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**LEADERSHIP STYLE AND ORGANIZATIONAL
COMMITMENT: TEST OF A THEORY IN
TURKISH BANKING SECTOR**

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Abstract

The aim of this study is to explore the effects of leadership on organizational commitment in general and to question the role played by transactional and transformational leadership in improving organizational commitment of branch employees. The study is designed to develop and test a structural equation model of the relationship between transactional and transformational leadership styles and the organizational commitment of banking staff. Data were collected from 242 offices of Halkbank in Turkey, and 2454 branch employees from different branches of Halkbank participated in the study. The results are consistent with previous studies and it can be said that leadership has a substantial incremental effect on organizational commitment. It was found that transformational leadership helps increase organizational commitment of the employees.

Key Words: Transactional and Transformational Leadership, Organizational Commitment, Structural Equation Model.

1. INTRODUCTION

Today, staff turnover represents a problem for organizations in terms of loss of skilled persons, and additional recruitment, training and orientation costs. Staff turnover also has a negative impact on the mood of colleagues. It is known that the increase of workload after employee loss causes uneasiness and resentment

among employees. Furthermore, efficiency of the remaining employees will decrease, as they conclude that they are stuck in an environment which their colleagues left for a better one. So, retention of adequate staff is becoming recognized as a major challenge in today's business environment. In order to be successful, each needs firm to minimize turnover as well as maximize the effort each individual devotes to his or her organization.

In banking organizations, branch employees constitute the largest group of service providers. Due to competition in Turkish banking sector, demand for branch employees has increased. As a result, employee transaction has also increased among banks, most of which changed hands by privatization and merging. On the other hand, since branch employees are the largest and therefore most costly employee group, they become the primary target for layoffs during a crisis period (Damar, 2007).

How can banking organizations retain talented people while reducing the number of employees? How can banking organizations provide high quality services with fewer employees? One answer might be fostering the organizational commitment among employees. Researchers have empirically tried to determine the predictors of employee turnover by using various theoretical approaches. In business, organizational commitment was found to be a stronger predictor of turnover than job satisfaction or professional commitment (Brierley, 1996; Kacmar, Carlson, & Brymer, 1999; Fang, 2001).

For today's banking organizations it is indispensable to improve the effectiveness of the organization via taking the level of organizational commitment higher. In order to achieve this aim, employees should be encouraged to participate in organizational activities which are expected to enhance their commitment. Managers have to build close work relations with their subordinates to cope with the stressful and heavy working environment. For a good leader, managing not only, financial resources but also human resources is important.

Because leadership has been suggested as one of the most crucial factors contributing to the attitudes of employees toward their organization (Buckingham & Coffman, 1999; Bass, Avolio, Jung, & Berson, 2003), it is likely to be among the important predictors of organizational commitment.

The aim of this study is to explore the effects of leadership on organizational commitment in general and to question the role played by transactional and transformational leadership in improving the organizational commitment of branch employees. This study improves the existing literature on many aspects. Firstly, although much has been written about organizational commitment in the last two decades, the influence of leadership on explaining the organizational commitment of banking staff remains relatively under-researched. Furthermore, most of the studies investigating the relationship between leadership and organizational commitment had measurement, analytic and sampling deficiencies. The present study can be seen as an attempt to dispel these errors. Specifically, the study is designed to develop and test a structural equation model of the relationship between transactional and transformational leadership styles and

the organizational commitment of banking staff. This is a more functional approach for providing alternative explanations of the relationships among relevant variables. In addition to minimize the errors caused by sample size, we included 2454 branch employees from different branches of Halkbank and we also used questionnaire forms proven to be valid and reliable for Turkish sample space.

Secondly, it is well known that especially administrative leadership practices in Turkey can mostly be qualified as transactional. Moreover, as most of the current research on leadership takes top managers as the research unit, we cannot effectively gain information about approaches of administrative leaders. Thus, we believe that the results gained from this study will provide us with crucial information on leadership approaches of administrative leaders.

