction and financial aspects existed in the organization (Ahmed & Uddin, 2012; Maister, 2001). These arguments rationalize the attention between employees' psychological empowerment and job satisfaction relationship to improve organizational performance.

Yemeni banking sector has been reported fragile to back up the country's development (Yemen Country

Profile Report, 2011). The Central Bank's Mayor of Yemen claimed that Yemeni prefer to save money at home due to lack of faith or hesitant to do bank transaction. Surprising, only 2.7 percent Yemeni have banking attitudes and annually circulated cheques fall between 500 and 600 thousand (SIRIM Berhad, 2010). SIRIM (Standards and Industrial Research Institute of Malaysia) engaged with scientific, industrial research in Yemen to develop a strategic plan for industrial development. Saeed (2011) claimed that 4 percent Yemeni does transactions with banks. The dearth of customer-focused policies of banks is responsible for poor banking culture in Yemen (Saeed, 2011; Al-Swidi & Mohammad, 2011).

Leadership referred to the essential and effective component in recent business trends for solving socioeconomic dilemma (Finkelstein *et al.*, 2010; Northhouse, 2010). Numerous studies during the last couple of decades found charismatic and transactional leadership roles among leaders (Bass & Riggio, 2010; Yukl, 1989; Bass, 1985). But researchers recently emphasized on transformational leadership which has the impact on both organizational performance, and employees' attitude and emotional encouragement (Bass & Riggio, 2010; Northhouse, 2010; Podsakoff *et al.*, 1990). Transformational leadership gained extra attention than other leadership styles to the researchers in industrial psychology. Leaders can acquire trust, admire, and respect of the followers and inspire them to perform extra roles, and transform employees and organization through transformational leadership (Bass, 1985).

Keeping the above discussed justifications in mind, the study aimed to examine moderating role of transformational leadership on employees' psychological empowerment and job satisfaction relationship. Besides, the study secures the following objectives: (1) to examine the effect of employees' psychological empowerment on employees' job satisfaction; (2) to examine the effect of transformational leadership on employees' job satisfaction; (3) to measure the moderating effect of transformational leadership on employees' psychological empowerment and job satisfaction relationship.

Employee job satisfaction has a positive and significant effect on employee productivity (Ahmed & Uddin, 2012). Organizations intend to invest in technology and amend strategies to increase job satisfaction and productivity (Bloom & Van Reenen, 2007). Researchers suggested earlier that job satisfaction come from employees feeling about the job than fulfillment of their desires (Locke, 1976). Many researchers examined and defined lot of determinants of job satisfaction like reward system, individual differences, self-esteem, and locus of control (Chen & Silverthorne, 2008; Lankau & Scandura, 2002). Moreover, employees' job satisfaction resulted from positive behavior of supervisor and colleagues, acceptable salary, job characteristics, promotion opportunities, friendly

working environment and organizational policies. Furthermore, job security and autonomy, wages, and advancement scope have significant impact on employee job satisfaction (Ahmed *et al.*, 2013; Silla *et al.*, 2005; Guest, 2004). Some study argued that appropriate leadership influences to make employees satisfied so that organization's objectives can be achieved (Gill *et al.*, 2010). Moreover, successful leaders may have different styles, but they adapt the strategies for gaining employees' trust and loyalty to ensure their job satisfaction (Welch & Welch, 2005).

Employees' psychological empowerment is defined by four elements namely meaning, competence, autonomy, and impact. The meaning refers to values of employees regarding organizational goals formed through one's own beliefs and principles. Competence is the ability to perform tasks with skill and confidence. Impact means influences an employee has over management, operations, and strategic matters. Autonomy is the extent of freedom on individual exercises one's own discretion in the work (Choong *et al.*, 2011; Ghani *et al.*, 2009). Employees intrinsic needs fulfillment flourish them with self-determinant, responsible and independent to function enthusiastically and grow persistently (Maslow, 1971). Additionally, several studies supported employees' empowerment as a means of organizational commitment (Han *et al.*, 2009; Spreitzer & Mishra, 2002), customer satisfaction (Chebat & Kollias, 2000), performance (Sigler & Pearson, 2000), and motivation (Caudron, 1995). Employees' sense of empowerment is attributed by job structure, participation in decision making, employment relationship, and collaboration of peers in the work environment (Varekamp *et al.*, 2006). But Jha and Nair (2008) acknowledged that empowerment is the product of supervisor and employee relationship that determine the subordinates performance.

