Employees' Organizational Commitment: The Effect of Leaders' Transformational Leadership and Leader-Member Exchange As Moderator

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ABSTRACT

This research is concerned the employees' organizational commitment with the effect of leaders' transformational leadership and leader-member exchange. This study was intended to identify the relationship between transformational leadership and organizational commitment and to identify whether leader-member exchange moderates the relationship between transformational leadership and organizational commitment. This study was limited to the administrative employees who worked in the Small Medium Enterprise (SME) companies at Shah Alam. A total number of 140 sets questionnaire were distributed and 122 sets were collected from ten companies. Questionnaires have been used to obtain the data. With SPSS 17.0, researcher has conducted reliability, Pearson correlation, regression and hierarchical regression analysis. From the findings, it was found that only three hypotheses were accepted. Further discussion and future research was discussed.

KEYWORDS: Organizational commitment, Transformational leadership, leader-Member Exchange, Small Medium Enterprise, leadership and Shah Alam.

Introduction

Organizations are social systems where human resources are the most important factors for effectiveness and efficiency. Effective managers and employees are needed to achieve the organization objectives and cannot succeed without their personnel efforts and commitment (Rad & Yarmohammadian, 2006). Soul and heart of any organization is the leadership. Managing organization is not by shuffling numbers or rearranging organizational charts. The most important thing to be managed is people. As the individuals in charge, leaders not only manage the organization's matters but also deal with the subordinates face to face. That is why leadership is very important as it is the ability to inspire people to work together as a team to achieve common objectives (Spinks & Well, 1995). Leaders are assigned with the task to lead in achieving and communicating the organizational goals, visions and ideas to subordinates, leaders are also accountable for

maintaining and implementing organizational rules and systems and even have the final word on promotion, retention and dismissal. Getting employees who can offer best return is now becoming a need. Commitment of workforce toward organization is essential and vital. Research proves that organizational commitment is equally important for both employees and organizations (Riaz, Akram, & Ijaz, 2011). In a general sense organizational commitment is the employees' psychological attachment to the organization or can mean something pledged by an organization as opposed to its members. In Malaysia it is a common complaint that employees are no more loyal to their organization as they used to be in the past. Due to low commitment, employees would tend to leave their organization for somewhat better pay.

Leadership is important for an organization. As mentioned before, leadership is considered a factor that has a major influence on the performance of organizations, managers and employees. Organizational commitment has been studied in the public, private, and non-profit sectors, and more recently internationally. Few studies linked transformational leadership and organizational commitment. However, there were studies that linked leadership with commitment for example a study has linked organizational commitment and measures effectiveness that are similar to those found when investigating the outcomes of relations-oriented and task-oriented leadership behaviors (Brown, 2003). Furthermore, a research by Wu, Tsai, Fey and Wu (2006) has analyzed the cognition and the relationship between managers' leadership styles and employees' organizational commitment in the operation unit of international tourist hotels. In 2010, Kuppusamy, Ganesan and Rosada have studied on leadership styles and management techniques: an analysis of Malaysian women entrepreneurs.

There were limited studies that linked leadership and commitment in Malaysina context. Though, there was a study in Malaysia examining the influence of leader-member exchange (LMX) from the perspectives of superior as well as subordinates on organizational citizenship behavior (OCB) Ishak and Alam (2009). In Lo, Ramayah, Min, Run and Ling (2009), LMX was used as moderating variable in examining whether the quality of LMX is significantly moderated leadership styles in predicting commitment to change. Laka-Mathebula (2004) has linked organizational commitment and leadership style on his thesis titled modeling relationship between organizational commitment, leadership style, human resource management practices and organizational trust. As stated in Lo, Ramayah, Run and Ling (2009) although the importance of influencing subordinates for leadership effectiveness, leaders are generally not aware of how influential and dominant they can be. It is vital as it has important implications for management-development efforts, specifically as leaders regularly need to influence and motivate subordinates; bring about commitment and extra effort, and most importantly to increase the performance of the organization. On the other hand, in order to explain ways to bridge a gap between leadership influencing styles and commitment that is how leaders and followers gain and lost their power in the reciprocal influence processes, leader-member exchange theory (LMX) has been used to elaborate the relationship between an agent and target.

