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Transformational leadership and job satisfaction: the moderating effect of contingent reward

The moderating effect of contingent reward

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Abstract

Purpose – The purpose of this paper is to investigate the mechanisms that link transformational leadership to employee job satisfaction by examining the moderating effect of contingent reward on the relationships.

Design/methodology/approach – The study employed explanatory and cross-sectional survey design. Data were obtained from 315 bank employees and analyzed using correlational and multiple regression techniques.

Findings – The results revealed that there are positive relationships between the dimensions of transformational leadership and job satisfaction which are augmented by contingent reward. However, the relationships of idealized influence and intellectual stimulation to job satisfaction are moderated by contingent reward, implying that, in the banking sector, the positive influence of these transformational leadership traits on employee job satisfaction can be enhanced by contingent reward.

Originality/value – The paper makes an important contribution to the existing organizational literature by establishing the utility of contingent reward as a moderator on the relationship between transformational leadership and employee job satisfaction in a banking sector.

Keywords Leadership styles, Full-range theory, Organizational study, Path-goal theory

Paper type Research paper

Introduction

Leadership and job satisfaction have long been primary areas of research in organizational studies. Many of the existing studies on this subject have examined the relationship between the two variables and concluded that leadership has an influence on a range of work outcomes including employee job satisfaction (Boehnke *et al.*, 2003; Chang and Lee, 2007; Fernandez, 2008; Griffith, 2004; Mohammad Mosadegh Rad and Hossein Yarmohammadian, 2006; Shaw and Newton, 2014; Siddique *et al.*, 2011; Yang and Islam, 2012; Yang, 2014). Compared to all other leadership theories combined, the leadership styles theory, of which transformational leadership is a part, has received the most attention in the literature (Antonakis and House, 2013). The justification for this is that transformational leadership is believed to generate inspiration amongst followers that enables them to think beyond their own aims and interests and achieve greater team, organizational, national and global objectives (Bass and Avolio, 1990, 1995; Durbin, 2001; Jandaghi *et al.*, 2009; Northouse, 2004).

Despite the substantial volume of research on transformational leadership and work outcomes, particularly job satisfaction, there is still much uncertainty about the relationship between these two variables. Extant literature has described the relationship between



transformational leadership and job satisfaction as positive, negative or neutral. For example, Wan Omar and Hussin (2013) and Hanaysha *et al.* (2012) found a positive relationship between intellectual stimulation dimension of transformational leadership and job satisfaction. To the contrary, Thamrin (2012) reported negative outcome between transformational leadership style and job satisfaction.

Apart from the prevailing uncertainty about the relationship between transformational leadership and employee job satisfaction, questions still remain on the effect size and the interactive effect of transformational and transactional leadership on job satisfaction. In prior research, House (1996) has proposed that there is an interplay between contingent personal reward (an important aspect of transactional leadership) and aspects of transformational leadership. He posited that there is a negative interaction between contingent reward and transformational leadership in enhancing follower outcomes such that the relationship of aspects of transformational leadership should be stronger for low contingent reward, relative to high contingent reward. Bass and Avolio (1994) have also argued that the association between transformational and transactional leadership has been one of augmentation. That is, transformational leadership will significantly predict follower outcomes after controlling for transactional leadership.

In a study to test the proposed interaction between transactional and transformational leadership, Schriesheim *et al.* (2006) did not find support for House's proposed negative interaction or Bass and Avolio's proposed augmentation hypothesis. However, in a meta-analytic study, Judge and Piccolo (2004) found support for the augmentation hypothesis. Vecchio *et al.* (2008) also found support for both the augmentation and negative interaction effect on performance. From the foregoing studies, it is evident that the empirical landscape of the relationships between transformational leadership styles and job satisfaction has mixed results and therefore one cannot absolutely conclude or generalize on their relationships. The difficulty in generalizing such findings lies in the fact that transformational leadership and employee job satisfaction are disposed to the environmental and cultural settings that pertain to a study area or setting. Thus, the need for further studies cannot be overemphasized.

In their call for further research on this topic, Schriesheim *et al.* (2006) acknowledged the importance of focusing on a relevant level of analysis while Vecchio *et al.* (2008) suggested that the additional dimensions of transformational leadership should be examined in a different context to see if alternative results will be attained. Taking into account these recommendations, the present study sought to test both the augmentation hypothesis and the moderation effect of contingent reward (i.e. transactional leadership) on the relationships between the dimensions of transformational leadership and employee job satisfaction in the Ghanaian banking industry. Similar to other banking industries, the Ghanaian banking industry is noted to experience high labor turnover which is associated with job satisfaction and leadership. Thus, the findings of this study will contribute to the understanding on the mechanisms that link leadership styles to employee job satisfaction.

