

Influence of transformational and transactional leadership on employee performance

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Abstract

This study aims to investigate the effect of transformational and transactional leadership styles on employees' job performance among employees in the public sector. An explanatory study was conducted with a survey research strategy in a cross-sectional time horizon. A sample of 423 employees working the public sector in the Northern Province of Sri Lanka was selected using simple random sampling technique. The study constructs were measured using established instruments. Results revealed that transformational leadership positively impacts employee performance whereas the impact of transactional leadership on employee performance is not significant. Further, the study found that both transformational and transactional leadership positively impact psychological empowerment. The results also revealed that psychological empowerment mediates the impact of both transformational and transactional leadership on employee performance. The study findings give an insight

which is the most appropriate leadership style to use in relevant situations for increased employees' performance. In addition, the study findings emphasize the need for empowering employees to enhance their performance. The public sector organizations will be able to consider the findings of this research for developing leadership programmes in order to enhance appropriate leadership skills.

Keywords: *Employee performance; psychological empowerment; transactional leadership; transformational leadership.*

1 Introduction

Administrators in the public sector have direct dealings with the people in the communities and have the chance to make a real difference to people's lives. Their style of leadership could have a great impact on the employees working under them and thus the quality of service provided to the communities. Leadership research is vital on the grounds that it leads towards identifying more successful leadership

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approaches and assessment of the current leadership approaches (Barbuto, 2005). Leadership research gives direction regarding the qualities and behaviours of leaders that lead to positive results to organizations as well as employees.

Several researches have attempted to investigate the connections between leadership and employee outcomes, while in Sri Lanka, the work on this subject is unfortunately very limited. This study will attempt to identify the effect of transformational and transactional leadership styles on employee performance in the domain of public sector of the Northern Region of Sri Lanka, while exploring the mediating role of employees' psychological empowerment in the effect of these leadership styles on employee performance.

Public sector plays important role in the development of region in terms of better service to fulfil the needs in the region. If the public sector is not properly managed it could not contribute much to the country's expectations. Therefore, there is a need to manage the human resource towards productivity in the state owned organizations and thus effective leadership becomes vital for improving performance of employees. Thus, this study attempts to investigate the effect of transformational and transactional leadership styles on employees' job performance and the results of the study will give an insight which leadership style is better in improving the performance among employees in the public

sector organizations. This study also attempts to investigate the mediating role of psychological empowerment on the effect of leadership styles on employees' performance.

Even though, the empirical evidences on the association between leadership and employee performance across countries and across industries (Rasool *et al.*, 2015) (Gimuguni *et al.*, 2014), the evidence of the effect of leadership style on employee performance is varied. Chan(2010) also advocates that different styles are needed for different situations. The culture and context could be situational aspects and thus the need for studying the effect of leadership styles on performance in the Sri Lankan context would add knowledge to the existing literature. Particularly, the Sri Lankan public sector has not been given much attention by the previous researchers. Therefore, the current study attempts to identify the appropriate leadership style that can encourage employee performance in the public sector in the Northern Province of Sri Lanka.

2 Research problem

There is a problem of inefficiency of the public service in the Sri Lankan public sector and the public sector employees seem to have less productivity (Wijesiri, 2016). People require the public service to be effective and transparent. Sri Lankans rely on public service to satisfy most of their day to day needs, however, they are increasingly distrustful of the public service. If the managers and leaders

better manage the employees, it is possible to promote productivity of the workforce and to ensure efficient service to the people.

Public enterprises were seen to be inefficient and have inadequate performance, and were burden for the state and for the treasury (Corea, 1988) (Gunaruwan, 2016) reported that inefficiency is a common problem in all Sri Lankan state owned enterprises, across all organizational categories. The inefficiency is partially caused by the employees' performance problems. (Rathnathilaka *et al.*, 2016) have reported that, in Sri Lanka, majority of the public sector employees access social network sites during working time. (Warnakula & Manickam, 2010) also reported the same finding. The trend of access of social media has been increasing due to technological development. To overcome the inefficiency, leaders should play an important role in regulating employee behaviour and performance to ensure high quality public service.

The research problem of the current study is defined as follows.

“Inadequate performance of public sector employees in Sri Lanka”

3 Objective

The objective of the current study is to determine the influence of perceived transformational and transactional leadership styles on employees' performance and the mediating effect of psychological empowerment in the leadership-performance

relationship in public sector organizations in the Northern Province of Sri Lanka. The study would determine which leadership style has more impact on the employees' performance.

4 Research gap

In the Sri Lankan context, there is little evidence of studies which investigated the impact of transformational and transactional leadership styles on various employee outcomes such as employee' performance (Chamika & Gunasekara, 2016), knowledge creation (Athukorala *et al.*, 2016), Union and Organizational Commitment (Dhammika *et al.*, 2013), employees' trust and organizational commitment (Mathotaarachchi, 2013), etc. However, still there is need for studies in the subject of leadership in public service organizations in the Northern Province, where the employees' cultural aspects like values, attitudes and behaviours differ noticeably. Even though (Raveendran, Effect of transformational leadership on organizational commitment through the interaction of psychological empowerment, 2021) surveyed Development Officers working in the Divisional Secretariats and District Secretariat, the study was limited to Jaffna District.

