

**THE MODERATING EFFECT OF INDIVIDUAL CULTURE
ORIENTATION ON THE RELATIONSHIP BETWEEN LEADERSHIP
STYLES WITH PERCEIVED EMPLOYEES PERFORMANCE ON BANKS
OF PAKISTAN**

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APPENDIX

DEDICATION

This dissertation is dedicated to my children.

ACKNOWLEDGMENT

Thanks to be given to the Almighty Allah, the most gracious and most merciful for giving me the strength, guidance, perseverance, and wisdom in His abundance throughout my study time.

Having started and completed this dissertation has been somewhat like a long-term committed relationship. And, as for most relationships, the people in them succeed when they realize that success comes with help, support, and guidance from others. In that light, I am moved to express my sincere thanks and appreciation for the help, support, and guidance of several individuals. First, I am grateful to my dissertation supervisor, Dr. Saif Ur Rahman. To describe the effort or patience he has put forth to foster and encourage my success and for provided the instructive wisdom, and constructive criticism to fulfill my relationship with this dissertation. Secondly, I am thankful to my Mr. Yasin Munir, who helped me in data analysing. Thirdly, I am deeply thankful to my family, especially my Mother Shagufta Nasreen and husband Fazal Rabbani, for financial support, my lovely children Adil Rabbani and Aiza Rabbani for helped me endure my life as a student while living with so many challenging personal events. Thank you for reminding me that I've never been alone. Surely, we did this together!

ABSTRACT

The purpose of this study is to examine the relationship of leadership styles and perceived employee performance and further explores the moderating effect of individual culture orientation, such as power distance, uncertainty avoidance, masculinity and individualism on the relationship of transformational leadership and perceived employee performance in banking sector of Pakistan. This empirical study explains the role of two types of leaders, transformational leader who unite the interests of organization and its members in contrast with the transactional leader who practice contingent reinforcement of followers. Transformational leadership styles build on the transactional base in contributing to the extra effort and performance of followers. Therefore, the study also examines that which leadership style is more authentic and influential. Data from 127 subordinates indicates significant and positive association of transformational and transactional leadership with perceived employee performance. In addition, results indicate that transformational leadership has stronger and positive association with perceived employee performance. Regarding the moderating effects of culture orientation, overall data shows significant influence on the relationship of leadership styles and perceived employee performance. The findings have important implications for the organization and leadership literature.

Keywords: Transformational leadership, transactional leadership, individual culture orientation, firm performance

ABSTRAK

Kajian ini bertujuan untuk mengenal pasti hubungan antara gaya kepimpinan dan tanggapan pekerja terhadap prestasi kerjanya. Sehubungan dengan tujuan ini, kajian ini juga dijalankan bagi menentukan sama ada dimensi-dimensi yang ada dalam budaya berorientasikan individu seperti jarak kuasa, mengelakkan ketidakpastian, kelelakian dan individualisme mempengaruhi hubungan antara gaya kepimpinan dan tanggapan pekerja terhadap prestasi kerjanya di kalangan kakitangan sektor bank Pakistan. Kajian empirikal ini menerangkan peranan dua jenis pemimpin iaitu pemimpin transformasi yang menyatukan matlamat organisasi dan pekerjanya berbanding dengan pemimpin transaksi yang mempraktikkan pengukuhan kontigent kepada pengikutnya. Gaya kepimpinan transformasi adalah berasaskan kepimpinan transaksi dengan memberi sumbangan yang lebih ke atas prestasi pengikutnya. Data kajian daripada 127 pekerja bawahan menunjukkan terdapat hubungan yang positif dan bererti antara kedua-dua jenis gaya kepimpinan dengan tanggapan pekerja terhadap prestasi kerjanya. Keputusan kajian juga menunjukkan terdapat hubungan yang positif dan kuat antara gaya kepimpinan transformasi dengan tanggapan pekerja terhadap prestasi kerjanya. Dapatan kajian ini seterusnya disokong oleh data kajian tentang pengaruh budaya, di mana secara keseluruhannya budaya memberi pengaruh ke atas hubungan antara gaya kepimpinan dan tanggapan pekerja terhadap prestasi kerjanya. Hasil kajian ini memberi implikasi ke atas literatur organisasi dan kepimpinan.

