

Transformational Leadership and Firm Performance in Pakistan's Banking Sector: A Comparative Analysis of the Mediating Roles of Self-Efficacy and Work Engagement in Hyderabad and Nawabshah

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ABSTRACT

This study investigates the effect of transformational leadership (TL) and firm performance (FP) in the private banking sector of Pakistan while examining the contextual mediating variables of employee self-efficacy (SE) and work engagement (WE). To examine regional differences, data from Hyderabad (N=156) and Nawabshah (N=100) were combined data from two separate studies. All studies applied Structural Equation Modeling (SEM) and SmartPLS. Results strongly suggest the relationship between TL and FP is positive and completely mediated by SE and WE. Regional differences characterizing the strength of the relationships, the SE WE mediating variables and the dimensions of TL most associated also vary regionally. This paper is a cross regional comparative study which deals with the leadership banking sector in Pakistan and provides guidelines for further studies.

Keywords: Transformational Leadership, Firm Performance, Self-Efficacy, Work Engagement, Private Banking, Pakistan, Cross-Regional Comparison, SEM

INTRODUCTION

The private banking sector of Pakistan is experiencing radical developments due to competition, technology, customer expectations, and regulatory shifts. In this scenario, effectiveness of leadership becomes a critical determinant of success. Modern studies show that leadership is important for an organization's strategic direction, culture, motivation, and operational outcome, all of which are important for banking knowledge-intensive domains (Khan et al., 2023). Among different types of leaders, transformational leadership (TL) is the most important because it encourages and inspires followers to rise above self-serving behaviors for the good of the organization (Bass & Riggio, 2006). They are innovation leaders, who gain trust, and have the ability to articulate a clear vision, which are all very important for driving performance in the troubled economies (Khan & Ghayas, 2022).

Although it is widely accepted that transformational leadership has a positive impact on performance of the firm, the psychological factors that account for this phenomenon need to be clarified more, especially in the non-Western world. Recent scholarly work on the topic affirms that leadership-performance relationship is mainly indirect, with self-efficacy and work engagement serving as mediators (Lee, 2024; Nguyen, 2020). This study focuses on these two critical mediating frameworks.

For transformational leaders, self-efficacy is made possible through empowerment, constructive feedback, and mastery experiences (Usman, et al, 2021). Leaders who ensure purpose and psychological safety also enhance the work engagement, “positive, fulfilling work state” characterized by vigor, dedication, and absorption” (Men & Yue, 2023, Schaufeli, 2021).

The unique banking industry pressures, such as self-efficacy and work engagement, high performance targets, strict regulations, and the need for innovation oriented to the customer, highlight the self-efficacy and work engagement components the most. Self-efficacy employees are able to set more challenging goals, are more resilient to setbacks, and increase the customer satisfaction and financial performance outcomes (Abbas & Raja, 2021).

Leadership styles, and the mediating pathways associated to them, are likely to have different impacts even within a country as diverse as Pakistan. Economic disparities, the level of culture within a country, and maturity of the market are likely to have adverse effects on the perception of all forms of leadership and the associated performance outcomes (Ali, 2022). There have been leadership and human resource practices that have been proved effective for the more advanced countries. Such practices are most likely to be effective for Pakistan as well, but most studies treat the country as a unified state, which leads to overlooking the important sub-national variations.

This study addresses the gap by using comparative analysis on the data from Nawabshah and Hyderabad to analyze the transformational leadership, self-efficacy, work engagement and firm performance relations at do. The purpose and focus of this research are to: first, confirm the TL → SE/WE → FP model in the Pakistani Banking Context; second, evaluate the differences in the strengths of the relationships and context; and third, obtain actionable, contextually relevant recommendations for the emerging Pakistan leadership framework to improve operational effectiveness considering his region-specific challenges on his diverse operational terrains.

In each of the research’s proposals, the focus which is the Pakistan banking context will be approached on a particular framework suggesting the importance of balanced leadership, employee engagement, and business focus for effective operational performance of the region. The model as approached will be multi-faceted and will consider the geo-sociopolitical environments of his chosen urban centers, the branch regulatory environments of the Pakistani banking context, and performance outcomes on a value-added scale.