Literature review

Leadership styles theory and transformational leadership

Originally introduced by Burns (1978), extended by Bass (1985) and further expanded by Bass and Avolio (1995, 1997), the leadership styles theory also known as the "full range leadership theory" (FRLT) has been widely applied in leadership studies and achieved unprecedented acceptance in the management and leadership literature (Antonakis and House, 2013). With this theory, the core idea is based on the ideals of a leader which ignites work outcomes. According to Bass (1998) and Bass and Avolio (1995, 1997), the FRLT comprises three broad classes of leadership styles, namely, transactional, transformational and laissez-faire (or passive avoidant). The transactional leadership style postulates that

people are easily motivated by rewards and punishments while laissez faire is a kind of non-leadership style in which decisions are not made, actions are delayed, leadership responsibilities ignored and authority unused (Bass, 1998). In contrast, transformational leaders focus on intrinsic motivation and personal development of their followers. The transformational leaders provide a vision and a sense of organizational mission; inspire pride, respect and trust among their followers (Bass and Riggio, 2006; Sivanathan and Cynthia Fekken, 2002).

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A key assumption underlying transformational leadership is that people will follow a leader who inspires and motivates them. Burns (1978) describes a transformational leader as one that looks for potential motives in followers, seeks to satisfy their needs and involve the followers fully in the entire process of change. Northouse (2010) views transformational leadership simply as a development that transforms individuals. In other words, the transformational leader displays the ability to get people to want to change and afterwards to champion it. The leader motivates the followers to perform remarkably by inspiring them, offering intellectual challenges, paying attention to individual growth needs and ultimately leading them to rise above themselves for a shared purpose. Transformational leadership focuses on producing innovative change in institutions through getting followers to willingly commit to the organization's vision and long-term goals (Sullivan and Decker, 2001).

Often incorporating charismatic and visionary leadership, transformational leadership involves significant usage of sway that moves followers to achieve more than is ordinarily required of them. Trofino (1992) argued that transformational leaders have the ability to clearly communicate a vision of the future through capturing follower's imaginations with brilliant accounts of the great prospect they hope to construct together. Leaders and followers engage with each other in such a way that they raise one another to higher levels of motivation and morality. This leadership style empowers employees to achieve a shared vision and both leader and follower end up changing for the better. Normally, transformational leadership style is opposed to transactional or laissez-faire leadership. Avolio *et al.* (1999) argued that transformational leaders have done more with their followers than transactional and laissez-faire. Practically, transformational leadership is manifested through four main types of behaviors (or the 4Is dimensions) – idealized influence or charismatic, inspirational motivation, intellectual stimulation and individualized consideration.

Idealized Influence/Charisma refers to conduct that elicits respect, admiration and trust from followers. This leadership dimension tends to share an emotional bond with followers and are usually looked upon as role models and normally seen to lead by example. Idealized influence includes the extent to which the leader instills pride in followers, displays assurance, makes personal sacrifice in championing new possibilities, talks about the importance of having a shared sense of duty and considers the ethical and moral consequences in taking decisions. Leaders with idealized influence are described as those who make everyone eager about their duties, command admiration and have a sense of duty that they transmit to followers. Managers who exhibit idealized influence are trusted to make good decisions for the organization because they generate a profound emotional connection with followers which creates excitement about the mission (Bass, 1985). Howell and Avolio (1992) have suggested while many charismatic leaders tend to be “ethical charismatics” (i.e. they incorporate their followers' hopes, dreams and aspirations in their vision), others tend to be “unethical charismatics” (i.e. they control and manipulate their followers, promote what is best for themselves rather than their organizations, and have moral standards that promote self-interests) (p. 44).

Inspirational Motivation refers to the leader's ability to put forward an appealing vision that spurs action toward both individual and collective goals (Bass and Riggio, 2006). Inspirational motivation defines leaders who through the arousal and heightening of

motivation get colleagues and followers to commit to the vision of the organization. Inspirational motivation means the leader is able to communicate a captivating image of the future, set inspiring ideals and take a stand on contentious subjects. Envisioning a desired future state, making followers see that vision and showing followers how to get to that state are part of the inspirational process (Behling and McFillen, 1996). Managers with inspirational motivation encourage team spirit to reach goals of increased revenue and market growth for the organization.

Intellectual Stimulation refers to leaders who seek ideas, opinions and input from their followers to promote creativity, innovation and experimentation. Intellectual stimulation, thus, describes managers who encourage innovation and creativity through challenging the normal beliefs or views of a group. Intellectual stimulation leaders promote critical thinking, problem solving and challenge orthodox intelligence (Bass and Avolio, 1990). They engage in behaviors that raise followers' understanding of the current problems and contrast them with their future vision. Managers exhibiting intellectual stimulation arouse in followers the awareness to identify and solve challenges creatively. Intellectual stimulation leaders, thus, tend to enable followers to think of old problems in new ways.