There has been considerable research on leadership in different sectors in various countries (Herbst & Conradie, 2011) (Lopez-Dominguez *et al.*, 2014) (Sani & Maharani, 2012) (Vinger, 2009) (Basham, 2012) (Bolden *et al.*, 2012). However, these studies were conducted in different context where the

cultural aspects such as people's values, attitudes and behaviours differ noticeably. Moreover, previous studies have examined different leadership styles such as authoritative and democratic leadership, people and task oriented leadership and authentic leadership. Hence, there is a need for examining the association between leadership styles and employee performance in the public sector in Sri Lanka.

Therefore, the present study attempts to examine how transformational and transactional leadership styles affect employee performance and, in particular, mediating effect of psychological empowerment in the relationship between the leadership styles and employees' performance in the public sector organizations in the Northern Province of Sri Lanka. The results of the study will identify which leadership style leads to the greatest levels of employee performance in the public sector organizations.

5 Research questions

This research has been designed to address the following questions:

- To what extent perceived transformational and transactional leadership styles impact employee in the public sector in the Northern Province of Sri Lanka?
- Does psychological empowerment mediate the impact of transformational and transactional leadership styles on influence performance?

6 Theoretical underpinnings and hypothesis development

6.1 Concept of Leadership

According to (Cole, 2002), leadership is a dynamic process in which a person influences others to contribute voluntarily to achieve the goals and objectives. According to (Northouse, 2007), leadership is a process whereby an individual influences a group of people to attain a common goal. Jong & Hartog(2007) have mentioned that leadership is a process of influencing others to get desired results. In other words, leadership is the process whereby a person influences others to willingly exert efforts and use the abilities towards accomplishing goals of the group and organization (Nel *et al.*, 2004). Current leadership theories indicate that leadership behaviours can be categorized into two main styles: transformational leadership and transactional leadership (Bass & Avolio, 1997) (Bass & Avolio, 2000).

6.2 Transformational and transactional leadership

Transformational and transactional leadership styles have been adopted for last few decades since Burn's (1978) work on these phenomenon. Both of these styles are important for positive outcomes in organizations (Bass, 1985). Later, in 1999, Bass reported that it is important to promote transformational leadership and demote transactional leadership due to the changes and advancements in the workforce over the last two decades. Transformational leadership inspires people to achieve outstanding results.

It gives workers autonomy over specific jobs and the authority to make decisions once they have been trained. Transformational style of leadership comprises of the components of idealized influence (attributes and behaviour), inspirational motivation, intellectual stimulation and individualized consideration and has been suggested widely as the optimum style for managing change (Avolio *et al*, 1999), (Bass & Avolio, 1997).

Transactional leadership is an exchange process. It is a matter of contingent reinforcement of employees based on performance. It motivates subordinates by appealing to their personal desires, based on instrumental economic transactions. Previous leadership scholars (e.g. (Bass, 1985); (Podsakoff *et al.*, 1990)) have identified contingent reward, which involves leaders clarifying roles and task expectations and providing contingent rewards on the fulfilment of contractual obligations, as the principal behavior to represent transactional leadership because it captures the exchange notion fundamental to transactional leader behavior (Podsakoff *et al.*, 1990), (Bass, 1985) and his associates (Avolio *et al.*, 1999); (Bass & Avolio, 1997); (Hater & Bass, 1988) also hypothesized three behavior dimensions that underlie transactional leadership. They are contingent reward, management by exception-active and management by exception-passive.

Despite plenty of studies has been conducted on leadership all over the world, there are very few studies available in the literature to

understand the association between leaders' leadership styles and employees' organizational commitment and the mediation effect of psychological empowerment in the relationship between transformational leadership style and organizational commitment in the Sri Lankan context. Review of existing literature revealed that only a few studies conducted in the subject of leadership in Sri Lanka. For example, Dhammika *et al.* (2013) examined effects of leadership styles on union and organizational commitment in public sector organizations in Sri Lanka; Raveendran and Gamage(2019) studied the mediating effect of organizational commitment in the effect of transformational leadership on employee performance in the Divisional Secretariats in the Jaffna District. Likewise few other researches on leadership styles and employee outcomes in Sri Lanka context have been reported (Jayakody, 2008) (Kasturi Arachchi, 2011) (Athukorala *et al.*, 2016) (Fernando, 2018). However, the studies on this phenomenon are not adequate to understand the effects of transformational and transactional leadership on employee performance in the Sri Lankan public sector.

6.3 Employee performance

Employee performance is a construct consisting of various work related dimensions. According to Nmadu (2013), employee performance is the degree of accomplishment of tasks that make up an employee's job. The performance is measured against standard set for the employees in terms of accuracy, speed, quality, quantity, etc. In addition, the

behaviours such as attendance, timeliness, morale, efficiency and effectiveness are also considered for determining employee performance levels (Mathis *et al.*, 2009). Researchers attempt to identify the dimensions of employee performance with the aim of managing employee performance at workplace. A widely accepted method of conceptualization of employee performance is the five-factor model of performance (Welbourne *et al.*, 1998). The five factor model captures the employee performance along with five aspects of a job which are essential part of overall performance. The factors are job, career, innovator, team, and organization role. A role is generally defined as the total set of performance responsibilities associated with one's employment (Murphy & Jackson, 1999), cited in (Dhammika, 2013).

