

# Loyalty as Mediator in the Relationship of Leadership Style and Performance: An Examination among Commercial Banks Employees in Klang Valley, Malaysia



Amer Darus, Bidayatul Akmal Mustafa Kamil, MuhdZulfadli bin Ishammudin

**Abstract:** This paper attempts to present a snapshot of leadership's style impact and influence and other related effecting reasons towards the employee's performance and loyalty in banking industry. Based on review of past literatures, majority of the studies had identified a positive relationship between transformational leadership and transactional leadership style toward employee loyalty and performance within the company. The study population comprised five headquarter offices of commercial banks around Kuala Lumpur City. The result of this research did support most of the research done previously in which it has been found that both leadership styles have significant (positive) relationship towards employee performance in banking industry. This paper also concluded that employee loyalty do have mediation effect between transformational leadership and employee performance as well as between transactional leadership and employee performance. Additionally, it also proves that demographic characters do not have significant influence on employee loyalty and performance within an organization.

**Keyword:** Transformational Leadership Style, Transactional Leadership Style, Employee Performance, Employee Loyalty

## 1. INTRODUCTION

Good performance and loyalty towards a company are considered to be some of the preferred value of employers around the world. Since every business owner and big corporation main target are to maximize profits and minimize cost. They aim to hire workers or staff that can give their best performance at work place and stay loyal to the company. Big corporation such as banks in Malaysia are currently facing some issue on this matter with their young talents. Referring to research done by MSC Malaysia for Jobstreet.com (2013), about 84 percent of young employees tend to quit their jobs more easily and 49 percent of them intend to switch job within 1-2 years. Most of the respondents of the survey highlighted that dissatisfaction and de-motivation at workplace as the factors of job-hopping.

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Referring to news on employee turnover, a survey was conducted in Malaysia by Tower Watson, a global professional services company in October 2013, this turnover culture in the financial service industry has increased drastically from 7.4 percent in 2012 to 13.3 percent in 2013. That is almost a 100 percent increment, looking at the trend and survey results, young executives are the most contributor in the percent. There are many factors that said to the contributor to this behaviour and one of the key reasons was employees in the financial industry felt that the Malaysia economy will not be seriously affected by the uncertain global economy (Sambhay Rakhyan, 2013). Due to that, employer in financial institution also taking advantage by this perception and try to recruit executives from their competitors who possessed experienced and skills set by offering more salaries and faster growth opportunities in hoping that these group can help them to fast track their transformation and catching up to the market leaders in the industry. This survey also shows the overall salary raise in the Malaysia financial industry was recorded at 5 percent and is expected to grow to 5.6 percent in 2014. Asset management within the financial industry players will continue to practice high salary increments at 5.3 percent in 2013 and projected to grow to 6 percent in this year.

Looking at the employee performance in banking industry trend, the Malaysia's banks performance has shown positive results. For over the last decade, Malaysia local bank has already expanded the market target to other country mainly in South East Asia countries notably. The six largest banking groups already have their branch overseas and will continue to grow. According to International Monetary Fund (IMF, 2013) report, overseas assets represent 19 percent of banks' total assets and 30 percent of total operating income. Monitored indicators show strong signal, although rising loan-to-deposit ratios need to be watched. Due to the banks' rapid expansion into more overseas potential markets, the banks' risk management and supervisory monitor will need to keep up with the challenges. An article in the Star, 2011 quoted that the Branch Secretary of National Union Bank Employees (NUBE) stated that financial industry worker in Malaysia do not have options other than working late in order to clear pending items of the day before going back to their houses.

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It has been identified that working in a branch outlet in daily basis can be a factor for an employee experienced job related stress and eventually resign from the job.