Most past research focused on cases in Western countries, very few researches on leadership have focused on emerging economics such as Malaysia (Lo, Ramayah, Run, & Ling, 2009). Therefore, it will be stimulating to see the much different research results on leadership due to the huge difference in the market environment and the management practices between Western countries and Malaysia.

The objectives of the study are to:

1. to examine the relationships between transformational leadership and organizational commitment.

2. to examine whether LMX moderates the relationship between transformational leadership and organizational commitment.

Problem Statement

Small and medium enterprises (SMEs) in play a vital role in the Malaysian economy and are considered to be the backbone of industrial development in the country. According to the 2008 SME Corp. annual report, SMEs comprise 99.2% of the overall business establishment in Malaysia and they contribute 32% of GDP, 19% of exports. Moreover, SMEs employ about 56% of the country's workforce and the value added products are expected to be worth RM120 billion in the manufacturing sector in 2020. SMEs have to be competitive for business survival and innovation is an effective strategy for developing competitive advantage. However, few studies examined their development, challenges and future prospects (Saleh & Ndubisi, 2006). Limited studies have done in the perspective of transformational leadership and organizational commitment with the effect of LMX as moderator especially in SME Industry. It is supported by He, (2011) who mentioned that there are few studies conducted in SME and there was study in Malaysia by Saleh and Ndubisi (2006) on an Evaluation of SME development in Malaysia. Furthermore, there was a study SMEs in the Philippines study by Leano (2006), has done to identify Philippine strategy for the sustainable growth and development of SMEs in the country. Moreover, as mentioned in Gao and Bai (2011), very few studies that empirically explored the practice and effects of transformational leadership. It is also supported by Lo, Ramayah, Min and Songan (2010), who mentioned that studies on leadership styles on organizational commitment are still limited. Therefore, this research is an attempt to examine the relationship between transformational leadership and organizational commitment with the effect of leader-member exchange (LMX) as moderator among employees in SME Industry at Shah Alam. This is imperative to ensure the successful management of employees and also to improve productivity and achievements of an organization. Thus this research is practically significant because it will contribute to the body of knowledge especially in Malaysia. It will be interesting to see the difference in research results on leadership due to the huge difference in the market environment and the management practices between Western countries and Malaysia (Lo, Ramayah, Run, & Ling, 2009)

Review of Literature

1.1 Leadership Theory Defined

In the early years, due to poor education background and lack of experience in understanding their rights as workers the most common type of leadership in any industry is autocratic leadership. Autocratic leadership was well accepted by most employees largely. The legacy of colonialism was strong enough in Malaysia to instill the notion of top-down management among the country's developing industries therefore exposing the tendency for corporations to practice autocratic leadership dominantly for many years. Nonetheless, since the mid-80s until today, the management has been experiencing extraordinary transformation and Malaysia certainly was not to be left behind (Rani, Pa'wan, Musa & Tajudin, 2008). The larger organization has concentrated on effectual and efficient leadership. The efficient leaders may have a close look on the desires of their subordinates. Despite the fact that communicating and dealing with workers, leaders should show the combination of authority and support that may lead to achieve organizational goals (Jam, Akhtar, Haq, Ahmad-U-Rehman, & Hijazi, 2010). Leaders understand that people are the most important components in an organization. To make people feel as though they are accomplishing something and not just "putting in time", a leader must work with people and not against them (Spinks & Well, 1995). Leadership, like most other concepts in social sciences, has no single or unique definition. It has been defined differently by different authors. It is supported by Park (1997) who stated that leadership has been defined in many ways: individual traits, behavior, influence, interaction patterns, role relationships, etc.Leadership is an issue drawn by researchers since old times. It is because of their unique traits that they possess, leaders can influence the organization and employees as well as society in overall.   Individual traits, behavior, influence, interaction

