

The role of transformational leadership style in enhancing employees' competency for organization performance

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ABSTRACT

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The transformational leadership style as practiced by the organization leaders was examined in their role to enhance employees' competency for organization performance. A quantitative approach is used in this study using a survey approach through the distribution of a set of questionnaires. In this study, the sample comprised of 232 supervisors from three food manufacturing industries in various supervisory levels, departments, and sections within the production line. The hypotheses were analyzed using IBM Statistical Package for the Social Sciences (SPSS) and partial least squares (PLS-SEM) SmartPLS version 3.0. The statistical analysis results confirm that there was a significant relationship between transformational leadership styles, employees' competency with organizational performance. The study also confirmed that the transformational leadership styles as practiced substantially contributed to employee competency. Based on the PLS-SEM's results, this study provides evidence that transformational leadership styles also substantially contributed to organization performance. The study also found that employee competency has contributed to organization performance. Based on the mediation analysis results, the study finds that employee competency mediates the relationship between transformational leadership style and organization performance. These results add to an understanding of the role of transformational leadership style and employee competency in contributing to a higher productivity and organization performance.

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1. Introduction

This study focuses on the role of transformational leadership style in enhancing the employee's competency for organization performance. Leaders can implement a transformational leadership style to upgrade employee competency and encourage them towards achieving organizational performance. Researchers found out that an effective transformational leadership style is positively enhancing employee's competency. The transformational leadership style as the full range leadership theory among the theories has received the greatest attention from various researchers in various fields over the last decade (Avolio et al., 1999; Castelli, 2016). According to Robbins et al. (2009), transformational leaders are able to motivate their subordinates by earning their respect and trust and encouraging their subordinates to work more efficiently to achieve their leaders' goals. Transformational leaders are also charismatic and capable of describing and fulfilling a vision. Due to the changing global business environment, organization performance needs to be improved to create a competitive advantage for the survival of businesses in various sectors. The present circumstances have forced the organization to perform effectively at a higher level,

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to compete with the competitors and achieve the organization goal and objectives. Most of the organizations strive to implement organizational performance effectiveness. Researchers found out that an effective leadership style and employee competency is positively impacting organizational performance. Ojokuku et al. (2012) identified leadership style played a significant role on the level of subordinates' competency and discovered that the extent of leadership style also played a significant role in determining the organizational performance. Whereas Malaysian food industries' requirement is to improve the employee competency to highlight the obstacles involved in enhancing the employee competency, it is necessary for the Malaysian organizations in bringing about the sustainability of all kind of businesses. The last two decades have evidenced a majority of organizations using employee competency to sustain the performance of organizations (Audenaert et al., 2014; Campion et al., 2011). Adnan et al. (2011) indicated that employee competency played a significant effect on Malaysian firms' performance. The results analysis of the factors that describe the competitive advantage of organizations has revealed that the levels of individual's competencies are assets that enable organizations to accelerate profits and preserve their organizational performance (Diaz-Fernandez et al., 2014).

1.1 Research Questions

1. Is there any relationship between transformational leadership style and employee competency?
2. Is there any relationship between transformational leadership style and organization performance?
3. Is there any relationship between employee competency and organization performance?
4. Is there any mediating effect between employee competency in the relationship between transformational leadership style and organization performance?

1.2 Research Hypothesis

- H₁: There is a relationship between transformational leadership style and employee competency.
 H₂: There is a relationship between transformational leadership style and organization performance.
 H₃: There is a relationship between employee competency and organization performance.
 H₄: Employee competency mediates the relationship between transformational leadership style and organization performance.