Thirdly, when literature on leadership is reviewed, we can see that processes occurred through the lower lines of an organization that are extremely institutionalized, thus the need for leadership in the lower lines is decreased and consequently middle and low line leaders gained more transactional qualities (Katz and Kahn, 1978; Mintzberg, 1983). In this context, research findings gain importance because they present findings to the contrary of present literature; transformational leadership is also a basic predictor of organizational commitment at lower levels of organization. This result especially conveys a special meaning when acquired in a high power distance culture such as the one in Turkey.

Finally, majority of research on leadership has been conducted in the Western countries which share similar cultural characteristics (Canada, USA, etc.), little attention has been given to developing countries that potentially share a number of important characteristics, including culture (Spector et al., 2004). This limits our ability to develop a general model that will show the effects of leadership in non-western countries. This study investigates the relationship between the leadership style and organizational commitment in the Turkish banking sector which represents a developing non-western business environment. It is expected that our findings will extend the knowledge about leadership behaviors affecting organizational commitment in developing non-western countries.

2. ORGANIZATIONAL COMMITMENT

Merriam-Webster (2004) defines commitment as (1) an act of committing to a charge or trust and, (2) an agreement or pledge to do something in the future (p. 250). The Collins Cobuild English Dictionary (1995) defines commitment as (1) a strong belief in an idea or system, (2) something regularly taking up some of your time because of an agreement you have made or because of responsibilities that you have, and (3) promising faithfully you will do it (p. 321). As understood from these definitions, an employee who is committed to an organization is expected to dedicate himself and fully assume the organization's goals and values (Porter, Steers, Mowday, & Boulian, 1974).

There are also various theoretical definitions of organizational commitment. Despite some disparities among scholars in explaining the concept and nature of organizational commitment, some important similarities exist as well. Most researchers working in this field adopted “cost based dimension” that indicates employees can commit themselves to specific jobs inside organization just because they see possible losses if they don’t do so or because they don’t have any other job alternatives. Here, the choice made by the individual is the one that is in his own favor. This dimension is also called as a “continuance commitment” or “calculative commitment” (Becker, 1960). The continuance commitment, which is based on socio-economic factors (Swales, 2002), help employees be aware of the benefits that arise depending on their organizational tenure or leave (Meyer & Allen, 1997).

The second dimension, on which there is a consensus, is the “affective dimension”, which explains the commitment through emotions such as affection, warmth, belongingness, compassion, loyalty, sincerity, fondness, pleasure, and so on (Jaros et al., 1993, p. 954). This concept is labeled as “affective commitment”. While the first dimension explains the organizational commitment in terms of necessity of staying in the organization, the second dimension refers to willingness of the employee to stay in the organization (Iverson and Buttigieg, 1999).

While Meyer and colleagues (Meyer and Allen, 1991; Meyer et al., 1993) makes a distinction between necessity and willingness of being loyal, Porter et.al. (1974), Penley and Gould (1988), adds loyalty in the affective dimension. As a result, a third dimension of commitment has emerged: the ‘obligation dimension’ – perceived obligation to pursue a course of action, labeled as “normative commitment”.

Normative commitment derives from a sense of obligation felt by the individual towards the organization and reflects the degree of compliance of his values and beliefs to those of the organization (Meyer & Allen, 1997; Manion, 2004). It is guessed that individual obeys better the rules, when the values and goals are in common.

3. TRANSACTIONAL-TRANSFORMATIONAL LEADERSHIP

For the past 25 years, the transactional-transformational leadership model has been a large and important part of leadership research and theory (Sosik, Avolio, & Kahai, 1997; Barling, Weber, & Kelloway, 1996; Bycio, Hackett, & Allen, 1995). The terms of the transactional-transformational leadership were originally developed by Burns (1978) and then cleared up by Bass (1985). In broader terms, the model explains the characteristics of effective leadership.

Generally explained as the traditional form of leadership (Hsu, Bell, & Cheng, 2002), transactional leadership follows the traditional structure of leader-follower relationships and is based on the bargaining process between leaders and

their followers (Howell & Avolio, 1993). In general, there are two factors that are attributed to transactional leadership. The first is the fact that “leadership depends on situational awarding” which is agreed upon through positive and active exchanges between the leader and his follower. In this case, followers are rewarded or recognized for achieving previously agreed goals or objectives successfully (Bycio et al., 1995). As long as the leader and the follower are content with the procedure, the relationship between them will continue, performance will be sufficient and rewards will be consistent. Transactional leaders generally approach followers only when a problem emerges. They don’t interfere unless something goes wrong. In this case transactional leadership is called “management-by-exception”. The leaders who manage according to exceptions have a full trust in their followers’ capability of accomplishing a job within sufficient standards. Transactional leaders don’t inspire their followers in getting results better than those intended. The system will perform as long as the mission is accomplished and the work is done.