Individual Consideration involves enthusiastically listening and accommodating team members' personal need for growth, learning and recognition. Individual consideration concerns the degree to which leaders treat followers as individuals in mentoring and coaching them. They develop appropriate personal relationships with members and give personal attention without discriminating, helping them to achieve their goals (Bass, 1985; Bass and Avolio, 1990). In exhibiting individualized consideration, managers identify individual needs and abilities of followers and then guide them to attain goals that are mutually beneficial to followers and the organization.

Compared to transformational leadership, transactional leadership comprises three factors or dimensions. These three factors are contingent reward, management-by-exception active and management-by-exception passive. Contingent reward leadership is based on economic and emotional exchanges. It clarifies role requirements, and reward or praise desired outcomes. With management-by-exception active, the leader monitors deviations from norms and provides corrective action. Management-by-exception passive is similar to management-by-exception active; however, passive leaders wait until deviations occur before intervening. Apart from Laissez-faire, management-by-exception passive is the most inactive leadership.

Transformational leadership style and job satisfaction

Human resources or employees are by far the most important assets of organizations. Indeed, no organization can succeed without paying attention to its employees. One aspect of employee outcomes that has attracted the attention of management and organizational researchers is job satisfaction. Spector (1997) reported that, literally, there are thousands of studies on job satisfaction. The vast number of these studies have recognized that job satisfaction is a multifaceted construct that captures employee feelings about a variety of both intrinsic and extrinsic job elements. It refers to how content an individual is with his or her job in an organization and encompasses specific aspects of satisfaction related to pay, benefits, promotion, work conditions, supervision, organizational practices and relationships with co-workers (Misener *et al.*, 1996). Thus, job satisfaction has been used as a means to attract and retain qualified employees in the organization.

There are many factors that influence employee job satisfaction, and one of the factors is leadership style. An effective leadership style is capable of providing motivational stimulus and direction to followers to achieve the organizational mission and goals. Bass and Avolio (1993) confirm the effect of various leadership styles on organizational outcomes such as job satisfaction. According to them, transformational leaders are more effective than

those practicing contingent reward, which also happens to be more effective than active management by exception, which in turn is more effective than passive management by exception and laissez-faire leadership, which is seen as the least effective. These findings have been further buttressed by several other studies (Waldman *et al.*, 1990; Pereira, 1986; Yokochi-Bryce, 1989). It is worth noting, however, that specific dimensions of transformational, transactional and avoidant leadership may show a better picture of the particular variables that predict organizational outcomes.

Bass (1997), in a study of 120 Austrian branch bank managers and their subordinates, reports findings indicating significant associations between the extent to which the managers were perceived as transformational rather than transactional and the extent to which their banks increased subsequently in customer market share and several other criteria of customer business. This finding is corroborated by several other studies spanning both the profit and not-for-profit sectors (Bass and Avolio, 1993; Boyd, 1988; Lowe *et al.*, 1996).

In a study conducted by Gaspar (1992), similar patterns in the results were observed. That is, correlations of objective outcomes and perceived effectiveness were positive and higher in the military respondents as compared to the civilian respondents. Judge *et al.* (2004) found that initiating structure and consideration are positively related to performance. In a similar study, the relationship between transformational and transactional leadership and performance also confirmed positive correlations (Judge and Piccolo, 2004). Sutherland (2013), in a study on employment status and job satisfaction, observed that the self-employed reported a higher likelihood of satisfaction. The study further noted that there are differences in job satisfaction between managers in smaller establishments and managers in larger establishments. The waged worker reported a consistent positive and significant relationship with job satisfaction whilst for the self-employed, it was not consistent. These findings are not entirely surprising as the likely motivators for the waged and self-employed could vary. Thus, assessing satisfaction with similar variables is therefore bound to give an inaccurate and erroneous perception.

Investigating the relationships between job satisfaction, individual job facets, socio-demographic variables and job performance in the Lebanese commercial banking sector, Crossman and Abou-Zaki (2003) concluded that job satisfaction is dependent on particular facets of the job. Female employees were found to be less satisfied with the lower educated workforce being the least satisfied. In a study to determine the relationship between job characteristics and job satisfaction amongst physicians in Russia, O'Leary *et al.* (2009) found male doctors reporting higher levels of satisfaction than female doctors. Polyclinic doctors were more satisfied than those employed by hospitals whilst female physicians were said to be more satisfied in their relations with patients and colleagues than their male counterparts did. The study, however, indicated that the majority of physicians were dissatisfied with management and time limitations.