2. Literature Review

2.1 Transformational Leadership Style and Employee Competency

One of the important aspects of leadership style in the organization is to discover the influence within a team member. Bucic et al. (2010) explored the influence of the leadership style within the groups of learning teams in organizations. The finding suggests that the transformational leadership style as was practiced by the team leader has a significant effect on the learning's development as a tactical strategy within the organization's teams. Athukorala et al. (2016) examined leadership factors that affect knowledge creation in Sri Lankan software industry with the 152 employees from a software industry in Sri Lanka. Based on the findings of the research with employees' (n=152) feedback, the transformational leadership styles had strong positive correlations with knowledge creation. The relationship influences the leadership style in enhancing the individual's creativity and personal growth fosters of the individual employee's positive attitude towards their jobs. Mittal and Dhar (2015) examined the role of leader's transformational leadership style, employee creative self-efficacy (CSE), creativity and also knowledge sharing. Data were collected from 348 manager and employee dyads of SMEs' IT organization in India. The result of the study confirmed that creative self-efficacy (CSE) mediated the relationship between the employee's level of creativity and transformational leadership. Thus, the previous studies as were conducted by Bucic et al. (2010), Athukorala et al. (2016), and Mittal and Dhar (2015) revealed that the transformational leadership style's determination could increase the level of employee competency is

undeniable. Several researchers have concluded that effective leadership style leading to support the processes of organizational learning, enhancing the individual's creativity and personal growth as well as foster the individual employee's positive attitude towards their job. Therefore, hypothesis 1 is suggested as follows:

H₁: There is a relationship between transformational leadership style and employee competency.

2.2 Transformational Leadership Style and Organization Performance

Transformational leadership has been extensively researched and is widely believed to be the most effective leadership style (Collins, 2014). Transformational leaders motivate and inspire others to achieve their best. The significant findings as was conducted by Overstreet et al. (2013) examined the multifunction relationships of transformational leadership within the industry performance in 158 North American motor carriers in the US. The results of the study indicated that both direct and indirect significantly affect the relationship between transformational leadership style as was practiced and organizational performance. Masa'deh et al. (2014) investigated transformational leadership style that influence employees' knowledge sharing practices, and the impact of the latter on job performance, and then on firm performance. The data collected from 179 employees at the Higher Council of Youth in Jordan. The findings revealed that transformational leadership style had a significant impact on job performance and the latter on firm performance. Although most of the previous researchers agreed that leadership style has a relationship with organizational performance but there are some who did not support this view, hence, an ambiguity exists. To address this confusion, Khan et al. (2014) studied the three types/styles of leadership (transformational, transactional and laissez-faire leadership styles) and the leadership styles of different leaders of various organizations in Pakistan and examined their impacts on organizational performance. A quantitative study was conducted using a questionnaire filled from various leaders of manufacturing and service organizations. They reported that the transformational leadership style was the most suited leadership style and also revealed that transformational leadership style positively impacted on the organizational performance. İşcan et al. (2014) conducted a research on the effect between transactional and transformational leadership style on innovation and its impact on the performance of the organization. Based on the quantitative survey from the managerial staffs from 118 SME in Turkey, the study revealed that there was a significant relationship between the role of transformational leadership as frequently practiced with the organization performance. This indicates that whenever the level of transformational leadership style increases, the organization performance's level also increases. From the literature review, the transformational leadership styles play an important role in organization development and have been widely discussed by Overstreet et al. (2013), Masa'deh et al. (2014), Khan and Adnan (2014) and İşcan et al. (2014); it was confirmed that the role of transformational leadership style determined the organization performance in various sectors. Thus, the hypothetical statement can be derived as:

H₂: There is a relationship between transformational leadership style and organization performance.

2.3 Employee Competency and Organization Performance

Individual competencies are reflected in firm performance. Zaim et al. (2013) analyzed the effects of individual competencies on performance in the services industries in Turkey. A survey approach was applied in this study. The survey was addressed to the companies in the service sector in Turkey, and the questionnaires were distributed to 3000 employees in 30 companies and 2679 completed questionnaires with the response rate of 89%. An exploratory factor analysis (EFA) was applied to analyze the influence of individual competencies on performance. The study discovered that there was a significant impact between employee competencies and organizational performance. Osei and Ackah (2015) examined the relationship between the level of employees competency and the performance of the organizations. A quantitative survey was conducted to 280 respondents from the Pharmaceutical organizations in Ghana.