6.4 Transformational leadership and employee performance

Previous studies have reported that transformational leadership is positively associated with employees' performance, job satisfaction and commitment (Emery & Barker, 2007) (Walumbwa *et al.*, 2004). The study conducted by Emery and Barker (2007) using a sample of 124 managers and 389 employees from banking and food industries found that employees were more satisfied with transformational style than transactional style. Walumbwa *et al.* (2004) reported that, compared to other styles, transformational leadership style enhances organizational commitment and job satisfaction of employees. They pointed out that the employees working

under transformational leaders tend to have high level of confidence in their capacity to perform their tasks. Moreover, Walumbwa *et al.* (2005) investigated the effect of transformational leadership style on organizational commitment and job satisfaction of employees in Kenya and USA. A sample of 158 participants from Kenya and 189 participants from USA were surveyed in the study and it was found that transformational leadership was positively associated with employees' organizational commitment and job satisfaction in both countries. Even though it was expected that the influence of transformational leadership style would vary between African culture and Western culture, the results showed that the style was equally effective in both cultures. Cavazotte *et al.* (2013) reported that transformational leadership leads to higher levels of task performance and helping behaviours. The same results have been reported in the literature (Jiang *et al.*, 2016) (Sparkling *et al.*, 2016) (Andreani & Petrik, 2016) (Yammarino & Dubinsky, 1994) (Spangler & Braiotta, 1990). The studies conducted in the Sri Lankan context also reported positive effect of transformational leadership on employee performance (Rawashdeh *et al.*, 2020) (Chamika & Gunasekara, 2016) (Karunajeewa, 2018).

Many researchers (e.g. (Emery & Barker, 2007), (Organ, 1998), (Behery, 2008)) reported that transformational leadership style contributes to organizational effectiveness than do

transactional leadership. Transformational leaders demonstrate encouragement, impart confidence, acknowledge competence, encourage innovation and motivate for higher performance. These characteristics bring positive results in employees as well in organizations. However, Tseng and Huang (2009) found that transformational leadership style does not suit to all types of organizations. Based on the review of literature the hypotheses H1 is formulated as follows.

H1: Transformational leadership has a significant positive influence on perceived performance of employees.

6.5 Transactional leadership style and employee performance

The transactional leadership style has been reported to have a positive influence on employee behaviour (Ismail *et al.*, 2010). An empirical study in Yemen, conducted by Ahmad and Gelaidan (2011) found that transactional leadership was more effective than transformational leadership. They suggested that employees working in the public sector in Yemen prefer to work with transactional leaders than with transformational leaders. Moreover, transactional leadership style has been shown to have stronger effect on employee performance and dedication to job (Suryanarayana, 2011). Chaudhry and Javed (2012) found that employees under transactional leaders are highly motivated than the employees under transformational leaders in banking sector of Pakistan. From this evidence, motivation level is high under transactional leadership and thus employees

perform well under this leadership. Likewise, many researchers have reported significant positive relationship between transactional leadership style and employee performance (Pradeep & Prabhu, 2011) (Kehinde & Banjo, 2014) (Tsigu & Rao, 2015) (Gimuguni *et al.*, 2014) (Obiwuru *et al.* 2011) (Muterera, 2012) (Paracha *et al.*, 2012).

Previous researchers have compared the effectiveness of transformational and transactional leadership and showed that in some instances transactional leadership has contributed to organizational performance more than transformational leadership (Deluga, 1998) (Gill, 1998) (Suryanarayana, 2011) (Ahmad & Gelaidan, 2011) (Arham & Muenjohn, 2012). However, some researchers have reported that transactional leadership is negatively related to work performance (Evans, 2005), (Erkutlu, 2008) as well as organizational performance (Behery, 2008) (Emery & Barker, 2007) (Organ, 1998). Most prominent researchers argue that transactional style is necessary in organizations as transformational style (Bass, 1985). This is because transactional leaders were not inclined to motivate employees about the meaning of performance and tasks given to them.

Transactional leadership was found to be more important in the past when the workers were mainly motivated by financial factors (Olanrewaju, 2009). Transactional style also has been reported as an effective style in some organizations. Obiwuru *et al.*(2011) reported

that transactional leadership style increases performance than transformational leadership in small organizations.

Based on the majority empirical evidences, the hypothesis 2 was established as follows.

H2: Transactional leadership has a significant positive influence on perceived performance of employees.

6.6 Psychological empowerment

Grunig (1992) defined empowerment as the symmetrical concept of power, which means collaborating to increase the power of everyone in the organization, to the benefit of everyone in the organization. In contrast, the asymmetrical concept of power involves leaders trying to control and make others dependent on them. Thomas and Velthouse (1990) defined empowerment more broadly as increased intrinsic task motivation manifested in a set of four cognitions reflecting an individual's orientation to his or her work role: meaning, competence, self-determination, and impact.