Recently, Liang and Zhen (2012) showed that employees' psychological empowerment enhances their job satisfaction level. Employees' exercise of power makes them confident to perform well results high job satisfaction (Swidi *et al.*, 2012). Moreover, employees' participation in making decision and maintenance of excellent work environment increases their psychological empowerment level (Al-Zahrani *et al.*, 2012; Liang & Zhen, 2012). During last few decades, many studies between psychological empowerment and job satisfaction relationship revealed significant (Kuo, Yin & Li, 2007; Aryee & Chen, 2006; Hechanova, Alampay & Franco, 2006; Laschinger *et al.*, 2004; Sprietzer, *et al.*, 1997). Pelit *et al.*, (2011) recently established positive influence of empowerment on employees' job satisfaction.

Since the 1980s, transformational leadership has been found crucial approach in leadership styles (Northhouse, 2010). In explaining the influence of transformational leaders over their followers, Kirkbride (2006) argued that inspirationally motivated leaders encourage their followers to produce greater performance. The transformational leadership

consisted of four dimensions such as Idealized Influence (strategy and vision, cohesion, respect, reliance and synergy), Motivation (setting ambitious goals and targets), Stimulation (creativity and innovation, team behavior), and Individual Consideration (emphasize followers capabilities, potentials, desires and work support for development). The said dimensions have been found in several studies (Afshari *et al.*, 2012; Bass & Riggio, 2010; Luthans, 2005). In organizational settings, transformational leadership as intuitive approach has positive impact on individual-level and organization-level performance (Schein, 2010; Lowe & Gardner, 2001). Additionally, transformational leaders promote supportive collaboration among team members emphasizing followers' needs, values, and morals which is crucial for the innovative team process and organizational performance enhancement (Schein, 2010).

Al-Hussami (2008) conducted a study on 192 nurses, in the south-eastern United States, revealed a positive relationship between transformational leadership and job satisfaction. Similarly, job satisfaction of sports administrators in South Africa demonstrated by implementing transformational leadership (Naidoo, 2008) also showed a positive relationship. Moreover, a meta-analysis conform a positive impact of transformational leadership on job satisfaction, motivation and leader effectiveness (Judge & Piccolo, 2004). Recently, relationship between charismatic leadership, stimulation, and motivation with job satisfaction were found to be positive whereas individual characteristics and job satisfaction relationship were negative (Omar & Hussin, 2013). Numerous studies in different countries supported the correlation between leadership and job satisfaction (Berson & Linton, 2005; Seo *et al.*, 2004; Stordeur *et al.*, 2000) but didn't specify the leadership style they implemented.

Transformational leadership has influence on in-role performance which was mediated by the leader trustiness and psychological empowerment (Bartram & Casimir, 2007). However, leader trustiness partially mediates the relationship between transformational leadership and job satisfaction. Avey *et al.*, (2008), using SEM technique, revealed that transformational leadership has positive significant relationship with employee empowerment. Avolio *et al.*, (2004) confirmed earlier that employee empowerment is precursor of transformational leadership to achieve organization's goals. Conversely, transformational leadership does not moderate the relationship between employees' psychological empowerment and job satisfaction, though a strong relationship between employees' psychological empowerment and job satisfaction has been established whereas job satisfaction highly influenced by transformational leadership than employees' psychological empowerment (Swidi *et al.*, 2012).

Despite numerous number of studies established relationship between transactional leadership and psychological empowerment (Avey *et*

*al.*, 2008; Avolio *et al.*, 2004), but moderating effect of transformational leadership on empowerment and satisfaction relationship is still ignored. Therefore, the study expected to examine the relationship between employees' psychological empowerment and job satisfaction by using transformational leadership as moderating variable to bridge the gap. The research framework of the study is presented in Figure 1.

