

# Policy Journal of Social Science Review



## Assessing the Effect of Transformational Leadership on Employee Performance: The Case Study of a Banking Sector

Ammara Shafi<sup>1</sup>

Zubia Najeeb<sup>2</sup>

Hafiz Muhammad Intizar Javed<sup>3</sup>

Muhammad Saeed Hashmi<sup>4</sup>

## Assessing the Effect of Transformational Leadership on Employee Performance: The Case Study of a Banking Sector

<b>Ammara Shafi</b>	Ph.D Scholar, National College of Business Administration & Economics, Lahore, Pakistan
<b>Zubia Najeeb</b>	Ph.D Scholar, National College of Business Administration & Economics, Lahore, Pakistan
<b>Hafiz Muhammad Intizar Javed</b>	Associate Professor, National College of Business Administration & Economics, Lahore, Pakistan. <a href="mailto:intizarjaved@yahoo.com">intizarjaved@yahoo.com</a>
<b>Muhammad Saeed Hashmi</b>	Ex-Director of Agriculture (Economics & Marketing) Punjab, Lahore, Pakistan

### Abstract

Scholars and administrators alike continue to be interested in the study of how a leader's style affects staff performance. Examining the complexities of this connection in the context of commercial banks, this study sought to determine how a leader's style affects employees' productivity, with a particular emphasis on the moderating role of psychological capital. The investigation revealed interesting findings using a Structural Equation Modeling (SEM) methodology and primary data collected through a survey given to banking sector workers. The findings showed that transformative leadership has an indirect impact on company culture in addition to having a direct impact on employee performance. The study also emphasized the critical role that positive psychological capital plays in enhancing the impact of leadership styles on worker performance. Equipped with these insights, bank executives may make well-informed choices on corporate culture and leadership styles, which will improve overall employee productivity and organizational efficacy.

**Keywords:** Transformational leadership, employee performance, banking sector

### INTRODUCTION

Every business leader is interested in the issue of employee work efficiency as each employee's productivity has a significant impact on the company's overall performance (Alhamami et al., 2020; Senturk, 2023; Asif et al., 2023). It has been demonstrated that leadership style affects each employee's productivity. A successful leadership style may help leaders retain skilled staff members for extended periods of time and improve the performance of their subordinates. In addition to improving performance inside an organization, motivated individuals go above and above the call of duty, which boosts the organization's total performance and increases profitability (Nawoseing'ollan & Roussel, 2017; Asim et al., 2021; Mwamba, 2023). Given that transformational leadership has been shown to improve employee job performance and is of interest to several academics, the study focuses on assessing its effects (Top et al., 2020; Quader, 2024). Employee outcomes are significantly improved by transformational leadership (Saira et

al., 2021; Elahi et al., 2021; Iqbal & Abbas, 2024). Employees under transformational leadership have more liberty to complete their task, which improves performance compared to other leadership styles (Ismail & Saeed, 2019; Top et al., 2020; Ravet-Brown et al., 2023). Transformational leadership has a direct impact on organizational performance, but it also has an indirect effect on corporate culture, which has been shown to have an impact on worker productivity (Kabir & Rashid, 2019; Virgiawan et al., 2021). Numerous companies have mastered the use of organizational culture as a powerful instrument to affect employee motivation, which in turn improves worker productivity. The basis for developing research models is also laid by a component that was shown to have a moderating effect of psychological capital in the study conducted by Baig et al. (2021) on the connection between transformational leadership and job performance. Nevertheless, during the evaluation process, the author was unable to locate any studies assessing the direct and indirect effects on employee job performance through the mediating variable of corporate culture of transformational leadership. Additionally, psychological capital has a moderating influence.

Despite the fact that the banking sector is the "backbone" of the economy, particularly in developing nations like Pakistan, there are still very few research on how transformational leadership affects employee performance. A bank is a company that provides banking and financial services. In addition to their service-like qualities, financial service products also offer features like security, safety, and efficient assistance for the economy's capital circulation process (Ennew et al., 2013; Khan, 2018; Khan et al., 2020; Wadud, 2022; Sulehri & Ali, 2024). Employees have a significant impact on banks' operations since they are primarily involved in financial transactions, which include simultaneous supply and use processes. Internal marketing theory holds that workers are internal customers who have a direct impact on the bank's operations and play a significant part in the customer service process (Ennew et al., 2013). However, some banks operate inefficiently because they lack a proper understanding of how leadership style, in general, and transformational leadership in particular, affect employee job performance (Trung & Trang, 2022; Raza & Khan, 2023). Employees in the banking sector frequently face a lot of pressure when delivering services, not just from clients but also from industry executives. Positive psychological capital traits in workers are also anticipated to strengthen the function of business culture and leadership in boosting worker productivity.

The purpose of the article was to assess the direct and indirect effects of transformational leadership on employee work performance through corporate culture, as well as the moderating role of psychological capital in the aforementioned relationship in the banking sector, all within a practical and scientific framework. The research findings serve as the foundation for the decisions that bank executives make in order to increase the productivity of their employees.

## **LITERATURE REVIEW**

### **TRANSFORMATIONAL LEADERSHIP**

The approach that leader uses to give direction, carry out plans, and inspire staff members is known as their leadership style (Makambe & Moeng, 2020). A leader that practices

transformational leadership inspires others, encourages people, and fosters collective achievement by fostering subordinates' intelligence (Top et al., 2020; Khan & Wali, 2020; Baig et al., 2021; Hasan & Sadat, 2023). In contrast to lukewarm or involuntary compliance, leaders that use this approach seek to inspire positive commitment and passion (Wali, 2018; Top et al., 2020; Ali et al., 2020; Omri, 2022; Audi & Al Masri, 2024).

