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Gulf Journal of Advance Business Research

*FE Gulf Publishers.*<https://fegulf.com>

## THE EFFECTS OF AUTHENTIC LEADERSHIP ON EMPLOYEE'S WORK ENGAGEMENT AMONG BANKING SECTOR EMPLOYEES

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Volume No: 1

Issue No:2

Page No: 110-118

Received: 25/08/23

Accepted: 22/10/23

Published: 01/11/23

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### Abstract

The banking sector is becoming very competitive and human resources can be a source of competitive advantage for commercial banks. This requires banks to give greater attention to their staff and their work engagement in order to compete well in the market. There are many factors that can influence staff work engagement such as work environment, reward practices, and leadership behavior. In this study, we used authentic leadership as an explanatory factor to understand employee engagement. The study is based on primary data collected through a pre-designed questionnaire is based on previously developed measures of authentic leadership and employee engagement. The data is analyzed using the regression analysis. The result shows that the dimensions of authentic leadership including self-awareness ( $\beta=.176$ ,  $P<.05$ ); balanced processing ( $\beta=.321$ ,  $P<.05$ ); and internalized moral perspective ( $\beta=.480$ ,  $P<.05$ ) have positive and significant effects on work engagement. Whereas, the results for relational transparency ( $\beta=.168$ ,  $P>.05$ ) turned out to be positive but insignificant. The result implies that management of the banking sector needs to focus on authentic leadership in order to foster employee work engagement.

**Keywords:** Authentic Leadership, Employee Engagement, Banking, Commercial, Pakistan.

### INTRODUCTION

Ethical leadership is an emerging concept that has its foundation in transformational and ethical leadership styles (Gardner, Avolio, Luthans, May, & Walumbwa, 2005). Ethical leadership if

present is found to be producing favorable outcomes (Hannah, Avolio, & Walumbwa, 2011; Hmieleski, et al., 2011). In the current study, we investigated how work engagement can be influenced by applying authentic leadership. The context of the current study is the commercial banking sector in Pakistan.

### **Background of Study**

Past studies show the role of leadership in the organization and its influence on employees (Bass & Avolio, 1990; Zhang & Bartol, 2010; Song, Kolb, Lee, & Kim, 2012; Walumbwa & Hartnell, 2011). Literature highlights that there are different types of leadership styles such as transactional, transformational, empowering, ethical, and so on. A new type of leadership style is emerging in literature named as authentic leadership which is based on the transformational and ethical leadership style (Harter, 2002; Gardner, Avolio, Luthans, May, & Walumbwa, 2005). Studies conducted show that authentic leadership has a significant influence on follower's ethical behavior (Hannah, Avolio, & Walumbwa, 2011); positive attitude (Walumbwa, Wang, Wang, Schaubroeck, & Avolio, 2010), and performance (Hmieleski, et al., 2011). However, the findings are weak and limited and thus need greater empirical evidence to further strengthen the understanding. Keeping in view this context, the present study investigates this issue.

### **Problem Statement**

Work engagement among staff is important since it produces good results in terms of performance, creativity, and improved customer service and satisfaction. The banking sector spends a lot of money on recruiting, training, and developing employees, but if employees are not engaged, then it will not produce good results. How engagement can be improved is a matter of interest in several past researches. In the current study, the focus is to understand the relationship between authentic leadership and employee work engagement.

### **Research Questions**

What are the effects of authentic leadership on employee's work engagement?

### **Research Objectives**

The main objective of the study is to measure the effects of authentic leadership on employee work engagement in the context of the commercial banking sector of Pakistan. The sub-objectives of the study

- To measure the effects of self-awareness on employee's work engagement
- To measure the effects of relational transparency on employee's work engagement
- To measure the effects of balanced processing on employee's work engagement
- To measure the effects of internalized moral perspective on employee's work engagement
- To provide suitable recommendations to the management of the banking sector related to improving staff engagement

### **Significance of the Study**

The significance of the study is that it will fill the literature gap by exploring the link between authentic leadership and employee outcomes including work engagement. Such studies have not been conducted in this local context yet and thus provide good insight about authentic leadership and its outcomes in this local context of the commercial banking sector. The findings can be used by the management of the banking sector. The findings are also beneficial to the management of

other service-oriented organizations having similar work environment. Findings can also be used by the academic and consultants.