The foundation of transformational leadership based upon a fourth (Bass and Avolio, 1994) compared to three factors (Bycio et al., 1995; Bass, 1985). These three factors are:

- Idealized influence/inspirational motivation;
- Intellectual stimulation;
- Individualized consideration.

Behaviors that are related to first factor contains: pride of being associated with the leader, sacrificing own interest on behalf of welfare of the group, empowering a trust as to the achievement of objectives, to be optimistic about future, forming a coercive vision for future, forming an attractive vision for the image of organizational change. The second factor promotes intelligence, rational behavior in problem solving. The behaviors related to second factor includes: seeking different approaches to problem solving, suggesting new methods about how to commit missions, re-thinking past alternatives that were not considered then. The third factor focuses on regarding the followers not only as group members but also as individuals. Behaviors pertaining to this factor are: sparing time for teaching and supporting, helping promote developing others’ capabilities, paying attention to others’ interests and worries (Bass and Avolio, 1994).

4. TRANSACTIONAL-TRANSFORMATIONAL LEADERSHIP AND ORGANIZATIONAL COMMITMENT

There is considerable research that suggests transformational leadership is positively associated with organizational commitment (Bono & Judge, 2003; Walumbwa & Lawler, 2003; Dumdum et al., 2002; Koh, Steers, & Terborg, 1995; Lowe et al., 1996). Bass (1985) argued that transformational leaders encourage

their followers to think critically and to seek new methods. This causes followers to have ability to solve problems with new methods. Thus, tough situations motivate followers and make them focused on their works. As a result, followers' job satisfaction and organizational commitment will be enhanced. For instance, Shamir and colleagues (Shamir, Zakay, Breinin, & Popper, 1998; Shamir, House, & Arthur, 1993) suggest that transformational leaders can affect the organizational commitment of their followers in these three ways: making sure that higher level values are adopted, stressing the linkage between the follower's effort and reaching the goal, creating a sacrificing environment towards shared vision and organizational goals. In another experimental study, Barling, Weber, and Kelloway (1996) reported an important effect of transformational leadership on followers' organizational commitment and financial performance at the departmental level. Also Bycio, Hackett, & Allen (1995) have shown that transformational leadership has a positive relationship with work related results such as satisfaction, commitment and performance. Related to their long term organizational goals, transformational leaders can motivate their followers in committing themselves to higher organizational goals by urging them to reach beyond their daily requirements (Avolio & Bass, 1988).

Based on the discussions above, we suggest the following hypothesizes:

Hypothesis 1: Transformational leadership is positively related to organizational commitment.

Some of the research conducted on the subject, determined that there is a significant relationship between the transactional leadership and the organizational commitment, but in most of the research, there is little or no relationship on factor bases and there are observations that indicate there is no significant relationship. Since transactional leadership is based on the conception of cost-benefit and to basically to the use of economic exchange, as a means in behaviors, towards the subordinates, one can see that, its not creating an emotional or normative commitment as an expected. Along with this, continuance dimension of organizational commitment, bases on socio-economic factors and reflects the consciousness of persons employed, about the relative benefits of staying or leaving the organization. It can be expected that there is a significant relationship that will be result from the continuance commitment.

Based on above discussions, we hypothesize that:

Hypothesis 2: There is a weaker but significant relation between transactional leadership and organizational commitment than transformational leadership and organizational commitment.

Figure 1 presents expected relations between transactional-transformational leadership of middle line administrators and organizational commitment of branch employees that are explored in this study.