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CHAPTER 1

INTRODUCTION

1.1 Chapter Overview

This study contributes to understand the moderating effect of individual culture orientation on the relationship between leadership styles and perceived employees performance. It posits that individual cultural influences the leadership style of managers and consequently, the performance of subordinates. This hierarchical relationship of managers and subordinates put responsibility upon superiors to perform such leadership style, which helps to build effective relationship between leader and followers.

This chapter consists of the background of study and problem statement, research questions, objective of the current studies. The rest of the details related to

topic, framework, hypotheses and variables have been explained in succeeding section of this chapter.

1.2 Background of Study

Leadership has considered as a complex phenomenon, therefore, many researchers put their efforts together to identify its concept by describing distinctive theories of leadership in different era like trait's theory, behavioural theory and contingency theory (Bass, 1990; Katz *et al.*,1951; Fiedler and Chemars, 1979; Yukl, 2002). Whereas, researchers like Bass and Avolio (1997), defines leadership as the process of controlling, under the light of trait, behaviour and contingency theories, which motivate employees for accomplish business goals. Then, reformed leadership theories were introduced; transformational leadership and transactional leadership. Both transformational leadership and transactional leadership styles consider more democratic and less bureaucratic (Smith, 2004). Therefore, it has been observed by different studies that transformational leadership and transactional leadership is a perfect blend of all previous leadership theories as they have the ability of motivation and inspiration for employees in different ways, which establish a connection between followers and leader, consequently, contributing to the positive outcome for an organization (Fitzerald and Schutte, 2010). Transactional leadership theory deals with achievement of short-term goals of organization, by using the rewards system to get desire performance from subordinates (Bertocci, 2009). While, Avolio *et al.*, (2003) and Birasnav *et al.*, (2011) followed by Schneider and George, (2011) reinstated that transformational leadership style stimulates employees' intellectual ability, which motivates him into risk-taking job activities. Moreover, transformational leadership encourages subordinate's intellect and motivate them to scarify personal prerogative (Shah, 2006; Daud, 2010). Moreover, previous studies determine that a leader can be both transactional and transformational (Bryman, 1992) but "transformational

leadership styles build on the transactional base in contributing to the extra effort and performance of followers” (Bass 1998, p. 5).

Conger (1987) identified that the attributes of transformational leadership can be developed in managers where individual culture considered as hindrance in performing as a leader. Hence, the empirical research of House and his colleagues (1997) relates to cultural influence on leadership clearly determine that cultural forces influence leadership in various ways. They identified that leadership role developed through achievements, behaviour pattern, and expectation of leaders, religious values and historical experience with leaders. It has also observed that subordinate’s reaction at the workplace also reflects different types of leader’s behaviour with them, which later influence their work performance (Birasnav, *et al.*2011).

In successful organization, a good leader always understands the importance of subordinates. Therefore to achieve organizational goal, a leader build an effective relationship with his subordinates by stimulating and motivating them (Maritz, 1995). It has been widely accepted that every organization require effective leadership otherwise organizational performance could suffer directly (Fiedler and House, 1988). Furthermore, it is also accepted that the quality of the leadership plays an important role to set the effectiveness of any set of people – an effective leader facilitate the desire of his subordinates which result in form of their performance (Fiedler and House, 1988; Maritz, 1995; Hayward, 2005). Many researches shows a strong connection between leadership styles and behaviour of an employee and his/her work performance which leads to the higher outcome of organizational performance (Baldauf and Cravens, 2002; Vigoda-Gadot, 2007). Walker, *et al.*, (1975) and Hayward (2005) also supported the statement of Baldauf and Cravens (2002) and Vigoda-Gadot (2007) that the performance of organization depends on the performance of workforce.