6.7 Association between transformational leadership style and psychological empowerment

An outcome of transformational leadership is the empowerment of followers (Burns, 1978). Through empowerment, the followers are transformed into effective leaders. Transformational leaders promote psychological empowerment by providing them with autonomy, building their confidence, enhancing their abilities to capitalize on opportunities and promoting their performance (Conger & Kanungo, 1988).

They contribute for the success of the companies and motivate employees to perform extremely well towards the organizational and individual goals (Spreitzer, 1995). Few studies, (Allameh *et al.*, 2012) (Sagnak *et al.*, 2015) have reported that transformational leadership influences psychological empowerment among teachers. Moreover, followers can be empowered by encouragement and positive persuasion from the transformational leader (Boamah *et al.*, 2018). Allameh *et al.* (2012) found that the dimensions of transformational leadership had a significant relationship with psychological empowerment among school teachers.

Fang-guo (2013) examined the association between the variables surveying managers and employees in 144 restaurants in China and found that transformational leadership is correlated with empowerment. By surveying 310 managers in three private information technology organizations in India, (Jha, 2013) reported that there is significant positive relationship between transformational leadership and psychological empowerment. Likewise, several studies (Pradhan *et al.*, 2017) (Suer, 2017) (Martin & Bush, 2006) (Han *et al.*, 2016) (Balaji & Krishnan, 2014) confirmed that transformational leadership and psychological empowerment are significantly correlated.

Based on the literature, the hypotheses H3 was formulated as follows.

H3: Transformational leadership has a significant positive influence on psychological empowerment

6.8 Association between transactional leadership style and psychological empowerment

Gkorezis and Petridou (2008) mentioned that the elements of transactional leadership named information feedback, recognition and financial rewards are positively related to psychological empowerment of followers. Likewise, contingent reward and active management by exception could allow the employees to better assess their competence and impact in influencing organizational outcomes. There are evidences in the literature to support that transactional leadership predicts psychological empowerment (Ma & Jiang, 2018) (Pieterse *et al.*, 2010) (Epitropaki & Martin, 2005) (Spreitzer, 1995). However, an overreliance on contingent reward which is a transactional leadership component will create the perception of a lack of empowerment among employees (Bass & Avolio, 1994) Based on the literature, the following hypothesis was formulated.

H4: Transactional leadership has a significant positive influence on psychological empowerment

6.9 The mediating role of psychological empowerment in the influence of leadership styles on employees' performance

Studies showed that direct effect of leadership on employee performance, and indirect effect of leadership on employee performance through psychological empowerment as an intervening variable. Particularly, researchers have reported that effects of transformational leadership on the performance of followers

are mediated by empowerment (Bartram & Casimir, 2007) (Tung, 2016). Similarly, Epitropaki and Martin (2005) found that transformational leaders can build a perception among employees that they are listened to, and valued as organizational members through empowering them. Few researches have mentioned that organizational leadership influences employee attitudes and behaviors through empowerment (Behling & McFillen, 1996) (Bass, 1999).

There are very few evidences in the literature to support for the argument that subordinates' psychological empowerment mediates the relationship between transactional leadership and employee performance (Wei *et al.*, 2010) (Tung, 2016). Wei *et al.* (2010) surveyed 101 teams, involving 497 team members and 101 team leaders in a large multinational company in China. They found that the influence of transactional leadership on team empowerment climate and creative performance is mediated by psychological empowerment of employees. Ozaralli (2002) mentioned that leaders enhance employee's performance through empowering their team members (Ozaralli, 2002). Following the line of thinking of the previous researchers, the present study hypothesizes the mediating role of psychological empowerment as given below.

H5: Psychological empowerment mediates the influence of transformational leadership on employee performance

H6: Psychological empowerment mediates the influence of transactional leadership on employee performance

quantitative survey method was used in the present study as it provides a cost-effective and efficient way of collecting data from large populations as suggested by Stacks (2010)

7 Methodology

To determine the answers to the research questions and test the hypotheses, a

7.1 Conceptual Framework

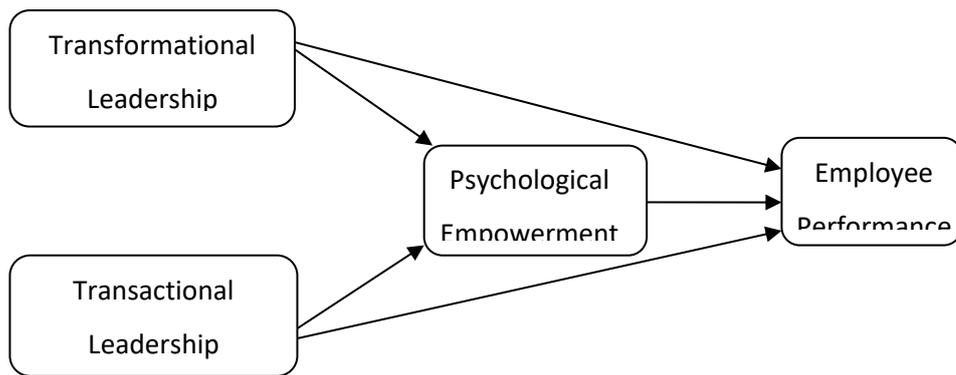


Figure 1 : The conceptual framework

7.2 Operationalization

The concepts and variables taken for the study were operationalized as shown in Table 1.