The collected data were analyzed in order used to test the hypothesis of this study. The result of the analysis supported the raised hypothesis's statement for that study. The result revealed that the employee competent played a significant contribution to the outcome of an organizations' performance. Employee's participant in the competency development strategy is necessary for career success and organizations performance. De Vos et al. (2011, 2015) conducted a survey on 561 employees of various financial organizations in Belgium to examine the relationship between employee involvements in competency development strategy. The results of the study found that employee involvement in competency development strategy is significantly related to employees' perceptions of employability. Furthermore, self-perceived employability is also significantly related to career satisfaction and positively impact on employees and the performance of organizations. From the above literature, scholars and researchers have identified that the competent employee has contributed to a significant impact on organization performance and determining the organization competitive advantage. Thus, the following hypothesis is proposed:

H₃: There is a relationship between employee competency and organization performance.

2.4 Employee Competency as Mediator in the Relationship Between Transformational Leadership Style and Organization Performance

Whatever leadership style demonstrated at the organization, the style of leadership practices affects firm performance significantly. In a development in identifying the effect of leadership style on firm performance, Birasnav (2014) examined an inclusive model involving various leadership styles, the process of knowledge management (KM), and the performance of organizations based on the collected data from 119 human resource managers and general managers in healthcare firms, hotel, services firm, consultancy firms, transportation, retails, and educational institutions in Bahrain. The results of the finding indicated that transformational leadership had a significant effect on knowledge management (KM) process and organization. Furthermore, the study revealed that knowledge management (KM) process mediated partially with its relationship between transformational leadership and organizational performance. Another quantitative research was conducted by Ghazali (2015) by collecting data from of 263 respondents from government agencies and private organizations in Malaysia and revealed how the process of knowledge management, mainly the process of knowledge integration (KI), performed as a mediator between various leadership styles as were practiced and the success of enterprise systems (ES). Thus, it suggests a new model demonstrating knowledge integration (KI) as a mediator to transformational leadership styles. The study also discovered that knowledge integration's (KI) instruments act as a mediator between transformational leadership styles as was practiced and Enterprise Systems (ES). The ways leadership styles were demonstrated contributes to employee's outcome. The outcome is related to productivity and firm performance. Based on the data collected from 263 respondents from government agencies and private organizations in Malaysia, Lian and Low (2012) conducted research to predict the relationships between various leadership styles as were practiced by the organization, employees' competence, subordinates influence tactics and its effects on organizations. Based on the data collected from 347 respondents from various companies in Malaysia, they reported the direct effects of leadership styles on the level of employees' outcome. Furthermore, the subordinates influenced tactics, the tactics of consultation, and inspirational appeals and employees' competency mediated the relationship between transformational leadership and the organization's performance. From the above previous studies, research has concluded that employee competency mediates the relationship between different leadership styles as frequently practiced and the level of organization performance in various firms and industries. Consequently, the following hypothesis is proposed:

H₄: Employee competency mediates the relationship between transformational leadership style and organization performance.

From the above literature review, therefore, the hypothetical statement formulates Hypothesis 1 and Hypothesis 4 and establishes the proposed model of this paper as shows at Fig. 1.