According to Bass (1998), idealized influence, personalized attention, intellectual stimulation, and inspiring motivation are the four primary behaviors of transformational leadership. First of all, idealized influence is a leadership quality that makes staff members feel valued, respected, and trusted by exhibiting comprehension, sensible behavior, and consistency in all decision-making processes. Employees understand high ethical standards and behave responsibly without being forced to do so. A key component of transformative leadership is idealized influence (Bass, 1998; Top et al., 2020). Second, transformational leadership encourages optimism and great effort from staff members to strive for new career heights by supporting and inspiring them. Thirdly, transformational leadership fosters workers' intellect by motivating them to come up with innovative solutions to problems. This encourages ongoing self-development by training staff members to be creative and imaginative and receptive to novel, ground-breaking concepts. Last but not least, a personal consideration is the quality that reflects the capacity to affect the human mind depending on individual consideration. In addition to continuously listening, communicating, and training staff members according to their needs and preferences, leaders are prepared to recognize the unique variances within their workforce. This style of leadership frequently relies more on internal than outward motivation. These traits enable superiors to effectively develop staff into leaders and persuade subordinates to contribute to the success of the company (Shahbaz, 2018; Nyakundi et al., 2021; Yasir et al., 2021; Hun et al., 2024; Bozic & Bozic, 2025).

### **EMPLOYEE PERFORMANCE**

Employee performance is the ability of an individual to carry out and finish duties that have been allocated to them (Rivaldo & Nabella, 2023; Singh et al., 2024). According to Paais and Pattiruhu (2020), "employee performance" is a measure of the manner in which people carry out their designated tasks within the context of the company. This phrase particularly refers to the assessment of how well and efficiently workers do their assigned responsibilities, offering important information about the workforce's overall performance. According to Sürütü et al. (2022), employee work performance represents professional effectiveness or organizational success objectives by reflecting both goals and the methods to attain them. Consequently, improving employee performance has a major positive impact on the growth of the company.

### **PSYCHOLOGICAL CAPITAL**

According to Avey et al. (2009), psychological capital is the essence of a person and symbolizes their good psychological condition of personal growth. Self-efficacy, optimism, hope, and resilience are the four components that make up psychological capital, a high-level fundamental structure (Avey et al., 2009). The ability to be self-assured and have faith in one's own talents is known as self-confidence. People that have high levels of self-confidence always approach

problems in a constructive way and are adaptable while trying to solve problems. Positivity and faith in the future are signs of optimism. Optimistic people often see difficult circumstances as chances for growth and learning, which helps them be flexible when faced with hardship. The capacity to maintain objectives and efforts in the face of adversity is known as resilience. People with strong resilience persevere in keeping their word and setting long-term goals while overcoming obstacles in their path. Hope is characterized by optimism and belief in the possibility of future progress. People with high hope levels make strategies with specific objectives and focus on positive solutions. Individuals have finite resources, according to the conservation of resources hypothesis (Darvishmotevali & Ali, 2020; Lei et al., 2020). As a result, resources are distributed to satisfy the demands of individuals, and these distributions produce various results.

## **IMPACT OF TRANSFORMATIONAL LEADERSHIP ON EMPLOYEE PERFORMANCE**

A number of theories highlight the influence of leadership style on workers' job performance, including the Path-Goal theory (House & Mitchell, 1974; Rafique et al., 2020), Campbell's (1990) job performance theory, and Borman and Motowidlo's (1993). Subordinates are likely to accomplish more than what is specified in their goals when a leader adopts a transformational approach (Top et al., 2020; Baig et al., 2021; Magasi, 2021; Abid et al., 2021; Audi et al., 2025). Through their passion, optimism, motivation, and introduction of creative problem-solving techniques, leaders assist staff members in finding quick solutions to problems (Bass, 1998; Top et al., 2020; Sürütü et al., 2022). As advisers or trainers, superiors help staff members realize their full potential and offer learning chances to further their growth (Aldoseri & Almaamari, 2020). These leaders are frequently successful in helping staff members accomplish company objectives, improving both individual and team performance, and raising employee satisfaction and organizational awareness.

Many researches suggests that transformative leadership has a beneficial impact on work performance and increased staff productivity (Kishen et al., 2020; Baig et al., 2021; Sürütü et al., 2022). According to Baig et al. (2021), transformational leadership entails encouraging and motivating staff members to put in a lot of effort toward the organization's objectives in order to help it succeed. Transformational psychological capital has a direct and indirect beneficial influence on employee work performance through job satisfaction, according to research by Kishen et al. (2020). This suggests that leaders who inspire and stimulate their staff members are more dedicated and perform better. Additionally, transformational leadership works well for staff members under trying circumstances. Self-confidence acts as an intermediate in the link between transformative psychological capital and employee performance, as shown by the study of Sürütü et al. (2022). This paper anticipates that transformative leadership would improve employee job performance based on theoretical underpinnings and a review of prior studies.

Research Hypothesis H1: Transformational leadership has a direct positive impact on employee performance.

According to Pangarso et al. (2021), leadership style both directly affects and functions through corporate culture. The collective views of an organization's members, acquired via internal problem-solving and interactions with the outside world, are known as its corporate culture (Schein, 2010). Everyone is impacted by the business culture, which is shaped by leaders who practice transformational leadership (Lasrado & Kassem, 2021; Zafar et al., 2022). A new vision may even be reflected in company culture through transformational leadership (Budur, 2020; Virgiawan et al., 2021; Qaiser et al., 2021; Qalati et al., 2022). The critical significance and connection between leadership and corporate culture have been underlined in a number of studies looking at how leadership styles affect company culture. Transformational leadership affects company culture, which in turn affects business performance (Hydari et al., 2019; Cherian et al., 2021).

According to Mohsen et al. (2020), Kenedi et al. (2022), and Opoku et al. (2022), corporate culture also has a favorable impact on employees' work performance. The findings of Suong and Huong's (2021) study shown that employees' job performance is significantly impacted by company culture. Widyaningrum and Amalia (2023), Iskamto (2023), and Abdullahi et al. (2021) found a strong and positive correlation between employee performance and company culture. Several experimental investigations have also demonstrated the mediating function of corporate culture. According to Diana et al. (2021), corporate culture plays a mediating function in the connection between performance and human resource management. Research Hypothesis H2a: transformational leadership has a positive impact on corporate culture.

