

Muhammad Yasir¹, Rabia Imran², Muhammad Kashif Irshad³

MEDIATING ROLE OF ORGANIZATIONAL CLIMATE IN THE RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP, ITS FACETS AND ORGANIZATIONAL PERFORMANCE

The current study intends to explore organizational climate as a mediator between the relationship of transformational leadership, its facets and organizational performance. A purposive sample of 222 employees was selected for the present study from the banking sector of Pakistan. The results exhibit a partial mediating role of organizational climate between attributed charisma, idealized influence, intellectual stimulation, inspirational motivation and organizational performance. Moreover, organizational climate fully mediated the relationship between individualized consideration and organizational performance. Implications and directions for future research are discussed.

Keywords: organizational performance, organizational climate, transformational leadership.

Мухаммад Ясир, Рабія Імран, Мухаммад Кашиф Іршад

ПОСЕРЕДНИЦЬКА РОЛЬ ОРГАНІЗАЦІЙНОГО КЛІМАТУ У ВЗАЄМОЗВ'ЯЗКУ МІЖ ТРАНСФОРМАЦІЙНИМ ЛІДЕРСТВОМ, ЙОГО АСПЕКТАМИ І ДІЯЛЬНІСТЮ ОРГАНІЗАЦІЇ

У статті досліджено організаційний клімат як сполучну ланку між трансформаційним лідерством і показниками діяльності організації. Було проведено опитування 222 співробітників всередині банківського сектору Пакистану. Результати виявили часткову посередницьку роль організаційного клімату по відношенню до харизми, ідеалізованого впливу, інтелектуальної стимуляції, мотивації і результатів діяльності організації. Крім того, організаційний клімат повністю опосередковує взаємозв'язок між індивідуальним ухваленням рішень і результатами діяльності організації. Подано рекомендації і намічено напрями для майбутніх досліджень.

Ключові слова: результати діяльності організації, організаційний клімат, трансформаційне лідерство.

Таб. 6. Рис. 1. Літ. 54.

Мухаммад Ясир, Рабія Имран, Мухаммад Кашиф Иршад

ПОСРЕДНИЧЕСКАЯ РОЛЬ ОРГАНИЗАЦИОННОГО КЛИМАТА ВО ВЗАИМОСВЯЗИ МЕЖДУ ТРАНСФОРМАЦИОННЫМ ЛИДЕРСТВОМ, ЕГО АСПЕКТАМИ И ДЕЯТЕЛЬНОСТЬЮ ОРГАНИЗАЦИИ

В статье исследован организационный климат как связующее звено между трансформационным лидерством и показателями деятельности организации. Был проведен опрос 222 сотрудников банковского сектора Пакистана. Результаты выявили частичную посредническую роль организационного климата по отношению к харизме, идеализированному влиянию, интеллектуальной стимуляции, мотивации и результатам деятельности организации. Кроме того, организационный климат полностью опосредует

¹ Department of Leadership and Management Studies, National Defence University, Islamabad, Pakistan.

² PhD, PMAS Arid Agriculture University, Rawalpindi, Pakistan.

³ Hazara University, Mansehra, Pakistan.

взаимосвязь между индивидуальным принятием решений и результатами деятельности организации. Даны рекомендации и намечены направления для будущих исследований.

Ключевые слова: результаты деятельности организации, организационный климат, трансформационное лидерство.

Introduction. For over a decade, organizations have experienced radical changes. The majority of organizations have streamlined their operations due to greater competition globally (Collis & Montgomery, 1995). For such a competitive environment, organizations are compelled to get the most out of their assets, especially human ones. Organizations are judged by their performance and employees play an important role in maximizing it (Collis & Montgomery, 1995). The term "performance" can be referred to as employing a complex set of time based measurements for producing future potential outcomes (Corvellec, 1995). Moreover, the ability of an enterprise to achieve its objectives such as good financial results, quality product, large market share, high profit and survival is predetermined through appropriate strategy of action known as organizational performance (Koontz & Donnell, 1993).

In the past, organizations used to focus on financial measures of their organizational performance, because it was easy to measure and reward basing upon this measurement. Though, things have changed and now organizations have idealized the significance of knowledge and expertise, while financial measures remained not the only measure of organizational performance (Kaplan & Norton, 2000). Richard et al. (2007) argued that objective measures can be certain but limited to financial data, whereas subjective measure lacks concreteness but can give an investigator a true picture of organization's effectiveness with respect to its market competitors.