Context of the study

Halkbank, the subject of our research, is one of the prominent public banks in Turkey, which experienced organizational transformations mostly by merging and turnover. Halkbank began operating in 1933, and “Türkiye Öğretmenler Bankası T.A.Ş. (Töbank)” was merged with it in 1992 together with its all active and passive investments, and Sümerbank and Etibank was turned over to it respectively in 1993 and 1998 together with their debts, claims, deposits and contracts. Halkbank began reorganization in 2000 and in 2001, Türkiye Emlak Bankası was merged with it together with its 96 office, all employees and balance. The second half of 2004, Pamukbank T.A.Ş. merged with Halkbank and procedures were completed within the same year. After the merging of Pamukbank, reorganization process, which started in 2000, was accelerated and IT infrastructure, organizational design and service concept closely followed Pamukbank’s structural and cultural properties. This process necessitated fundamental changes in existing assets of Halkbank and the transformation deeply affected employees. Employees of Halkbank were inevitably affected by the financial crisis in Turkey and the World as well as transformation experienced after the merging and take-over.

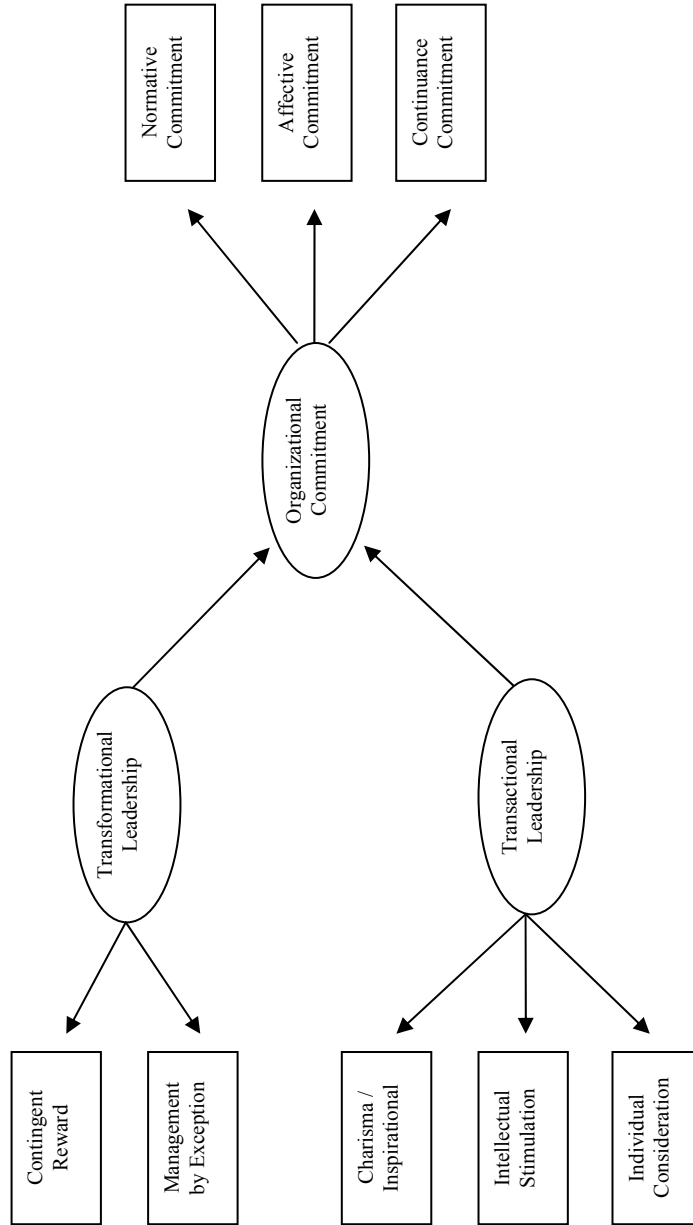


Figure 1. *Expected Relationship Between leadership Style and Organizational Commitment*

We can consider that concepts of leadership and organizational commitment gain importance especially in environments where change prevails. We can say that Halkbank is a perfect sample for this study. Besides, Halkbank's wide network on Turkey with its 321 offices in 62 provinces and the inclusion of every office in the survey without exception justifies generalizability of the results.

Methodology

Sample and procedure

Data for this study were collected from 242 offices of Halkbank in Turkey. Participants were asked to rate the leadership behavior of their bank branch managers as well as their own level of organizational commitment.

