

# The Impact Analysis of Leadership Types to Organizational Commitment and Organizational Performance

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## Abstract

**Objectives:** This study divided leadership kinds into servant leadership, transactional leadership, transformational leadership, empowering leadership and issue leadership and analyzed their effects on organizational commitment and business performance. **Methods/Statistical Analysis:** This study set company J, a service enterprise, for the object of questions and the survey was conducted in the manner of distributing and collecting questionnaire directly. This study used Smart PLS 2.0 to test the research model. PLS analysis requires testing internal consistency, convergent validity, and discriminant validity for metrics and constructs. On the variables used for model to test internal consistency, composite reliability and confidence were analyzed. **Findings:** This study will consider modern leadership kinds—servant leadership, transactional leadership, transformational leadership, empowering leadership and issue leadership—through foregoing studies and then investigate the relationship between such leadership kinds and organizational commitment and organizational performance together with empirical analysis. Hypothesis 2 “Transactional leadership will have significant effect on organizational commitment” was accepted. Hypothesis 3 “Transformational leadership will have significant effect on organizational commitment” was accepted. Hypothesis 6 “Organizational commitment will have significant effect on business performance” was accepted. **Improvements/Applications:** It is considered a good idea that company J specialized in service should recognize and apply servant leadership of looking at subordinates as servant and issue leadership of trying to consult with subordinates and resolve important issues together.

**Keywords:** Empowering Leadership, Leadership, Leadership Types, Organizational Commitment, Organizational Performance, Servant Leadership

## 1. Introduction

Economic depression is going on around the globe. Due to global financial crisis, the US, Japan and many countries in Europe are suffering serious economic difficulty and especially Greek being on the brink of bankruptcy cannot be ignored any more as irrelevant to us. In these circumstances, enterprises should be able to respond systematically to constant change of diverse environments and markets surround them in order not to be weeded out in the competitive markets.

Therefore, survival and development of organization requires change-oriented and efficient organizational

management and importance of leader, who must lead along organization members in complex and uncertain environment inside organization, is higher than ever before. Leadership is a theme discussed importantly since long ago, a more flexible element of change than that from the side of organization's structure and institution. While traditional leadership is a single organization with mostly a top-down form, recently diverse management environment and slim size of organization is creating bottom-up system. In<sup>1</sup> insisted that in the future, especially in knowledge information era, there would be no more division of superior and subordinate in enterprise for business man-

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agement and that order and supervision would not work anymore.

By such influences, currently in enterprise, diverse leader roles of fostering subordinates' ability and capability are coming to the fore as an important issue, rising above the 'definition of leader' who rule and lead along subordinates using superior position of leader. Besides, leadership can also be a very important factor to contribute to creating the organization's performance by concentrating, increasing and inducing the capabilities of organization members in order to survive with proper adaption to uncertain and rapidly changing management environment of an enterprise.

Traditional leadership has been studied in terms of trait theory, behavior theory and situation theory, while<sup>2</sup> transactional and transformational leadership and leadership studies which concretized this to organizational circumstances has become main axis of the contemporary leadership<sup>3</sup>. However, to respond to environmental change properly and orient toward business performance, it requires leadership of diverse perspectives that reflect the characteristics of modern society.

This study will consider modern leadership kinds – servant leadership, transactional leadership, transformative leadership, empowering leadership and issue leadership – through foregoing studies and then investigate the relationship between such leadership kinds and organizational commitment and organizational performance together with empirical analysis.

## 2. Servant Leadership

Servant leadership means the exercise of influence while serving another's success and growth, not me but others, and in an enterprise context, it means a series of activity for support and consideration so that each person may success and grow up in relation to job, not just for achieving the goals of organization members<sup>4</sup>. That is, servant leadership can be defined as the leadership to help subordinates' growth and lead along so that department or team may compose a true community by respecting them and providing them with an opportunity to exercise creativity<sup>5-7</sup>.

## 3. Transactional Leadership

In<sup>2</sup> argued that transactional leadership means that leader and subordinate set a principle of maximizing mutual

benefits in the process of negotiation and complete the goal of an organization together. That is, transactional leadership is the one that recognizes what organization members want and how to fill it and motivates them by promising compensation to organization members when the goal is set and accomplished<sup>3</sup>.

## 4. Transformational Leadership

Transformational leadership is a mutual process for increasing ethical morality between leader and subordinate<sup>2</sup>. By transformational leadership<sup>3</sup> means a leadership of motivating subordinates with passion and vision and he described it as the process of building the relationship by leader together with subordinate to heighten the level of motivation and morality.