**Research Hypothesis H2b:** Corporate culture is a positively influencing factor on Employee Job Performance.

#### **THE MODERATING ROLE OF PSYCHOLOGICAL CAPITAL IN THE IMPACT OF TRANSFORMATIONAL LEADERSHIP ON EMPLOYEE JOB PERFORMANCE**

The characteristics of psychological capital help to increase workers' drive to meet objectives (Fontes & Dello Russo, 2021). Studies by Karimi et al. (2023), Lei et al. (2020), and Luthans and Youssef-Morgan (2017) show a favorable correlation between positive psychological capital and performance. This strong correlation suggests that psychological capital's four positive attributes—hope, resilience, optimism, and confidence—can support motivation, goal achievement, and improved performance in general. Employees are more satisfied under transformational leadership because of the leader's empowerment and moral principles. Transformational leaders help their followers create goals and give them the confidence they need to accomplish them. According to Baig et al. (2021), psychological capital moderates the association between employee performance and leadership philosophies, such as transformational leadership.

**Research Hypothesis H3:** Psychological capital moderates the impact of transformational leadership on employee job performance.

Drawing on theoretical underpinnings and a survey of the literature, including studies by Diana et al. (2021), Nyakundi et al. (2021), and Baig et al. (2021), the paper suggests the following research model, which is depicted in Figure 1:

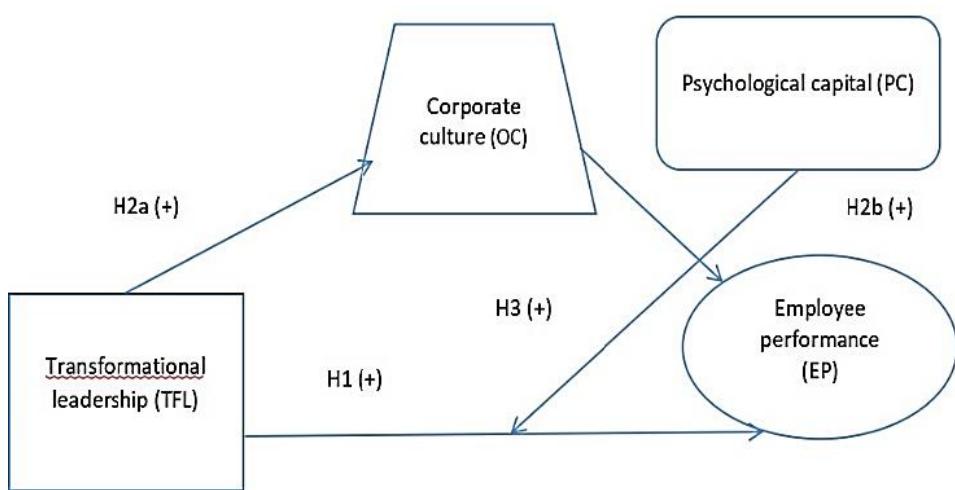


FIGURE 1. PROPOSED RESEARCH MODEL

## MATERIALS AND METHODS

### VARIABLE MEASUREMENT

Four factors are used to measure transformational leadership (TFL): Individualized Consideration (IC), which has five observed variables; Idealized Influence (II), Inspirational Motivation (IM), and Intellectual Stimulation (IS), each of which has four observed variables. There are several measures for measuring organizational culture, but Cameron and Quinn's (2006) scale are one that is frequently used in research on the service sector. Based on four component factors—Adhocracy Culture (AC), Clan Culture (CC), Hierarchy Culture (HC), and Market Culture (MC)—it guarantees the measurement and evaluation of the current organizational culture's strengths and weaknesses, highlighting the cultural gap with respect to the organization's future expectations. The OC model is particularly well-suited to the banking industry's features, which include the need for employee cooperation and control to reduce service delivery risks (Minh, 2015; Asif et al., 2017). The banking sector is also going through a digital revolution, which calls for creativity and ongoing learning from staff members. Each component of organizational culture is measured by 6 factors, according to Cameroon and Quinn (2006). Based on Costa and Neves (2017), psychological capital is quantified using four components and twelve measurement variables. According to study by Rego et al. (2007), four observable factors are used to quantify employee job performance.

### DATA AND RESEARCH METHOD

The study employed a random sampling method to survey employees in the banking sector who held employment contracts lasting more than 1 year in Lahore City. The surveys were distributed to the human resources departments of various branches and transaction offices of

banks within the city. A total of 417 survey were collected, out of which 390 were deemed valid, yielding a response rate of 93.4%. The validity of responses was ensured by targeting employees with appropriate knowledge levels, thereby enhancing their ability to provide relevant answers to the survey questionnaire. The detailed statistical analysis of the data, presented in Table 1, illustrates that the research sample maintains diversity in terms of gender, age, educational background, and work experience.

**TABLE 1: DEMOGRAPHIC INFORMATION**

	<b>Frequency</b>	<b>Percent</b>
Gender		
Male	177	45%
Female	213	55%
Total	390	100%
Age (years)		
20–30	99	25%
31–40	138	35%
41–50	99	26%
51 or greater	54	14%
Total	390	100%
Education		
Intermediate	28	7%
Bachelor's	211	54%
Master's or higher	151	39%
Total	390	100%
Experience (years)		
<1	13	3%
1–5	160	41%
6–10	145	37%
>11	72	19%
Total	390	100%

The study tested the research hypotheses by descriptive statistical analysis, Cronbach's Alpha coefficient calculation, exploratory factor analysis (EFA), confirmatory factor analysis (CFA), and structural equation modeling (SEM) regression analysis using SPSS and AMOS tools.

## **RESULTS AND DISCUSSION**

### **RESULTS OF TESTING THE SCALE**

When the entire Cronbach's Alpha coefficient falls between 0.808 and 0.909, it indicates that all of the scales in Table 2 are reliable. Furthermore, when the variable-total correlation coefficient is higher than 0.5, no observed variables are removed.

