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**INFLUENCE OF LEADERSHIP STYLE ON EMPLOYEE JOB  
SATISFACTION AND FIRM FINANCIAL PERFORMANCE:  
A STUDY OF BANKING SECTOR IN ISLAMABAD, PAKISTAN**

*The purpose of the study is to analyze the impact of two different types of leadership styles on employee job satisfaction and firm financial performance. The studied leadership styles are transactional and transformational leadership, while employee job satisfaction includes job security, compensation, promotion and fringe benefits. A sample of 150 bank respondents was targeted for the analysis. The data was collected via the 5-point Likert scale structured questionnaire from bank employees in Islamabad, Pakistan. For the analysis part SPSS and AMOS version 18 were used. The findings of the study show that transformational leadership has a more significant impact on employee job satisfaction and firm financial performance as compared to transactional leadership. Firms can maximize their profits upon choosing the appropriate leadership style for their organizations.*

*Keywords: transactional leadership; transformational leadership; job satisfaction; financial performance; banks; Islamabad; Pakistan.*

Шахзад Хан, Мухаммад Азхар, Аршад Захир  
**ВПЛИВ СТИЛЮ ЛІДЕРСТВА НА СТУПІНЬ ЗАДОВОЛЕНОСТІ  
ПЕРСОНАЛУ РОБОТОЮ ТА ФІНАНСОВІ ПОКАЗНИКИ  
ПІДПРИЄМСТВА: НА ПРИКЛАДІ ДОСЛІДЖЕННЯ  
БАНКІВСЬКОГО СЕКТОРУ В ІСЛАМАБАДІ, ПАКИСТАН**

*У статті досліджено вплив двох стилів лідерства на ступінь задоволеності персоналу роботою та фінансові показники підприємства. Обрані для аналізу стилі лідерства – операційний та трансформаційний. У вигляді показників задоволеності роботою обрано: стабільність роботи, матеріальну компенсацію, кар'єрне зростання та додаткові пільги. Початкова вибірка – 150 респондентів банківського сектору в Ісламабаді, Пакистан. Збір даних проведено шляхом анкетування. Для аналізу даних використано методи SPSS та AMOS, версія 18. Результати аналізу даних показали, що трансформаційне лідерство впливає на задоволеність роботою та фінансові показники набагато суттєвіше, ніж операційне. Дослідження демонструє, що вірно обраний для підприємства стиль лідерства сприяє зростанню прибутків.*

*Ключові слова: операційне лідерство; трансформаційне лідерство; задоволеність роботою; фінансові показники; банки; Ісламабад; Пакистан.*

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Шахзад Хан, Мухаммад Азхар, Аршад Захир  
**ВЛИЯНИЕ СТИЛЯ ЛИДЕРСТВА НА СТЕПЕНЬ  
УДОВЛЕТВОРЁННОСТИ ПЕРСОНАЛА РАБОТОЙ  
И ФИНАНСОВЫЕ ПОКАЗАТЕЛИ ПРЕДПРИЯТИЯ:  
НА ПРИМЕРЕ ИССЛЕДОВАНИЯ БАНКОВСКОГО СЕКТОРА  
В ИСЛАМАБАДЕ, ПАКИСТАН**

*В статье исследовано влияние двух стилей лидерства на степень удовлетворённости персонала работой и финансовые показатели предприятия. Выбранные для анализа стили лидерства – операционный и трансформационный. В*

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*качестве показателей удовлетворённости работой выбраны: стабильность работы, материальная компенсация, продвижение и дополнительные льготы. Первоначальная выборка – 150 сотрудников банковского сектора в Исламабаде, Пакистан. Сбор данных проведён путём анкетирования. Для анализа данных использованы методы SPSS и AMOS, версия 18. Результаты анализа данных показали, что трансформационное лидерство влияет на удовлетворённость работой и финансовые показатели намного сильнее, чем операционное. Исследование демонстрирует, что правильно выбранный для предприятия стиль лидерства способствует росту прибылей.*

*Ключевые слова:* операционное лидерство; трансформационное лидерство; удовлетворённость работой; финансовые показатели; банки; Исламабад; Пакистан.