## 5. Empowering Leadership

Research on empowering leadership drew attention as importance of leader's role became emphasized in the course of empowerment<sup>8</sup>. In<sup>9</sup> emphasized the importance of empowering leadership by presenting that leader's acts are performing a critical role in empowerment. That is, empowering leadership can be defined as acts of leader who shares authority with subordinates and increases their level of inner motivation<sup>8</sup>.

## 6. Issue Leadership

Issue leadership refers to acts of creating issues considered to be important in given circumstances and acts of persuading the audience of the importance of leadership and drawing participation and commitment from organization members through it. Issue leadership can be also defined as leadership style to produce constantly high performance by seeking for the acts of building effective practice system to put issues into successful practice<sup>10</sup>.

## 7. Organizational Commitment

Commitment means owning identity about specific object or contributing to specific object by inducing psychological attachment and desire for belonging through agreeing values to the specific object possessed by person as combination of personal attitude and behavioral will<sup>11</sup>. Here, organization commitment is defined as commit-

ment on the basis of organization, it can be considered to do the role of connecting organization members' goal achievement on a personal basis and the organization<sup>12</sup>. That is, forming organization commitment can be seen as the result of commitment to specific process of behavior.

## 8. Performance

Generally, performance means acts or attitude in achieving the result obtained through an organization or person's plan and activity or activity, work, etc.<sup>13</sup> while organizational performance (management performance) can be diversely defined depending on the perspective of and approach to the organization<sup>14</sup>. In<sup>15</sup> argued that an enterprise's management performance should be always measured on multidimensional aspects since it takes on complex phenomenon and that measuring this should be an overall measurement and evaluation on the factors of organizational structure, motivation, group dynamics, job fulfillment, decision-making, leadership, goal-setting and establishment of plans<sup>15-17</sup>.

## 9. Research Model and Hypotheses

The purpose of this study is to analyze the effect of charisma, one type of leadership. Stimulus and consideration are conditional compensation on learning transfer and learning satisfaction. To the end, it analyzed foregoing studies related to servant leadership, transformational leadership, transactional leadership, empowering leadership, issue leadership, organization commitment and performance and set the research model based on it shown in Figure 1.

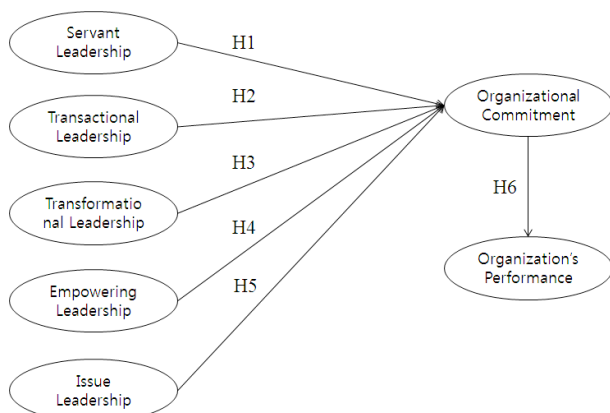


Figure 1. Research model.

In<sup>18</sup> conducted analysis on empirical examples of how servant leadership is applied to organization and how it has effect. He argued that servant leadership has changed an organization's decision-making structure from vertical into horizontal, increasing trust among stake holders and satisfaction with organization. Such servant leadership is considered to have positive effect on organization commitment. The following hypotheses are set in consideration of this aspect.

**H1:** Servant leadership will have significant effect on organization commitment.

Therefore, depending on organization and work situations, it is possible for transactional leadership could induce one's subordinate's empowerment better than transformational leadership. In<sup>19</sup> argued that leader's support behavior is directly related to adaptation (conscientious act), one dimension of organizational citizenship behavior. Such transactional leadership is expected to have positive effect on organizational commitment. Considering this aspect, the following hypothesis is set.

**H2:** Transactional leadership will have significant effect on organizational commitment.

In<sup>20</sup> analyzed the effect of principal's transformational leadership on teacher's attitude and student's academic achievement. Though transactional leadership appeared to have no effect on organizational citizenship behavior, when considering the factor of transformational leadership, it was found to have a considerable additional effect. Such transformational leadership is believed to have positive effect on organizational commitment. Considering this aspect, the following hypothesis is set.

**H3:** Transformational leadership will have a significant effect on organizational commitment.

In<sup>21</sup> argued that acts of empowering leader has effect on the behavior within the role during sales activity but that it is suitable to sales representatives lacking in experience. Such empowering leadership is believed to have positive effect on organizational commitment. Considering this makes the following hypothesis set.