**TABLE 2: SUMMARY TABLE OF CRONBACH'S ALPHA, AND CFA ANALYSIS RESULTS**

No. Factor	Component	No. Of items	$\alpha$	AVE	CR
1	Idealized Influence (II)	4	0.9050	0.898	0.747
2	Transformational leadership	4	0.8750	0.920	0.758
3	Intellectual Stimulation (IS)	4	0.9390	0.923	0.767
4	Individualized Consideration (IC)	5	0.8940	0.903	0.710
5	Adhocracy Culture (AC)	6	0.8500	0.903	0.854
6	Organizational Culture (OC) Clan Culture (CC)	6	0.8760	0.910	0.828
7	Hierarchy Culture (HC)	6	0.9040	0.907	0.711
8	Market Culture (MC)	6	0.8760	0.923	0.750
9	Employee Performance (EP)	5	0.8080	0.910	0.716
10	Hope (HO)	3	0.9030	0.897	0.7687
11	Psychological capital (PC) Efficacy (EF)	3	0.9210	0.866	0.784
12	Resilience (RE)	3	0.8750	0.903	0.758
13	Optimism (OP)	3	0.9090	0.807	0.786

$\alpha$ : Cronbach's Alpha, AVE: Average Variance Extracted, CR: Composite Reliability

Using Promax rotation and the Principal Axis Factoring approach, conduct research on EFA analysis to generate a Pattern Matrix for CFA and SEM regression testing. The following are the outcomes of the EFA analysis: (1) The value of the KMO test is  $0.860 > 0.5$ ; (2) the Sig value for Bartlett's test is  $0.000 < 0.05$ ; (3) the extracted total variance is 70.081%; (5) All variables have factor loadings larger than 0.5 in the Pattern Matrix; (5) all extracted factors have Eigenvalue coefficient values greater than 1. In other words, all 13 factors were extracted from the first observed variables using EFA analysis, which was in line with the initial prediction of the number of variables employed in the study.

The study used Confirmatory Factor Analysis (CFA) based on the 13 variables that were found using Exploratory Factor Analysis (EFA). The following are the evaluation indicators for the CFA model:  $GFI = 0.908 > 0.9$ ,  $CFI = 0.964 > 0.9$ ,  $TLI = 0.961 > 0.9$ ,  $RMSEA = 0.038 < 0.05$ , and  $\chi^2/df = 1.818 < 5$ . The CFA model's suitability for the investigation is demonstrated by the test statistics.

The variables exhibit convergence and high reliability, as seen by Table 3, where the Average Variance Extracted (AVE) of the variables is more than 0.5 and the Composite Reliability (CR) is continuously larger than 0.7. The square root of the extracted variance (AVE), which is higher than the values in the same row and column, is represented by the values on the major diagonal in the Fornell-Larcker analysis. This result shows that the variables have unique values.

**TABLE 3: RESULTS OF EXPLORATORY FACTOR ANALYSIS**

	<b>CR</b>	<b>AVE</b>	<b>MSV</b>	<b>MaxR(H)</b>	<b>PC</b>	<b>OC</b>	<b>TFL</b>	<b>EP</b>
PC	0.841	0.572	0.172	0.853	0.756			
OC	0.864	0.614	0.297	0.876	0.202	0.784		
TFL	0.837	0.722	0.674	0.844	0.415	0.545	0.850	
EP	0.914	0.726	0.674	0.919	0.358	0.53	0.821	0.852

The TFL for transformational leadership is viewed as a latent variable that encompasses a number of factors that influence organizational dynamics. The most significant of these factors is inspiring motivation, which carries a significant weight and a robust regression value of 0.81. This finding highlights the vital role that leaders play in inspiring and motivating their followers by creating a compelling vision and developing a sense of purpose. Furthermore, both intellectual stimulation (IS) and individual consideration (IC) had substantial contributions, with regression coefficients of 0.76 and 0.75, respectively. These elements highlight how crucial it is for team leaders to foster interpersonal relationships and promote intellectual development. On the other hand, idealized behavior II contributes the least, with a regression coefficient of 0.68. This element, albeit still significant, indicates that the leaders' enactment of idealized behaviors has a little lower weight in the context of the transformational leadership paradigm as a whole. The intricate and multidimensional character of the transformational leadership paradigm is shown by the subtle interactions between these elements.

The most significant contributor to the organizational culture framework's second-tier structure is the market culture coefficient (0.87). In the bank's organizational structure, market culture plays a crucial and noticeable function that has a significant impact on the complex dynamics of its corporate culture. The institution's steadfast dedication to competitive orientations, where the unrelenting pursuit of market supremacy, profitability, and strategic agility acquire paramount significance, is demonstrated by the dominance of market culture. An innate tendency toward market-driven ideals, where prompt and profit-driven acts are valued, is what defines this cultural paradigm. Market culture has a significant influence on many aspects of organizational behavior, including decision-making procedures, resource allocation plans, and general flexibility in response to the quickly changing financial environment. The dominant market culture embodies the spirit of a vibrant, results-driven environment, bringing the organization into line with the demands of modern financial models and enhancing its competitive position in the banking industry. Strong adherence to established banking processes is emphasized by the Hierarchy Culture (HC) coefficient (0.79), which also strongly contributes to the organizational culture, but to a smaller extent than the market one. The control culture's importance highlights the organization's understanding of the need to uphold exacting standards, guaranteeing operational effectiveness and compliance within the complicated framework of technical banking processes. Notably, among organizational culture characteristics, creative culture AC has the least significant influence throughout the ongoing digital transformation period in Pakistan's banking industry, with an effect of just 0.72. The

modern banking environment, which is marked by a paradigm shift toward digitization, emphasizes that a creative ethos is paradoxically represented inside the organizational structure. This apparent disparity illustrates a complex relationship between the industry's need to adjust to new technology and the dominant organizational culture, where the traditional focus on control and cooperation overshadows the development of a creative environment. The strategy focus on digital transformation undervalues the innate inventive potential in Pakistani banks' organizational cultures while emphasizing efficiency and flexibility. A closer examination of the cultural dynamics of these financial institutions is prompted by this discovery, which suggests a possible discrepancy between the demands of digital evolution and the development of a creative culture.