### **Introduction**

Leadership style is one of the most important factor for organization and employee performance. There are many leadership styles which are followed by different organizations all over the world. Every leadership style has its own impact on organizational activities. Previous study shows that leadership styles have a significant impact on employee job satisfaction but the role of leadership in financial performance is not fully analyzed. This is important to find the impact of leadership style on employee job satisfaction and as well as on firm financial performance. Employee job satisfaction depends on various factors. The study of Bushra, Usman, & Naveed (2011) shows there is a direct relationship between leadership style and employee job performance, while employee performance depends upon job satisfaction. This study emphasizes how leadership style influences employee job satisfaction and firm financial performance. The fundamental factors influencing the effectiveness of an organization are leadership and job satisfaction (Fatima, Bushra, Usman, Naveed, 2011). For employee job satisfaction leadership plays a vital role. Leadership affects directly employees commitment and their motivation during the job. All over the world the correlation between employee's job satisfaction and leadership styles has been studied in various organizations and in different fields. This is the leadership which is an influenceable factor between leaders and followers to perform in such a way to reach a defined goal or objectives (Chun, Chiang, Wang, 2012). There is a significant difference between leaders and managers. Managers of organizations are concerned with short-term problems solving, while leaders are more enthusiastic towards long-term aspects. Early leadership theories were focused on the characteristics of successful leaders, their behavior, traits, influence, power, and situational approaches while the recent ones have focused on the role of followers and the correlated nature of leadership (Hoogh, Hartog, Koopman, 2005).

Each organization wants to maximize their profits and leaders play an important role in it. This research is conducted for the following 3 reasons:

- Which type of leadership (transactional or transformational) can influence employee job satisfaction of banks' employees?
- Which type of leadership style (transactional or transformational) can influence financial performance?
- What is the influence of job satisfaction on financial performance in the banking sector?

This research will describe which type of leadership style has more impact on employee job satisfaction and firm financial performance. The study is limited to banking sector only and can be generalized further. The study is only restricted to profit-oriented organizations and may not be applicable for non-profit ones. The study has chosen a limited sample due to time and resource constraints.

### **Literature review**

**Transactional leadership.** Transactional leadership style clarifies rewards and punishment of subordinates with assigning a specified task or activity. Transactional leaders connect in influential exchange dealings with subordinates by describing and purposefully supplying rewards in return for goals achievement. Transactional leadership follow the rational and materialistic approach between a leader and a subordinate (Bushra, Usman, Naveed, 2011). Leaders clearly describe what type of performance is required from subordinates and what will be rewarded or punished. In response subordinate complies with this behavior requirements if rewards are desired.

Transactional leaders provide a clear idea to their subordinates on how a task or an activity must be performed and also communicate them that there will be rewards for a job done well (Bass, Avolio, Jung, Berson, 1994, 2003). There are many behaviors which have been observed under transactional leadership but few of them are prominent as contingent reward: subordinates receive rewards for good performance.

Management by exception (Active): In order to perform effectively employees (subordinates) are monitored and then corrected if necessary. Management by exception (Passive): if subordinates or employees do not perform according to the standards or requirements they receive contingent punishment in response. Wilkinson & Wagner (1993) describe in their study that for an employee it becomes stressful to work with a leader which is not supportive and demonstrates harsh behavior towards subordinates. Each and every time subordinates will not be in a condition to perform appropriately themselves so then they will prefer a leader who will provide proper instructions and guidance on tasks accomplishment. Negative employee – leader relationship will lead to employee turnover and absenteeism and over all organization productivity decrease (Afolabi, Obude, Okediji, Ezeh, 2008).

**Transformational leadership.** According to the study of Tabassum, Akram and Hassan (2011) transformational leader leads their employee with inspiration and motivation having specific vision in their minds. According to Ali, Syed and Arshad (2012) transformational leaders bring positive and valuable changes in employees. Transformational leader focuses on "transforming" their subordinates to look out for each other, to help each other, to encourage and be harmonious, to pay attention to organization as a whole. Transformational leaders use charisma and intellectual stimulation such as to persuade performance of subordinates beyond expectations. Transformational leaders first make a vision and then motivate their subordinates to achieve it. Also, they encourage followers to challenge the status quo to be able to pursue that vision. Bass (1990) stated that transformational leaders do more with followers and colleagues than transactional leaders do. Instead of a simple exchange and agreement, transformational leaders provide a vision and a sense of mission, inspire pride, and gain respect and trust through charisma (Bass, 1990). Transformational leaders exhibit various types of behavior: idealized influence (attributed/behavior): the leader is trusted and respected. He/she maintains high moral standards and fol-

lowers seek to emulate him/her. Idealized influence can be attributed (coming from followers) and/or be the result of the leader's behavior.