Demographically, 63 percent of the sample was women and the mean age of the respondents was 38 years. The mean number of years working for the current bank was 19 years and the respondents had in average, 23 years in the banking sector. Seventy-one percent of the respondents were married. The largest percentage (38 percent) of respondents had some technical college education, 4 percent had a graduate degree, 27 percent had high school diploma, and 31 percent had a bachelor's degree.

The main reason for our choice of banking sector was the profound transformations in this sector, when compared with other sectors. We had the opportunity to assess the relation between leadership and organizational commitment reliably. In addition, selecting only one industry helped us against industry-type error.

We contacted CEOs of Halkbank to seek their permission for conducting this study. After being granted permission, questionnaire forms were distributed to the samples over the Halkbank's survey system used for the similar studies. Out of 3221 forms sent, 2454 were answered (76 percent response rate).

Statistical analysis methods

Structural Equation Modeling (SEM) techniques, which allow researchers to evaluate how closely a theoretical model fits an actual data set while examining the strength and significance of the relations between these constructs, were used to test the hypothesized model. Also, use of an analytical technique is consistent with previous leadership and organizational commitment research. Leadership theory posits that a leader will achieve best results by using different leadership styles in an integrated manner. In the same manner, the theory of organizational commitment also argues that organizational commitment is constituted of common aspects of different commitments. Therefore, an analytic technique such as SEM, must be used so that it can more thoroughly account for the synergistic nature of the constructs (Schumaker & Lomax, 1996).

Conceptually, in SEM procedure, a researcher evaluates how well a full model represents the data interrelations in relation to some models that leave one or more variable relations out of the test. If the full model fits the data best, then all

variable relations are necessary to fully describe the data. If one of the alternative models represents data as well or better than the full model, then the more parsimonious model should be used to describe the data.

The fit of primary model and alternative models was assessed separately using Lisrel 8.51 maximum likelihood estimation (Arbuckle & Wothke, 1999). Although the chi square is the standard statistic to assess the overall fit of the model to the data, it is practically impossible not to reject the null hypothesis when the data set is large. To address this limitation, we employed additional fit indices to examine the overall fit of each scale to the data: the goodness-of-fit index (GFI), comparative fit index (CFI), and root mean square error of approximation (RMSEA) (Byrne, 2001)¹. Values greater than .90 for GFI and CFI generally indicate a reasonable level of fit (Medsker et al., 1994), while a value of .08 or less for RMSEA is considered a good fit (Little, 1997).

Measures

Transactional-Transformational Leadership: The multifactor leadership questionnaire (MLQ Form 5X) was used to measure transactional-transformational leadership. Participants were asked to describe their immediate supervisor's leadership on 28 items using a 5-point Likert scale (5 = frequently, if not always; 1 = not at all). In the MLQ, transactional leadership is measured by the usage of two transactional scales, namely contingent reward (4 items), management-by-exception active (4 items), transformational leadership is measured by the usage of three transformational scales, namely charisma/inspirational (12 items), intellectual stimulation (4 items), and individual consideration (4 items).

Organizational Commitment: Allen and Meyer's organizational commitment (OC) scale was used to measure organizational commitment. Participants were asked to describe their level of organizational commitment on 24 items using a 5-point Likert scale (5 = absolutely agree; 1 = absolutely disagree). In the OC, organizational commitment is measured by the usage of three commitment scales, namely affective commitment (8 items), continuance commitment (8 items), normative commitment (8 items).

It is necessary for us to establish the equivalence of the measurement scales because the scales of transformational leadership and organizational commitment were not developed and have not been used widely in our country, in contrast to west. In order to overcome the difficulty of comprehending the meaning of differences stemming from cultures. Confirmatory Factor Analysis (CFA) is applied to establish the validity and reliability of scales used in this study. The fit indices for the restricted models were as follows:

¹ The GFI is the ratio of the sum of the squared discrepancies to the observed variances; the CFI examines the proportion of the total variance accounted for by a model and is said to overcome the difficulties associated with sample size (Medsker, Williams, & Holohan, 1994); and the RMSEA is the square root of the mean of squared discrepancies between the implied and observed covariance matrices. Sugawara and MacCallum (1993) recommended that RMSEA always be reported when maximum likelihood estimation is used because it yields consistent results across estimation procedures.