Graham and Messner (1998) conducted a study in America to investigate the relationship of gender, size of enrollment and years of experience, to principals' job satisfaction. Results showed that American principals were largely satisfied with their current job, colleagues and level of responsibility. However, they were less satisfied with their pay, opportunities for advancement and fringe benefits. Verhofstadt *et al.* (2007) reported that higher educated workers are more satisfied than their lower educated counterparts because they have a better-quality job. However, with the control of job characteristics, a negative relationship was reported, where higher educated workers had less job satisfaction. Boufford (1999) confirmed that the quality of leadership in the public health sector substantially affects health outcomes.

In summing up, the extant literature shows that both transformational leadership and job satisfaction have attracted a lot of research interests (Bass and Avolio, 1993; Boehnke *et al.*, 2003; Chang and Lee, 2007; Fernandez, 2008; Griffith, 2004; Hanaysha *et al.*, 2012;

Mohammad Mosadegh Rad and Hossein Yarmohammadian, 2006; Wan Omar and Hussin, 2013; Shaw and Newton, 2014; Siddique *et al.*, 2011; Yang and Islam, 2012; Yang, 2014). However, there is still much uncertainty about the direction of relationship between these two variables and their respective dimensions. While some of the studies have found positive association between the dimensions of transformational leadership and job satisfaction (Hanaysha *et al.*, 2012; Wan Omar and Hussin, 2013), others have found negative outcomes between them (Thamrin, 2012). Further, there are differences in effect sizes (Judge and Piccolo, 2004; Podsakoff *et al.*, 2006), suggesting moderator relationships (House, 1996).

In view of aforementioned contradictions, the current study aimed to gain a better understanding of the relationship between transformational leadership and job satisfaction by conceptualizing contingent reward as a moderator variable. Figure 1 presents the conceptual framework.

The conceptual framework in Figure 1 allows for the testing of both the augmentation hypothesis and the moderation effect of contingent reward (i.e. transactional leadership) on the relationships between the dimensions of transformational leadership and employee job satisfaction.

Methodology

Research design

This research employed explanatory and cross-sectional survey design to investigate the causal relationship between transformational leadership style and job satisfaction. In exploring the relationship, a quantitative research approach was employed which made use of statistical analyses to describe and explain causal relationships. The survey method was chosen for this study. The rationale for this choice is that it provides direction for the study process thereby enabling the planning of ways to help achieve the objectives of the study (Altinay *et al.*, 2015). In addition, the survey method facilitates the identification of understandings of respondents and making deductions from the target population.

Population and sampling

The population of interest for this study was employees of commercial banks in Ghana. The targeted population included employees of six selected commercial banks. A purposive sampling method was employed to select these banks from the Accra and Tema metropolitan areas out of a total population of 28 banks. These banks were selected because they have been in operations for at least ten years, thus affording a better assessment of the leadership styles of their management by employees. The above Metropolises were selected because they constitute the main financial hub of the Ghanaian economy. More importantly,

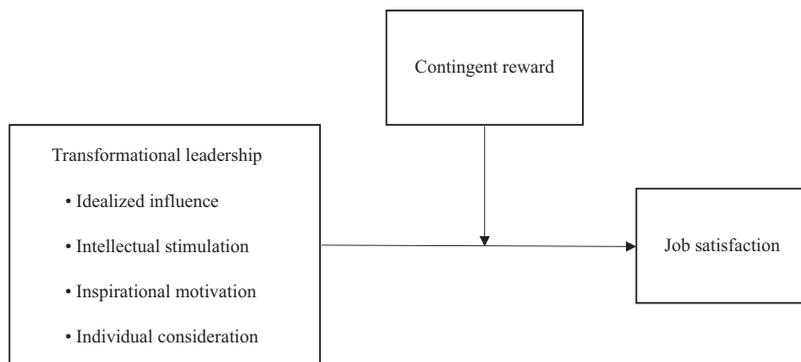


Figure 1.
Conceptual framework

the two metropolises have a concentration of branch networks with the majority segment of the organizations' population in the country, thus making the two metropolises fairly representative of the national population of the commercial banks.

The convenience sampling technique was used to select the various bank branches as well as respondents from whom data for the study were collected. In effect, bank branches which gave their approval to partake in the study were selected. This sampling technique facilitated easy access to primary data. In all, 360 respondents were purposively sampled from the six bank branches and their views on transformational leadership style and job satisfaction were solicited. Out of this, 315 valid respondents were obtained for the analysis. The sample size satisfied the Tabachnick *et al.* (2001) criterion for determining adequate sample size.