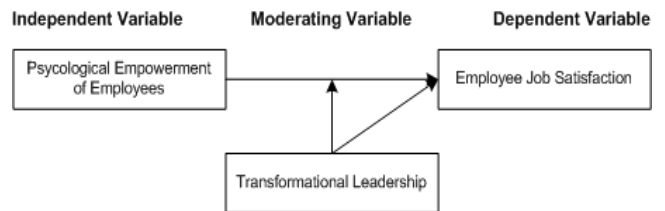


Figure 1 Study Framework

## METHODS

The respondents of the study consisted of Islamic Banks employees located at Sana'a in Yemen where majority of Islamic Banks branches were established. The data have been collected from 18 different branches of four banks, namely Tadhmoon International Islamic Bank, Saba Islamic Bank, Yemen Bahrain Shamil Bank, and Islamic Bank for Development and Financing. As recommended by Sekaran (2003), the sample size would be 160 having good representation of 260 populations. The study distributed 202 questionnaires where 170 were returned of which 160 questionnaires were used for the study. The data were collected through self-administrated survey method where questionnaires were designed on employees' job satisfaction (EJS), employees' psychological empowerment (EPE), and transformational leadership (TL).

In this study, Likert 5-point scale was used to get the perception of the respondents regarding the statements from strongly disagree to strongly agree because of its easy construction, appealing design, adaptability and relative reliability (Babbie, 1990; Nunnally, 1978). The questionnaire consisted of four sections. The first section contained the questions regarding employees' perceptions of psychological empowerment. The second section included the questions related to transformational leadership of the supervisor. Next, employees' job satisfaction related questions were in the third section, and the fourth section was designed for getting employees' demographic information.

After collection, the data were feed and analyzed through SPSS 16.0 version software. Data have been analyzed in four different stages namely; reliability and validity analysis, descriptive analysis, multivariate analysis and analysis for testing hypothesis. To establish the goodness of measure, reliability of items measured through Cronbach alpha. Cronbach alpha is the coefficient of reliability used to estimate the reliability of psychometric test. According to Hair *et*

al., (2010), Cronbach's alpha should be  $\geq 0,7$  of the items for internal consistency and reliability; however, 0.6 is considered the minimum level of acceptability.

The descriptive statistical tools used to describe the demographic variables quantitatively. Multivariate statistical tools like factor analysis were done to identify the major influential items of the questionnaires and Pearson correlation was employed to examine the relationship between the variables. Multiple linear regression analysis was adopted in this study to examine the significance of the interaction terms.

## RESULTS AND DISCUSSIONS

The demographical variables of the study such as job title, age, gender, education, specialization, and job experience of the respondents are shown in Table 1.

Table 1 Respondents' Profile

Demographic variables	Category	Frequency	Percentage (%)
Job Title	Officer	22	13,8
	Customer Service	32	20,0
	Cashier	30	18,8
	Other	76	47,5
	<b>Total</b>	<b>160</b>	<b>100,0</b>
Gender	Male	135	84,4
	Female	25	15,6
	<b>Total</b>	<b>160</b>	<b>100,0</b>
Age	Up to 25	20	12,5
	Between 26 and 30	65	40,6
	Between 31 and 35	66	41,3
	More than 35	9	5,6
	<b>Total</b>	<b>160</b>	<b>100,0</b>
Level of Education	High School	16	10,0
	Community college	4	2,5
	College degree	115	71,9
	Master and Above	16	10,0
	Other	9	5,6
<b>Total</b>	<b>160</b>	<b>100,0</b>	
Specialization	Business	100	62,5
	Non-Business	60	37,5
	<b>Total</b>	<b>160</b>	<b>100,0</b>
Job experience	Below 3 years	69	43,1
	From 3 to 5 years	38	23,8
	From 6 to 10 years	41	25,6
	Above 10 years	12	7,5
	<b>Total</b>	<b>160</b>	<b>100,0</b>

To identify the different aspects of job satisfaction, PCA (Principle Component Analysis) was used with varimax rotation. KMO was found 0,786

which is  $> 0,6$  and Bartlett's test indicates factorability of the dimension was significant. KMO and Bartlett's test is the measures of sampling adequacy for overall and each variable. Two factors of job satisfaction with Eigenvalue greater than 1 were found from the nine items. These factors explained variance with 57,25% in employees' job satisfaction construct. Satisfaction on pay and promotion (SPP) and satisfaction on supervision and coworkers (SSC) were found in accordance with loaded items, as seen in Table 2.