Transformational leadership: $X^2 = 1174.01$; $df = 167$; X^2/df ratio = 7.03; GFI = 0.99; CFI = 0.99; RMSEA = 0.039

Transactional leadership: $X^2 = 178.51$; $df = 19$; X^2/df ratio = 9.39; GFI = 0.99; CFI = 0.99; RMSEA = 0.044

Organizational commitment: $X^2 = 4143.60$; $df = 249$; X^2/df ratio = 16.64; GFI = 0.99; CFI = 0.99; RMSEA = 0.077

These indices indicate that the factor loadings were approximately the same for western setting and the Turkish sample. Because these fit indices provided adequate fit to the data, we concluded that the assumption of measurement equivalence was acceptable.

Results

The univariate correlations (Table 1) between transformational leadership and organizational commitment ($r = 0.68$, $p < .01$) provided preliminary evidence to support Hypothesis 1, which states that transformational leadership has positive relationship with organizational commitment. Supporting Hypothesis 2, transactional leadership had also positive correlation with organizational commitment ($r = 0.55$, $p < .01$).

Variables	Mean	s.d.	1	2	3
1. Transformational leadership	3.52	.65	(.87)		
2. Transactional Leadership	2.39	.73	.65**	(.91)	
3. Organizational Commitment	4.25	.39	.45**	.29**	(.84)

^aReliability coefficients for the scales are in the parenthesis along the diagonal.
** $p < .01$

Table 1. Means, Standard Deviations, and Correlations^a

We also tested our hypothesis through structural equation modeling and a series of model comparisons. Table 2 and Figure 1 show the results. Our baseline model given in Figure 1 specifies paths from transformational and transactional leadership to organizational commitment. As Table 2 shows this model did not fit our data ($\Delta x^2 = 22.25$; $df = 17$; $RMSEA = .092$). In addition the path from transactional leadership to organizational commitment (Figure 2) was not significant.

	x^2	df	Δx^2	RMSEA	GFI	CFI
<i>1: Transformational and Transactional (Baseline Model)</i>	378.33	17	22.25	.092	.95	.98
<i>2: Transformational Leadership</i>	112.66	8	14.08	.072	.99	.99
<i>3: Transactional Leadership</i>	151.85	4	37.96	.122	.91	.96

Table 2. Comparison of Structural Equation Models

Against our baseline model, we tested two alternative models. In the 2nd model, we excluded transactional leadership and modeled the influence of transformational leadership on organizational commitment. In the 3rd model, we investigated the relationship between transactional leadership and organizational commitment. While the 2nd model had a good fit data ($\Delta x^2 = 14.08$; $df = 8$; $RMSEA = .072$), the fit indexes for the 3rd model ($\Delta x^2 = 37.96$; $df = 8$; $RMSEA = .072$) were marginal and poorer than the 2nd model's.

In support of Hypothesis 1 we also found significant and positive coefficient ($\beta = , p < .01$) for the path between transformational leadership and organizational commitment (Figure 3), this suggests that transformational leadership influences organizational commitment.

Especially, it must be pointed out that the baseline model that defines the joint effects of transformational and transactional leadership and on the organization commitment is not in harmony with the data gathered by the model. Furthermore, within this model, it was also observed that the relationship between the transactional leadership and the organizational commitment is not statistically significant. Similarly, the alternative model, which only defines the effects of the transactional leadership on organizational commitment, does not meet the generally accepted indexes of adaptability. Whereas, it is determined that the alterative model which defines the relationship of transformational leadership and the organizational commitment is in harmony with the data gathered by the research. In this case, hypothesis H1 is verified with data of the research, but the hypotheses H2 is not supported with data of the research works conducted.

Discussion

The results of the present study are consistent with previous studies and it can be said that leadership has a substantial incremental effect on organizational commitment. Our findings specifically support the previous extensive studies that point to the importance of organizational commitment and transformational leadership. Most of the researchers studying on leadership suggest that there is an impact of transformational leadership on organizational commitment. For instance,

Shamir (1978) has suggested that transformational leadership enhances organizational commitment and also Bass and Avolio (1994) have asserted that transformational leadership increases group commitment by way of effective motivation.