patterns, role relationship has been defined as leadership in many ways (Park, 1997). Leadership is considered an aspect that has a main effect on the performance of organizations, managers and employees. Moreover, the influence of leadership style on organizational commitment (Wu, Tsai, Fei & Wu, 2006), satisfaction stress (Jam, Akhtar, Haq, Ahmad-U-Rehman, & Hijazi, 2010) has been well established. Furthermore, leadership style has an impact on organizations, departments, and teams. It also can affect the work climate and atmosphere. Moreover, as mentioned by Goleman (2000), if the leaders want the best result, they should not rely on a single leadership style. However, as stated by Rad and Yarmohammadian (2006) leaders should know to use appropriate leadership styles. With suitable leadership style leaders can affect employee job satisfaction, commitment and productivity.

1.2 Transformational Leadership Theory Defined

Transformational Leadership empowers others to become freethinking, independent individuals capable of exercising leadership (Mina, 2009). Judge and Piccolo (2004) believes transformational leadership adds to transactional leadership through the augmentation effect making better leaders. Without transactional leadership, transformational leadership would not be possible because transformational leadership is an extension of transactional leadership. Madzar (2001) believes transformational and transactional leadership are two distinct leadership theories, but a single leader can possess traits from both theories. Burns (1978) introduced a transformational/ transactional leadership model suggesting leaders to use a social exchange process with followers to achieve a desired behavior. While, Barbuto and Burbach (2006) asserted effective leaders also exhibit high levels of transformational leadership. Transformational leadership is one of leadership based largely on the leader's personal behaviors which has a substantial impact on followers and can potentially renew an entire organization (Daft, 2005). Moreover, transformational leaders inspire followers to accomplish more by concentrating on the followers values and helping the followers to align these values with the values of the organization (Givens, 2008). According to Bass and Riggio (2006), transformational leadership characterizes a leader's ability to inspire followers to commit to a shared vision and goals for an organization or unit, challenging them to be innovative problem solvers, and developing followers' leadership capacity via coaching, mentoring, and provision of both challenge and support. Transformational leadership in corporates behaviors that inspire and motivate followers toward a common pursuit of organizational goals. Bass and Avolio (1994) indicated that transformational leaders usually display their behaviors associate with four characteristics: (a) inspirational motivation, (b) idealized influence, (d) intellectual stimulation, and (e) individualized consideration (Muenjohn & Armstrong, 2008).

1.3 Organizational Commitment Defined

A remarkable amount of research hard work over the previous decades has been devoted to understanding the nature, backgrounds and significances of organizational commitment. It is vital to identify the employee commitment because high levels of commitment lead to numerous promising organizational results and outcomes. It is indicated in meta analyses that commitment is negatively related to turnover (Cooper-Hakim & Viswesvaran, 2005), absenteeism (Farrell & Stamm, 1988), and counterproductive behavior (Dalal, 2005) and positively related to job satisfaction (Cooper-Hakim & Viswesvaran, 2005), motivation (Mathieu & Zajac, 1990), and organizational citizenship behaviors (Riketta, 2002).The three-Component Model of organizational commitment (Meyer & Allen, 1991) theorizes that employees bind with their organizations as a result of desire which is affective commitment, need which is continuance commitment and obligation which is normative commitment. Each type of commitment is a unique representative of reasons why organizational members are psychologically attached to the organization. A psychological state that binds