Table 2 Factor Analysis of Job Satisfaction (JS)

Code	Factors	
	SPP	SSC
SW1	0,830	
SS1	0,822	
SP2	0,742	
SP1	0,700	
SC1		0,785
SC2		0,785
SC3		0,652
SS2		0,625
SW2		0,580
Eigenvalue	3,449	1,703
VE%	38,325	18,925
Reliability	0,779	0,743
KMO	0,786	
Overall VE%	57,251	
Chi Square	440,545	
Significance	0,000	

SPP: Satisfaction with pay and promotion

SSC: Satisfaction with supervision and coworkers

The factor analysis was conducted with the items regarding employees' psychological empowerment in determining its underlying dimension. The KMO was found 0,798 that exceeded 0,6 were significant. The factorability of the dimensions was significant by Bartlett's test. The items factor loadings on the extracted factors indicated three factors underlying the construct with 68% variance. Among four psychological empowerment dimensions three items were loaded namely meaningfulness and competence, employees' self-determination and impact are shown in Table 3.

Table 3 Factor Analysis of Employees' Psychological Empowerment (EPE)

Code	Factors		
	EMC	ESD	EI
EM1	0,847		
EM2	0,800		
EM3	0,796		
EC1	0,749		



EC2	0,694		
EC3	0,538		
ESD2		0,784	
ESD1		0,636	
EI1			0,880
EI2			0,762
EI3			0,691
Eigenvalue	4,976	1,956	1,220
VE%	41,466	16,3	10,163
Reliability	0,869	0,743	0,772
KMO	0,798		
Overall VE%	67,929		
Chi Square	1016,62		
Significance	0,000		

EMC: Meaningfulness and Competence  
ESD: Self-determination  
EI: Impact

To identify the factors that measure transformational leadership, the factor analysis technique was used. The KMO was found 0,909 which is highly above from the recommended limit of 0,5 and also the Bartlett's test was significant. Two dimensions of transformational leadership from the four items were identified such as inspirational motivation and individualized consideration which shown in Table 4.

Table 4 Factor Analysis of Transformational Leadership (TL)

Code	Factors	
	EMC	ESD
TLII1	0,811	
TLIS1	0,765	
TLII4	0,688	
TLIC3	0,658	
TLIM3	0,655	
TLIM4	0,626	
TLIC1	0,615	
TLII2	0,548	
TLIS2		0,821
TLIM2		0,814
TLIC2		0,704
TLIS3		0,675
TLIM1		0,576
TLIC4		0,565
Eigenvalue	7,991	1,116
VE%	57,081	7,97
Reliability	0,911	0,884
KMO	0,909	
Overall VE%	65,051	
Chi Square	1627,99	
Significance	0,000	

TLIM: Inspirational Motivation  
TLIC: Individualized Consideration

Pearson correlation analysis describes the nature and strength of the bivariate relationships amongst pairs of variables in the study. Correlation between two variable ranges between -1,0 and 1,0, perfect negative and perfect positive respectively. Table 5 indicates that each pair of the variable psychological empowerment, transformational leadership, and the employees' job satisfaction has a significant positive correlation at the 0,01 level.

Table 5 Pearson Correlation Coefficient

Variable	Psychological Empowerment	Transformational Leadership	Employees' Job Satisfaction
Psychological Empowerment			
Transformational Leadership	0,425**		
Employees' Job Satisfaction	0,367**	0,527**	

\*\* p < 0,01

The direct influence of psychological empowerment and the transformational leadership on employees' job satisfaction was measured through multiple regressions. The regression model of the study showed that the overall model was valid (F value = 17,714; p < 0,001) accounted for about 30% of the variance in the employees' job satisfaction. The findings revealed that employees' psychological empowerment is the positive significant predictor of job satisfaction ( $\beta = 0,461$ ;  $t = 6,127$ ;  $p < 0,05$ ) which signify that when employees empowered more the higher level employee satisfaction will be gained. Similarly, transformational leadership have strong prediction power to job satisfaction level with indicators ( $\beta = 0,461$ ;  $t = 6,127$ ;  $p < 0,001$ ). Thus, transformational leadership has stronger prediction power to the employees' job satisfaction than employees' psychological empowerment. These results, however, support the hypothesis 1 and hypothesis 2, as seen in Table 6.