**Job satisfaction.** Leadership style as a key factor affects subordinates job satisfaction which in turn is essential for success of each organization. Job satisfaction is one of the crucial outcomes of leadership (Bass & Avolio, 1994). The research findings have endorsed significant effect of transformational leadership on subordinates' job satisfaction (Azka et al., 2011). It has shown that job satisfaction has important effects on efficiency, productivity, employee relations, absenteeism, turnover, and organizational performance (Koustelios, 2001). It is a crucial factor that influences positive employee behavior, when employees are satisfied with their job, they feel more responsible, accountable and committed to their organization (Sihombing, Gustam, 2007). They also have a tendency to remain within this organization longer. Job satisfaction is probably the most familiar indicator of attitude towards and an evaluation judgment about one's job. It positively affects employees performance, commitment and reduces their absenteeism and turnover (Lambert, Eugene, 2005). This in turn leads to organizational effectiveness and goal achievement. High level of job satisfaction helps employees overcome barriers and obstacles in organizational goal achievement.

Spector (1997) describe in his study t many factors responsible for job satisfaction like compensation, promotion, job security, fringe benefits and even more depending upon job nature and organization. Bankers are rather sensitive employees and they have important roles to play, improve and facilitate the forward movement of their banks. Hence, motivated and satisfied bank staff promotes this prospective movement. Satisfied employees are more effective and productive as compared to other employees (Eyupoglu, Saner, 2009). Nowadays bank staff have to work harder to satisfy the progressively increasing expectations (Eyupoglu & Saner, 2009). Nevertheless, achieving high quality performance and meeting expectations when it is possible leads to high level of job satisfaction.

**Relationship between leadership style and job satisfaction.** Erkutlu and Chafra (2006) describe that leaders have direct influence on employee job satisfaction. Transformational leadership plays an important part in fostering and stimulating organizational leadership, knowledge creation and knowledge application in organizations. Transformational leaders have an interactive vision and pay maximum attention to effective communication and value sharing, encourage an appropriate environment for innovative teams, build good environment and satisfy their employees for the achievement of organizational objectives. Nour (2004) describes that leaders have strong influence on employees' job satisfaction. Scott and Bruce (1994) describe in their study that leaders are the middlemen between organization good performance and employee performance based on their job satisfaction.

Brooke (2007) argues that transformational leaders encourage their employees in different aspects to achieve organizational goals. On the other hand, transactional leaders assign goals to employees with certain rewards or punishment as a result of that activity. Rowden (2002) describes in his study that measuring employee satisfaction from their perspective leaders is not easy but still there is a strong elation between leadership style and employee satisfaction. Afolabi et al. (2008) conclude there are positive inter-relationships between organizational learning culture, job satisfaction, and organizational commitment; specifically, organizational learning culture serves

as a predictor for the other two constructs, and job satisfaction serves as a mediator between the other two constructs. In addition, leadership style has a strong influence on operation of organizations and positively effects employees' job satisfaction.

*H:1* Leadership style has a significant impact on employee job satisfaction.

**Relationship between job satisfaction and firm financial performance.** The study of Steven, Annette, Timothy and Laura (2005) describe that employee job satisfaction has positive influence on firm financial performance. Satisfied employee can produce more good results and with more dedication and motivation they will be more effective and efficient. Mulvey, Miceli and Near (1992) note that for better performance of business organization it is important to have satisfied employees. Employee satisfaction can be in the shape of good compensation, promotion, providing employees job security and in the shape of fringe benefits etc. But it depends upon organization and industry which factor would be considered more important for employee job satisfaction.

*H:2* Job satisfaction has a positive relationship with firm financial performance.

**Relation between leadership style and firm financial performance.** Muhmmad et al. (2012) argue that each and every leadership style has its own impact on firm financial performance. Different leadership styles have their influence on financial aspects. Good leaders increase firm financial assets while some leaders might even make the situation worse. According to Flora, Kineta and David (2008) leaders play an important role in firm sales and its market share. Leadership style is an important factor influencing the financial performance. Good leaders take organizations to profitable condition as compared to its previous records.

*H:1* Leadership style has a significant impact on firm financial performance.

**Theoretical framework of the study**

Figure 1 represents that leadership style is leading to employee job satisfaction and firm financial performance. While job satisfaction leads firm to financial performance.