As mentioned earlier, the researcher established that working in bank is very hectic and challenging. Without employees, an organization cannot function and ultimately failed to achieve its objectives and missions. This situation so high workload, job-related stress and tiredness experience by the employees due to the long working hour can be worse nor less by the leadership style practiced by their managers (Yi, 2012). If the employees like their manager leadership style, they may not feel the stress and tiredness of working extra hours since they will do it willingly in order to support the manager. On the other hand, managers who do not understand their employees need and expectation, will practise leadership style that are not suitable with the majority of his staff and will add to the stress experienced by the workers. Eventually, this will lead to employees' dissatisfaction, uncomfortably working environment and ultimately their intention to depart from the bank. There are many type of leadership style that has been discovered or mentioned in previous research related to employee satisfaction and expectations. Employers need to understand that they should retain their experienced employee especially staff that liaise with customer on a daily basis. These staff acquired skills and knowledge on understanding the customers' needs and behaviour. A regular customer will have their favourite staff to liaise with depending on the compatibility between them. If the employee decides to leave the organizations, it will likely to cause discomfort to the customers and disturbance of service.

Although the bank keep on improving their salary package, benefits and allowance to the workers, the turnover culture will not stop and still increase in time. The employees will always have opportunities to look for better benefits offered by other bank, especially workers from smaller bank that will not be able to offer the best salary package and benefits in the market compare to market leaders. Therefore, in order to minimize the turnover culture among the workers, employers need to offer something that money cannot buy such as good working environment with minimum stress and suitable leadership style to have close staff – manager relationship.

Satisfied and loyal customer is what the organization needs in order to be competitive in the market. It can be achieved through developing workers who are loyal to the corporation (Reichheld, 1996). Once the employee is committed and loyal to the company, they are believed to willingly give more time, energy and ideas to the bank compare to those who are not committed. In other words, employees with willingness to work towards the company goals are more likely to perform better even after normal working hours. It has been found that the reason employee that has been working for more than two years with the same organization stay because of few factors such as salary and benefits, job satisfaction, working environment and customers (Reichheld, 2006) as cited in Yin, Meng and Yin, 2012, p.38.

To become a leader, the person may or may not have any formal

authority over others. Previous studies of leadership have shown theories involving situational interaction, behaviour, vision, traits, function, charisma and intelligence, among others. A person can become a leader among friends and colleagues

if he or she has the traits of a great leader. These person as can be learned and practice in order to develop self-awareness and confidence to leads someone else to achieve common goal together. This research attempted to provide answer for following questions:

- i. Does the transformational leadership style related to employees' performance?
- ii. Does the transactional leadership style related to employees' performance?
- iii. Does the transformational leadership style related to employees' loyalty toward the company?
- iv. Does the transactional leadership style to employees' loyalty toward the company?

## II. LITERATURE REVIEW

### Job Performance

Job performance has been considered as one of the most discussed dependent variables that attract many researchers before for a long period of time. It has been identified by Borman and Motowidlo (1993) as cited in Jankingthong and Rurkkhum, 2012, p.117, that it can be categorized into two different types; task performance and contextual performance. Task performance refers to the effectiveness of an employee to perform present activities that contribute towards an organization's technical core (Werner, 2000). On the other hand, contextual performance related to performance that helps shape the social and psychological environment of the organization but it is not formally necessary as part of the job (Borman and Motowidlo, 1993). Further studies have been done on contextual performance and it consists of two different components: interpersonal facilitation and job dedication. Interpersonal facilitation refer to behaviours that support coworkers' performance such as considerate, helpful acts, and cooperative. Meanwhile, job dedication is defined as behaviour that contribute to company benefits such as self-disciplined, display of encourage acts like taking initiatives, working hard and following rules in order to achieve the organization's objectives (Van Scotter and Motowidlo, 1996) as cited in Jankingthong and Rurkkhum, 2012, p.117.

### Employee's Performance

It has been established earlier the importance of employee performance to an organization's success. For an organization be successful, it needs employees that willingly to go the extra miles in term of their job scope and target to go beyond from what has been asked by their managements (Chien, 2004). Furthermore, employees' performance also plays an important role in undertaking flexible changes needed by the organization to maintain relevant in an ever more competitive environment.