#### **RESULTS OF RESEARCH HYPOTHESES TESTING**

The study used Structural Equation Modeling (SEM) to evaluate whether Transformational Leadership (TFL) affected employee job performance. The SEM structural model evaluation and regression findings, using AMOS software, are as follows: (1) Chi-square/degrees of freedom of 2.368 <3; (2) TLI = 0.915 > 0.9, (3) CFI = 0.920 > 0.9, (4) GFI = 0.829 > 0.8, and RMSEA = 0.054 < 0.08. These indices show that the model matches the real data. In order to make sure that the study findings were reliable, bootstrap testing was done. The difference between the estimates in the original sample and the bootstrap test sample is not statistically significant, as indicated by the bootstrap test table's p-value of CR being greater than 0.05. In other words, the regression results of the SEM model in the study are robust.

The regression coefficient of transformational leadership, which is indicated through the measuring variable TFL, reaches 0.740 at a significance level of 1%, indicating that TFL encourages subordinates to improve task efficiency (Table 4). The data results highlight that transformative leadership significantly improves employees' performance. The fundamental components of this leadership style—charismatic, inspirational, individualized, and intellectually stimulating—all significantly enhance productivity. The capacity to inspire and encourage others toward a common goal leads to greater devotion and effort. Charismatic leaders create a positive work environment by inspiring trust and excitement. Another crucial component is personal attention, which makes sure that workers feel appreciated and supported, which raises dedication and morale. In the end, intellectual stimulation improves the caliber of work by fostering innovative thinking and problem-solving. This outcome is in line with earlier experimental research conducted in Vietnam by Trung and Trang (2022) and abroad by Baig et al. (2021). As a result, hypothesis 01 on transformational leadership's positive direct effect on worker performance is approved.

**TABLE 4: REGRESSION COEFFICIENTS OF FACTORS IN THE SEM MODEL**

Hypothesis	Relationship	Unstandardized Estimate				Standardized Estimate	Result
		Coef	S.E.	C.R.	P		
H1	EP <--- TFL	1.050	0.072	14.654	0.000	0.740	Approved
H2a	OC <--- TFL	0.610	0.056	10.968	0.000	0.540	Approved
H2b	EP <--- OC	0.161	0.047	3.393	0.000	0.130	Approved
H3	EP <--- INT	0.018	0.013	1.358	0.007	0.036	Approved

Transformational leadership has a direct effect on employee job performance, but it also has a positive mediating effect through company culture. At the 1% significance level, the regression coefficient of TFL on OC is 0.540. In other words, the study findings confirm research hypothesis 02 regarding the influence of transformative leadership on corporate culture. According to Paais and Pattiruhu (2020), a company's corporate culture is shaped and developed by the leadership style of the firm. An effective leader is a person who develops and executes improvements in company culture to foster an atmosphere that inspires workers to grow. A regression coefficient of 0.161 at the 1% significance level indicates that OC improves employee work efficiency by fostering the development of corporate culture. Suong and Huong's earlier research supports this finding (2021). Apart from its direct influence, transformational leadership also has a positive effect on employee job performance through the mediating function of corporate culture. TFL's regression coefficient on OC, at the 1% significance level, is 0.540. Stated differently, research hypothesis 02 on the influence of transformational leadership on corporate culture is supported by the findings of the study. Nwakoby et al. (2019) demonstrate the significance of company culture is in inspiring and motivating staff to improve productivity. Therefore, transformational leadership influences employee job performance both directly and indirectly through corporate culture's mediating function.

Table 4 clearly illustrates the existence and importance of psychological capital's moderating function in the link between transformational leadership and employee performance. The role of the moderating variable of psychological capital is clarified by calculating the interaction variable "INT" between two standardized variables: transformational leadership and psychological capital (ZPC). When engaging with transformational leadership, psychological capital—which is determined by traits like hope, resilience, optimism, and confidence—continues to play a critical role. The findings of the path analysis indicate that the association between INT and EP is statistically significant ( $P = 0.007 < 0.05$ ), indicating that PC plays a part in moderating the effect of TFL on EP. Transformational leadership has a positive effect on employee performance when psychological capital is higher, as indicated by the regression coefficient of 0.036, which has a positive sign. Every element of psychological capital positively contributes to the explanation of employee performance under the impact of transformational leadership, according to an analysis of the model's standardized regression coefficients. This suggests that workers that possess greater psychological capital adapt to

transformational leadership more favorably, which improves their productivity. Employees' differing amounts of psychological capital determine that transformational leadership affects their performance, according to the moderating influence of psychological capital.

The positive effects of transformational leadership may be amplified by a high degree of psychological capital, creating an atmosphere where workers feel inspired, empowered, and able to overcome obstacles. However, a lack of psychological capital might restrict the amount to which employees can convert inspiring leadership into improved performance and prevent the full advantages of transformational leadership from being realized. Therefore, under the direction of transformational leaders, people with high psychological capital are a valuable resource that support and stimulate the development of their talents. In order to maximize employee performance and growth, it is essential to comprehend the psychological elements interact and impact the workplace.

### **CONCLUSION**

The purpose of this paper was to evaluate that transformational leadership affected the productivity of workers in Pakistani commercial banks. The study connected the structural model analysis approach with data from 390 subordinates that had been under contract for at least a year. According to our research, transformational leadership significantly improves worker performance through organizational culture, both directly and indirectly. Thus, executives in the banking sector have to think about adopting a leadership style that enhances the output of subordinates. Transformational directors must comprehend the work of the bank, provide a clear and practical vision and goal, and guarantee consistency in decision-making. Administrators can use it to project charm and win their subordinates' respect. The foundation for motivating subordinates, inspiring them to be positive, and exerting significant effort will be the presiders' knowledge, status, and consistency in their activities, along with their commitment to supporting staff. Without interfering with employee choices, transformational management promotes and extends colleagues' potential via communication and gratitude, allowing them to effectively overcome suffering. Transformational supervisors in particular need to be aware of the distinctions among their staff members in order to listen to them and provide enough assistance to maximize their distinctive capabilities.