an employee to an organization is organizational commitment. Organizational commitment delivers a comprehensive measure of the leadership behaviors effectiveness. This relationship offers an approach to further explore the subject of leadership (Brown, 2003). Meyer and Allen (1991) hold that organizational commitment is a multidimensional construct comprising three components: affective, continuance and normative.
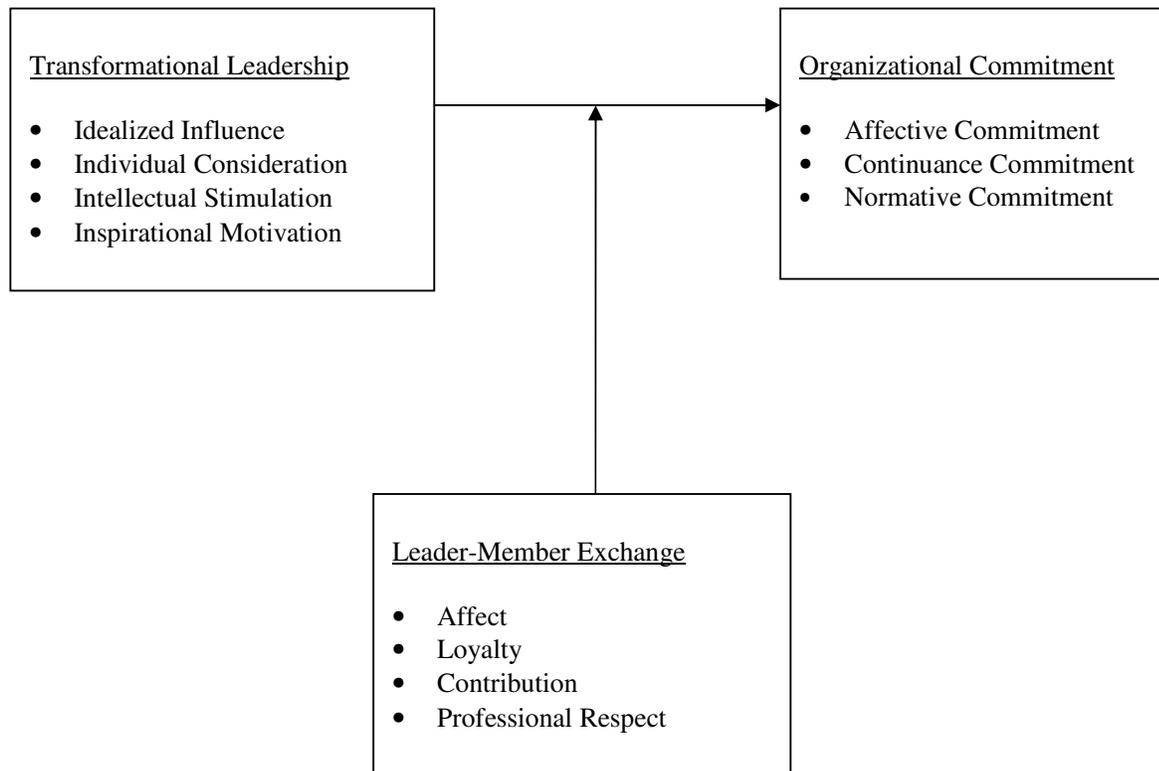
1.4 LMX as moderator

LMX theory was formerly called the vertical dyad linkage theory because of its focus on reciprocal influence processes within vertical dyads composed of one person who has direct authority over another person (Yulk, 2006). LMX is defined as the quality of the exchange relationship between an employee and his or her superior (Lussier & Achua, 2007). According to Yulk (2006), LMX explains how a leader and subordinate develop a relationship as they influence each other and negotiate the subordinate's role in the organization.

On other hand, in order to explain ways to bridge a gap between leadership influencing styles and commitment to change, that is how leaders and followers gain and lost their power in the reciprocal influence processes, LMX has been used to elaborate the relationship between an agent and target (Lo, Ramayah, Run, & Ling, 2009).Liden and Maslyn (1998) predicted that affect, loyalty, contribution, and professional respect would significantly correlate with satisfaction with supervisor.