Table 1 : Operationalization

Concept	Variable	Dimensions	Measure/Instrument
Leadership Styles	Transformational Leadership	<ul style="list-style-type: none"> • Idealized influence (attributes and behaviour) • Inspirational motivation • Intellectual stimulation • Individualized consideration 	Multifactor Leadership Questionnaire (MLQ) Form 5X - Rater form Bass & Avolio (2000)
	Transactional Leadership	<ul style="list-style-type: none"> • Contingent Reward • Active Management-by-exception • Passive Management-by-exception 	
Employees' Performance	Perceived Employees Performance	<ul style="list-style-type: none"> • Job role • Career role • Innovator role • Team role • Organization role 	The Role-Based Performance Scale Welbourne <i>et al.</i> (1998)
Psychological Empowerment	Perceived Empowerment	<ul style="list-style-type: none"> • Meaning • Competence • Self-determination • Impact 	Empowerment scales of Spreitzer (1995)

7.3 Sample

As per the Census of Public and Semi Government Sector Employment in Sri Lanka (2016), the category of organizations come under the public sector include:

- (i) Institutions grouped under Line Ministries;
- (ii) Institutions grouped under Provincial Councils;
- (iii) Institutions grouped under District Secretariats; and
- (iv) Institutions not grouped under a Ministry.

The present study covers the institutions grouped under District Secretariats and the samples were selected from this category. The targeted population for the study is the full-time employees who are employed in the institutions grouped under District Secretariats in the Northern Province of Sri Lanka. A sample of 423 employees was selected based on simple random sampling technique.

7.4 Instruments

The present study employs survey method and the instruments used to measure the study variables are given in Table 1. The instruments were pretested before administering. In the present study, before the actual administration of the questionnaire to the participants, the instruments were pretested with 36 employees generated by convenience sampling to ensure the validity of the instrument. Based on respondents' feedback, the items were reworded or modified to avoid ambiguity and confusion. The content validity of the instruments was examined by the researcher and assured that the survey instruments cover all relevant aspects of the constructs and irrelevant aspects are not included.

8 Analysis and results

Data analysis was conducted using SPSS 21.0 for Windows and AMOS 20.0 software. Confirmatory Factor Analysis was performed to validate the constructs and subsequently, the validated models were integrated in Structural Equation Model (SEM).

Table 2 : *Reliability of scales*

Variable	No. of items	Cronbach's Alpha
Transformational leadership		
Intellectual Stimulation-	4	0.778
Inspirational Motivation-	4	0.752
Individual consideration-	4	0.747
Idealized Influence (attributes)-	4	0.801
Idealized Influence (behavior)-	4	0.800

Transactional Leadership		
Contingent Reward	4	0.766
Management-by-exception (active)	4	0.824
Management-by-exception (passive)	4	0.784
Employee Performance		
Job	4	0.784
Career	4	0.816
Innovator	4	0.892
Team	4	0.814
Organization	4	0.852
Employee Empowerment		
Meaning	3	0.803
Competence	3	0.747
Self-Determination	3	0.880
Impact	3	0.758

Source : Survey data, 2020

8.1 Testing assumptions for factor analysis

The normality was tested by assessing skewness and kurtosis for every item of the study. The values for skewness and kurtosis between -2 and +2 are considered acceptable to confirm that the data are normally distributed (George & Mallery, 2010). Further, SEM using MLE method is rather robust to skewness values greater than acceptable level if the sample size is large. Normally the sample size greater than 200 is considered adequate even though the data distribution is slightly non-normal (Hair *et al.*, 2014). In the current study, the values of skewness and kurtosis fall between -2 and +2 and thus the normality assumption was fulfilled.

In case of multicollinearity, if VIF is below 10 and the corresponding tolerance value is above 0.1, multicollinearity is not a problem for the data (Hair *et al.*, 2014) (Sreejesh *et al.*, 2014).

8.2 Confirmatory Factor Analysis

In CFA for the construct transformational leadership, initially, the items with low factor loading were dropped from the model and the new measurement model was run. After the removal of the items, it was observed that intellectual stimulation and idealized influence-attributes which come under transformational leadership were highly correlated (more than 0.85) and thus the two constructs are redundant or having serious multicollinearity problem. Hence, one of the factors named idealized influence-attributes was removed from the model and the new measurement model was run. All factor loadings were significant at 0.001 level. The redundant pairs were constrained as "free parameter estimate". Consequently, the results show the acceptable goodness of fit values as suggested by Hair *et al.* (2014). The results of CFA and fitness indexes are shown in Table 3..

Table 3 : CFA Results of transformational leadership

			Standardized Estimate	P	AVE	CR	Cronbach's alpha
ID_IN_B4	<---	ID_IN_B	.662		0.514	0.795	0.800
ID_IN_B3	<---	ID_IN_B	.666	***			
ID_IN_B2	<---	ID_IN_B	.713	***			
ID_IN_B1	<---	ID_IN_B	.815	***			
IN_ST4	<---	IN_ST	.672		0.522	0.612	0.656
IN_ST2	<---	IN_ST	.628	***			
IN_ST1	<---	IN_ST	.867	***			
IN_CN4	<---	IN_CN	.847		0.826	0.875	0.900
IN_CN1	<---	IN_CN	.967	***			
IN_MO2	<---	IN_MO	.743		0.625	0.744	0.766
IN_MO1	<---	IN_MO	.835	***			

Fitness indexes: CMIN/DF=3.03, GFI=.93, AGFI=.94, CFI=.98, TLI=.97, NFI=.94 and RMSEA=.045.