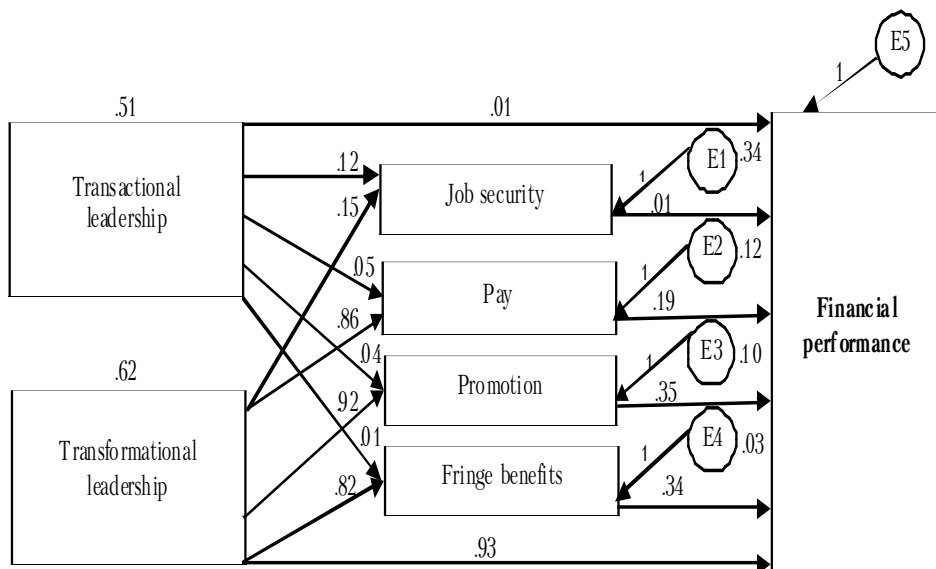


Figure 1. Framework of the study

### Research methodology

The study was conducted for the reason to find the impact of leadership style on firm financial performance and employee job satisfaction. The population of the study was bank employees of the Islamabad region. The study used the structured 5-point Likert scale adopted to the questionnaire, and also SPSS and AMOS 18 version for the analysis. The total of 150 respondents were contacted, among which 17 respondents did not response and 9 questionnaires were discarded because they were incomplete or had errors. The research used non-probability sampling convenient method. The reason for this kind of sampling was because of the nature of study, resources limitation and the factor of time.

A questionnaire was used for data collection in order to get accurate information. The questionnaire was distributed among banks employees on the convenient basis. Each variable comprised 5 close ended 5-point Likert scale questions. Transactional and transformational leadership items were taken from (Fujin, Shieh, Tang, 2010). For pay, promotion job security and fringe benefits the items were taken from Spector (1985). The items for financial performance were taken from the study by Flora, Kineta and David (2008).

### Demographic profile of the respondents

Table 2 below shows the demographic analysis of 124 respondents in the study. The respondents of the study were the bank employees of Islamabad region Pakistan.

*Table 1. Demographic results*

Measures	Items	Frequency	Percentage, %
Gender	Male	90	72.6
	Female	34	27.4
Age	20-30	31	25
	30-40	49	39.5
	40-50	44	35.5
Marital status	Single	42	33.9
	Married	76	61.3
	Widow	6	4.8
Income	10000-20000	5	4
	20000-30000	23	18.5
	30000-40000	43	34.7
	40000-50000	35	28.2
	Above 50000	18	14.5

The table shows that 72.6% of the respondents are male and 27.4% are female. Table 1 also explained that 25% respondents were in the age group of 20–30, while in the age of 30–40 – 39.5% of the respondents. In the age of 40–50 were 35.5% of the respondents. The study shows that 33.9% of the respondents are single, 61.3% are married and 4.8% are widows. The results show that 4% of the respondents have income between 10000 and 20000. 18.5% have the 20000–30000 income while 34.7% of the respondents have the income of 30000–40000, 28.2% had the income of 40000–50000. Only 14.5% have income above 50000.

### Summary of the scale

The study shows that transactional leadership cronbachs alpha is 0.811 for 4 items. While for transformational leadership Chronbach alpha is 0.801 for 4 items. Chronbach alpha for Job security is 0.735 with 4 items.