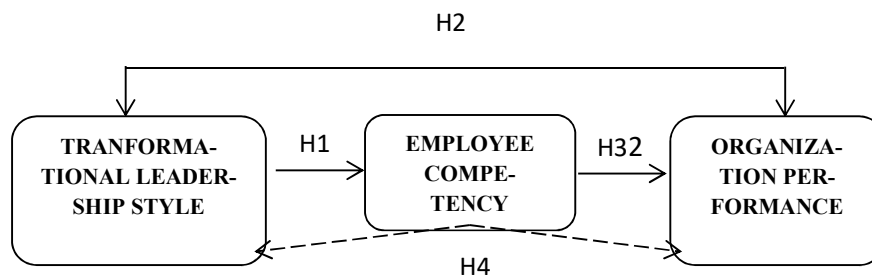


Fig. 1. The Paper's Proposed Study

3. Research Method

In order to carry out this study, the quantitative method is employed by using a survey approach to measure the three constructs consists of transformational leadership styles, employees' competency and organizational performance. This research is designed to investigate different phenomena by specifying relationships among the three variables. A set of questionnaires was distributed by the HR Department with the support of the company management to these employees. Initially, the questionnaire was formulated to determine the employees' perception. The target population for this study involved the 232 full-time respondents from supervisory level from the various department at 3 selected companies of Linaco Manufacturing (M) Sdn Bhd, Hwa Tai Industries Sdn Bhd, and Hup Seng Industries Sdn Bhd. In this research, the measurement and instruments to be used are to measure the dependent variable of organization performance, independence variable of leadership style, and the mediator of employee's competency. The questioned items for transformational leadership style consist of 12 questions as adapted from Bass and Avilio (1989). Measurement instruments of organization performance consist of 16 questions items as adapted from Le Cornu and Luckett's (2000), Hernaus et al. (2012), and McCormack and Johnson (2001). The question items of organization performance were divided into the 4 sub-constructs of Financial performance (FP) with 4 items, Non-financial performance (NFP) with 4 items, Employee or HRM measures (HRM) with 4 items and Process measures (PM) also with 4 items. The measurement instrument of employees' competency consists of 8 question items as adopted from Bodea and Toader (2013) and were divided into the 2 sub-constructs of Methodical Factors (MF) of 4 items, and Personal-Social Factors (PSF) also 4 items. The instruments in this research were used Likert-type scaling by gradients response scale of 1-to-5 rating scaling.

4. Data Analysis and Results

The measurement models in this study were evaluated on indicators loading's reliability and validity. Before any measurement and structural model can be established, data analysis is essential to any research project since the collected data need to go through several processes and standard requirements. Employing the appropriate data analysis techniques will ensure the required research's results. This research has applied a combination of 2 types data analysis software consists of the IBM Statistical Package of SPSS) and (PLS-SEM) of Smart PLS 3, in order to analyze the measurement model, structural model, and mediation model.

4.1 The Summary of Respondents' Demographic Analysis

The total population of respondents of Linaco Manufacturing (M) Sdn Bhd, Hwa Tai Industries Sdn Bhd, and Hup Seng Industries Sdn Bhd consists of 221 supervisors who are working in the various production units. Based on the survey conducted at these three private limited food manufacturing industries, out

from the 232 respondents, 118 respondents or 50.86% of them were male, and 114 (49.14%) of the respondents were female age ranging between were between 18 to more than 50 years old. The respondent's educational background was analyzed in this survey with various qualifications such as O-Level(SPM), certificate, diploma, and degree holders. The respondents of this survey were those who hold the various supervisory positions as a Section Head, Assistant Supervisor, Supervisor, and Senior Supervisor. The respondents' immediate superior held their position as assistant supervisor, supervisor, senior supervisor, officer, executive, engineer, and manager. The respondents from this survey were from the various sections and departments of the Production Department, Packaging Department, QA/QC Department, Mixing Department, Warehouse Departments, Maintenance Department, and Cream Department. The summary of the respondents' profile is shown in Fig. 2.