Theories of work motivation suggest that job performance is a function of three variables namely motivation level, ability, and role clarity (Porter and Lawler, 1968), while performance characteristics of an employee have been viewed by the researchers in two perspectives. The first is the in-role performance, and the

second is the ex-role performance (MacKenzie, *et al.*, 1991; Netemeyer *et al.*, 1997; Podsakoff and MacKenzie 1994, Motowidlo *et al.*, 1997, Bateman and Strasser 1984; Moorman *et al.*, 1998). Additionally, the duties and responsibilities that are performed by employees who are very well stated in the job description are considered as the in-role performance of an employee, while the jobs performed by an employee who fall in the, implicit or explicit job description and go beyond the line of duty are considered as the ex-role performance. There are some studies like, Motowidlo *et al.*, (1997) described about job performance theory as behavioural, episodic, evaluative and multidimensional way, which further predicts that individual differences in leader's personality and cognitive ability with the combination of his/her learning experience (i.e habits, skills and knowledge) put moderating effects on task and contextual performance of subordinates. Many researchers like; Triandis (1975), Hall (1976), Schwartz (1992), Hofstede (1980) has offered various approaches and frameworks to understand culture at the national, organizational, and individual levels. Current study revolves around the individual culture context to examine the moderating effects of it on leadership styles and perceived employees performance. Therefore, Hofstede's concept of culture orientation has been selected for current study due to the growing need to understand that how individuals can express his cultural orientation: Donthu and Yoo (2011) developed a method, by modifying Hofstede's cultural framework, to measure individual culture orientation. Yoo *et al.*, (2011) Donthu and Yoo, (1998) determine that term *culture* is not identical with the term country, but the term country is used as a surrogate for culture by many researchers, moreover, they further explain the term cultural orientation at the individual level by giving the example of Canada and USA, which generally classified into single cultural group but within the USA or Canada, the subcultures are quite different from one another. Thus, it has been determined that it is an ideal approach to analyse subculture rather than countries because it has been noticed that a person who lives in high uncertainty avoidance culture may not be influenced by the society and able to maintain the low uncertainty avoidance (Donthu and Yoo, 1998). So when the cultural heterogeneity within the country is greater than the term national culture then it is appropriate to describe as cultural variances (Hofstede, 1980). Culture plays an important role in determining how people behave in the workplace (Hofstede 1980). Some factors such as; organizational structure, relationship dyads,

culture, and leadership, have been proposed as important areas for finding better ways to manage the organization (Bass and Avolio 1990a; Hofstede 1980; Jackson *et al.* 1994; Yammarino 1997). Moreover, managers in the organization cannot alter the presence of individual culture differences; they may be able to make interventions to mitigate their negative influences on manager and subordinate's relationships. In addition, a recent research by GLOBE¹, project determines that Hofstede's culture dimensions provide broader understanding regarding behaviour of today's managers at their workplace (Daft, 2011). Nahum-Shani and Somech (2011) research determine that individual differences (i.e idiocentric and allocentrics) have moderated effects on transformational and transactional leadership styles.

1.3 Statement of the Problem

Leadership styles include various behaviours and approaches which provide particular direction, implement plans, and motivate people to persistently follow them. Early studies have established three major leadership styles: (a) authoritarian or autocratic, (b) participative or democratic, and (c) delegate or free reign. The current study focuses on two dimensions of leadership styles (e.g., transformational and transactional) with evidence that these styles are more democratic and less bureaucratic (Smith, 2004) and significantly influence employees performance moderated by the effects of individual culture orientation (Jung and Avolio, 1999; Cerimagic, 2010; Chang and Baard, 2011). Similarly, recent leadership researches have examined cultural factors that are considered moderate to the effectiveness of transformational leadership and the relationship of leaders and followers as well (Nahum-Shani and Somech, 2011; Chang and Baard, 2011; Schneider and George, 2011). Consequently, understanding leadership styles has become one of the most important antecedents of a firms' performance (Maritz, 1995; Byrne and Bradley, 2007). Hence, many researchers are trying to find ways to effectively build

¹Global Leadership and Organizational Behavior Effectiveness

leadership styles (i.e. transformational leadership), ways improve the job performance of followers, making it easier to achieve organizational goals and objectives. Ristow (1998) states that transactional leaders were effective in markets which were continually growing and where there is little or no competition, but this is not the case in today's markets, where competition is fierce and resources are scarce. With this mind, House *et al.*, (1997) observed that leadership and related factors are important in producing an effective performance and cultural forces can be factors which influence leadership styles because leaders are influenced by his/her norms, religious values, and historical experiences (House *et al.*, 1997).