Employee plays a pivotal role in the achievements of any organization but leader enables healthy participation of workforce, and influences both organizational and individual performance (Mullins, 1999). The high performance pressure has increased the need for leadership in order to meet performance requirements. Leadership is basically about embodying values, articulating visions and creating work environment within which things can be achieved (Richardson & Engle, 1986). Leaders are more effective when they influence their employees and facilitate them towards achieving organizational performance (Jones & George, 2000). Transformational leadership is considered appropriate for the organizations striving for increased competitiveness and efficiency and positively affects team performance (Keller, 2006). Transformational leaders by building employee's recognition in organization motivate employees engage in additional efforts for performing beyond expectations (Bono & Judge, 2003).

Transformational leadership is defined in terms of individualized consideration, intellectual stimulation, inspirational motivation, idealized influence and attributed charisma (Bass & Avolio, 1997). Leader with charisma instills loyalty, respect and lay emphasis upon the significance of having a collective sense of mission (Gumusluoglu & Ilsev, 2009). Idealized influence displays a leader as most admirable, trustable and respectful (Bass, 1999). Leader through inspirational motivation shows determination and confidence in their self and acts as an example to be followed, also sets higher level of performance standards (Bass, 1999). A leader through intellectual stimulation elevates and broadens the interest of their followers (Bass, 1990). Through indi-

vidualized consideration, a mentor role is displayed by the leader, developing employees' potential, learning opportunities and focusing their needs on growth and achievement (Bass et al., 2003).

For organizations to perform high an important role is played by its climate. Organizational climate indicates the strength and content of the prevalent norms, values, feelings and behaviors of people in organizations (McNabb & Sepic, 1995). Organizational climate is constantly challenged by dramatic changes in the environment impacting organizations (Nair, 2006). Formation of climate is influenced by leadership (Schein, 1997). Transformational leader creates a participative and pleasant climate that allows employees respond quickly and flexibly to adjust to environmental and organizational demands (Harrison, 1995). There are a few empirical studies that examined the existence and nature of the link between leadership styles and climate (Jung et al., 2003; Mumford et al., 2002; Haakonsson et al., 2008). It might be reasonable to assume that leadership behavior has influence on organizational climate but still needs further analysis (Jaskyte, 2004). The current study fills the gap by examining the impact of transformational leadership on organizational climate.

Supportive and warm climate increases employee's performance and satisfaction (Griffith, 2006). Organizational climate makes a difference in organizational performance because it signifies how much energizing the working environment is for workers (Watkin & Hubbard, 2003). Organizational working environment has been recognized for a potential influence over employee's attitudes, behaviors and cognitions (Ostroff, 1993). Such working environment then influences employee turnover, job satisfaction, and organizational commitment (O'Reilly et al., 1991). Few researchers have established the link between climate and performance (Burke and Litwin, 1992; Kangis et al., 2000; Jing et al., 2011; and West et al., 1998), where they claimed that when employee's perception of information sharing and management support is positive, then it results in greater organizational effectiveness and reciprocal influence between performance and climate was suspected. The current study fills the gap by investigating organizational climate and organizational performance relationship.

Recent researches focus on the mediating mechanisms to understand how transformational leaders can affect employees' outcomes (Jung & Avolio, 2000). The relationship between transformational leadership and performance is affected by various contextual variables (Jung & Avolio, 2000). Organizational climate may be considered as an important contextual variable (Howell et al. 1986). However, the past evidence relating to organizational climate as an essential contextual variable between the relationship of transformational leadership, its facets and performance is limited. Ekvall and Ryhammar (1998) found social climate to be a mediator in the relationship between leadership style and organizational outcomes. Campbell et al. (1970) found that the relationship between work factors and individual outcomes is often mediated by climate. Organizational climate was also found to have a mediating role between the relationship of human resource management and organizational performance (Bowen & Ostroff, 2004). Organizational climate is also found to mediate in the relationship between transformational leadership and innovative work behavior (Imran & Haque, 2011). Bass et al. (2003) argued that transformational leadership has not been fully investigated with essential mediating variables that might link it to

performance. Future researchers should examine the role of organizational climate as a mediating variable in the relationship between leadership and organizational performance (Fenwick & Gayle, 2008). Haakonsson et al. (2008) identified that the relationship between leadership style and climate to performance at the organizational level needs further analysis. Thus, this area needs attention since it remains to be unexplored. The present study fills the gap by exploring the role of organizational climate between the relationship of transformational leadership, its facets and organizational performance.

Past researches exploring the affect of transformational leadership on performance are dominantly within the Western culture (Howell & Avolio, 1993; Nemanich & Keller, 2007; Barling et al. 2002). Despite increased research on leadership and organizational performance, still gaps exist in our understanding (Fenwick & Gayle, 2008). Thus, the present research fills the gap by investigating the relationship between transformational leadership, its facets and organizational performance in a non-western culture like Pakistan.