**H4:** Empowering leadership will have significant effect on organizational commitment.

Testing was conducted to know whether trust, organizational rigidity and cohesion, which are variables to control the relationship between issue leadership style and organization's performance, have moderating effect<sup>22</sup>. In<sup>23</sup> verified that issue leadership has significant effect on organizations performance and that it has partial mediating effect on empowerment. Such issue leadership is expected to have positive effect on organizational commitment. Considering this makes the following hypothesis set.

**H5:** Issue leadership will have significant effect on organizational commitment.

In<sup>24</sup> defined organizational commitment as a potential for person to carry out the role entrusted remaining as member of an organization and enter into voluntary action. He said that organizational commitment is an effective way to overcome such situations when organizational commitment, satisfaction, performance, etc. are rapidly lowered at a person's turning point in time while getting along in life.

Such organizational commitment is expected to have positive effect in organization's performance. Considering this makes the following hypothesis set.

**H6:** Organizational commitment will have significant effect on organization's performance.

## 10. Testing Hypotheses and Result of Analysis

Research model was tested using PLS 2.0. PLS technique was used because it has relatively not strict requirements for sample size and remainder distribution<sup>25</sup> and relationship between metrics and construct can analyze the model of formative indicator.

### 10.1 Data Collection and Sample Characteristics

This study set company J, a service enterprise, for the object of questions and the survey was conducted in the manner of distributing and collecting questionnaire directly. On the survey conducted from Nov 1 through 30 (for 30 days) a total of 154 people responded and of these 153 copies were actually used for analysis except one (1) copy, an insincere response shown in Table 1. First, by the

sex of respondents, male was 142 persons (92.8%) and female was 11 persons (7.2%) and the enterprise for survey was found to be a service company to which male was mostly committed. For education, it showed graduation from high school (70.6%), junior college (11.8%), university (16.3%) and graduate school (1.3%).

**Table 1.** Descriptive statistics of respondents

		Frequency	Distribution (%)
Gender	Male	142	92.8
	Female	11	7.2
Age	Twenty	67	43.8
	Thirty	80	52.3
	Over Forty	6	3.9
Education Level	high school graduate	108	70.6
	Associate of Arts	18	11.8
	BA	25	16.3
	MA	2	1.3

### 10.2 Measuring Model

This study used Smart PLS 2.0 to test the research model<sup>26</sup>. PLS analysis requires testing internal consistency, convergent validity, and discriminant validity for metrics and constructs. On the variables used for model to test internal consistency,<sup>27</sup> composite reliability and confidence were analyzed.

Results of analysis are shown in Table 2. With composite reliability over the threshold 0.7 and Cronbach's alpha value over 0.7, internal consistency was found to be fit.

**Table 2.** Discriminant validity analysis

Construct	Composite reliability	Cronbach's $\alpha$
TRA	0.907	0.852
TRF	0.910	0.869
SER	0.927	0.902
PER	0.891	0.817
ISU	0.921	0.872
EMP	0.949	0.937
ORF	0.909	0.867

For convergent validity, AVE (average variance extracted) appeared over the threshold 0.5 and factor loading for constructs all appeared over threshold 0.7.

For discriminant validity, it was tested whether square root value of AVE displayed on the diagonal axis of correlation coefficients among constructs was properly larger than that of correlation coefficients among other constructs<sup>47</sup>. As a result of analysis, the smallest value of AVE's square root (0.846) was higher than the largest correlation coefficient (0.820), proving that discriminant validity was fit shown in Table 3.

Since, as above, all filled the basic requirements, our research model was found to be fit for structural model analysis.

### 10.3 Structural Model

Results of PLS analysis for this research model are shown in Figure 2. As a result of PLS'  $R^2$  analysis, each leadership kind, including servant leadership, transactional leadership, transformational leadership, empowering leadership and issue leadership, explained 39.7% of organizational commitment. Also, organizational commitment was found to have 51.0% explanatory power of performance, which far topped the proper testing power 10% presented by<sup>28</sup>. Through PLS analysis, path coefficient and its significance were tested.