After reviewing of many studies, Donthu and Yoo, (1998, 2011) reveals that cultural or subcultures differences are the main factors affecting managerial behavior, attributes and motivations. Thus, the related part of literature emphasized the need to scrutinize the moderating effect of individual-based cultural orientation to build leadership styles (Donthu and Yoo, 1998; House *et al.*, 1997; Smith, 2004; Nahum-Shani and Somech, 2011) thereby producing effective job performance in multicultural societies. Therefore, the current study intends to investigate the moderating effect of individual culture on leadership styles and, by extension, their impact on employee performance.

As determined by Hooi (2007), Pakistan is a multicultural society with many different cultures at the provincial and state level. Therefore, managers who come from another state would bring with them their own sub-cultural based leadership style, which influences the performance of subordinates sometimes positively and sometimes negatively. For instance, there are many government and private organizations in Pakistan where leadership is quite prevalent. This is certainly true in the government sector which is more bureaucratic, where rigid rules are enforced and lack of communication between managers and subordinates is sometimes due to cultural differences (Cerimagic, 2010). The employees are important at this level because rigid rules and lack of communication produces ambiguity which ultimately turns into stress. It has been observed through extant literature review that subordinates always represents his/her superior (Abdullah *et al.*, 2006; Nahum-Shani and Somech, 2011). It has been also observed that conflicts which arises between managers and employees affect their relationship, consequently,

influencing employee performance (Mukhtar, 2012). Thus, when the cultural heterogeneity within the country is greater than the term national culture, it is not appropriate to describe the true cultural variances (Hofstede, 1980). Khan and his colleagues (2010) also recognized that the banking system in Pakistan needs strategic direction at the management level as motivated employees perform better. This is tied to belief that employee turnover is based on a manager's leadership styles, in particular how managers motivate subordinates to deliver the desired performance. Therefore, factors which influence leadership style warrants being analyzed isolated and applied in order to obtain effective results.

After identifying the problems in the literature, this study focuses on four main constructs including individual-based culture orientation as a moderator on leadership styles (transformational and transactional) which is an independent variable and perceived employees performance as a dependent variable to determine the appropriate solution to critical research questions.

1.4 Research Questions of Study

This study is contributed by synthesizing the literature based on leadership styles' effectiveness on perceived performance of followers. Moreover, it is examined some critical issues related to moderating effect of individual culture differences which associated with perceived employee performance. The research questions in the light of literature are given bellow:

1. What are the effects of leadership styles (transactional and transformational) on perceived employee performance?
2. What is the moderating effect of individual cultural on the relationship between leadership styles and perceived employee performance?

1.5 Objectives of the Study

The core objective of this study is to identify the effects of leadership styles on perceived employee performance. Moreover, this study also aims to investigate the moderating effect of individual culture in the relationship between leadership styles of managers and perceived performance of subordinates.

Therefore, the objectives of this research emphasis and provides due clarity on the following issues:

1. To investigate empirically the effects of leadership styles (transactional and transformational) on perceived employee performance.
2. To investigate the moderating effect of individual culture in the relationship between leadership styles and perceived employee performance.

1.6 Hypotheses of the Study

The given framework of this research has been observed through comprehensive literature review and it is hypothesized as follows:

H1: There is a positive association between transactional leadership styles and perceived employee performance.

H2: There is a positive association between transformational leadership styles and perceived employee performance.

H3: Transformational leadership style influences the employees' performance better than transactional leadership style.

H4: A high culture orientation match between leadership styles and subordinates will positively and significantly associate with perceived employee performance.

H4a: The effects of high power distance will moderate the relationship between transformational leadership style and perceived employee performance.

H4b: The effects of high uncertainty avoidance will moderate the relationship between transformational leadership style and perceived employee performance.

H4c: The effects of high individualism will moderate the relationship between transformational leadership style and perceived employee performance.

H4d: The effects of high masculinity will moderate the relationship between transformational leadership style and perceived employee performance.

1.7 Limitations

Firstly, time constraint is also major an issue so it was important and necessary to narrow the field of research to manage and get obtainable outcome. Therefore, in attempt to narrow the leadership styles, this researcher chose to use transformational leadership and transactional leadership in determining the correlation of leadership styles with perceived employee performance rather than including their dimensions in the correlation. Secondly, the relationship of these variables needs to be observed over a long period of time in a longitudinal study. Thirdly, this research is limited to one specific sector- financial sector of Pakistan and these findings, conclusions, and recommendations could be applicable on other organizations (e.g retail stores, hospitality industry) with similar organizational infrastructures since the requirements for successful leadership are universal in nature. Lastly, quantitative research does not allow for a complete understanding of the relationships. Therefore, it is important to enhance the quantitative research with qualitative research such as face-to-face interviews with selected managers. In

addition, there is need to learn about the unique qualities of individual as appose to profiling them according to common characteristics.