Organizational culture also has a statistically and financially significant impact on employee performance. In order to promote cultural changes in the banking industry, transformational leaders are essential. Despite the conventions of traditional banking, these visionary executives encourage and inspire their teams to adopt new practices and good improvements. Transformational leaders foster a culture change that places an emphasis on flexibility, teamwork, and customer-centric strategies by establishing a common vision of advancement and greatness. They place a strong emphasis on lifelong learning, enabling staff members to play a part in the expansion and advancement of the company. Transformational leaders foster an atmosphere that values openness, honesty, and responsibility by modeling positive behaviors and communicating effectively. These executives serve as catalysts for cultural changes in the quickly changing financial sector, guiding banks toward a more resilient,

customer-focused, and flexible future. While banks are in the digital transformation phase, which necessitates a working environment that stimulates employees' breakthrough creativity in the process of providing financial services, bank leaders in Vietnam should focus more on the collaborative, competitive, and control cultures as well as the creative culture component of organizational culture.

Additionally, the study suggests that managers who wish to increase their employees' productivity can highlight the positive psychology of their staff members. Workers with positive psychology will become more productive under the direction of a transformative CEO. Banks ought to consider integrating psychological capital development for employees into their HRM initiatives. Training initiatives must emphasize fostering self-belief, communicating hope and optimism, and inspiring staff members to persevere through extreme hardships. The performance of subordinates will be improved with the help of transformational leaders and optimistic capital, which will help the organization achieve its goals.

Another research constraint of the study is that it includes a non-probability sample approach to evaluate the effect of transformational leadership on staff implementation in the banking sector. Furthermore, the study solely examined transformational leadership; it did not assess the impact of other leadership philosophies in the research model. These gaps will pave the way for new research areas.

## REFERENCES

Abdullahi, M., Raman, K., & Solarin, S. (2021). Effect of organizational culture on employee performance: A mediating role of employee engagement in Malaysia educational sector. *International Journal of Supply and Operations Management*, 8(3), 232-246.

Abid, G., Shaikh, S., Asif, M. F., Elah, N. S., Anwar, A., & Butt, G. T. H. (2021). Influence of perceived organizational support on job satisfaction: Role of proactive personality and thriving. *Int. J. Entrep*, 25, 1-11.

Aldoseri, F. I., & Almaamari, Q. A. (2020). Factors influencing employee performance at the banking sector in kingdom of Bahrain: Literature review. *International Journal on Emerging Technologies*, 11(5), 304-309.

Alhamami, N. M., Wan Ismail, W. K., Kamarudin, S., & Abdullah, F. Z. (2020). Linking emotional intelligence and transformational leadership to job performance in a conflict-stricken environment. *Talent Development & Excellence*, 12(3), 2153-2163.

Ali, S., Asif, M. F., Khan, M. K., Fatima, N., Safdar, H., & Lassi, Z. S. (2020). Moderating role of husband's education and their employment on female labor force participation in Pakistan. *Ilkogretim Online*, 19(4), 5265-5276.

Asif, M. F., Afridi, J. R., Rafique, T., Mehmood, K., & Muhammad, L. (2023). Moderated mediation mechanism of family motivation on work engagement. *Sarhad Journal of Management Sciences*, 9(1).

Asif, M. F., Mirza, U. K., Khan, A. H., Asif, M. Z., Riaz, S., & Ahmed, S. (2017). Job satisfaction: Antecedent and consequences. *Bulletin of Business and Economics (BBE)*, 6(4), 185-194.

Asim, J., Ahmed, A., Asif, M. F., & Afridi, J. R. (2021). Sports sentiments and financial markets: Shadenfreude in rivalry of India and Pakistan. *Sarhad Journal of Management Sciences*, 7(1).

Audi, M., & Al Masri, R. (2024). Examining the Impacts of Regulatory Framework on Risk in Commercial Banks in Emerging Economies. *Journal of Business and Economic Options*, 7(2), 10-19.

Audi, M., Poulin, M., Ahmad, K., & Ali, A. (2025). Quantile Analysis of Oil Price Shocks and Stock Market Performance: A European Perspective. *International Journal of Energy Economics and Policy*, 15(2), 624-636.

Avey, J. B., Luthans, F., & Jensen, S. M. (2009). Psychological capital: A positive resource for combating employee stress and turnover. *Human Resource Management*, 48(5), 677-693.

Baig, S. A., Iqbal, S., Abrar, M., Baig, I. A., Amjad, F., Zia-ur-Rehman, M., & Awan, M. U. (2021). Impact of leadership styles on employees' performance with moderating role of positive psychological capital. *Total Quality Management & Business Excellence*, 32(9-10), 1085-1105.

Borman, W. C., & Motowidlo, S. M. (1993). Expanding the criterion domain to include elements of contextual performance. In: Schmitt, N. and Borman, W.C., Eds., *Personnel Selection in Organizations*, Jossey-Bass, San Francisco, 71- 98.

Bozic, I., & Bozic, A. (2025). Commercial Banking and Financial Stability: Evaluating Internal and External Determinants. *Journal of Business and Economic Options*, 8(1), 1-14.

Budur, T. (2020). Effectiveness of transformational leadership among different cultures. *International Journal of Social Sciences & Educational Studies*, 7(3), 119-129.

Cameron, K. S., & Quinn, R. E. (2006). Diagnosing and changing organizational culture: Based on the competing values framework (Rev. ed.). San Francisco, CA: Jossey-Bass.

Cherian, J., Gaikar, V., Paul, R., & Pech, R. (2021). Corporate culture and its impact on employees' attitude, performance, productivity, and behavior: An investigative analysis from selected organizations of the United Arab Emirates (UAE). *Journal of Open Innovation: Technology, Market, and Complexity*, 7(1), 45.