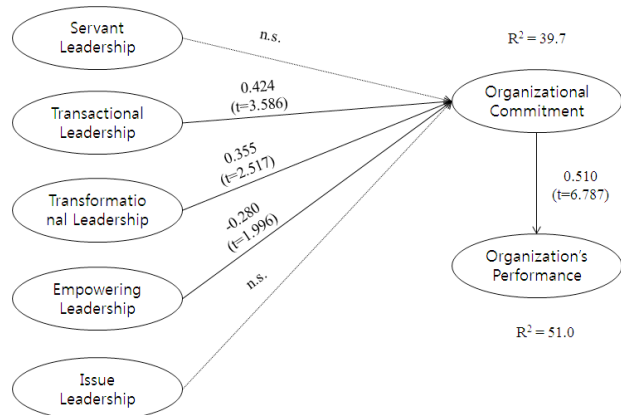
**Table 4.** Hypotheses testing

Hypothesis		Path coefficient	t-value	Result
H1	SER → ORF	0.029	0.170	Not supported
H2	TRA → ORF	0.424	3.586	Supported

**Table 3.** Correlation between latent variable

Construct	TRA	TRF	SER	PER	ISU	EMP	ORF
TRA	(0.876)						
TRF	0.681	(0.847)					
SER	0.802	0.701	(0.847)				
PER	0.289	0.348	0.267	(0.856)			
ISU	0.620	0.773	0.653	0.269	(0.892)		
EMP	0.747	0.797	0.820	0.236	0.648	(0.852)	
ORF	0.565	0.547	0.478	0.510	0.512	0.432	(0.846)

H3	TRF → ORF	0.355	2.517	Supported
H4	EMP → ORF	-0.280	1.996	Supported
H5	ISU → ORF	0.137	1.309	Not supported
H6	ORF → PER	0.510	6.787	Supported



**Figure 2.** Result of hypotheses.

## 11. Conclusion

Recently, in the leadership area, people began to perceive the importance of insight more freshly. In the past, too, leadership was one of very important elements in business management. Lately, however, due to the slump of global economy and low growth, leadership is becoming more important than ever before with a focus on the leader who has insight, rather than a simple leader to lead an enterprise along. The purpose of this study is to investigate the relationships between kinds of leadership - servant leadership, transactional leadership, transformational leadership, empowering leadership and issue leadership



-and organizational commitment, and relationship of organizational commitment to business performance.

To that end, after setting the leadership kinds as servant leadership, transactional leadership, transformational leadership, empowering leadership and issue leadership and then setting organizational commitment and business performance as dependent variables, the relationships of influence were analyzed. Based on the above results of analysis, the following can be discussed shown in Table 4:

First, Hypothesis 2 “Transactional leadership will have significant effect on organizational commitment” was accepted. It is the leadership generally taken by enterprises by promising subordinates to pay compensations for target performance achieved.

Second, Hypothesis 3 “Transformational leadership will have significant effect on organizational commitment” was accepted. It is the leadership taken by enterprises from the past and this leadership presents the enterprise’s vision and objective to subordinates and tells them simply to follow me. However, criticism against this charismatic leadership gave birth to transactional leadership.

Third, Hypothesis 4 “Empowering leadership will have significant effect on organizational commitment” was accepted. This leadership has appeared recently to be shared with organization members putting down his authority for organizational growth. This leadership can be used favorably in the circumstances of continued economic slump and low growth just as nowadays.

Fourth, Hypothesis 6 “Organizational commitment will have significant effect on business performance” was accepted. As commitment to organization is higher, business performance through it becomes higher. If the members have high satisfaction with their organization, increased performance goes without saying because they regard the organization as the second family.

Fifth, Hypothesis 1 “Servant leadership will have significant effect on organizational commitment” and Hypothesis 5 “Issue leadership will have significant effect on organizational commitment” were rejected. These two leaderships have appeared recently and these hypotheses were found to be significant in most foregoing studies but rejected in this study.

Thus, it’s considered a good idea that company J specialized in service should recognize and apply servant leadership of looking at subordinates as servant and issue leadership of trying to consult with subordinates and resolve important issues together.

Based on the result of study so far, the following suggestions can be presented. First, the result of research presented in this study could be used as a helpful guide when CEO and HR managers of Service Company set the organization’s mission and vision, design educational program and seek to increase performance.

Second, this study looked at diverse kinds of leadership. Particularly, it considered the foregoing studies for servant leadership and issue leadership that can be unfamiliar due to recent advent.

This study has the following limitations and further direction of studies.

First, this study divided leadership kinds into servant leadership, transactional leadership, transformational leadership, empowering leadership and issue leadership of analyze their effects on organizational commitment and business performance. For future studies, it is considered needed to investigate diverse relationships such as organizational citizenship behavior, trust, etc. by adding more kinds of leadership for factors.

Second, this study has been made on the subjects of specific enterprise and conclusions of this study are hard to generalize. So, future studies may need to influence leadership and organizational effectiveness and economic effectiveness at industrial sites by expanding subjects’ survey.

Lastly, research on the causality of CEO, middle manager and clerk, which are diverse persons interested, will also be needed.

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