Nowadays, due to the modern challenges faced by most of the companies, they have to give more focus in increasing their employees' performance (Bunhner, 2007) as cited in Fong, Ting, Ng, Shua, and Teh, 2011, p.22. Therefore, in order to facilitate the desired advance economics, the company will have to provide more attention on the organizational development to create employees that have the desired understanding by the industry. One of the ways is by having the employees to be responsible in creating their own job description and responsibilities towards the success of the company.

Thus, the workers will have full understanding in the required skills, values and nature of their job description. Other than that, the company policies will need to align with the daily practices in order to identify the baseline of the employees' performance (Gruman and Saks, 2010).

There are several reasons that can decrease the employees' performance, such as restructuring, downsizing and merger of a corporation (Tavakolia, 2010) as cited in Fong, Ting, Ng, Shua, and Teh, 2011, p.23. Other than that, other factors that might also have radical influence towards an employee's work life are the changes of work location, time, quality, the quantity of the task and job description (Vecchio and Appelboom, 1995) as cited in Fong, Ting, Ng, Shua, and Teh, 2011, p.23. Besides, according to (Hale, 1998) as cited in Ramlall, 2004, p.52, stated that motivation also have impact towards the employee's performance, lower motivation can decrease their performance and other activities within the company. In this manner, leaders play important role in improving their staff motivations. It can be achieved by applying the right leadership style to the right employee. Statistic showed that 86 percent of business owner having problem in hiring quality employees and 58 percent of the company were not able to retain their high performance employees (Chiang and Jang, 2008) as cited in Fong, Ting, Ng, Shua, and Teh, 2011, p.23.

### Leadership Styles

As a leader in organizations, it is their responsibility to perform specific obligations to ensure the smoothness operation of the organization to improve performance of the organization. The behaviour and method of each of these leaders perform their roles and manage the organization's affairs is defined as their leadership style. In other words, leadership style is referring to the leader's course of action in leading others. Certain leaders are more focused on the works that need to be completed rather than on a person working with him/her. There are also leaders that give more attention to the people working for him compared to the job that need to be done. Either the leader emphasis on the job or the human relationships is the one that normally measured as the core of their leadership style.

There are a lot of ways for the leader to express their leadership. Some of the ways that may be selected by the leaders are determining goals and objectives, instituting constitutions, offering leadership and basically managing others as well as motivating personnel (Daresh, 2002). On the other hand, Nathan (2002) described that a very

important element of a leader's role is to provide leadership. Depending on the leadership style chosen by the leader in order to perform the obligation mentioned above, will decide whether they manage to perform their responsibility well to accomplish the current assignments and completed the organization long term goal. In doing so, will they be able to also achieve and maintain the healthy interactions with their employee (Mazzarella and Smith 1989).

### Transformational Leadership

Looking back at the history of research on leadership, the transformational leadership style was introduced by James Macgregor Burns (1978). He has been acknowledged as the leadership experts and presidential biographer. This type of leadership can be seen once the motivation and morality of both leaders and followers has been raised to a superior height. Their vision and personality will not only give strength to the followers but also better inspiration, perceptiveness and anticipation to perform well for the organization's benefits. Unlike the transactional leadership style, transformational leaders are more preferred based on their personality that shows better honourable exemplar in achieving the common goals.

### Transactional Leadership

This leadership style is also referred to as managerial leadership, the reason behind it is this type of leaders give more attention on monitoring, supervise and achieving organization's goals. In order to complete organization's mission, a transactional leader only focus on the staffs that can give output as what they requested and reward them (Bass, 1990). For those staffs who did not meet his/her expectation will be punished. Dissimilar to Transformational leadership, leaders applying transactional method will never do something more than his job scope and expected their followers to do the same as well. For them, there is no reason to improve any existing process or working environment since they are not keen to changes. Most of the transactional leadership practises will likely to focus on their staff's work in order to make sure everything follow as per the normal routine. There are certain situations that are more suitable for this style of leadership which is during emergency condition or disaster, it is also similar to a project that has not made any progress for some time and need someone to kick start it again.