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Data collection, instrumentation and analysis

Data were collected using the multifactor leadership questionnaire (MLQ) and the Minnesota satisfaction questionnaire (MSQ). The structure of these instruments facilitates the collection of relevant data from large samples at a reasonable cost and have been widely applied in the literature (Antonakis *et al.*, 2003; Avolio *et al.*, 1999; Lowe *et al.*, 1996). Specifically, data were gathered on the following variables: leadership styles (independent variables); and job satisfaction (dependent variable). Transformational leadership style was measured by the four subscales indicated in the literature (Idealized Influence, Inspirational Motivation, Intellectual Stimulation and Individual Consideration). Sample items from the MLQ-Form 5X include the following: Idealized Influence (e.g. "consider followers' needs over his or her own needs"), Inspirational Motivation (e.g. "Arouses individual and team spirit"), Intellectual Stimulation (e.g. "approaches old situations in new ways"), Individual Consideration (e.g. "Pay attention to individual needs for achievement and growth").

The MLQ-5X scale is a standardized instrument whose validity and reliability have been found to be within acceptable range by many researchers (Antonakis *et al.*, 2003; Avolio *et al.*, 1999; Lowe *et al.*, 1996). This notwithstanding, a pilot test was conducted to test the reliability of the instrument using Cronbach's α s. The α coefficients for the various scales recorded high level of reliability (i.e. α coefficients ranging from 0.77 to 0.81) since a score of 0.7 and above is considered good and acceptable in research (Nunnally, 1978). The short form of the Minnesota Satisfaction Questionnaire (MSQ) developed by Weiss *et al.* (1967) and adopted by other researchers (Polit *et al.*, 2001) was used in gathering data on respondents' level of satisfaction with their jobs. This instrument was also pretested and found to be reliable. Table II presents the reliability coefficients for both the MLQ-5X and MSQ. Analyses of the data were conducted using correlation and hierarchical multiple regression techniques. The use of the hierarchical regression allowed the determination of the unique contributions of the predictor variables, the combined effect of the predictor variable and the moderator (augmentation effect), and the interaction (moderation) effect (Vecchio *et al.*, 2008).

Results and discussion

Table I presents the demographic characteristics of the respondents. Overall, the sample had more females (54.9 percent) than males (45.1 percent). Nearly half of the sample (50.8 percent) was aged between 26 and 35 years. In terms of work experience, majority of the respondents (46.3 percent) had worked for six to ten years. However, in respect of their current employer, majority of the respondent (61.3 percent) had worked for less than five years.

Table II presents the means, standard deviations, skewness, kurtosis, internal consistencies (Cronbach's α) and inter-construct correlations. Applying the criteria proposed by Tabachnick *et al.* (2001), it can be concluded that the data are normally

LODJ	Variables	Frequency ($n = 315$)	Percent
	<i>Sex</i>		
	Male	142	45.1
	Female	173	54.9
	<i>Age</i>		
	18-25	66	21
	26-35	160	50.8
	36-45	78	24.7
	46-55	11	3.5
	<i>Work experience</i>		
	1-5	115	36.5
	6-10	146	46.3
	11-15	47	15
	16-20	5	1.6
	21 or more	2	0.6
	<i>Years with current employer</i>		
	1-5	193	61.3
	6-10	103	32.7
	11-15	13	4.1
	16-20	6	1.9

Table I.
Demographic characteristics of the respondents
Source: Survey Data (2015)

Variable	Mean	SD	skew	Kur	α	1	2	3	4	5
1. Idealized Influence	2.65	1.22	-0.68	-0.47	0.91					
2. Intellectual Stimulation	2.39	1.27	-0.31	-0.62	0.84	0.42**				
3. Inspirational Motivation	2.39	1.29	-0.33	-1.03	0.80	0.53**	0.43**			
4. Contingent Reward	2.51	1.14	0.48	-0.76	0.87	0.47**	0.35**	0.46**		
5. Individual Consideration	2.28	1.31	-0.13	-0.94	0.90	0.38**	0.32**	0.27**	0.41**	
6. Job Satisfaction	3.35	1.23	0.05	-0.30	0.78	0.32**	0.36**	0.37**	0.41**	0.37**

Note: ** $p < 0.01$

distributed since Skewness and Kurtosis are between -1 and $+1$. Therefore, the variables can be used in the parametric statistical tests, specifically regression analysis.

From Table II, it is also notable that all the inter-construct correlations were significant at 1 percent level of significance. In particular, the correlation between contingent reward and job satisfaction (i.e. $r = 0.41$) is within the range of correlations ($r = 0.20$ and 0.44) reported in a meta-analytic study by Podsakoff *et al.* (2006). Another point worthy of note is the correlation between contingent reward and job satisfaction (0.41). This signifies that transactional leadership could be a predictor of job satisfaction, hence a formal augmentation analysis is necessary. This analysis is carried out by adding each style of leadership as a predictor after initially controlling for the contribution of the other dimensions of leadership.