1.8 Operational definitions of the variables

Leadership styles, in the current study means, transformational leadership and transactional leadership which are major influencing factors on the relationship between managers and subordinates but also manipulate the performance of an employee. In the current study, carefully examine the combination of transformational and transactional leadership styles. It has been observed that managers often make the effort to guide or direct the performance and behaviour of their subordinates by implementing a mixture of transformational and transactional leadership styles. Therefore, the current study analyse that which one is more effective leadership style on the performance of employees. Transformational leadership has covered, intellectual stimulation, inspirational motivation, idealized influence and individualized consideration as its components while the components of transactional leadership are comprised of, contingent reward and management by exception.

Individual Culture orientation, the term culture has presented in indefinite forms by different researchers and still trying to give comprehends definition. While, current study focuses Hofstede's cultural framework, which has been successfully modified by Donthu and Yoo (1998, 2011) by developing a method to measure individual culture orientation. As per their perspective, "a person can be described from the cultural perspective as being high power distance, high individualism, strong uncertainly avoidance and high Confucian dynamic (long-term oriented)" (Yoo *et al.*, 2011 p. 182). Similarly, it has been determined that it is an ideal approach to analyse subculture rather than countries because it has been noticed that a person who lives in high uncertainty avoidance culture may not be influenced by the society and able to maintain the low uncertainty avoidance (Donthu and Yoo, 1998). The current study is using the same perception and

analyse it on the individual level as per the adaptation of Donthu and Yoo (1998). Culture orientation has covered, power distance, uncertainty avoidance, and individual vs. collectivism and masculinity vs. femininity, which are predominant in Pakistan (Hofstede, 2009).

Performance is the term represents the duties, activities and accomplishment of an employee during his work experience in an organization. In general, when the choice of performance criteria is subjective or when causal relationship is difficult to be specified, organizations will rely on historical information or reference groups in goal setting and performance evaluation. Thus, the management of an organization seeks and utilizes relative measures of performance. The current study investigates the performance of an employee who has been viewed by the researchers in two perspectives. The first is the in-role performance, and the second is the ex-role performance. In-role performance of an employee is the adherence to policy and rules laid down by the organization. While, the jobs performed by an employee who fall in the, implicit or explicit job description and go beyond the line of duty are considered as the ex-role performance (Cyert and March 1963)

1.9 Significance of the Study

This study enhances the existing knowledge by introducing the combination of new variables. These variables include: (a) leadership styles, which have transformational leadership along transactional leadership; (b) individual culture orientation to investigate moderating effect on the relationship of independent and dependent variables, which is perceived employee performance. These variables help to investigate the impact of different factors on managers and subordinate's relationship (at banking sector) that can be positive or negative, or might be no effect.

A significant amount of researches has been published around the globe to examining the banking sector, because it is the main source to provide funds and stability, which directly influence the growth and development of a country (e.g Abbas and Yaqoob, 2009; Khan *et al.*, 2010 Azam and Siddiqui, 2012; Riaz *et al.*, 2012). With the support of literature, this research also aimed to provide a guideline for the Banking sector's issues in Pakistan, with the major antecedents regarding the moderating effects of individual culture orientation to the relationship between leadership style (i.e. transformational and transactional) and perceived performance. Some of the existing studies, including Jing and Avery (2008), Mitchell and Boyle (2009) and recently Nguyen and Mohamed (2011) stress the need of future research to be focused on the set of variables, which provide clear factors that are effective on employee's performance because it has been ignored by previous studies, but it is very critical issue in the service sector. In addition, the existing study examines the individual culture orientation as a moderating variable only in Pakistan, which has not been explored by given literature (e.g Donthu and Yoo, 1998²; Yoo *et al.*, 2011; Bartikowski *et al.*, 2011³; Chang and Beard, 2011; Migliore, 2011). So, the current study also adopt Donthu and Yoo concept of individual culture as a moderating variable on the relationship of leadership styles and perceived employee performance, exploring it first time in Pakistan⁴ in the service sector.