Looking back at the framework of Maslow's Hierarchy of needs, the main concerns for transactional leaders are the basic level of satisfaction only. Transactional leaders will definitely not being able to have a good relationship with all of his staffs since he/she only focuses on the staff that give good works and positive results to the organization. Rewards will be given to those who performed and on the other hand, workers who did not performed may be due to their work or personal issues will be punished until the problem is solved. To focus on the lower level needs in the hierarchy of needs, the transactional leadership stress explicit assignment performance (Hargis, Wyatt and Piotrowski, 2001) as cited in Odumeru and Ogonna,





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2013, p.358.

## Employee Loyalty

This type of loyalty to workplace by the employee has been defined by Loyalty Research Center (2002), as a working place that the employee feels self of belongings with no feeling of regret working in the same organization

for a long period of time since this is the best place for working in their mind. Employees has been considered as one of the main assets and vital investment in an organization because to enhance the employees motivation and loyalty, the organization must also offered good salary schemes, employees' benefits and bonuses. Ultimately, to replace a worker whom might hold high position or low position in an organization will have certain amount of expense to be considered given that the employee loyalty is a challenge for a company to maintain.

In order to nurture employee loyalty towards an organization, their need must be understood by the employer (Vince, 2005) as cited in Yin, Meng, and Yin, 2012, p.12. In the early 1950s, Abraham Maslow a famed psychologist has presented his hierarchy of need model in order to look into the human behaviour. He concluded that a person has their own unmet need depending on the urgency of it at any given period will take an action to fulfil it. Therefore, to augment the productivity and operation of his organization, Vince Di Cecco knows that the need to fully understand his workers. Thus, he makes sure that his management team respect the unique qualities each of his workers so that they will understand better and respect their employees' dignity. On the other hand, he also encourages his business managers to search and rewards employees that has performed well and aligned with the goal and objectives for those tasks. Normally, companies that manage to maintain their workers have frequent goal setting session between managers and workers. This activity should be conducted in a positive environment that can help to promote good understanding and relationship between the supervisors and employees. Other than that, a good manager should speak less and let their workers to talk about their ideas or describes some recent achievements during the meeting.

feedback will be shown in this section. The researcher had distributed 150 sets of questionnaires but only 118 sets are returned (78.67 percent response rate).

## III. METHODOLOGY

In order to make sure the data obtained from the respondent is comprehensive, self-administered questionnaire used by researcher that studies on leadership style and employees' loyalty will be used for this research. For independent variables (IV) in this research, the researcher adopts Multifactor Leadership Questionnaire (MLQ) by Bass and Avolio (1995). For the mediator of this research, the researcher adopts questionnaires from Norazlan (2008) studies on leadership style and employee commitment. In order to measure the dependent variable (DV) of this research, the researcher utilizing the performance measure design by Anderson and Williams (1991).

## IV. RESULTS AND DISCUSSION

The overview, evaluation and results of respondent who are working in banking industry within Klang Valley area

**Table. 1 Respondents' Demographic Background**

	Frequency	Valid Percent	Cumulative Percent
<b>Gender</b>			
Male	53	44.9	44.9
Female	65	55.1	55.1
Total	118	100	
<b>Age</b>			
Below 20	0	0	0
21-25	5	4.2	4.2
26-30	35	29.7	33.9
31-35	64	54.2	88.1
36-40	10	8.5	96.6
Above 41	4	3.4	100
Total	118	100	
<b>Level of Income</b>			
Below 24,000	3	2.5	2.5
24000– 30000	2	1.7	4.2
30001– 36000	4	3.4	7.6
36000– 42000	45	38.1	45.7
Above 42001	64	54.2	100
Total	118	100	

Based on Table 1, there are 53 respondents which carry 44.9 percent are male and 65 respondents that represented by 55.1 percent are female respondents that participate in this survey with completed questionnaires.

Table 1 also indicates that most of the respondents age are between 31-35 years old which represented by 64 people or (54.2 percent) from total amount of respondents. Followed by 35 respondents (29.7 percent) are between age ranges of 26-30 years old, next is age group range from 36-40 years old with 10 peoples that equivalent to (8.5 percent). 5 respondents' age (4.2 percent) are between the age range of 21–25 years old and 4 respondents' age (3.4 percent) are above 41 years old. Finally, there are no respondents age are

below 20 years old.