Table III summarizes the regression output for job satisfaction as the dependent variable and leadership dimensions as the independent variables. As reported in this table, the dimensions of transformational leadership are first entered as step 1 in model 1 of the respective blocks (where each block relates to one dimension of transformational leadership), followed by the entry of both the dimension of transformational leadership and

Block	Step	Predictors	Unstandardized betas						R^2	ΔR^2	F	P	The moderating effect of contingent reward
			Model 1		Model 2		Model 3						
			B	t	B	t	B	t					
1	1	Idealized Influence	0.182	4.32**	0.166	3.91**	0.122	3.48**	0.127**	0.127**	78.41	0.000	
	2	Contingent reward (CR)			0.256	3.42**	0.225	3.52**	0.262**	0.135**	96.33	0.000	
	3	IIA \times CR					0.116	3.77**	0.427**	0.165**	118.04	0.000	
2	1	Intellectual simulation (IS)	0.257	3.29**	0.231	3.18**	0.196	3.63**	0.148**	0.148**	86.44	0.000	
	2	Contingent reward (CR)			0.293	3.97**	0.211	3.28**	0.349**	0.201**	123.98	0.000	
	3	IS \times CR					0.175	3.41**	0.444**	0.095**	147.83	0.000	
3	1	Inspirational motivation (IM)	0.270	3.91**	0.230	2.46*	0.210	2.18*	0.132**	0.132**	76.38	0.000	
	2	Contingent reward (CR)			0.291	3.16**	0.173	2.32*	0.294**	0.162**	139.83	0.000	
	3	IM \times CR					0.045	1.47	0.450**	0.156**	168.17	0.000	
4	1	Individual consideration (IC)	0.242	2.26*	0.209	1.76	0.187	1.58	0.196**	0.196**	66.54	0.000	
	2	Contingent reward (CR)			0.368	2.11*	0.363	2.32*	0.334**	0.138**	143.78	0.000	
	3	IC \times CR					0.082	1.77	0.436**	0.102**	166.49	0.000	

Notes: Unstandardized beta for contingent reward when entered as the initial predictor at step 1 = 0.41; $p < 0.01$; $R^2 = 0.32$; $p < 0.01$; * $p < 0.05$; ** $p < 0.01$

Table III. Regression results for job satisfaction

transactional leadership (i.e. contingent reward) as step 2 in model 2 and finally the inclusion of the interactive term between the two variables as step 3 in model 3. This three-step procedure was followed to test the following: the predictive effects of the specific transformational leadership indicators (step 1), the augmented effect of contingent reward (step 2) and the moderation effect of contingent reward (step 3).

From the results in model 1, it is clear that there is a relationship between each of the four dimensions of transformational leadership style and employee job satisfaction. Specifically, the transformational leadership styles have positive influences on job satisfaction among the bank employees. The above finding is consistent with some prior literature (Vance and Larson, 2002; Loke, 2001; Dunham-Taylor, 2000; Lowe *et al.*, 1996; Berson and Linton, 2005; Morrison *et al.*, 1997). In the notes to Table III, the unstandardized coefficient for contingent reward is reported as 0.41 when the order of initial entry is reversed. From this, two observations are notable. First, the significant effect of contingent reward confirms that transactional leadership contributes to predicting employee job satisfaction. Second, the coefficient of contingent reward which is an indicator of transactional leadership exceeds all the betas for transformational leadership.

From the results in Table III, the unstandardized beta coefficients in model 2 indicate that after controlling for the contributions of transformational leadership variables, contingent reward is a significant predictor of job satisfaction and contributes to explaining the criterion variance. Particularly, the coefficients in step 2 indicate that, in all the four blocks, the contributions of contingent reward (i.e. transactional leadership) augment transformational leadership and not the reverse. Thus, the augmentation hypothesis is supported by the significant positive beta weights in step 2. It is also important to note that the reverse order of initial entry of predictors is summarized as a note to Table III. Since this result shows that when the contingent reward variable is entered first in the model, the associated beta ($B = 0.41$) exceeds the betas for the dimensions of transformational leadership, it confirms the augmentation effect for transactional leadership rather than

transformational leadership. This finding is not without precedent. For example, Schriesheim *et al.* (2006) and Bass *et al.* (2003) reported that transactional leadership augmented transformational leadership, rather than vice versa.

Moderation effect

Similar to prior studies on moderation analysis (Aiken *et al.*, 1991), the current study tested the moderation effect by creating multiplicative interaction terms. In order to reduce the correlation between the interaction term and the variables comprising the interaction and avoid the potential problems of high multicollinearity, the variables were centered around a mean of 0 in accordance with the procedures outlined by Aiken *et al.* (1991). As shown in Table III model 3, the analysis of interactive effect reveals some significant effects. Two of the four dimensions of transformational leadership are moderated by contingent reward. These dimensions are idealized influence and intellectual stimulation. These results provide evidence for enhancing moderation, where increasing the moderator (contingent reward) would increase the effect of the idealized influence and intellectual stimulation on employee job satisfaction. The change in R^2 (ΔR^2) is all significant, indicating that the predictors account for a significant proportion of the variance in job satisfaction.