Table 2. Descriptive statistics

	N	Mean	Std. deviation	Cronbach's alpha
<b>Transactional leadership</b>				
Unless the target can not be reached, my supervisor does take actions.	124	3.6694	.82365	0.811
Unless the problem gets worse, my supervisor interferes.	124	3.2984	.96255	
My supervisor gives me special recognition when I produce at high level.	124	3.3065	.91222	
My supervisor frequently acknowledges my good performance.	124	3.4274	.88505	
<b>Transformational leadership</b>				
To work with my supervisor make me feel good.	124	3.6452	1.03746	0.801
My supervisor inspires me to rethink the key points of the past smooth operations.	124	3.1935	1.06441	
My supervisor provides a good model for me to follow.	124	3.3226	.96734	
My supervisor encourage employees to be team players.	124	3.5161	.91495	
<b>Job Security</b>				
I feel that I am valued by the organization.	124	3.8468	.62527	0.735
I receive adequate training to do my job well.	124	3.5806	.90254	
I am satisfied with the amount of job security.	124	3.8790	.79216	
I am confident about my abilities to succeed at work.	124	3.7823	.91563	
<b>Pay</b>				
I feel that I am being paid a fair amount for the work I do.	124	3.8710	1.04351	0.819
Raises in my salary are too much.	124	3.2903	1.08781	
I am appreciated by the organization when I think about what they pay me.	124	3.3226	.96734	
I feel satisfied with my chances for salary increase.	124	3.4839	.98347	
<b>Promotion</b>				
I have good chances for promotion.	124	3.6129	.90805	0.836
In my organization promotion is based on performance.	124	3.2581	1.05052	
Promotion in my organization is based on fairness.	124	3.3548	.93872	
Promotion is not biased in my organization.	124	3.3871	1.00979	
<b>Fringe Benefits</b>				
I am not satisfied with the benefits I receive.	124	3.5161	.94983	0.821
The benefits we receive are as most other organization offer.	124	3.1935	1.06441	
The benefit package we have is equitable.	124	3.3226	.96734	
There are benefits we do not have which we should have.	124	3.3548	1.03746	
<b>Financial Performance</b>				
The bank sale growth rate was higher than that of the competitors last years.	124	3.6452	.82830	0.803
The bank after-tax net income growth rate was higher than that of the competitors last years.	124	3.1935	1.06441	
The company return on investment was higher than that of competitors last year.	124	3.3871	.94318	
The company employee productivity was higher than that of the competitors last year.	124	3.5161	.91495	
<b>Valid N (listwise)</b>	124			

Chronbach alpha with 4 items for Pay is 0.819. Chronbach alpha for promotion with 4 items is 0.836. While for fringe benefits with 4 items the Chronbach alpha is 0.821. For financial performance the Chronbach alpha is 0.803, so the scale is reliable.

The mean values are from 3.1 to 3.87. In Table 2 the standard deviation ranges from 0.79 to 1.06 which is good.

The study finds the reliability of the instrument by means of SPSS. The study shows that all the variables are reliable as Cronbach alpha of the items is more than 0.7.

The study shows that the results of EFA are also acceptable as the values of KMO and the determinants are above .50 and .0001.

Table 3

Variables	Determinant	KMO	Bartlett's test of sphericity		
			Chi-square	Df	Sig.
Transactional leadership	.203	.745	192.881	6	0.000
Transformational leadership	.267	.748	159.581	6	0.000
Job Security	.421	.728	104.632	6	0.000
Pay	.348	.662	127.619	6	0.000
Promotion	.206	.763	191.090	6	0.000
Fringe Benefits	.170	.737	214.073	6	0.000
Financial Performance	.213	.760	186.624	6	0.000

Source: authors.

**Pearson correlation test**

Table 4 shows that transactional leadership has a weak positive correlation with job security (0.209), pay (0.308), promotion (0.257) fringe benefits (0.308) and financial performance (0.319). Transformational correlation results indicate there is a positive relationship with job security (0.244), while strong relationship – with pay (0.889), promotion (0.912) fringe benefits (0.975) and financial performance (0.943).

Table 4

Relationship		Job security	Pay	Promotion	Fringe benefits	Financial performance
Transactional leadership	Correlation	0.209(*)	0.308(**)	0.257(**)	0.308(**)	0.319(**)
	Sig. (2-tailed)	0.020	0.001	0.004	0.001	0.000
Transformational leadership	Correlation	0.244(**)	0.889(**)	0.912(**)	0.975(**)	0.943(**)
	Sig. (2-tailed)	0.006	0.000	0.000	0.000	0.000

\* Correlation is significant at the 0.05 level (2-tailed).