Table 1 shows that most of the respondents yearly personal income are more than RM42001 which constitute of 64 (54.2 percent). The following income bracket is 45 (38.1 percent) respondents that earn RM 36000 to RM42000 yearly. The remaining 4 (3.4 percent) respondents' yearly income is between RM30001 to RM36000, 3 (2.5 percent) respondents are below RM24000 and finally 2 (1.7 percent) respondents' yearly personal incomes are between RM24000 to RM30000. This shows that banking industry give good remuneration to the employees compare to other industry in Malaysia

**Table. 2 Pearson Correlations for Each Variable**

	Transformational	Transactional	Loyalty	Performance
Transformational	Pearson Correlation	1	.754**	.701**
	Sig. (2-tailed)		.000	.000
	N	118	118	118
Transactional	Pearson Correlation		1	.689**
	Sig. (2-tailed)			.000
	N		118	118
Loyalty	Pearson Correlation	.754**	.711**	1

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	Sig. (2-tailed)	.000	.000	
	N	118	118	118
Performance	Pearson Correlation	.701**	.689**	1
	Sig. (2-tailed)	.000	.000	
	N	118	118	118

H1: There is a positive relation between transformational leadership and employees' loyalty toward existing organization.

Based on Table 2, the SPSS result indicates that there is a significant relationship between transformational leadership style and employees' loyalty toward existing organization in banking industry, with p-value = 0.00 which is lesser than critical value 0.05. Hence, H1 is accepted. There is a positive relation between transformational leadership and employees' loyalty to existing organization. It has been widely accepted by previous researchers that transformational leaders able to give higher level of commitment, satisfaction and performance (Mohammad and Alam, 2009; Somers, 1993). Since satisfaction and commitment are always associated with transformational leadership style in previous research, this thesis has strengthen and support the positive relationship between these two variables. There are several factors that have been identified to be able to contribute to higher commitment level such as meaningful and demanding job, involve in making decision, empowerment and independence. These factors are related to the four distinct factors within the transformational style and expected to have similar results.

H2: There is a positive relation between transformational leadership and employees' performance.

According to SPSS outcome in Table 2, the result had shown a significant relationship between transformational leadership style and employees' performance in banking industry, with p-value= 0.000, which is less than significant level of 0.05 (p<0.05). Consequently, H2 is accepted. There is a strong (positive) relation between transformational leadership and employees' performance. Transformational leadership has been proven by many previous researchers for its positive impact on employees' extra effort, commitment and apparent performance. This thesis result will strengthen the positive relationship between transformational leadership and employees' performance especially in banking industry in Malaysia. There are many research that has been conducted earlier mentioned the positive relationship between transformational leadership style and higher level of employee performance, satisfaction towards job and transformational leaders and perceive better outcome compare to other leadership style (Morris and Howell, 2009; Bennis, 2008; Limerick and Simon, 2007; Kinsman, 2006). A transformational leader encourage their followers to achieve outcome beyond normal expectation by giving motivation, nurture sense of belonging within the employees to the projects given, promote innovation thinking as well as creative solutions and put group interest over individual interest (James, 2009). H3: There is a positive relation between transactional leadership and employees' performance.

As reflected in Table 2, the result had shown a significant relationship between transactional leadership style and employees' performance in banking industry, with p-value= 0.000, which is less than significant level of 0.05 (p<0.05). From the Pearson Correlation value indicate in Table 4.15 also, it shows that there is a moderate (positive) relation between transactional leadership and employees' performance. Therefore, H3 is accepted.

Although there are not many previous researches that show transactional leadership ability to enhance employee performance, this thesis concluded that there is a positive significant relationship between transactional leadership and employees' performance based on the output of the SPSS obtained.

Through transactional leadership principle that gives positive reward to employees who manage to achieve the goal and to employees that are unable to complete an objective as expected, punishment is given. The employees will develop a strong link with job success (Robin, 2008).