As a further examination of the significant interaction effect, median splits were created on the moderating dimension of contingent reward and used to run two separate regressions. Values within +1SD or -1SD of the mean were inserted into the estimated regression equations to graph the interactions as shown in Figures 2 and 3. This approach was in line with the suggestion by Cohen *et al.* (2013).

From Figures 2 and 3, it is evident that the slopes of the regressions are less positive under the high level of the moderator variable (i.e. contingent reward) compared to the low level of the moderator variable. Therefore, the results in Figure 2 indicate that for employees who perceive high contingent reward, idealized influence has a stronger effect on their job satisfaction than those who perceive low contingent reward. Similarly, the results in Figure 3 suggest that for employees who perceive contingent reward to be high, intellectual stimulation has a stronger effect on job satisfaction compared to those who perceived contingent reward to be low.

As a final check on the moderation effects, the slopes of the graphs in Figures 2 and 3 were compared to determine if they are statistically different from 0. This was done using *t*-tests. The results showed that both slopes for the low level of contingent reward (Figure 1, slope = 0.699, *t* = 3.46, *p* < 0.01; Figure 2, slope = 0.491, *t* = 3.69, *p* < 0.01) differed

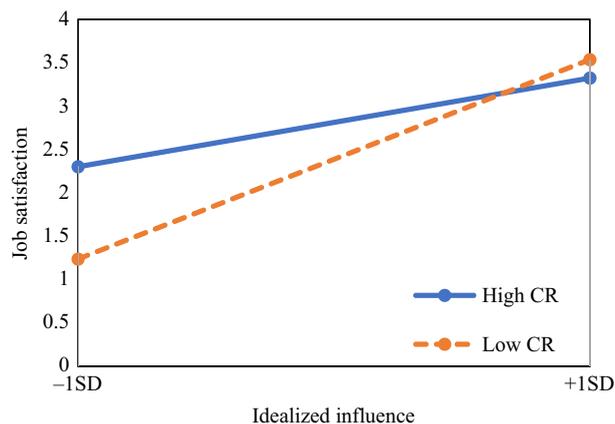
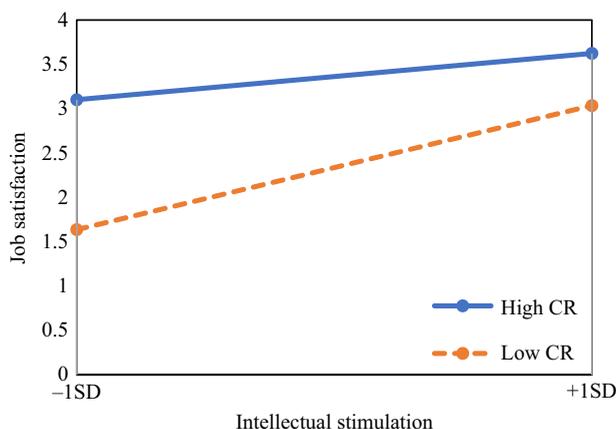


Figure 2.
Idealized influence ×
contingent reward
interaction



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contingent
reward

Figure 3.
Intellectual
stimulation \times
contingent reward
interaction

significantly from 0. Similarly, the slopes for the high level of contingent reward (Figure 1, slope = 0.261, $t=2.28$, $p < 0.05$; Figure 2, slope = 0.511, $t=2.31$, $p < 0.05$) differed significantly from 0. From these results, it is concluded that the moderation hypothesis of contingent reward is fully supported for the transformational leadership dimensions of idealized influence and intellectual stimulation.

The findings of this study offer support for both House's proposed moderation hypothesis and Bass and Avolio's proposed augmentation hypothesis. In a study to test the proposed interaction between transactional and transformational leadership, Schriesheim *et al.* (2006) did not find support for House's proposed moderation or Bass and Avolio's proposed augmentation hypothesis. However, in a meta-analytic study, Judge and Piccolo (2004) found support for the augmentation hypothesis. Vecchio *et al.* (2008) also found support for both the augmentation and interaction effect on performance.

Contrasting the present study with those of prior study by Vecchio *et al.* (2008), the study by Vecchio *et al.* (2008) examined high school teachers and their principal in the California public school system while the current study examined Ghanaian banking industry. The study by Vecchio *et al.* (2008) also used predictors which included four-item measure of transformational leadership (vision, performance expectations, intellectual stimulation and participative goals) and contingent reward while the current study used the standardized MLQ-5X scale. A similarity in the findings of both studies is that the weights of contingent reward are greater than the weights of transformational leadership. Both studies also provide evidence to support augmentation effect for transactional, rather than transformational leadership. This reverse finding is not unique to both studies. However, other previous studies have reported similar findings (Bass *et al.*, 2003; Judge and Piccolo, 2004).