Costa, S., & Neves, P. (2017). Job insecurity and work outcomes: The role of psychological contract breach and positive psychological capital. *Work & Stress*, 31(4), 375-394.

Darvishmotevali, M., & Ali, F. (2020). Job insecurity, subjective well-being and job performance: The moderating role of psychological capital. *International Journal of Hospitality Management*, 87, 102462.

Diana, I. N., Supriyanto, A. S., Ekowati, V. M., & Ertanto, A. H. (2021). Factor influencing employee performance: The role of organizational culture. *The Journal of Asian Finance, Economics and Business*, 8(2), 545-553.

Elahi, A. R., Ahmed, A., Majid, S., & Asif, M. F. (2021). Critical factors associated with the access to bank credit: An exploratory study. *Humanities and Social Sciences Reviews*, 9(3), 135-144.

Ennew, C., Waite, N., & Waite, R. (2013). *Financial services marketing: An international guide to principles and practice*. Routledge.

Fontes, A., & Dello Russo, S. (2021). An experimental field study on the effects of coaching: The mediating role of psychological capital. *Applied Psychology*, 70(2), 459-488.

Hasan, T., & Sadat, A. (2023). Dynamics of Job Satisfaction in Bangladesh's Banking Sector Implications for Employee Engagement and Organizational Success. *Journal of Business and Economic Options*, 6(4), 36-42.

House, R. J., & Mitchell, T. R. (1974). Path goal theory of leadership in Fred Luthans (ed.) *Contemporary Readings in Organizational Behavior*.

Hun, Y., Bashir, A., & Raza, M. (2024). The Impact of FinTech Partnerships on Banking Digitalization and Post-Crisis Economic Resilience. *Journal of Business and Economic Options*, 7(3), 1-9.

Hydari, M. A., Abid, G., Asif, M. F., Butt, T. H., & Lassi, Z. S. (2019). The effects of COVID-19 (Corona Virus Disease 2019) pandemic: An exploratory study of Pakistan. *International Journal of Disaster Recovery and Business Continuity*, 12(1), 1431-1449.

Iqbal, M., & Abbas, W. (2024). Determinants of Expected Service Quality: A Comparative Study in Pakistani Banking Sector. *Journal of Policy Options*, 7(1), 27-35.

Iskamto, D. (2023). Organizational culture and its impact on employee performance. *International Journal of Management and Digital Business*, 2(1), 47-55.

Ismail, H., & Saeed, A. (2019). Islamic banking and finance in Pakistan: Growth trends, outlook, and strategic imperatives. *Journal of Policy Options*, 2(4), 101-109.

Kabir, M., & Rashid, A. (2019). Determinants of working capital management practices: Evidence from Pakistani banks. *Journal of Policy Options*, 2(4), 83-90.

Karimi, S., Ahmadi Malek, F., Yaghoubi Farani, A., & Liobikienè, G. (2023). The role of transformational leadership in developing innovative work behaviors: The mediating role of employees' psychological capital. *Sustainability*, 15(2), 1267.

Kenedi, J., Satriawan, B., & Khaddafi, M. (2022). The effect of organizational culture on employee performance. *International Journal of Educational Review, Law and Social Sciences (IJERLAS)*, 2(6), 817-826.

Khan, M. W. (2018). A comparative study of customer satisfaction between public and private banks in Lahore, Pakistan. *Journal of Policy Options*, 1(2), 50-60.

Khan, R. S., Jan, S. A., Afridi, J. R., & Asif, M. F. (2020). Impact of "Food for Education Program" on Child Labour incidence in Tribal Districts of Khyber Pakhtunkhwa, Pakistan. *Ilkogretim Online*, 19(3), 3307-3320.

Khan, W., & Wali, R. (2020). Assessing the Impact of a Comprehensive Capacity Building Program on Educational Leadership and Teaching Performance in Public and Private Sectors. *Journal of Business and Economic Options*, 3(3), 91-99.

Kishen, K., Syah, T. Y. R., & Anindita, S. R. (2020). The transformational leadership effect on job satisfaction and job performance. *Journal of Multidisciplinary Academic*, 4(1), 47-51.

Lasrado, F., & Kassem, R. (2021). Let's get everyone involved! The effects of transformational leadership and organizational culture on organizational excellence. *International Journal of Quality & Reliability Management*, 38(1), 169-194.

Lei, H., Leaungkhamma, L., & Le, P. B. (2020). How transformational leadership facilitates innovation capability: The mediating role of employees' psychological capital. *Leadership & Organization Development Journal*, 41(4), 481-499.

Luthans, F., & Youssef-Morgan, C. M. (2017). Psychological capital: An evidence-based positive approach. *Annual Review of Organizational Psychology and Organizational Behavior*, 4, 339-366.

Magasi, C. (2021). The role of transformational leadership on employee performance: A perspective of employee empowerment. *European Journal of Business and Management Research*, 6(6), 21-28.

Makambe, U., & Moeng, G. J. M. (2020). The effects of leadership styles on employee performance: A case of a selected commercial bank in Botswana. *Annals of Management and Organization Research*, 1(1), 39-50.

Minh, N. H. (2015). The corporate culture model in state-owned commercial banks before and after Vietnam joined the WTO. *VNU Journal of Economics and Business*, 31(3), 10-20.

Mohsen, A., Neyazi, N., & Ebtekar, S. (2020). The impact of organizational culture on employees' performance: An overview. *International Journal of Management (IJM)*, 11(8), 879-888.

Mwamba, J. (2023). Effective Leadership in Change Management: Ensuring Success in Organizational Transformation. *Journal of Policy Options*, 6(1), 28-38.

Nawoseling'ollan, D., & Roussel, J. (2017). Influence of leadership styles on employees' performance: A study of Turkana County, Kenya. *International Journal of Business and Social Science*, 8(7), 82- 98.

Nwakoby, N. P., Okoye, J. F., & Anugwu, C. C. (2019). Effect of organizational culture on employee performance in selected deposit money banks in Enugu State. *Journal of Economics and Business*, 2(4).