Transactional leaders practise reward and punishment element to encourage and demand better performance from their subordinates, thus turning the relationship between leader and followers become an economic exchange transaction.

After many positive rewards and recognition are given to the employees that perform well. They are able to achieve stern success in term of supervisor's satisfaction and career growth.

H4: There is a positive relation between transactional leadership and employees' loyalty.

Based on Table 2, the SPSS result specifies that there is a significant relationship between transactional leadership style and employees' loyalty towards their existing organization in banking industry, with p-value= 0.00 which is smaller than critical value 0.05. Therefore, H4 is accepted. It has been proven that there is a positive relationship between transactional leadership and employees' loyalty to existing organization.

Although there are a lot of prior researches that support transformational leadership strong relationship with employee loyalty, transactional leadership has been proven in this thesis to have noteworthy (positive) association with employees' performance as well. For example, according to Wells and Peachey (2010) as cited in Long and Thean (2012, p.230), that conducted research at National Collegiate Athletic Association Division I softball and volleyball assistant coaches in the USA on transformational and transactional leadership relationship with voluntary turnover intentions, found that there exist major negative relationship between transformational leadership and turnover intention as well

as the association between voluntary organization turnover intention and transactional leadership. He continues to explain the reason why transactional leadership behavior

able to decrease turnover intention by citing justice theory of Cobb et al (1995). The outcome of this research does support the conclusion in the study of Well et al (2003).

**Table. 3 Coefficients for Mediation Effect between Transformational Leadership and Employee Performance (1)**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.046	.119		17.226	.000
	Transformational	.443	.036	.754	12.344	.000

a. Dependent Variable: Loyalty

**Table. 4 Coefficients for Mediation Effect between Transformational Leadership and Employee Performance (2)**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.001	.084		23.800	.000
	Loyalty	.560	.035	.911	16.077	.000
	Transformational	.003	.020	.008	.137	.891

a. Dependent Variable: Performance

**Table. 5 Coefficients for Mediation Effect between Transformational Leadership and Employee Performance (3)**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.147	.080		39.351	.000
	Transformational	.251	.024	.694	10.385	.000

a. Dependent Variable: Performance

**Table. 6 Mediation Effect between Transformational Leadership and Employee Performance Using Sobel Test**

	Input:		Test statistic:	p-value:
t <sub>a</sub>	12.344	Sobel test:	9.79089313	0
t <sub>b</sub>	16.077	Aroian test:	9.77899926	0
		Goodman test:	9.80283051	0
		Reset all	Calculate	

H5: Employee loyalty positively mediating transformational leadership and employee performance.

Referring to Table 6 (t-values= 9.791 and p-value= 0) as the result of Sobel Test performed to identify if there is exist significant mediation effect within the theoretical framework. It concludes that employee loyalty has mediation effect between transformational and employee performance. Furthermore, based on Table 5, it shows that transformational leadership has a significant direct effect on employee performance where t= 10.385, p-value= 0.00.

Therefore, H5 is accepted. Employee loyalty has partial mediating effect between transformational leadership style and employee performance. This is consistent with the conclusion made by Cumming et al (2010) that mentioned transformational leadership style is the suitable one and capable to improve job satisfaction among the workers as well

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as working atmosphere and thus avoiding workers intention to leave the organization and subsequently increase their productivity. Additionally, he also stated that transformational leadership that does take into consideration

the employee feeling and also focus on the output produce by the employee. Thus enable the employees to bring out their best effort in performing their work.