*** Significant at 0.001 level

Note: ID_IN_B : Idealized influence-behaviour; IN_ST: Intellectual stimulation; IN_CN : Individualized consideration; IN_MO : Inspirational motivation

Source : Survey Data, 2020

Convergent validity was achieved for transformational leadership subscales as the factor loadings of the items measuring the constructs are above the minimum requirement of 0.6 (Joreskog & Sorbom, 1979) and the calculated value of Average Variance Extracted (AVE) is greater than the cut-off value of 0.5 (Hair *et al.*, 2014) as shown in Table 3. Construct validity also was achieved as the fitness indexes achieved the required level as suggested by Hair *et al.* (2014).

Based on the CFA results reported in Table 4, convergent validity was achieved for transactional leadership subscales as the factor loadings of the items measuring the constructs are above the minimum requirement of 0.6 (Joreskog & Sorbom, 1979) and the AVE is greater than the cut-off value of 0.5 (Hair *et al.*, 2014). Construct validity also was achieved as the fitness indexes, as shown in

Table 4, achieved the required level as suggested by Hair *et al.* (2014).

Table 4 : : CFA Results of transactional leadership

			Standardized Estimate	P	AVE	CR	Cronbach's alpha
MBE_P4	<---	MBE_P	.661				
MBE_P3	<---	MBE_P	.822	***	0.561	0.762	0.788
MBE_P2	<---	MBE_P	.756	***			
MBE_A3	<---	MBE_A	.688				
MBE_A2	<---	MBE_A	.678	***	0.467	0.558	0.636
CR2	<---	C_REW	.958				
CR1	<---	C_REW	.686	***	0.694	0.765	0.790

Fitness indexes: CMIN/DF=2.03, GFI=.89, AGFI=.91, CFI=.98, TLI=.97, NFI=.97 and RMSEA=.032.

Notes: MBE_A : Management By Exception-active, MBE_P: Management By Exception-passive, C_REW: Contingent Reward

Source: Survey Data, 2020

Table 5 : **CFA Results of employee performance**

			Standardized Estimate	P	AVE	CR	Cronbach's alpha
P_INO4	<---	P_INO	.717		0.660	0.871	0.892
P_INO3	<---	P_INO	.783	***			
P_INO2	<---	P_INO	.875	***			
P_INO1	<---	P_INO	.865	***			
P_TEA4	<---	P_TEA	.799		0.598	0.865	0.864
P_TEA3	<---	P_TEA	.823	***			
P_TEA2	<---	P_TEA	.765	***			
P_TEA1	<---	P_TEA	.700	***			
P_CAR4	<---	P_CAR	.836		0.706	0.823	0.877
P_CAR3	<---	P_CAR	.862	***			
P_CAR2	<---	P_CAR	.823	***			
P_JOB3	<---	P_JOB	.718		0.555	0.797	0.788
P_JOB2	<---	P_JOB	.788	***			
P_JOB1	<---	P_JOB	.728	***			
P_ORG4	<---	P_ORG	.777		0.601	0.774	0.751
P_ORG2	<---	P_ORG	.774	***			

Fitness indexes: CMIN/DF=4.13, GFI=.92, AGFI=.87, CFI=.88, TLI=.87, NFI=.91 and RMSEA=.051.

Note: P_INO: Innovator role; P_TEA: Team role; P_CAR: Career role; P_JOB: Job role; P_ORG: Organization role

Source : Survey data, 2020

As can be seen in Table 5, convergent validity was achieved for employee performance subscales as the factor loadings of the items measuring the constructs are above the minimum requirement of 0.6 and the AVE is greater than the cut-off value of 0.5 as shown in

Table 5. Construct validity also was achieved as the fitness indexes achieved the required level.

Table 6 : CFA Results of psychological empowerment

			Standardize d Estimate	P	AVE	CR	Cronbach' s alpha
EMP_MN3	<---	EMP_MN	0.829		0.596	0.850	0.807
EMP_MN2	<---	EMP_MN	0.826	***			
EMP_MN1	<---	EMP_MN	0.647	***			
EMP_SD3	<---	EMP_SD	0.809		0.575	0.683	0.721
EMP_SD2	<---	EMP_SD	0.704	***			
EMP_CM3	<---	EMP_CM	0.612		0.549	0.888	0.777
EMP_CM2	<---	EMP_CM	0.794	***			
EMP_CM1	<---	EMP_CM	0.802	***			
EMP_IM1	<---	EMP_IM	0.682	***	0.434	0.623	0.604
EMP_IM3	<---	EMP_IM	0.635				

Fitness indexes: CMIN/DF=3.03, GFI=.93, AGFI=.94, CFI=.98, TLI=.97, NFI=.94 and RMSEA=.045.