## LITERATURE REVIEW

### Introduction to Authentic Leadership

The concept of leadership is about creating a vision for the followers and organization encouraging followers with trust and installing a sense of pride and confidence among followers (Bohn & Grafton, 2002). There is different leadership styles highlighted in the literature such as transactional leadership, transformational leadership, democratic leadership, autocratic leadership, and so on. In the current study, the focus is on authentic leadership.

The concept of authenticity is based on an individual's relationship with another individual (Erickson, 1995). Walumbwa, Avolio, Gardner, Wernsing, & Peterson (2008) define authentic leadership as a pattern of leader behavior that draws upon and promotes both positive and psychological capacities and a positive ethical climate, to foster greater self-awareness, an internalized moral perspective, balanced processing of information, and relational transparency on the part of leaders working with followers, fostering positive self-development. The four components of authentic leadership as suggested are self-awareness, unbiased processing, authentic behavior, and authentic relational orientation (Goldman & Kernis, 2002; Kernis, 2003). Their details are as under.

#### Self Awareness

Self-awareness refers to knowing one's strengths and weaknesses and to understanding how one makes meaning of the world (Kernis, 2003).

#### Relational Transparency

Relational transparency is about showing one's authentic self to others and this behavior promotes building trust between a leader and follower (Kernis, 2003).

#### Balanced Processing

Balanced processing is about relational decision-making process that is done based on objective analysis and relevant data (Gardner, Avolio, Luthans, 2005).

#### Internalized Moral Perspective

The internalized moral perspective is about internalized form of self-regulation (Ryan & Deci, 2003).

#### Work Engagement

Schaufeli et al., (2002) define work engagement as a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption. Accordingly, vigor is about having the willingness to invest one's work efforts into his/her work and thus showing a higher level of work energy and mental resilience. Dedication is about a sense of enthusiasm, pride, significance, inspiration, and challenge. Absorption is about being deeply engrossed and concentrated in one's work. Past studies show that work engagement is a highly useful concept as it is found to be associated with employee performance (Bakker, Demerouti, & TenBrummelhuis, 2012; Bakker & Bal, 2010; Chung & Angeline, 2010). According to Bakker (2011), employee's work engagement is influenced by both internal and external factors. The internal factors include personal resources including positive self-evaluation of own capabilities, self-confidence, and goal orientation (Bakker, 2011). The external factor includes job resources

such as social support available at the workplace, leadership, autonomy, feedback, and so on (Xanthopoulou, Bakker, Demerouti, & Schaufeli, 2009a).

### **Relationship between Authentic Leadership and Work Engagement**

Authentic leadership is a leadership pattern of behavior that fosters an ethical and positive organizational climate within an organization. The authentic leader is perceived positively by their followers due to their authentic behavior and thus supports employees' positive outcomes. Past studies found a positive association between authentic leadership on employees including job satisfaction, job performance, creating hope, and work engagement (Avolio, et al., 2004a; Gardner & Schermerhorn, 2004; Gardner, et al., 2005). More specifically, a study conducted by Kim (2014) found that authentic leadership components have significant effects on employee work engagement.

### **Theoretical Framework of the Study**

The theoretical framework of the study is based on the authentic leadership theory (Walumbwa, Avolio, Gardner, Wernsing, & Peterson, 2008; Goldman & Kernis, 2002; Kernis, 2003) and previous studies.