Our study supports these arguments, too. We found that the transformational leadership helps increase organizational commitment of the employees. That is why, managers who want to increase the organizational commitment of their subordinates must consider developing their transformational leadership skills. This is especially important in periods where turnover rates are on the increase.

Evidence proves that the transformational leadership effects on organizational commitment can have practical meanings for leadership development programs. In order to increase follower's organizational commitment, the companies must make sure that their managers take part in transformational leadership education programs.

The outcomes of this study also yield to several areas for further research. Although our study establishes a connection between the organizational commitment and the transformational leadership, this study itself is a motivation for further studies in more depth. All data in this study has been collected through personal reporting criteria. This increases the probability that the findings mixed up with the method/source variance. It is recommended for future studies to utilize the method of multiple sources data collection. Additionally, due to the fact that the data of this study was collected from the finance sector, for the sake of strengthening the ability of the data to be generalized, it is assessed useful that this study be conducted in areas other than the finance sector.

We hope the outcomes of this study encourage further studies on the potential impacts of the organizational output of transactional and transformational leadership styles in the future.

Research results are important since they indicate that transformational leadership is a strong tool for forming organizational commitment in the banking sector which has bureaucratic characteristics. Therefore, even the branch personnel, who do not experience much change and whose activities are well-defined, expect the transformational leadership to show that the approach is not specific environments.

Besides being perceived as a unique top management approach because of its properties such as forming a vision and leading people to a common purpose, results of several studies show that transformational leadership approach is also valid for lower levels of administrative positions. To clarify, in order to ensure subordinates' organizational commitment, administrative leaders must find ways to communicate with them much beyond economic exchanges.

In addition, results of studies show that transformational and transactional leadership cannot be implemented together, and effect of transactional leadership would disappear in the presence of a transformational leadership approach.