\*\* Correlation is significant at the 0.01 level (2-tailed).

Source: authors.

The correlation results show that transformational leadership has a more positive relationship between job satisfaction and with financial performance as compared to transactional leadership.

**Index of fit of the model**

Table 5

Fit measures	Values	Suggested Minimum Values (Mc Aulay et al., 2006; Roh et al., 2005)
Chi-Square	108.408	
Df	8	
p Value	0.000	>0.05
GFI		>0.9 or >0.95
CFI	0.912	>0.9
AGFI	0.802	>0.8 or >0.95
RMSEA	0.667	
Normed Chi Square (Chi-Square/Df)	13.551	<2.0 or <3.0

Source: authors.



The fit of model result is reported in Table 5. These results were calculate by using Amos and the values of Chi-Square = 108.408, Df = 8, p value = 0.000 > 0.05, RAMSEA = 0.667 and CFI = 0.912 and these values are according to the criteria given by Mc. Aulay et al. (2006) and Roh et al. (2005).

### Regression weights

Transactional leadership has the estimated regression weight of 0.124 with job security and transformational leadership has the estimated regression weight of 0.153 with job security. So both leadership styles show a positive relationship with job security but transformational leadership shows more positive relationship than transaction leadership.

Table 6

Variables	Estimate	S.E.	C.R.	P	Results
Job Security <-- TL	0.124	0.078	1.595	0.031	Accepted
Pay <-- TL	0.028	0.047	0.601	0.048	Accepted
Promotion <-- TL	0.042	0.043	0.987	0.024	Accepted
Fringe Benefits <-- TL	0.005	0.024	0.212	0.012	Accepted
Fringe Benefits <-- TFL	0.890	0.022	46.422	***	Accepted
Promotion <-- TFL	0.922	0.039	23.773	***	Accepted
Pay <-- TFL	0.858	0.042	20.268	***	Accepted
Job Security <-- TFL	0.153	0.071	2.164	0.030	Accepted
FP <-- Job Security	0.315	0.042	0.368	0.023	Accepted
FP <-- Pay	0.654	0.066	3.881	***	Accepted
FP <-- Promotion	0.758	0.070	2.260	0.024	Accepted
FP <-- Fringe Benefits	0.850	0.079	15.370	***	Accepted

Source: authors.

Transaction leadership style has the estimated regression weight of 0.028 with pay, and transformational leadership has the estimated regression weight of 0.858. The results indicate that in the pay variable transformational leadership show a strong positive relationship. Transaction leadership has the estimated regression weight of 0.042 with promotion while transformational leadership has 0.922. So transformational leadership shows a strong positive relationship with promotion. Transaction leadership has the estimated regression weight of 0.005 with fringe benefits, and transformational leadership has the estimated regression weight of 0.890. The results indicate that transformational leadership has a strong positive relationship with fringe benefits. The research has used 4 variables – job security, pay, promotion and fringe benefits for job satisfaction and the results show that transformational leadership style has a positive impact on job satisfaction than transactional leadership. These results are in line with the findings of Choudhary et al. (2012). Job satisfaction shows a positive and strong relationship with financial performance. Regression estimates show that job security has 0.315, pay has 0.645, promotion has 0.758 and fringe benefits have 0.850 weights with financial performance of an organization.

### Conclusion and recommendations

This study was conducted to identify which type of leadership has a greater impact on financial performance of organizations. For this purpose we use the adopted questionnaire (Fujin, Shieh, Tang, 2010) for transactional and transformational leadership. For pay, promotion job security and fringe benefits the items were taken from Spector (1985), while the items for financial performance were taken from the

study of Flora, Kineta and David (2008). The total sample of 150 was targeted and on 124 respondents the final analysis was conducted. For analysis SPSS and AMOS 18 were used. The findings show that both transactional and transformational leadership styles have a significant relationship with firm financial performance but in comparison with transactional leadership the transformational leadership has more influence on financial performance, while transformational leadership also has greater impact on employee job satisfaction as compared to the transactional style.

#### Limitation and future research

The study has few limitations due to which it is limited to certain level. The major limitation of this study was the time factor as it was supposed to be submitted before January 2013. The study has only selected the banking sector for the analysis part while this can be implemented in other profitable organizations as well. The study was based on 124 respondents due to time and resources limitations. The sample of the study can be varied and can be checked with a larger sample. More institutions and more leadership styles influence can be checked in further studies.

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