Hypotheses. *H1: Organizational climate plays a mediating role in the relationship between attributed charisma and organizational performance.*

H2: Organizational climate plays a mediating role in the relationship between idealized influence and organizational performance.

H3: Organizational climate plays a mediating role in the relationship between inspirational motivation and organizational performance.

H4: Organizational climate plays a mediating role in the relationship between intellectual stimulation and organizational performance.

H5: Organizational climate plays a mediating role in the relationship between individualized consideration and organizational performance.

Conceptual Model. Figure 1 shows the conceptual model proposed for the current study.

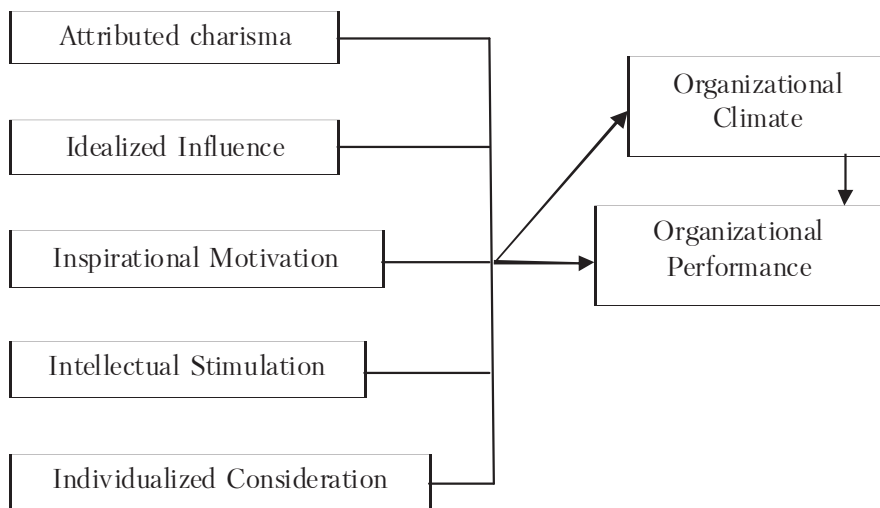


Figure 1. Conceptual model

Methodology. The data were collected using a cross-sectional method. Purposive sample of 222 respondents was selected for the current study in the banking sector of Pakistan. Our sample consists of 89% males and 11% females. 80% employees belonged to the age group of 25 to 40 years.

Instruments. The instrument consisted of organizational performance measured by the scale developed by Qureshi, Mohammad and Syed (2007), transformational leadership measured by transformational leadership facet of MLQ developed by Bass and Avolio (1997) and organizational climate measured by the scale developed by Yahyagil (2006). All 3 scales consisted of 20 items each. Items were anchored at the 5-point Likert scale ranging from 1 ("strongly disagree") to 5 ("strongly agree").

Results.

Table 1. Descriptive statistics, correlation matrix and reliability of variables (N = 222)

	Mean	SD	1	2	3	4	5	6	7	8
1. Organizational performance	44.1622	4.67	(.851)							
2. Transformational leadership	84.1712	10.62	0.442**	(.900)						
3. Organizational climate	76.6261	12.03	0.389**	0.379*	(.906)					
4. Attributed charisma	16.6757	2.93	0.374**	0.702*	0.368*	(.828)				
5. Idealized influence	16.8333	2.88	0.423**	0.671*	0.183*	0.403*	(.852)			
6. Inspirational motivation	16.7658	3.20	0.317**	0.744*	0.260*	0.363*	0.351*	(.886)		
7. Intellectual stimulation	16.9054	2.78	0.320**	0.720*	0.291*	0.380*	0.318*	0.473**	(.745)	
8. Individualized consideration	16.9910	3.10	0.149*	0.721*	0.251*	0.364*	0.336*	0.419**	0.421**	(.892)

**p < 0.01, *p < 0.05. (Parenthesis signifies the alpha reliability values of variables).

The descriptive statistics of the research variables are exhibited in Table 1. Mean value of the study varies between the highest value of 84.1712 to the lowest value of 44.1622 of transformational leadership and organizational performance respectively.

The alpha coefficient also known as Cronbach alpha is most widely used for measuring the scale's internal consistency (Sekaran, 2000). The desirable value for Cronbach alpha is 0.7 or above (Sekaran, 2000). In the current study, the alpha reliability values of all the constructs are well within the acceptable range. The Cronbach's alpha for organizational performance is 0.851, transformational leadership is 0.900 and organizational climate is 0.906.

