

Transformational Leadership and Work Outcomes: Organizational Justice as Mediator

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The study explored the relationship of transformational leadership with organizational justice and work outcomes. Specifically the study examined the potential role of procedural justice as mediator of transformational leadership and work outcomes, namely, job satisfaction, organizational commitment, and turnover intention. Sample consisted of 370 employees from 60 institutions of Islamic microfinance in Indonesia. The empirical tests indicated that transformational leadership contributed significantly to procedural justice perceptions as well as to the three work outcomes. Also, procedural justice had significant effect on all the three work outcomes. The test of mediation effect of procedural justice on transformational leadership and work outcome relationship indicated no significant mediating effect on job satisfaction and turnover intention, though it was partially significant with organizational commitment.

Field of Research: Management

1. Introduction

Over the past two decades, transformational leadership theories have emerged as one of the most popular approaches to understanding leadership effectiveness (e.g. Piccolo and Colquitt, 2006; Barling, Christie and Turner, 2008). In contrast to the earlier approaches, the new emerging theories focus on attempting to explain how leaders can get extraordinary results and take followers to higher levels of accomplishments. Also how such leaders become a source of subordinates' admiration, dedication, and unquestioned loyalty (see Frey, Kern, Snow, and Curlette, 2009).

1.1 Problem Statement

Transformational leadership has been linked to various work outcomes such as job satisfaction, empowerment, organizational commitment, turnover intention, performance, work ethic, organizational development, organizational justice etc. (e.g. Pillai et al., 1999a). However, the underlying processes between transformational leadership and work outcomes are not entirely clear (Bass, 1985; Pillai et al., 1999a). Possibly, some factors mediate the relationship between them. Previous studies have identified that transformational leaders play an important role in employees' perception of justice and fairness in work place (see Pillai and Williams, 1996; Pillai et al., 1999a, 1999b; Asgari et al., 2008). However, academia has yet to fully examine the potential mediating role of organizational justice in the relationship between transformational leadership and work outcomes (Yukl, 1992). Additionally,

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most of the studies on transformational leadership have been conducted in the Western cultural context. There is a need to examine this leadership construct in other cultural context. The present study is based on these concerns.

1.2 Transformational Leadership and Organizational Justice

Research studies investigating the relationship between transformational leadership and justice in the U.S suggest that it is indeed positively linked to organizational justice and individual work outcomes. For instance, Tyler and Caine (1991) (cited in Pillai et al., 1999b) reported that transformational leaders gave an opportunity to their subordinates to express their opinions which were considered a fair practice from subordinates' point of view. It is believed that if leaders do not give attention to fairness, followers will reject leadership authority.

Transformational leadership conceptualizes four dimensions, namely, idealized influence (charisma), inspirational motivation, intellectual stimulation, and individual consideration. Idealized influence is described as an attribute of a leader who behaves as a role model, and possess high standard of moral and ethical conduct and is respected by follower. Secondly, inspirational motivation refers to the leaders who have capacity to create a convincing vision for the future based on values and ideas. Thirdly, intellectual stimulation is characterized by promoting intelligence, rationality, logical thinking and careful problem solving. Fourthly, individualized consideration may be characterized by the leader's ability to foster participative management and focus upon individual employee's need for growth and participation. These characteristic may have influence over social exchange process linking transformational leadership with organizational justice (Pillai et al., 1999b).

According to Greenberg (1990) organizational justice refers to the employees' perception of fairness in organization, including how decisions are made regarding the distribution of outcome and the perceived fairness of those outcomes. Organizational justice theory provides a useful framework toward understanding individuals' attitudes toward work, work behaviors, and job performance (Colquitt, 2001; Cropanzano, Bowen, and Gilliland, 2007). It has been reported that employees' perceptions of organizational justice is a significant factor influencing various work outcomes such as organizational commitment, job satisfaction, organizational citizenship behavior, and intention to leave (Colquitt, 2001, Hassan, 2002; Cropanzano et al., 2007).

In the early 1970s, researchers began to claim that an individual's evaluations of allocation decisions were affected not only by what the rewards were, but also by how they are made (Cropanzano et al., 2007). This refers to procedural justice. That is, the perceived fairness of the policies and procedures used to make decisions in the work place (Greenberg, 1990). The early work on procedural justice in organizations was based on Thibaut and Walker's (1975) studies. They explained that even when individuals received unfavorable outcomes, they perceived themselves as fairly treated as long as they had opportunity to contribute in decision making process.

Procedural justice refers to the issues of fairness that are related with method, mechanism, and processes used to determine outcome (Folger and Cropanzano, 1998). It is determined by: (a) how much influence or input one has in decision

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making process, (b) how much respect is paid to a person during decision making process, (c) whether decision is based on job related criteria and, (d) whether feedback is provided and is timely.

There are evidences to suggest that transformational leadership is positively related to procedural justice (Pillai et al., 1999b; Pillai et al. 1999a). Thus it was hypothesized that *transformational leadership is positively related to procedural justice* (H1).