Transformational Leadership, Organizational Commitment and LMX

Research by Marmaya, Hitam, Muhamad Torsiman and Balakrishnan (2011) has focused on transactional and transformational leadership and organizational commitment. This research objective is to identify the effect of perceived leadership style on organizational commitment. The result of the study shows that there is significant correlation between transformational leadership and organizational commitment. Besides in Gao and Bai (2011) indicated that all four components of transformational leadership are significantly, positively related with commitment. Findings in Riaz, Akram and Ijaz (2011) study show that there is significant relationship between transformational leadership style and affective employees' commitment. It also demonstrates the independent effects of all dimensions of transformational leadership which also prove that there is significant and positive relationship between transformational leadership and employees' affective commitment. Lo, Ramayah, Min and Songan (2010), is the first that has systematically integrated leadership styles, LMX and organizational commitment in organizations. Their findings show that there is a positive direct relationship between three dimensions of transformational leadership which are intellectual stimulation, idealized influence and inspirational motivation, and affective and normative commitment. Two dimensions of transformational leadership which are intellectual stimulation and individual consideration have a positive relationship with continuance commitment. The three dimensions of transformational leadership; inspirational motivation, intellectual stimulation and individual consideration were found to significantly impact affective and continuance commitment when it interacted with LMX.

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┌─────────────────────────────────┐              ┌─────────────────────────────────┐
│ Transformational Leadership     │              │ Organizational Commitment       │
│                                 │─────────────▶│                                 │
│   • Idealized Influence         │              │   • Affective Commitment        │
│   • Individual Consideration    │              │   • Continuance Commitment      │
│   • Intellectual Stimulation    │              │   • Normative Commitment        │
│   • Inspirational Motivation    │              │                                 │
└─────────────────────────────────┘              └─────────────────────────────────┘

                          ┌─────────────────────────────────┐
                          │ Leader-Member Exchange          │
                          │                                 │
                          │   • Affect                      │
                          │   • Loyalty                     │
                          │   • Contribution                │
                          │   • Professional Respect        │
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Figure 1: Conceptual framework of transformational leadership, organizational commitment and LMX as moderator

Methodology

In Section A, questions are designed to request information regarding leadership style using MLQ adopted from Bass and Avolio (1997). These items are measured using a 7-item likert scale. It contains four dimensions and each of them has four items which contributed to sixteen questions. Section B require to employees to answer questions which are related to LMX by responding on 7-item likert scale. This uses questionnaire adopted from Liden and Maslyn's (1998). Section B contains twelve questions that divided to four dimensions which each dimensions has three items. In section C, the respondents answer the questions regarding their organizational commitment. Organizational Commitment Questionnaire (OCQ) used in this study adopted from Meyer and Allen (1991). In this section, the employees provide answers using 7-item likert scale. This section has eighteen questions that have three dimensions and each dimension has six items. In section D, questions are designed to obtain the demographic information of the respondents such as gender, age, race, length of service in organization and highest qualification. The respondents answered by using multiple choice questions which the respondents are allowed ticking one answer only.

1.5 Data Collection

A total number of 140 sets questionnaire were distributed and 122 sets were collected. After analyzing each collected questionnaire, researcher decided to accept all the responses which only minor incomplete response found out such as one or two value missing. The data analysis includes methods of categorization of variables, tests of significant using the Statistical Package for the Social Sciences (SPSS) software version 17.0 for Windows because this study used structured questionnaires to obtain data. Survey instrument were personally distributed to 1 in ten companies of SMEs Industry in Shah Alamand only 147 sets were returned

and 111 (79.3%) were accepted to be considered as the usable data. From 112 respondents participating in this study, it was found out that 32 of the respondents (28,.8%) are male and 71.2 of the respondents (79%) are female. Table shows the Cronbach's Alpha score for the study.

The result shows that, all items for each dimension in transformational leadership fall under its own factor. All items for transformational leadership dimensions fall under their original names which are idealized influence, intellectual stimulation, individual consideration and inspirational motivation. The result shows that, all items for each dimension in LMX fall under its own factor. The researcher has deleted one item (item no. 41) in affective commitment due to value communalities below than .46.