The correlation matrix reveals a positive and significant relationship of organizational performance with transformational leadership (r = . 0.442, p < .01), organizational climate (r = .389, p < .01), attributed charisma (r = .374, p < .01), idealized influence (r = .423, p < .01), intellectual stimulation (r = .320, p < .01), inspirational motivation (r = .317, p < .01), individualized consideration (r = .149, p < .05). Transformational leadership was found to be positively and significantly related with organizational climate (r = .167, p < .05). Furthermore, organizational climate was

also found to be positively and significantly related with attributed charisma ($r = .368$, $p < .01$), idealized influence ($r = .183$, $p < .01$), inspirational motivation ($r = .260$, $p < .01$), individualized consideration ($r = .251$, $p < .01$), intellectual stimulation ($r = .291$, $p < .01$). Sekaran (2000) states that, the coefficient's value can range between -1 and +1. When the value of correlation coefficient is equal to -1, there exists a perfectly negative relationship between the 2 variables. Whereas, when value of the correlation coefficient is equal to +1, it signifies a perfectly positive relationship between the variables. If the value of correlation coefficient which is represented by "r" is equal to 0, it shows no relationship between the variables.

Table 2. Regression analysis for attributed charisma, organizational climate and organizational performance (N = 222)

Model		B	SE	Beta	T
1	(Constant)	34.240	1.682		20.355*
	Attributed charisma	.595	.099	.374	5.989*
2	(Constant)	28.417	2.064		13.766*
	Attributed charisma	.425	.102	.267	4.149*
	Organizational climate	.113	.025	.291	4.517*

$R^2 = .213$, $\Delta R^2 = .073$, $F = 29.721$, $df = 2$, $p < 0.001$

* $p < 0.001$

Table 2 depicts the mediating role of organizational climate between attributed charisma and organizational performance. Beta weight for attributed charisma reduced from .374 to .267 and remained significant, hence indicating partial mediation (Baron & Kenny, 1986).

Table 3. Regression analysis for idealized influence, organizational climate and organizational performance (N = 222)

Model		B	SE	Beta	T
1	(Constant)	32.640	1.688		19.334*
	Idealized influence	.684	.099	.423	6.924*
2	(Constant)	24.649	2.144		11.495*
	Idealized influence	.589	.094	.364	6.237*
	Organizational climate	.125	.023	.323	5.533*

$R^2 = .280$, $\Delta R^2 = .101$, $F = 42.504$, $df = 2$, $p < 0.001$

* $p < 0.001$

Table 3 illustrates the mediating role of organizational climate between idealized influence and organizational performance. Beta weight for idealized influence reduced from .423 to .364 and remained significant, therefore depicting partial mediation (Baron & Kenny, 1986).

Table 4. Regression analysis for inspirational motivation, organizational climate and organizational performance (N = 222)

Model		B	SE	Beta	T
1	(Constant)	36.412	1.592		22.875*
	Inspirational motivation	.462	.093	.317	4.957*
2	(Constant)	28.709	2.097		13.689*
	Inspirational motivation	.337	.091	.231	3.700*
	Organizational climate	.128	.024	.329	5.266*
R ² = .202, Δ R ² = .100 , F = 27.643, df = 2, p < 0.001					

*p < 0.001

Table 4 illustrates the mediating role of organizational climate between inspirational motivation and organizational performance. The beta weight of inspirational motivation reduced from .317 to .231 and remained significant, thus it depicts partial mediation (Baron & Kenny, 1986).

Table 5. Regression analysis for intellectual stimulation, organizational climate and organizational performance (N = 222)

Model		B	SE	Beta	T
1	(Constant)	35.089	1.835		19.127*
	Intellectual stimulation	.537	.107	.320	5.012*
2	(Constant)	28.126	2.207		12.746*
	Intellectual stimulation	.379	.106	.226	3.575*
	Organizational climate	.126	.025	.324	5.120*
R ² = .198, Δ R ² = .096, F = 27.108, df = 2 , p < 0.001					

*p < 0.001.

Table 5 shows the mediating role of organizational climate between intellectual stimulation and organizational performance relationship. Beta weight of intellectual stimulation has reduced from .320 to .226 and remained significant, thus depicting partial mediation (Baron & Kenny, 1986).

Table 6. Regression analysis for individualized consideration, organizational climate and organizational performance (N = 222)

Model		B	SE	Beta	T
1	(Constant)	40.350	1.731		23.307*
	Individualized consideration	.224	.100	.149	2.238*
2	(Constant)	31.585	2.202		14.346*
	Individualized consideration	.083	.097	.055	.856
	Organizational climate	.146	.025	.376	5.852*
R ² = .154, Δ R ² = .132, F = 20.007, df = 2 , p < 0.001					

*p < 0.001.