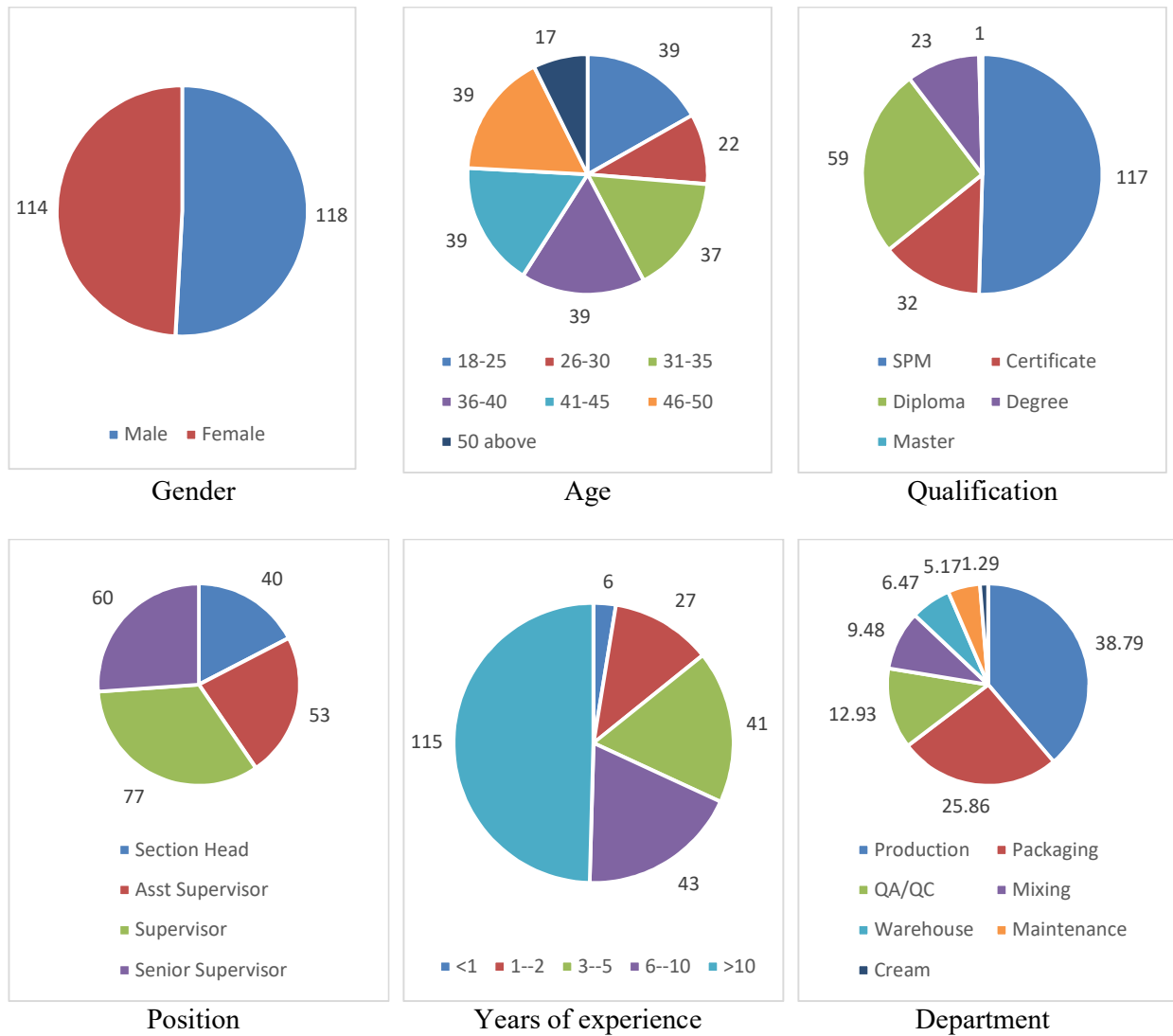


Fig. 2. Personal characteristics of the people participated in the survey

4.2 Composite Reliability and Average Variance Extracted (AVE)

Since the SmartPLS analysis can simultaneously generate the result of the Cronbach's alpha as a composite reliability, and the average variance extracted (AVE) and it was good and meaningful to report the results of these three indicators. An established rule of thumb for an acceptable value of these two measures of internal consistency is 0.700 or higher, and the average variance extracted (AVE) must exceed the 0.500 cut-offs, (Hair et al., 2014). Based on Table 1, both the Cronbach's alpha and composite

reliability for all are greater than the 0.700 thresholds, thus, satisfying the second criterion of convergent validity and the AVE for all of these constructs under study exceeded the 0.500 cut-offs, thus, fulfilling the final criterion of convergent validity.