Nyakundi, W., Nyoni, J., Dandira, M., Chufama, M., Kandjinga, E., & Jeremiah, A. (2021). Achieving high employee performance through transformational leadership in the banking sector. *International Journal of Research and Innovation in Social Science (IJRISS)*, 5(1).

Omri, M. B. (2022). Understanding the relationship between liquidity and banking financial stability in Islamic and conventional banks. *Journal of Business and Economic Options*, 5(1), 39-47.

Opoku, E. O., Hongqin, C., & Aram, S. A. (2022). The influence of organizational culture on employee performance in the banking sector: Evidence from GCB bank, Ghana. *European Journal of Business and Management Research*, 7(2), 168-175.

Paais, M., & Pattiruhu, J. R. (2020). Effect of motivation, leadership, and organizational culture on satisfaction and employee performance. *The Journal of Asian Finance, Economics and Business*, 7(8), 577-588.

Pangarso, A., Saragih, R., & Nuriz, W. A. (2021). Transformative leadership and organizational culture effect on employee performance: Evidence from the Indonesia logistics bureau. *Jurnal Manajemen dan Kewirausahaan*, 23(2), 148-158.

Qaiser, N., Sattar, N., Arshi, S., Asif, M. F., & Afridi, J. R. (2021). Impact of thriving on job performance, positive health and turnover intention: Consequences of thriving at workplace. *International Journal of Information, Business and Management*, 13(2), 97-107.

Qalati, S. A., Zafar, Z., Fan, M., Limón, M. L. S., & Khaskheli, M. B. (2022). Employee performance under transformational leadership and organizational citizenship behavior: A mediated model. *Heliyon*, 8(11).

Quader, M. (2024). Exploring human resource management practices and employee satisfaction in Bangladesh's private banking sector. *Journal of Policy Options*, 7(1), 36-45.

Rafique, T., Asif, M. F., Afridi, J. R., Rehman, N. U., & Mahmood, K. (2020). Credibility of social networking sites: Impact on organizational attraction in recruitment filed. *Sarhad Journal of Management Sciences*, 6(2), 279-294.

Ravet-Brown, T. É., Furtner, M., & Kallmuenzer, A. (2023). Transformational and entrepreneurial leadership: A review of distinction and overlap. *Review of Managerial Science*, 1-46.

Raza, Z., & Khan, K. (2023). Determinants of Expected Service Quality in Conventional and Islamic Banking in Pakistan. *Journal of Policy Options*, 6(1), 17-22.

Rivaldo, Y., & Nabella, S. D. (2023). Employee performance: Education, training, experience and work discipline. *Calitatea*, 24(193), 182-188.

Saira, S., Mansoor, S., & Ali, M. (2021). Transformational leadership and employee outcomes: The mediating role of psychological empowerment. *Leadership & Organization Development Journal*, 42(1), 130-143.

Schein, E. H. (2010). *Organizational culture and leadership* (Vol. 2). John Wiley & Sons.

Senturk, M. (2023). Transformational Leadership and Cultural Dynamics in the Pharmaceutical Sector. *Journal of Policy Options*, 6(3), 1-8.

Shahbaz, S. (2018). Analyzing the Determinants of Dividend Policy: A Comprehensive Study on Ownership Structure and Cash Flow Characteristics in the Banking Sector of Pakistan. *Journal of Business and Economic Options*, 1(3), 65-77.

Singh, P., Das, S., & Kumar, V. (2024). Macroeconomic, Institutional, and Accounting Drivers of Banking Fragility in Europe. *Journal of Business and Economic Options*, 7(4), 53-62.

Sulehri, F. A., & Ali, A. (2024). *Financial Inclusion Dynamics: A Cross-Country Examination of Bank Concentration and Policy Strategies* (No. 121284). University Library of Munich, Germany.

Suong, H. T. T., & Huong, L. T. T. (2022). The influence of corporate culture on the work performance of employees at Okamura Sanyo real estate joint stock company. *Ho Chi Minh City Open University*

Sürütü, L., Maslakçı, A., & Sesen, H. (2022). Transformational leadership, job performance, self-efficacy, and leader support: Testing a moderated mediation model. *Baltic Journal of Management*, 17(4), 467-483.

Top, C., Abdullah, B. M. S., & Faraj, A. H. M. (2020). Transformational leadership impact on employees performance. *Eurasian Journal of Management & Social Sciences*, 1(1), 49-59.

Trung, T. T., & Trang, T. T. N. (2022). The impact of leadership styles on employee satisfaction and performance: A case study of the banking industry in Vietnam. *Vietnam Trade and Industry Review*, 12, 196-201.

Virgiawan, A. R., Riyanto, S., & Endri, E. (2021). Organizational culture as a mediator motivation and transformational leadership on employee performance. *Academic Journal of Interdisciplinary Studies*, 10(3), 67-79.

Wadud, H. (2022). Assessing Human Resource Management Strategies and Their Influence on Job Satisfaction in Private Banks. *Journal of Policy Options*, 5(1), 15-21.

Wali, R. M. (2018). Analysis of Financial Ratios and Credit Risk Ratings in the Banking Industry: Insights and Findings. *Journal of Business and Economic Options*, 1(2), 52-59.

Widyaningrum, L. R., & Amalia, L. (2023). The Impact of transformational leadership, organizational culture, and employee engagement on employee performance at Indonesia's flight school. *Jurnal Multidisiplin Madani*, 3(4), 802-810.

Yasir, A., Abid, G., Afridi, J. H., Elahi, N. S., & Asif, M. F. (2021). Social media communication and behavioral intention of customers in hospitality industry: The mediating role of customer satisfaction. *Int. J. Entrep*, 25, 1-14.

Zafar, R., Abid, G., Rehmat, M., Ali, M., Hassan, Q., & Asif, M. F. (2022). So hard to say goodbye: Impact of punitive supervision on turnover intention. *Total Quality Management & Business Excellence*, 33(5-6), 614-636.