Findings and Discussions

1.6 Testing the Hypotheses:

H_1 : *There is a significant relationship between transformational leadership and organizational commitment.*

H_2 : *Affect does moderate the relationship between transformational leadership and organizational commitment*

Table 3 presents percentage of variance in the dependent variable of organizational commitment which is affective commitment. Model one indicates 22.2percent of variance. Model two explains 22.7 percent of variance with an increment 0.5 percent and model three explains 28.3 percent of the variance where 6.1 percent increment in the variance. Durbin Watson value is within the acceptable range (1.5 to 2.5) which is 1.954. The researcher found that there is a significant interaction effect of dimension of LMX which is affect on the relationship between two of the four dimensions in transformational leadership which is idealized influence and intellectual stimulation and normative commitment. The interaction between idealized influence and affect strengthens the relationship between idealized influence and normative commitment (β=3.171, p<.005). Next is the interaction between intellectual stimulation and affect strengthens the relationship between intellectual stimulation and normative commitment (β=-2.846, p<.005. Thus, the result shows that affect does moderate the relationship between idealized influence and normative commitments and affect does moderate the relationship between intellectual stimulation and normative commitments were accepted. Moreover, the researcher found that there is no interaction effect of affect dimension towards the relationship between transformational leadership and normative commitment.

1.7 Research Question One

Is there a relationship between transformational leadership and organizational commitment?

Based on the findings for multiple regression analysis, the researcher concluded that only individual consideration has significant relationship with affective commitment. From the hypotheses developed to answer research question one, only one hypothesis was accepted. H_2 which is there is a significant relationship between individual consideration and affective commitment is accepted. Leaders in this study have individualized consideration which they have given personal attention, treat each employee individually and coach as well as advice each employee personally (Bass, 1990). Employees who have these leaders will remain in the organization. As mentioned in Meyer and Allen (1997), affective commitment refers to the level to which people classify with, is involved in, and enjoys association in an organization. Respondents of this study might want to remain working in the organization. It is supported by Meyer and Allen (1991), employees with affective commitment want to stay with an organization.

Leaders should inspire followers to accomplish more by concentrating on the follower's values and helping the follower bring into line these values with the values of the organization (Givens, 2008).

This finding is supported by Riaz, Akram and Ijaz (2011) where their findings show that there is positive significant relationship between transformational leadership styles with organizational commitment. Moreover, it also supported by Lo, Ramayah, Min and Songan (2010) stated that dimensions of transformational leadership which is individual consideration has a positive relationship between affective commitment.

1.8 Research Question Two

Does LMX moderate the relationship between transformational leadership and organizational commitment?

From the findings that have been discussed, LMX does moderate the relationship between transformational leadership and organizational commitment. From the hypotheses that have been developed to answer research question number two, only two hypotheses was accepted while others were rejected. From the findings that the researcher have been obtained, H_{33} and H_{35} which is affect does moderate the relationship between idealized influence and normative commitments and affect does moderate the relationship between intellectual stimulation and normative commitments were supported. Thus, there is a significant interaction effect of dimension of LMX which is affect on the relationship between idealized influence and normative commitment and intellectual stimulation and normative commitment. As hypothesized, two hypotheses were accepted. This result was contradicted with Lo, Ramayah, Min and Songan (2010). In their study inspirational motivation, intellectual stimulation and individualized consideration were significantly impact affective and continuance commitment when it interacted with LMX. LMX suggests that leader will take different approaches in dealing with subordinates, while subordinates may response in different way. In LMX relationships, leaders use verbal persuasion by providing support, encouragements, and information to their followers which may, in turn, increase their self-efficacy (Boies & Howell, 2006). High quality leader - member relationship not only benefits the leadership, but also has positive impact on member's attitude towards the organization. If the relationship between leaders and employees are good, employees' performance are outstanding and yet they will remain in the organization. This is supported by Jing-zhou, Xiao-xue and Xia-qing (2010) the relationship between the leaders and members, not only affects employee performance, but it also can affect the relationship between employees and organizations. In addition, in a relationship oriented society like Malaysia, the quality of the dyadic relationship would strongly influence employees' attitude and behavioral tendencies (Hassan & Chandaran, 2005).