Table 1

The Result of Composite Reliability and Average Variance Extracted (AVE)

Variables/Constructs	Cronbach's Alpha	Rho A	Composite Reliability	AVE
Competency	0.840	0.840	0.926	0.862
Organization Performance	0.871	0.909	0.912	0.724
Transformational	0.796	0.844	0.878	0.706

4.3 Fornell-Larcker Criterion Analysis

Next, the level of discriminant validity of the proposed measurement model was tested using the criteria suggested by Fornell and Lacker (1981). As mentioned by Hair et al. (2017), the purpose of Fornell-Lacker's analysis criterion is to compare between the square root of each construct's AVE, and it should be bigger than its highest correlation with other constructs as analyzed. The Fornell-Lacker criterion at Table 2 indicates that the square root of AVE (bolded) were all greater than the off-diagonal elements in their corresponding row and column, thus, suggesting a sufficient level of discriminant validity.

Table 2

The Summary Result of Fornell-Lacker Criterion

Variables/Constructs	Competency	Organization Performance	Transformational
Competency	0.928		
Organization Performance	0.891	0.851	
Transformational	0.891	0.844	0.840

4.4 Collinearity Assessment

Following the structural model assessment procedure, firstly, the researcher needs to check the collinearity issues as assessed at the structural model by examining the Variance Inflation Factor (VIF) values of all set of predictor constructs in the structural model. Specifically, in this study, the researchers evaluated the following sets of constructs in handling the three collinearity issues of organizational performance, transformational leadership style, and employee competency. According to Hair et al. (2011), based on an established rule of thumb, whenever the VIF value is less than 5.000, this shows that there is no potential of collinearity issues. Table 3 shows the summary of VIF values for all set of predictor constructs in this study.

Table 3

The Summary of Collinearity Assessment

Latent Variables	VIF
Competency	2.1
Organization Performance	2.7
Transformational	1.8

4.5 Bootstrapping Result of Path Coefficient

Assessing the significance of the path coefficient involves evaluating t-statistics whose values were derived from the bootstrapping technique of 1000 resamples (Chin, 1998). The bootstrap standard error allows calculating the empirical t-values and P values for all structural path coefficient. When an empirical t-value is bigger than the critical value, it considered that the coefficient is statistically met the significance level (Chin,1998). Based on the bootstrapping result of path coefficient in Table 4, all of the paths coefficients in this study show significance predictors and represent strong positive relationships indicating that all of these three paths coefficients in this study of organizational performance, transformational leadership style and employee competency are the significant predictors.

Table 4
The Summary of Bootstrapping Result of Path Coefficient

Latent Variables	Standardized		Confidence Interval		Decision
	Beta (β)	t-value	LL	UL	
Methodological Factors (MF) \leftarrow Competency	0.928	75.907	0.905	0.951	Supported
Personal-Social Factors (PSF) \leftarrow Competency	0.928	71.636	0.903	0.953	Supported
Financial Performance (FP) \leftarrow Organizational Performance	0.919	97.615	0.901	0.938	Supported
Employee/HRM measures \leftarrow Organizational Performance	0.861	32.159	0.795	0.903	Supported
Non-financial performance (NFP) \leftarrow Organizational Performance	0.688	14.254	0.590	0.771	Supported
Process measures (PM) \leftarrow Organizational Performance	0.916	70.200	0.884	0.936	Supported
Inspirational Motivation (IN) \leftarrow Transformational	0.763	19.648	0.681	0.828	Supported
Idealized Influence (IN) \leftarrow Transformational	0.884	70.825	0.860	0.908	Supported
Intellectual Stimulation (IS) \leftarrow Transformational	0.868	38.871	0.823	0.908	Supported