*** Significant at 0.001 level

Note: EMP_MN: Meaning; EMP_SD: Self determination; EMP_CM: Competence; EMP_IM: Impact

Source: Survey data, 2020

As depicted in Table 6, the factor loadings of the items measuring the empowerment constructs are above 0.6 and the AVE is greater than the cut-off value of 0.5. Therefore, convergent

validity was achieved. Construct validity also was achieved as the fitness indexes achieved the required level.

Table 7 : Collinearity statistics

Model	Collinearity Statistics	
	Tolerance	VIF
Transformational Leadership <--> Performance	.513	1.922
Transactional Leadership <--> Performance	.561	1.883
Transformational Leadership <--> Empowerment	.562	1.798
Transactional Leadership <--> Empowerment	.562	1.778
Psychological Empowerment <--> Performance	.848	1.176

Source: Survey data, 2020

Tolerance and VIF values of each pair of constructs were examined to identify multicollinearity between study constructs. As shown in Table 7, the Tolerance value is above

0.1 and the VIF value is less than 10 for the constructs of this study. These indicate that the values are within the cut-off limits (Hair *et al.*, 2014) and thus there is no multicollinearity

issue in this study frame. Therefore, SEM could be performed to examine the relationship between the constructs and to test the hypotheses of the study.

8.3 Structural Equation Model

After validating each constructs through CFA, the constructs were integrated in the Structural Equation Model (SEM) to identify the direct and indirect effects of variables. The

Figure 2 illustrates the SEM and the standardized coefficients portraying the association between the variables. As depicted in the SEM, correlation between exogenous constructs is 0.77. Thus, the requirement for discriminant validity was achieved as the correlation between exogenous constructs did not exceed 0.85 (Kline, 2005) (Tabachnick & Fidell, 2007).

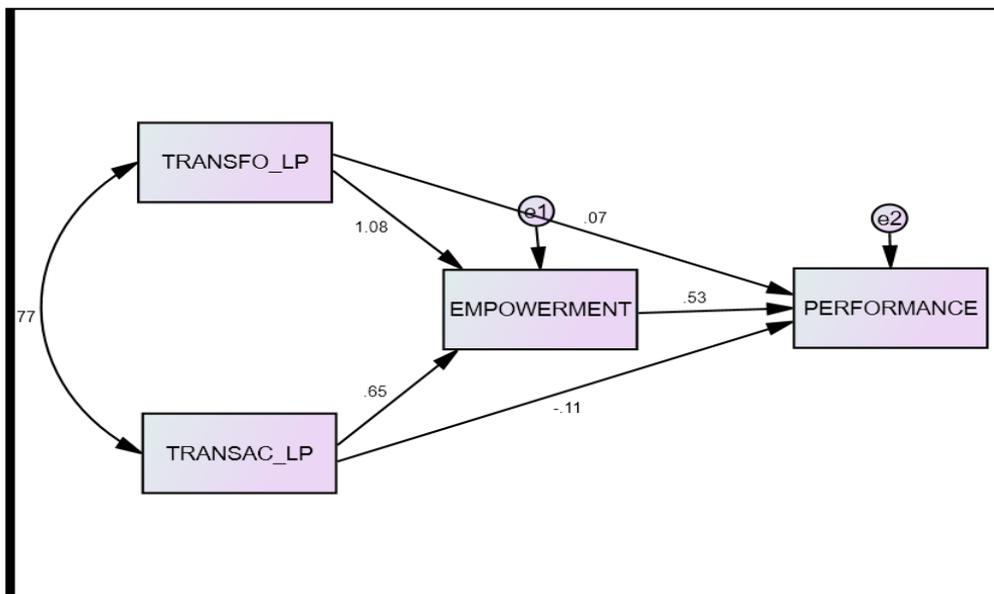


Figure 2: Structural Equation Model

Table 8 : Results of SEM

Variables	Std. Estimate	Unstd. Estimate	P
Transformational leadership -> Performance	.07	.13	***
Transactional leadership -> Performance	-.11	.03	.721
Transformational leadership -> Empowerment	1.08	1.24	***
Transactional leadership -> Empowerment	.65	.76	***
Empowerment -> Performance	.53	.68	***
Indirect effect (based on bootstrap sample)			
Transformational LP -> Empowerment -> Performance	.45		***
Transactional LP -> Empowerment -> Performance	.21		***

Source: Survey data, 2020

The results reported in Table 8 shows that transformational leadership has a significant positive impact on employee performance ($\beta= 0.07$; $p < 0.01$). Therefore the **hypothesis 1 was supported**.

The results also reveals that the impact of transactional leadership on employee performance is not significant ($\beta= -0.11$; $p= 0.721$). Hence the **hypothesis 2 was not supported**.

As can be seen in Table 8, transformational leadership has a significant positive impact on psychological empowerment ($\beta= 1.08$; $p < 0.01$). Based on the results, **hypothesis 3 was supported**.

At the same time, transactional leadership also has a significant impact on psychological empowerment ($\beta= 0.07$; $p < 0.01$). Therefore, the **hypothesis 4 was supported**.