Finally, it is also important to note that the effect sizes of the predictors in the present study are greater than the earlier study by Vecchio *et al.* (2008) albeit they are within the ranges reported by Podsakoff *et al.* (2006) in their meta-analytic study. This outcome is plausible because the measures of transformational leadership used in this study are different from those that were used in Vecchio *et al.*'s (2008) study.

Practical implications

The findings of this study have some practical implications, four of which are discussed here. First, from a managerial point of view, the selection of individuals for leadership positions should be done with recourse to employees who have traits of transformational

leadership since these traits have positive causal link with employee job satisfaction. For employees who do not have these traits, it would be especially important to develop organizational practices that promote respect and support fair treatment. Regardless of the individual's styles, it may also be useful for banks to be actively engaged in training their managers to acquire transformational qualities and skills and inculcate them in their interactions with subordinates.

Second, to increase employee job satisfaction, managers and supervisors in the Ghanaian banking industry must be able to intellectually challenge their followers to think and solve problems creatively. At the same time, they should have in place contingent reward scheme to recognize people who are able to achieve their set goals and targets. Seeing that the banking sector can become stagnating for many employees, as they tend to stay in a particular position for many years, training and development must be an active part of the banking operations. The training content must also be broadened to involve general but pertinent issues such that employees get to learn new things that could probably stimulate their interests in the organization as a whole than limiting training and development to their particular areas of work. Trainings that continuously limit employees to their specific roles end up becoming boring, as employees get no new ideas and challenges from them to make them handle challenges creatively.

Third, the results of idealized influence on job satisfaction present another opportunity for Ghanaian banks, through their leadership, to instill pride in their workers, display assurance, make commitment to championing new possibilities, develop a shared sense of duty that will invoke eagerness and responsibility to make ethical and moral decisions. These idealized behaviors can lead to employee job satisfaction. Again, since idealized influence/charisma enhances subordinates' job satisfaction, bank leaders should be encouraged to empower their followers by developing them into high involvement individuals and teams focused on achieving the organizational vision, mission, goals and objectives.

Finally, the moderating role of contingent reward on the effect of transformational leadership on job satisfaction implies that banks can provide higher rewards or at least manipulate the perception of it by employees or subordinates. As reported in the findings, employees who perceive high contingent reward by idealized influence leaders will be more satisfied with their job than their counterpart who perceives low contingent reward. Similarly, the results imply that employees who perceive contingent reward to be high will record higher job satisfaction with their transformational leaders who exhibit intellectual stimulation compared to those who perceived contingent reward to be low. Having noted these practical implications, it needs to be acknowledged that although contingent reward is found to moderate the relationship of idealized influence and intellectual stimulation on job satisfaction, this study did not investigate how contingent reward can be truly actualized or practiced. The recommendations are drawn from the theoretical expositions.

Conclusion and suggestions for future research

The present study has explored the effect of the dimensions of transformational leadership style on employee job satisfaction in the banking industry and the moderated effect of contingent reward on these causal relationships. The main findings are that all the four dimensions of transformational leadership (i.e. idealized influence, intellectual stimulation, inspirational motivation and individualized consideration) are significant predictors of employee job satisfaction. Furthermore, the findings reveal that after controlling for the various dimensions of transformational leadership, contingent reward, a dimension of transaction leadership, augments the positive effects of transformational leadership and not vice versa. The result of the moderation analysis also indicated that two out of the four dimensions of transformational leadership were found to have interactive effect (idealized influence interacting with contingent reward and intellectual

stimulation interacting with contingent reward) on employee job satisfaction. These findings are largely consistent with previous studies and offer support for both the argumentation hypothesis and interaction effect.

Although the findings make important contributions to the organizational literature and leadership practice in the banking industry, the inherent limitations of cross-sectional surveys and the focus on specific industry and country do not allow generalization of the findings. Therefore, moving forward, it will be curious to know if the same results would be evident in the banking sector of more established or developed economies. It may also be interesting to know if the moderating effects of contingent reward on the two behaviors of transformational leadership (idealized influence and intellectual stimulation) are dependent on culture/country.

Also, apart from contingent reward, transactional leadership style has other dimensions, namely, management by exception both active and passive, which were not considered in this study. Therefore, future research can expand on the scope of the current study by investigating these variables in the context of other sectors like the hospitality industry, automotive industry, construction sector and government departments. Such studies will add to the understanding on the utility of leadership styles on employee job satisfaction.

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