Table 6 Results of Multiple Regression Analysis

Variables	Standardized Beta
Gender	0,017
Psychological Empowerment (EPE)	0,183*
Transformational Leadership (TL)	0,461***
EPE*TL	0,039
F value	17,714
F Sig.	0,000
R2	0,312
Adjusted R2	0,295

\*: p < 0,05; \*\*: p < 0,01; \*\*\*: p < 0,001

The moderating effect of the transformational

leadership on employees' psychological empowerment and job satisfaction relationship have been measured by the hierarchical multiple linear regression. Baron and Kenny (1986) suggested performing regression analysis in several blocks. The first block includes gender of respondent as the control variable. The second block contains employees' psychological empowerment and transformational leadership that examine their predictive power towards employees' job satisfaction. Lastly, the third block includes the interactions to examine the moderating effect of the hierarchical regression model reported in Table 7.

In model 1, the gender variable was examined as a predictor of employees' job satisfaction. The model was invalid (F value = 0,626;  $p < 0,05$ ) and has poor predictive power against the dependent variable (Adjusted R2 = 0,002). Therefore, employee job satisfaction not significantly predicted by the gender ( $\beta = -0,063$ ;  $t = 0,791$ ;  $p < 0,05$ ).

In model 2, two predictors which are psychological empowerment and transactional leadership, were introduced in this model was valid (F value = 23,617;  $p < 0,001$ ) with significant R change and accounted for 29.8% of the variance of employees job satisfaction. In this model, however, the predictors namely employees' psychological empowerment ( $\beta = 0,174$ ;  $t = 2,335$ ;  $p < 0,05$ ) and the transformational leadership ( $\beta = 0,458$ ;  $t = 6,116$ ;  $p < 0,001$ ) have significant effect on employee job satisfaction at 0,05 and the 0,001 levels of significance respectively.

In model 3, the model was valid (F value = 17,714;  $p < 0,001$ ) but the changes in R2 is not significant. Similar to the previous model, employees' psychological empowerment ( $\beta = 0,183$ ;  $t = 2,396$ ;  $p < 0,05$ ) and transformational leadership ( $\beta = 0,461$ ;  $t = 6,127$ ;  $p < 0,001$ ) have significant effect on the employees' job satisfaction at 0,05 and 0,001 level of significance respectively.

Table 7 Hierarchical Multiple Regression Analysis Results

	Model 1	Model 2	Model 3
Variables	Controlling Variables	Predictors	Interaction
Gender	-0,063	0,014	0,017
Employees' Psychological Empowerment (EPE)		0,174*	0,183*
Transformational Leadership (TL)		0,458***	0,461***
EPE*TL			0,039
F value	0,625	23,617	17,714
F Sig.	0,430	0,000	0,000
R2	0,004	0,311	0,312
Adjusted R2	-0,002	0,299	0,295
R2 Change	0,004	0,307	0,001
Significant F change	0,431	0,000	0,576

\*:  $p < 0,05$ ; \*\*:  $p < 0,01$ ; \*\*\*:  $p < 0,001$

From the study, some insights regarding employees' job satisfaction corresponding to the employees' psychological empowerment and transformational leadership has been revealed. The study uncovers the significant effect of both employees' psychological empowerment and transformational leadership to employees' job satisfaction. Alternatively, moderating role of transformational leadership was not significant on the relationship between employees' psychological empowerment and employees' job satisfaction, as shown in Table 8.

Table 8 Summary of the Findings

No.	The Hypothesis	Conclusion
H1	Significant effect of employees' psychological empowerment found on the employees' job satisfaction.	Supported
H2	There is a significant effect of transformational leadership on the employees' job satisfaction.	Supported
H3	There is a significant moderating effect of the transformational leadership on employees' psychological empowerment and employees' job satisfaction relationship.	Not Supported

## CONCLUSIONS

Job satisfaction of employees is one of the major determinants of organizational success which bring organization's growth and expansion. In Yemen, due to globalization and open economy strategies, the employees' satisfaction issue received more interest from business owners and managers. Empowerment and transformational leadership style have been the crucial determinant of job satisfaction; therefore, time comes to think about it so that the country's economy can be accelerated to countenance global challenges. Customer satisfaction is the outcome of employee satisfaction that encourages existing and potential customers to deal with the respective organization. The study confirms that employees' job satisfaction comes through the psychological empowerment and transformational leadership. Thus, the study opened new insights on how to enhance employees' job satisfaction level through institutionalizing psychological empowerment and transformational leadership.

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