Sig. $p < 0.05$ LL: Lower Limit UL: Upper limit

4.6 Coefficient of Determination (R^2 Value)

The suitably used the criterion of R^2 to analyze the structural model to measure the level of coefficient determination. This coefficient is an assessment of the model's predictive power and is calculated based on the squared correlation between a specific endogenous construct's real and expected values (Hair et al., 2017). Based on the established rule of thumb, R^2 values of 0.25, 0.50 and 0.75 for endogenous latent variables can be considered as weak, moderate, and substantial respectively (Hair, 2017). As can be seen from Table 5, the endogenous construct (transformational leadership style) explains the endogenous variables (employee competency = 0.79), and the endogenous construct (organization performance) on the endogenous variables (organization performance = 0.80), indicating that the R^2 values of two endogenous variables of employee competency and organization performance could be considered substantial.

Table 5
Assessment Level of R^2 Value of Coefficient of Determination

Variables/Constructs	R-Square	Adjusted R-Square
Competency	0.793	0.793
Organization Performance	0.807	0.805

4.7 Mediation Analysis

The mediation analysis in this study deliberates on the analysis of the mediator's (employee competency) on the effect of the dependence variable (organization performance), and the independence variable (transformational leadership style). This study also applied the bootstrapping method as suggested by Hair et al. (2011) and Zhao et al. (2010) in order to determine the mediation significance levels. Based on the bootstrapping result of mediation analysis for the hypothesis on this study in Table 6, the constructs of employee competency towards organization performance (β 0.677, $t = 9.353$), and the transformational towards employee competency (β 0.891, $t = 73.371$), show that the construct of employee competency mediates the relationship between transformational leadership style and organization performance.

Table 6
Summary of Mediation Path Coefficient and Relevance Relationship

Latent Variables	Standardized β	t-value	Confidence Interval (BC)		Decision
			LL	UL	
Transformational \rightarrow Competency	0.891	73.371	0.866	0.914	Supported
Competency \rightarrow Organization Performance	0.677	9.353	0.546	0.824	Supported

5. Summary and Conclusion

Organizations' are established with the aim of achieving the required productivity of the organization performance. Therefore, the main responsibility for the organization leaders to implement the transformational leadership style is for the purpose of nurturing the organization function, effectively. Additionally, organization performance's success will depend considerably on the leadership style as practiced by the organization leaders and also influenced by the level of employee competency. In view of the

above therefore, to realize the objective of the three food manufacturing industries in Johor state of Malaysia the transformational leadership style should be effective enough to recognize the needs of employee competency's functions, employ appropriate motivational tools to improve skills, provide suitable work environment and to ensure on promotion on employee personal recognition as well as research and development. Hence, based on the tested hypotheses which were analyzed from the PLS-SEM's in this study we have discovered that there was a significant relationship between effective transformational leadership style and organization performance, and employee competency. The result from the R^2 values has concluded that transformational leadership styles as practiced from these three food industries contributed both on employee competency and organization performance, substantially. The results of the mediation analysis of this study have provided evidence that employee competency contributed significantly to organization performance, the study also discovered that employee competency mediated the relationship between transformational leadership style as practiced by the organization leaders and organization performance, as perceived by the workers in these three food manufacturing industries in the Johor state of Malaysia. Therefore, transformational leadership style and employee competency are the key players for greater productivity and organizational performance and both combinations are crucial in the establishment of the organization. With proper planning, adequate controls and monitoring by the leaders, the level of employee competency can be improved in assisting individuals, groups, and the entire organization in becoming more effective and competitive. As pressure exists in the rising productivity for the future economic growth of Malaysia, this study surely facilitates others organizations in Malaysia to appropriately describe that the combinations both; transformational leadership style and employee competency can generate higher productivity and organization performance in boosting the Malaysian economic.

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