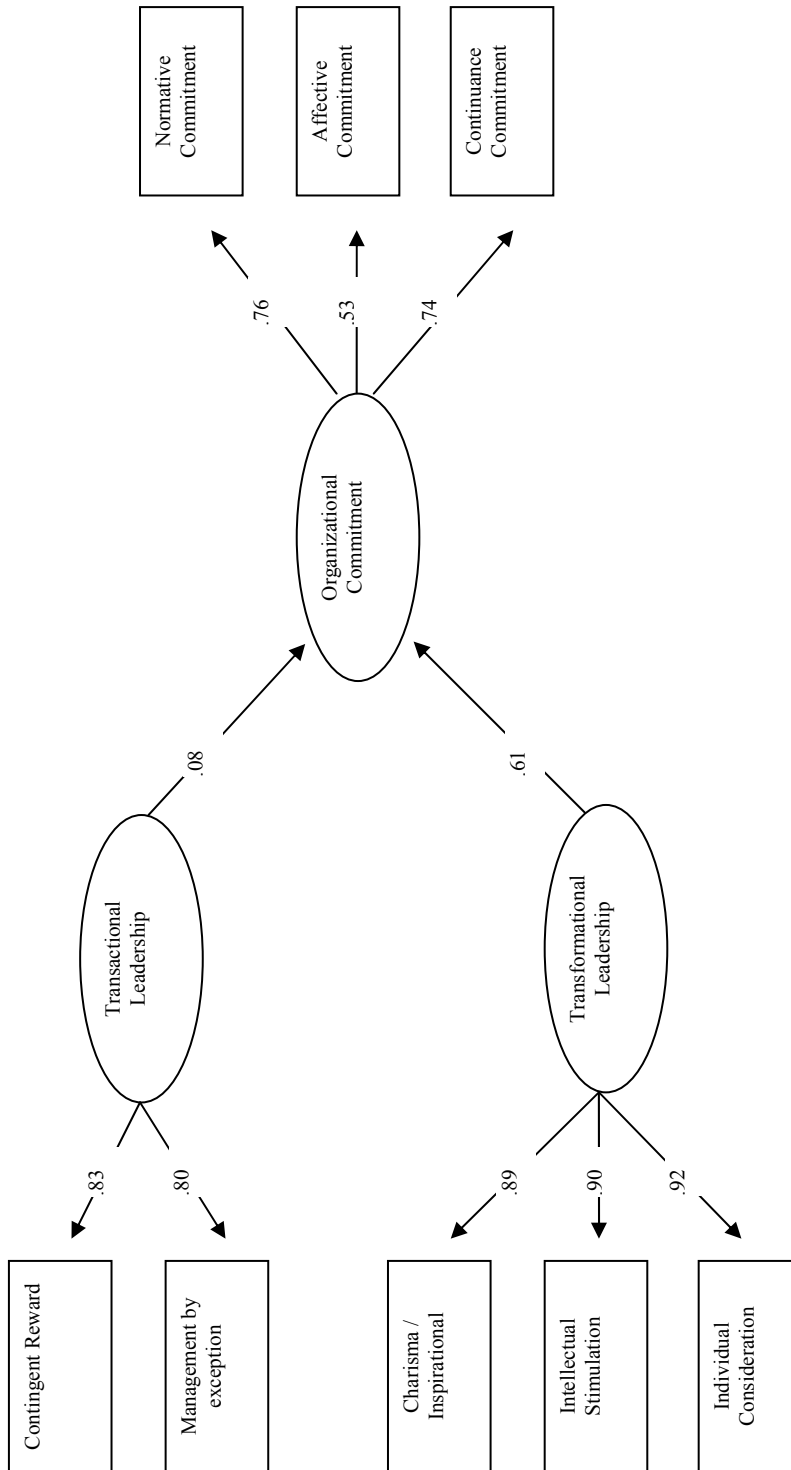


Figure 2. Results of Structural Equation Modeling for Baseline Model

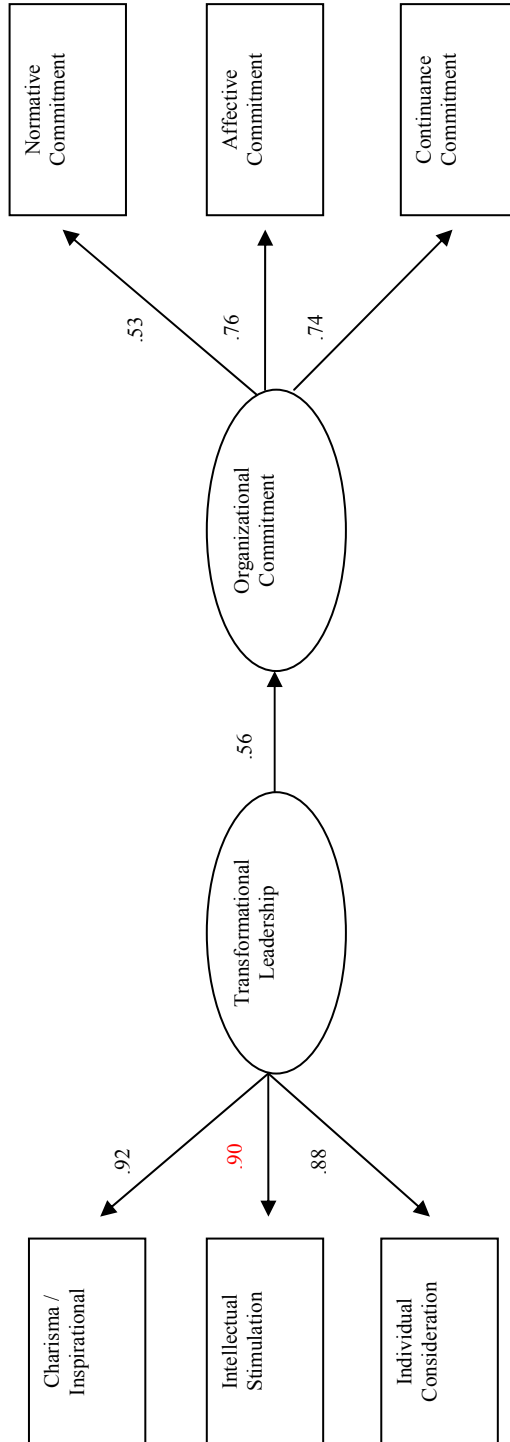


Figure 3. Results of Structural Equation Modeling for Relationship between Transformational Leadership and Organizational Commitment

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