Table 6 shows the mediating role of organizational climate between the relationship of individualized consideration and organizational performance. Beta weight for individualized consideration reduced from .149 to .055 and became insignificant indicating full mediation (Baron & Kenny, 1986).

Discussion. Past research reveals an enormous impact of transformational leadership on the follower's aspirations, values, ways of thinking and understanding events. Transformational leadership by focusing on the visionary messages and inspirations can also influence and enhance follower's performance (Piccolo et al., 2010). However, the relationship between transformational leadership and performance does not exist in isolation and a variable may intervene in this relationship. There exists a lack of empirical evidence exploring the role of organizational climate as a mediating variable between organizational contexts and employee responses (Moran & Volkwein, 1992).

The current study was intended to examine the mediating role of organizational climate between transformational leadership, its facets and organizational performance. The hypothesized mediating role of organizational climate between the relationship of transformational leadership facets (attributed charisma, inspirational motivation, idealized influence, individualized consideration and intellectual stimulation) and organizational performance was fully supported. The result reveals that organizational climate partially mediates between the relationship of attributed charisma, idealized influence, intellectual stimulation, inspirational motivation, and organizational performance. While organizational climate fully mediated the individualized consideration and organizational performance relationship.

Different scholars argue on leadership behaviors as determinants of employee perceptions of organizational climate (Eisenbeiss et al., 2008; Peng & Rode, 2010). A charismatic leader lays an emphasis upon the importance of collective sense of mission which can thereby create a more encouraging climate resulting in greater organizational performance. Nemanich and Keller (2007) argued that while going through the climate, transformational leadership positively affects performance. In addition, there exists limited empirical evidence on the mediating role of organizational climate in transformational leadership and organizational performance relationship (Fenwick & Gayle, 2008).

A leader with idealized influence can become a role model for his followers, creating a more conducive work environment resulting in higher performance of an organization. Past literature supports the mediating role of organizational climate when investigating different leadership styles and organizational outcomes (Ekvall & Ryhammer, 1998). Researches emphasize the role of climate while predicting employee performance (Peng & Rode, 2010; Scott & Bruce, 1994).

Transformational leadership behaviors encourage employees to focus more on organizational accomplishments, thus causing an overall increase in the prevalence of shared values and goals (Nahapiet & Ghoshal, 1998). This implies that a leader through inspirational motivation acts as an example for his followers, thus setting higher level of performance standards and creating a more constructive organizational climate.

Role of leadership in the development and modification of climate is important for organizations (Imran & Haque, 2011). Transformational leaders may influence

performance of organization through his impact on organizational climate, resulting in a more conducive work environment for employees (Liao & Chuang, 2007). Therefore, by communicating their common vision, organizational mission, values and objectives, urge employees to identify coherence in their individual and greater organizational goals by reducing their self-interest psychology, which leads to the overall performance enhancement. Thus, a leader through intellectual stimulation creates a climate which leads to broadening the followers' interest thereby resulting in greater organizational performance. There is limited empirical evidence that links the relationship between transformational leadership, organizational climate and performance (Haakonsson et al., 2008).

The impact of organizational climate as a mediator between the relationship of transformational leadership and innovative work behavior has been empirically tested in the past (Imran & Haque, 2011). Through individualized consideration a leader creates one-to-one relationship climate with followers, developing their potential, considering their needs and understanding their aspirations, resulting in greater performance of followers and organization. There are few empirical studies examining the mediating role of organizational climate between transformational leadership and organizational performance relationship (Fenwick & Gayle, 2008). Lastly, transformational leadership has an immense impact on performance of an organization and this relationship is mediated by organizational climate that transformational leader creates.

Limitations and future researches. The study is limited due to its cross-sectional design. However, this kind of relationship should be examined in a longitudinal study design. Future research may examine it in a longitudinal way. Secondly, the study was limited to a relatively small sample size. Future research may advance this study by incorporating a larger sample size. Lastly, the study was limited to one sector that is the banking. Future research should study the said relationship in other sectors like education and FMCG etc.

Implications. The study has explored the mediating role of organizational climate in the relationship between transformational leadership facets and organizational performance. It is transformational leadership that helps creating the right type of organizational climate which may increase its organizational performance. Managers should be aware of their leadership style and its role which helps in creating a positive climate supportive for generating greater performance. Moreover, both employees and management of organizations should collaborate efficiently to create an encouraging, ethical and innovative climate in organizations thus leading to greater organizational performance.

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