It is a vital study, focusing only at the banking level, to explore the relationship of variables. The importance of this study is contributed to the literature by presenting a different model with the concept of culture in three-fold ways: firstly, it's based on within the single country, secondly on banking sector and thirdly based on managers and subordinates relationship. Furthermore, the pressure in the work environment, i.e. workplace diversity, job turnover and competition faced by employees, and force the managers to improve their relationship with subordinates to promote their motivational levels and performances in their respective jobs thus enhancing the quality and standard of

² The article explores the individual culture concept in USA and Canada and successfully proved on apply it in the retail sector.

³ Three different European countries (France, UK and USA) has been focused by using culture orientation and age as moderator in the retail sector.

⁴ Pakistan is multicultural society and has different culture at all four province level/states. Where manager represents their culture when appointed in different province/state.

work for a higher level of job satisfaction and creation of a mutually trusted, working environment for common exchangeable objectives such as effective utilization of organizational resources, shared values.

1.10 Scope of Study

Current research is cross sectional investigation regarding the moderating effect of individual culture orientation to the relationship of leadership styles and performance effectiveness of followers within the organization. More specifically, this study focuses of domestic private banks, which are 23 in numbers and have 7154 branches in the different provinces of Pakistan. The total population of these banks are 140,181 all over in Pakistan (State Bank of Pakistan reported, 2011). This study only focuses on 5 selected banks from two provinces of Pakistan, i.e. Punjab and Khyber Pakhtunkhwa. Permanent employees of these banks are the respondent.

The goal of this study revolves around three main variables, i.e. leadership styles as independent variable, performance as a dependent variable and impact of individual culture orientation as a moderator among them. The perfect blend of these variables has explored some wider understanding about intra-organizational matters.

1.11 Brief Introduction of Targeted Banks of Pakistan

The banking sector in Pakistan is providing a significant contribution to its economy. Financial sector of Pakistan mainly comprises of the central bank, commercial banks and specialized financial institutions. (Shaari *et al.*, 2010). The current study has targeted 5 banks out of 23 domestic private banks of Pakistan. Names of these banks are Askari Bank Ltd, Bank Al-Falah Ltd, Faysal Bank Ltd, Habib Bank Ltd and MCB Bank Ltd. These banks are playing a significant role as leading, oldest and most responsible banks in Pakistan. These banks have journeyed remarkable tenure of more than half-century of competitively edged and well positioned heights of success by deploying quality banking, heads on technological developments, professionally leading management and prudent and ethical work methodologies.

MCB Bank has worldwide indirect regional presence in Dubai (UAE), Bahrain, Azerbaijan, Hong Kong, Sri Lanka and Malaysia. These banks played key role in representing Pakistan on the global platform while being one of the few institutions that is recognised and traded in the international market. (Report, 2011e).

Askari Bank limited is the only bank whose board of Governors is from Pakistan Army. It has developed a good reputation for quality service in the banking sector. Like other banks in Pakistan, it also claimed to be committed to developing and enhance each employee's skills and capabilities through extensive in-house and external training programs and job rotations. Moreover, their appraisal system is purely performance based (Report, 2011a).

Bank Al Falah bank limited is a private bank which owned by Abu Dhabi group. It is operating through various branches in Pakistan, Bahrain, Bangladesh and Afghanistan, with the registered office at Karachi in Pakistan. The bank is operating business strategies so that would become a successful player in the market (Report, 2011b).

Faysal Bank Limited has commercial, retail, corporate and Islamic banking activities. Moreover it is one of the top ten banks of Pakistan. Because of their yearly based in-house HR training programmes for their staff with all segments to ensure that they are aware of new products, policies and procedure. Moreover, Faysal Bank continued in enhancing its footprint into new cities in Pakistan (Report, 2011c).

Habib Bank Limited is Pakistan based banking company. It is involved in commercial banking, asset management and modaraba management services inside Pakistan as well as outside of Pakistan. Habib Bank's service tenure is more than half-century in Pakistan, and it has International operations expanded to USA, Singapore, Oman, Belgium, Seychelles and Maldives and Netherlands. All these banks are playing a significant role inside and outside of Pakistan (Report, 2011d).

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