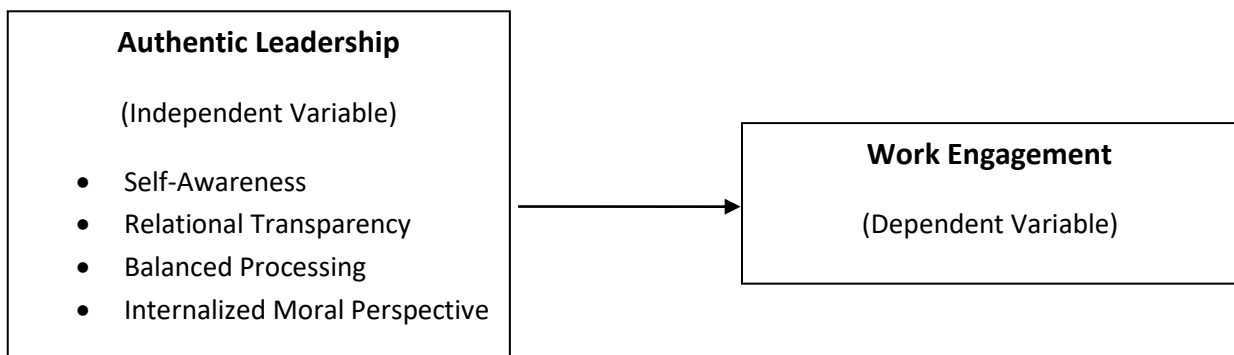


Figure 1: Theoretical Model of the Study

The hypotheses of the study are as follows;

### **Hypotheses**

H0= There is an insignificant effect of self-awareness on employee work engagement

H1= There is a significant effect of self-awareness on employee work engagement

H0= There is an insignificant effect of relational transparency on employee work engagement

H2= There is a significant effect of relational transparency on employee work engagement

H0= There is an insignificant effect of balanced processing on employee work engagement

H3= There is a significant effect of balanced processing on employee work engagement

H0= There is an insignificant effect of internalized moral perspective on employee work engagement

H4= There is a significant effect of internalized moral perspective on employee work engagement

## **RESEARCH METHODOLOGY**

### **Research Nature**

The design of the study is cross-sectional means data is collected only once. Further, the nature of research is quantitative study means data is collected quantitatively.

### Research Population

All commercial banking sector employees from Pakistan make up the population of the study. The exact population is unknown.

### Sample and Sampling Technique

There are two kinds of sampling including probability based and non-probability-based. We selected a sampling frame of 3 commercial banks and distributed 380 survey questionnaires among staff through convenience sampling which is a subtype of non-probability sampling. A total of 133 surveys were returned thus making a response rate of 35%.

### Sources of Data

The survey measure is adapted from previous sources. Authentic leadership is measured by 14 items adapted from Neider & Schriesheim (2011). In this measure, there are 3 items for self-awareness, 3 items for relational transparency, 4 items for balanced processing, and 4 items for internalized moral perspective. The work engagement scale is measured by 9 items adapted from Schaufeli, Bakker, & Salanova (2006).

### Data Collection Procedure

According to Sekaran (2003), there are two types of data collection including the primary and secondary. Primary data is collected firsthand for the research while the secondary data is already available. In the study, data collection is primary. Data collection is based on the survey method which is distributed among the employees and collected back later on by the researcher.

### Data Analysis Technique

Data is analyzed using frequency analysis, descriptive statistics, correlation, and regression analysis.

## RESULTS

This section presents the results including demographic information, descriptive statistics, correlation analysis, and regression analysis. Details are as under.

Table 1  
*Demographic Information*

		Frequency	Percentage
<b>Gender</b>	Male	93	69.93%
	Female	40	30.07%
<b>Age</b>	18-25	41	30.83%
	25.1-35	43	32.33%
	35.1-45	27	20.30%
	Above45	22	16.54%
<b>Work Experience</b>	Less than 1 Year	18	13.54%
	1 to 5 Years	57	42.85%
	5 to 15 Years	43	32.33%
	Above 15 Years	15	11.28%

The demographic statistics indicate that there are 93 males and 40 females participated in the survey. In terms of age, 41 participants belong to 18 to 25 years; 43 belong to 25 to 35 years; 27 participants belong to 35 to 45 years; and 22 participants belong to above 15 years.