1.3 Organizational Justice and Work Outcomes

Organizational justice theory explains that feelings of fairness in the work place are mostly determined by the decision processes and the outcome of these decisions (Greenberg, 1990). This, in turn, influences their work attitude and behavior such as job satisfaction, organizational commitment and turnover intent. A good number of studies have reported such relationships (e.g. Ortiz, 1999; Pillai, et al., 1999b; Masterson, Lewis, Goldman, and Taylor, 2000; Hassan, 2002; Hassan, and Chandaran, 2005).

The relationship between organizational justice and work outcomes, such as, job satisfaction, organizational commitment and turnover intent can be explained by the social exchange theory of Blau (1964) and Adam's (1965) equity theory. These theories explain that people tend to feel obligated to repay favorable benefits and treatment offered by an organization. If they perceive a higher level of organizational justice, they would have higher commitment and satisfaction, and also less likely to harbor an intention to leave the organization. Considering the argument that justice perception signifies organizational efforts to promote job satisfaction and commitment and reduce their intentions to leave the workplace, the following hypotheses were proposed that *procedural justice is positively related to organizational commitment (H2a), and job satisfaction (H2b) and negatively related to turnover intention (H2c)*.

1.4 Mediation Effect of Procedural Justice

In general, a given variable functions as a mediator to the extent that it accounts for the relationship between the predictor and the criterion (Baron and Kenny, 1986). This study predicts that procedural justice will mediate the relationship of transformational leadership with job satisfaction, organizational commitment and turnover intention.

As earlier mentioned, the transformational leadership is positively correlated with subordinates' attitude and behavior such as organizational commitment, employee satisfaction and job performance (Bass, 1990; Bass and Avolio, 1992), organizational citizenship behavior and turnover intention (Podsakoff et al., 1990). Transformational leadership is also associated with procedural justice (Pillai et al., 1999a; 1999b; and Asgari et al., 2008). In other words, leaders who treat their subordinates' fairly will positively contribute to their job satisfaction and organizational commitment and negatively to turnover intention. This evidence suggests that *procedural justice mediate the relationship between transformational leadership and work outcomes, namely, job satisfaction, organizational commitment and turnover intention* (H3a, H3b, H3c).

2. Method

2.1 Population and the Sample

The population for this study consisted of the staff members of the Islamic microfinance institutions in Central Java, Indonesia. This is a society-based Islamic institution established through group initiative to help micro-entrepreneurs. Rapidly growing since last two decades such Institutions are facilitated by Small Business Incubation Centre of Indonesia (PINBUK). On an average 5-10 employees work in one unit including a general manager, a financial manager, an accountant, a retail sector manager, and an adviser. 60 such institutions were purposively selected based on some criteria such as the general manager and the respondents have worked together for at least one year preceding data collection. 370 employees were included in the final sample from a total of 550 being approached (Response rate = 76.2).

The distribution of sample on background characteristics included gender (Males = 49%; Females = 51%), education (High School = 29%, College, 37% and Undergraduate 33%), Age (Mean = 34.25, SD = 4.21).

2.2 Measurements

The instruments used for data collection consisted of MLQ (Form 6S) for transformational leadership, Distributive Justice Index (Niehoff and Moorman, 1993) for distributive and procedural justice, job satisfaction scale (Dubinsky and Harley (1986), Bozeman and Perrewe (2001) Organisational Commitment Scale, and Intention to Turnover Scale (Luna-Arocas, and Camp, 2008). All the measures were translated into Indonesian language and back translated in English for accuracy. Pilot test were conducted to measure the robustness of the items and reliability values (shown in Table 1).

3. Results

Table 1 presents descriptive statistics, alpha values and correlations among all the variables of transformational leadership, distributive and procedural justice and work outcomes. The correlations among some of the study variables provided initial support for the hypotheses.

Table 1: Means, Standard Deviations, Alpha and Correlations among Variables

| Variable | Mean | SD | Alpha | 1 | 2 | 3 | 4 |
|-------------------------------------|------|------|-------|---------|---------|---------|---------|
| 1. Transformational Leadership (TL) | 3.74 | 0.49 | .90 | 1.00 | | | |
| 2. Procedural Justice (PJ) | 3.79 | 0.52 | .93 | .653** | 1.00 | | |
| 3. Organizational commitment (OC) | 4.03 | 0.55 | .82 | .334** | .348** | 1.00 | |
| 4. Job Satisfaction (JS) | 3.79 | 0.62 | .93 | .437** | .345** | .409** | 1.00 |
| 5. Turnover Intention (TI) | 2.00 | 0.79 | .89 | -.252** | -.174** | -.153** | -.243** |

Notes: ** p < 0.01, * p < 0.05

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The regression results are displayed in Table II. As hypothesized transformational leadership (TL) positively contributed to procedural justice (PJ) perception ($\beta = .653$; $P < 0.01$), thus supporting hypothesis 1. Furthermore, procedural justice made positive contribution to organizational commitment (OC) ($\beta = .348$, $P < 0.01$) and job satisfaction (JS) ($\beta = .345$, $P < 0.01$) and negative contribution to turnover intention (TI), thus supporting hypothesis 2a, 2b and 2c.