The mediating effect of transformational and transactional leadership through psychological empowerment was examined based the bootstrap results of SEM. In the current study a bootstrap sample of 2000 was generated based on parent sample and the bias-corrected confidence was set as 95%. As can be seen in Table 8, the results of mediation effect reveals that the indirect effect of transformational leadership on employee performance is significant ($\beta= 0.45$; $p < 0.01$). As mentioned earlier, the direct effect of transformational leadership on employee performance also is significant. As both the direct effect and the

indirect effect are significant, it can be confirmed that psychological empowerment partially mediates the impact of transformational leadership on employee performance. Hence, the **hypothesis 5 was supported**.

At the same time, the results reported in Table 8 depicts that the direct effect of transactional leadership on employee performance is not significant ($\beta= -0.11$; $p < 0.721$) and the indirect effect of transactional leadership on employee performance through psychological empowerment is significant ($\beta= 0.21$; $p < 0.01$). As the direct effect is not significant and the indirect effect is significant, it can be confirmed that psychological empowerment fully mediates the impact of transactional leadership on employee performance. Therefore the **hypothesis 6 was supported**.

9 Discussion

The current study concludes that transformational leadership positively impacts employee performance. The finding is consistent with the existing literature (Jiang *et al.*, 2016) (Sparkling *et al.*, 2016) (Chamika & Gunasekara, 2016) (Karunajeewa, 2018). Surveying the banking sector employees in Sri Lanka, Chamika and Gunasekara (2016) reported that supervisors in banks need to use a lot of transformational leadership behaviors or rather embrace transactional leadership style. From the results, transformational leadership could have larger effects on employee productivity and quality of

performance. Karunajeewa (2018) surveyed a Sri Lankan Company and found that transformational leadership has a positive impact on employee performance. Therefore, the finding of the current study comply with the empirical evidences in Sri Lanka.

The finding that transactional leadership doesn't significantly impact employee performance is not consistent with the literature (Muterera, 2012) (Paracha *et al.*, 2012). Surveying a Sri Lankan company, Karunajeewa (2018) found that transactional leadership negatively impacts employee performance. In the present globalized economy the transactional leadership style is observed to be less effective. The employees in current organizations prefer to work under transformational leaders than transactional leaders (Bass, 1999) (Evans, 2005).

In the current study, it was identified that transformational leadership positively impacts psychological empowerment and the result is in line with the studies of Pradhan *et al.* (2017) and Suer (2017). Further, transactional leadership also positively impacts psychological empowerment and the result is in line with the studies of Ma and Jiang (2018) and Pieterse *et al.* (2010).

As an important part of the study, the mediating effect of psychological empowerment in the association between the leadership styles and employee performance was examined. The results reveal that psychological empowerment mediates the

impact of transformational and transactional leadership on employee performance and the results are consistent with the previous studies by Bartram & Casimir (2007), Tung (2016) and Wei *et al.* (2010) respectively.

10 Conclusion and Implications

The results of the current study revealed that transformational leadership is a predictor of employee performance whereas transactional leadership does not predict employee performance. Further, psychological empowerment significantly mediates the impact of transformational as well as transactional leadership on employee performance. It is believed that this study will be helpful for the leaders and administrators in the public sector. Considering the findings of the current study, the leaders of the public sector may pay more attention in their leadership style as a way to boost employee performance levels. As public service is given more priority for promoting the life of people and the developing the region, practicing appropriate leadership style in the public sector becomes vital.

The current study gives an insight that employees should be empowered adequately for enhancing their performance. True empowerment could be found if employees perceive that they are empowered. Previous studies have not investigated the mediating role of psychological empowerment in the leadership-performance relationship in the Sri Lankan context. Hence, the finding of the current study contributes to the body of

knowledge. The findings of the study will be a base for future researchers, students and academicians to understand the effect of transformational and transactional leadership styles on employees' performance. The public sector organizations will be able to consider the findings of this research for developing leadership programmes in order to enhance appropriate leadership skills. The findings will also help leaders in recognizing the most appropriate leadership style to enhance employee performance.

11 Limitations and Directions for Future Research

The present study revealed that transformational leadership influences job performance of employees, at the same time, transactional leadership doesn't influence performance of employees. However, there are a number of limitations in the study. The present study was limited to the public sector organizations in the Northern Province of Sri Lanka. The other regions should be covered by the future researchers to confirm the results of the current study. Further, it is necessary to survey the private sector employees. In addition, as the current study employed a cross sectional survey method, it is better to do a longitudinal study and the data could be

collected using different techniques. Particularly, the transformational and transactional leadership styles were taken for investigation in the present study and thus the other styles such as laissez-faire leadership, servant leadership, people oriented and task oriented leadership styles could be considered by future researchers. In addition, this study was conducted in the context of Northern Province of Sri Lanka. The study should be extended to other public sector organizations and including larger samples to find the leadership style that enhance employee performance and the factors mediating the effect of leadership on employee performance.

Among various employee behaviour dimensions, performance was investigated in the current study and therefore, future researchers need to investigate the influence of leadership styles on other dimensions of employee behaviours like time management, conduct at work, attendance, job satisfaction, organizational citizenship behaviour, etc. As there are not adequate studies in the public sector in Sri Lanka, more research should follow with different samples from various sectors, types of businesses and in different regions.

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