In terms of work experience, 18 participants had less than 1 year of work experience; 57 had 1 to 5 years of work experience; 43 had 5 to 15 years of work experience; and 15 had above 15 years of work experience.

Table 2  
*Descriptive Statistics*

	No. of Items	Cronbach Alpha	Min	Max	Mean	S.D.
Self-awareness	03	.851	1.35	4.43	3.73	.58
Relational Transparency	03	.843	1.39	4.69	3.48	.81
Balanced Processing	04	.873	1.22	4.68	4.13	.78
Internalized Moral Processing	04	.773	1.25	4.73	4.06	.43
Work Engagement	09	.826	1.36	4.78	4.24	.56

The result shows that based on the participants' perception, their leader exhibits a moderate to high level of authentic leadership including self-awareness ( $M=3.73$ ,  $SD=.58$ ); relational transparency ( $M=3.48$ ,  $SD=.81$ ); balanced processing ( $M=4.13$ ,  $SD=.78$ ); and internalized moral processing ( $M=4.06$ ,  $SD=.43$ ). Furthermore, work engagement as perceived by the participant is higher level ( $M=4.24$ ,  $SD=.56$ ). Moreover, the result of Cronbach alpha shows that our measure had good reliability since all Cronbach alpha values are greater than 0.70.

Table 3

*Regression Coefficients for the Effects of Authentic Leadership on Work Engagement*

Model	Coefficients				Collinearity Statistics	
	B	S.E.	t	Sig.	Tolerance	VIF
(Constant)	.119	.224	1.92	.067		
Self-Awareness	.176	.081	2.17	.043	.201	3.907
Relational Transparency	.168	.089	1.88	.056	.162	2.322
Balanced Processing	.321	.086	3.73	.034	.235	4.451
Internalized Moral Perspective	.480	.073	6.57	.001	.100	4.076

R= .761  
RSquare=.579  
Fstat= 125.05 (.000)

The result shows that the dimensions of authentic leadership including self-awareness ( $\beta=.176$ ,  $P<.05$ ); balanced processing ( $\beta=.321$ ,  $P<.05$ ); and internalized moral perspective ( $\beta=.480$ ,  $P<.05$ ) have positive and significant effects on work engagement. Whereas, the results for relational transparency ( $\beta=.168$ ,  $P>.05$ ) turned out to be positive but insignificant. These results indicate that the dimensions of authentic leadership with the exception of relational transparency are important for work engagement in this context. Moreover, since all VIF values are less than 5 so it indicates that there is no problem of multicollinearity in our data.

### CONCLUSION AND RECOMMENDATIONS

The focus of the study was to test the effects of authentic leadership dimensions on employee work engagement in the context of commercial banking sector employees in Pakistan. The study utilized a cross-sectional survey for data collection from the selected bank employees. The result indicates that there is a positive influence of authentic leadership on employee work engagement as three out of four dimensions of authentic leadership including self-awareness, balanced processing, and internalized moral perspective have significant influence. In other words, we can say that in this context, employee engagement can be enhanced using authentic leadership.

### **Implications for Theory**

The implication of the results on theory is that authentic leadership can contribute towards employee outcomes including work engagement. The result also implies that for banking sector employees, authentic leadership is an important predictor.

### **Implications for Practice**

The management of the banking sector organizations needs to focus on staff work engagement and use authentic leadership as a suitable tool for this. This implies that management needs to consider authentic leadership-related skills while involved in the selection of the supervisory staff. Similarly, supervisory staff needs more training to become more authentic which is consistent with the development view of authentic leadership.

### **Limitations of the Study**

The limitations include a small sample size and a selection of only three commercial banks. The study is also limited in terms of not using any mediator or moderator to further enhance the understanding of authentic leadership influence on staff.

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