Recommendations and Future Research

There are some recommendations that can be applied in this study for the organization and future research. For the organization, the organizations should encourage their management or leaders to possess transformational leadership style. Leaders should have transformational leadership style that can bring positive changes in the behaviors of employees. It is supported by Riaz, Akram, and Ijaz (2011), where they mentioned that with presence of leader with transformational leadership style there would be higher level of employee commitment. Leaders should work with their employees not against them. Hence the organization should know that organizational success in obtaining its goals and objectives depends on managers and their leadership style. Additionally, leadership style has an impact on organizations, departments, and teams. It also can affect the work climate and atmosphere. The study was conducted

among administrative employees in SME Industry in Shah Alam to investigate the employees' organizational commitment with the effect of leaders' transformational leadership and LMX. This study was limited to employees in Shah Alam. Therefore, it is recommended for future research to study in a bigger population. It would be more interesting to see the result from the employees who working in SME Industry in a bigger population which is Klang Valley and nationwide. The result also can be generalized to the population.It is also suggested that this study should be expanded to other industries. The present study was conducted in SME Industry. It would be more interesting if in future, the future researcher can conduct this study in different types of industry such as academic institutions, government sectors, hotel industry, manufacturing industry, private sectors, international companies and service industry such as telecommunication industries. Since this study has used quantitative method which is survey, it is recommended for future research to add the qualitative method which is interview session with the respondents to gather more information regarding this study. Moreover, it is also recommended that for future research to use Structural Equation Modeling (SEM) to analyze the data. The current study have used SPSS to identify the relationship between the transformational leadership and organizational commitment with SEM the study will be more interesting as it will look at the causal and effect.

Table 1
Cronbach's Alpha Score for Actual Study

Construct	No of Items	Previous Study	Actual Study
Transformational Leadership	16	Bass and Avolio (1997)	(.98)
inspirational motivation		(.9)	(.93)
idealized influence		(.87)	(.95)
intellectual stimulation		(.86)	(.93)
individual consideration		(.9)	(.95)
Leader-member exchange (LMX)	12	Liden and Maslyn (1998)	(.95)
Affect		(.90)	(.94)
Loyalty		(.74)	(.93)
Contribution		(.74)	(.87)
Professional respect		(.89)	(.96)
Organizational Commitment	18	Meyer and Allen (1991)	(.67)
Affective		(.87)	(.65)
Continuance		(.75)	(.85)
Normative		(.79)	(.73)

Table 2 displays mean and standard deviation for each variable in independent variable (transformational leadership dimensions), moderating variable (LMX dimensions) and dependent variable (organizational commitment dimensions).

Table 2
Mean and standard deviation for variables (n=111)

	Mean	Std. Deviation
Independent Variable		
Inspirational Motivation	5.0360	1.25537
Idealized Influence	5.1914	1.28007
Intellectual Stimulation	5.0901	1.30341
Individual Consideration	5.0428	1.34750
Moderating Variable		
Affect	5.0871	1.34968
Loyalty	5.0060	1.20854
Contribution	5.3003	1.07399
Professional Respect	5.1742	1.34968
Dependent Variable		
Affective Commitment	3.6156	1.20705
Continuance Commitment	4.8144	1.09568
Normative Commitment	4.7793	1.26614

Table 3
Hierarchical regression of affect moderates the relationship between transformational leadership dimensions and organizational commitment

Variables	Model 1 (β)	Model 2 (β)	Model 3 (β)
Independent Variables			
inspirational motivation	-.003	-.002	.024
idealized influence	.310	.284	.002
intellectual stimulation	.281	.245	.012
individual consideration	-.108	-.174	-.004
Moderator			
Affect		.139	-.039
Interaction			
inspirational motivation* affect			.056
idealized influence* affect			3.171*
intellectual stimulation* affect			-2.846*
individual consideration* affect			-.075
R Square	.222	.227	.283
R Square change	.222	.005	.056
F Change	7.576	.619	1.965
Sig. F change	.000	.433	.002
Durbin Watson			1.954

* p<.05

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