Table 2: Result of Regression Analysis

| Variables | β | R^2 |
|--|---------|-------|
| Transformational Leadership → Procedural Justice | .653** | .426 |
| Procedural Justice → Organizational Commitment | .348** | .121 |
| Procedural Justice → Job satisfaction | .345** | .119 |
| Procedural Justice → Turnover Intention | -.173* | .130 |

Table III displays the mediating effects of procedural justice in transformational leadership and work outcomes relationships. When organizational commitment was regressed using transformational leadership (independent variable) with procedural justice (mediating variable) beta coefficient was reduced ($\beta = .189$, $P < 0.01$) from the first and second equation, implying that procedural justice partially mediated the relationship. However, the result indicated no mediation effect of procedural justice in another two equations as it did not fulfill the conditions to test the mediation effect (See Table III) that is the mediator must significantly affect the dependent variable in the third equation. This implies that procedural justice did not mediate the relationship between transformational leadership and job satisfaction as well as turnover intention. Thus hypotheses 3a and 3c were rejected.

Table 3: Mediated Regression Analysis: Procedural Justice as Mediator

| Model | Dependent Variable | Independent Variable | β | R^2 |
|----------|--------------------|----------------------|---------|-------|
| 1 | PJ | TL | .653** | .426 |
| | OC | TL | .336** | .113 |
| | OC | TL | .189** | .142 |
| | | PJ | .255** | |
| 2 | PJ | TL | .653** | .426 |
| | JS | TL | .437** | .437 |
| | JS | TL | .370** | .197 |
| | | PJ | .103 | |
| 3 | PJ | TL | .653** | .426 |
| | TI | TL | -.255** | .065 |
| | TI | TL | -.248** | .065 |
| | | PJ | -.011 | |

Notes: ** $p < 0.01$, * $p < 0.05$

4. Discussion

The results of the study revealed that transformational leadership is a positive predictor of procedural justice, as hypothesized. The findings seem to be in line with previous studies on leadership and organizational justice (e.g. Podsakoff et al., 1996; Pillai et al., 1999a, 1999b; and Asgari et al., 2008). There seems to be an intimate relationship between the leadership style and the organizational justice patterns. Transformational leader is a charismatic and intelligent person who has a vision that inspires others. He/she also takes care of the needs and well-being of the followers. Such a leader has an open mind and a responsive attribute. Pillai and Williams (1996) found that transformational leadership was related to procedural justice (in Pillai et al., 1999a). Niehoff and Moorman (1996) also found that the articulation and modeling of the leader's vision contributed to a culture of justice orientation among the employees.

Furthermore, the result of this study revealed that procedural justice is positively related to organizational commitment and job satisfaction and negatively related to turnover intentions, as hypothesized. As posited in Adams (1965) equity theory employees do compare the adequacy of rewards they receive to their expectation or to a standard reference and also compare whether the decision processes and mechanisms and the consequences of these decisions are fair or otherwise. These comparisons are more likely to influence their assessment of the fairness in distribution and procedure of the decision making in their organization, which in turn affects their level of job satisfaction, organizational commitment and turnover intention. As a result, if the employees feel satisfied with the outcome they will improve their commitment towards the organization and be more satisfied with their jobs. However, if they feel discontented with what they receive, they will more likely quit (Folger and Konovsky, 1989). Again, the result of this study is in line with previous findings reporting significant contribution of justice factors on employees work attitude and behavior (e.g., Folger and Konovsky, 1989; Lee, 2000; Hassan, 2002; Aryee, Budhwar, and Chen, 2002, Robinson, 2004; Hassan, and Chandaran, 2005).

When the mediating effect of procedural justice was examined in the relationship between transformational leadership and work outcomes, it indicated partial effect in case of organizational commitment. No mediation effect was found on the two other outcome variables, that is, job satisfaction and turnover intention. Thus it may be concluded that transformational leadership has only direct negative impact on employees' job satisfaction and turnover intention.

The reason why procedural justice did not yield any mediation effect could be traced to the unique work context in which this study was conducted. Since the sample of study was drawn from small work units, mostly three to five employees, of micro finance institutions, the leaders who inspired, provided intellectual stimulation, and showed individual consideration, were successful in promoting positive work attitude and behavior even if the employees were not so happy with some of the procedural aspects of decision making. Specifically transformational leaders accounted for direct negative effect on employees' turnover intention, a significant finding of this study.

5. Limitations and Suggestions for Future Research

Overall, the contribution of this study should be viewed in light of three limitations. In this study, transformational leadership was measured only from the subordinate's perspective. Future research should assess the variables from both the leaders' and the members' perspective. This is important to obtain a more objective measure of the construct and to examine whether the followers' perception of their leaders is valid. Secondly, the design for this study was cross-sectional, not longitudinal. Cross-sectional data are not adequate to make inferences of causality or reverse causality. Thus, a longitudinal research design is needed to provide additional and stronger support for the effects tested in this study

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