**Table. 7 Coefficients for Mediation Effect between Transactional Leadership and Employee Performance (1)**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.283	.120		19.092	.000
	Transactional	.379	.037	.691	10.285	.000

a. Dependent Variable: Loyalty

**Table. 8 Coefficients for Mediation Effect between Transactional Leadership and Employee Performance (2)**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.995	.083		24.033	.000
	Loyalty	.566	.032	.921	17.872	.000
	Transactional	-.002	.017	-.005	-.106	.916

a. Dependent Variable: Performance

**Table. 9 Coefficients for Mediation Effect between Transactional Leadership and Employee Performance (3)**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.287	.079		41.648	.000
	Transactional	.213	.024	.630	8.743	.000

a. Dependent Variable: Performance

**Table. 10 Mediation Effect between Transactional Leadership and Employee Performance Using Sobel Test**

Input:		Test statistic:		p-value:
$t_a$	10.285	Sobel test:	8.91427711	0
$t_b$	17.872	Aroian test:	8.90381286	0
		Goodman test:	8.92477835	0
Reset all		Calculate		

H6: Employee loyalty positively mediating transactional leadership and employee performance.

Referring to Table 10 ( $t$ -values= 8.914 and  $p$ -value= 0) as the result of Sobel Test performed. It concludes that employee loyalty has mediation effect between transactional leadership and employee performance. Additionally, based on Table 9, it shows that transactional leadership has a significant direct effect on employee performance where  $t=8.743$ ,  $p$ -value=0.00. Therefore, H6 is accepted. Employee loyalty has partial mediating effect between transactional leadership style and employee performance.

The employee loyalty mediating effect on transactional leadership and employee performance can be seen in justice theory of Cobb et al (1995). As mentioned earlier, this theory clearly explained the outcome employees can expect

that related to transactional leadership style. Transactional leadership principle that emphasis on giving tangible rewards to the employees that deliver work outcome as expected by the managers and for those who are unable to meet the expectation, punishment will be given. This principle is effective to staffs that like to be measured by their results and work they achieved and do not need other elements to motivate them. By aiming at the rewards and incentives offered by the organization, the employee performance will increase in order to meet the superior expectations and as consequently received the rewards and incentives.



## Implications

From the research outcome obtained in previous chapter, it shows clearly that transformational leadership style is the most suitable leadership style affecting employee performance and loyalty to the company. Referring to previous research done by Windsor and Trott (1999) mentioned that transformational leaders are able to satisfy the staff nurse and eventually increase their job satisfaction level as the leaders decide to use more participative style. Additionally, transformational leadership has been proven to be positively correlated with how leaders are perceived by effective subordinates, how much energy they willingly devote for the leaders, the feeling of satisfaction with the leaders' action and how well the workers perform as graded by the leaders (Bass and Aher, 1988) as cited in Lievens, Geit, and Coetsier (1997, p.418).

Transactional leadership has a lower beta value compared to transformational leadership. Based on the result in the correlation coefficient, there is a positive significant association between the transactional leadership towards the employee performance and loyalty in the banking industry in Malaysia. Transactional leaders are able to develop strong relationships with job success within their workers (Robin, 2008). Compared to transformational leaders that focus on other elements related to the employees other than the outcome they can produce, transactional leaders give principles solely look at the results their employees can give. Employees that are unable to perform to the managers' expectations will be given punishment and for those that give results as per expected by the managers will be given rewards.

Transactional leaders do not motivate their workers at the individual level, give inspiration by example and ask their employees to perform better than their expectation. However, this leadership style can still be able to increase employee performance although it is not as high as transformational leadership.

Based on the outcome of the Bivariate Correlation analysis done in the earlier chapter, it clearly indicates that both independent variables have significant (positive) relationships with employee loyalty.

However, the transformational leadership style has a higher Pearson Correlation,  $r$  value higher than transactional leadership and this shows that transformational leadership style can increase employee loyalty level more than transactional leadership style. According to Vince (2005) stated that the employer needs to understand their employee needs in order to gain employee loyalty towards the organization within the employees.

## V.CONCLUSION

The factors in this research are transformational leadership style, transactional leadership style and employee loyalty as a mediator which may influence the employee performance in the banking industry. Based on the Pearson Correlation analysis in this thesis, it indicates that transformational leadership style has the most positive influence on the employee performance in the banking industry and their loyalty to the company. The following influence factor is the transactional leadership style. Additionally, the implications of the study were also

highlighted in this research. This information may be used as a reference and ongoing improvement for future research of this study.

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