LITERATURE REVIEW AND HYPOTHETICAL FRAMEWORK

The tenets supporting the connections between transformational leadership, the psychological conditions of employees, and the performance of a firm are strongly embedded in Bandura 1977’s Social Learning Theory SLT and the Job Demands-Resources JD-R model Bakker & Demerouti 2007. These theories offer a useful starting point to analyze how a leader’s behaviors impact the organizational results.

Transformational Leadership and Firm Performance

Transformational Leadership TL is a multifaceted construct which comprises idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration Bass & Riggio 2006. Leaders who practice these behaviors are visionary, can stimulate employees to think and offer tailored assistance. In the harsh environment of private banking, this type of leadership is a necessity, it is not a luxury. This industry's performance is driven by a constant need to innovate, the ability of the customer to trust the bank, and the capacity of the employees to adjust, which is facilitated by TL. A growing body of evidence shows that TL is positively associated with a firm's profitability, customer satisfaction and employee productivity Ashfaq et al. 2021, Judge & Piccolo 2004. Through trust and psychological safety, transformational leaders embolden employees to take smart risks and innovate, which in turn enhances the firm's competitive advantage and financial performance.

The Mediating Role of Employee Self-Efficacy

Social Learning Theory states that learning can happen through direct experience but also through observation, also called vicarious learning (Bandura, 1977). Within this framework, transformational leaders serve as powerful exemplars. Through ethical consistency, commitment, and outstanding ability, they prove themselves as credible champions who deserve emulation (Byrne et al, 2023). This engagement elicits trust and confidence, which is critical for enhancing employee self-efficacy—an individual's belief that they can harness motivation, cognitive resources, and actions to successfully complete a specific set of tasks. modern research verifies that employees tend to derive persuasive mastery experiences after observing a leader successfully surmount obstacles, which consequently strengthens the employees' belief in themselves (Tuan, 2024). This is particularly the case in organizational contexts where leaders empower their teams and articulate a vivid and attainable vision (Lee & Dalal, 2024).

In the banking sector, where employees tackle intricate financial products and astute clients, self-efficacy is imperative. Self-efficacy helps the employees and their willingness to tackle difficult customers and cross-sell, as well as to work through persistent no's. It is documented that TL is positively associated with employee self-efficacy (Zeeshan et al., 2021), others have demonstrated that self-efficacy is a precursor to elevated work productivity (Stajkovic & Luthans, 1998). Thus, we assert that the positive impact of TL on the performance of a firm is transferred through the increased self-belief of employees.

The Mediating Role of Work Engagement

The Job Demands-Resources (JD-R) model is useful in providing more context. It assumes that work-related elements can be structured as either demands (physical, social, or organizational elements that need prolonged effort) or resources (elements that cut the demands, foster growth, and help to accomplish targets) (Bakker & Demerouti, 2007). A prime example of a work resource at this level is transformational leadership.

TL assists employees in simplifying the obstacles encountered on the job, deriving purpose from their work, and sustaining energy and commitment through inspirational motivation, intellectual challenges, and individualized support. This condition is called work engagement. An engaged employee is psychologically more vigorous, demonstrating high energy, concentration, and dedication. The ability to sustain attention on a task, also called absorption, is the most distinguishing trait of this state of mind (Schaufeli et al., 2002). As such, engaged bankers are more willing to walk the extra mile in service of the customers, work better with other employees, and represent the organization more positively. Work

engagement is a robust predictor of the employee and the organization's performance Christian et al. (2011), and a vital link in the chain between leadership and results (Lai et al., 2020). TL certainly cultivates a highly engaging, resource abundant workplace, and this sets the stage for better performance of the firm.

An Integrated Theoretical Model and Hypotheses

In the context of SLT and the JD-R model, we envision a serial mediation model where transformational leadership concurrently develops self-efficacy (via modeling and mastery experiences) and provides resources that facilitate work engagement. The two psychological phenomena, while separate, are linked. Employees with higher self-efficacy tend to become more engaged in their work, and engaged employees are more likely to experience a positive cycle of self-efficacy boosts from effective work. These phenomena, which separate, form a strong psychological bridge that enables the leadership of the firm to translate to performance within the firm, and in this case, the banking firm, to which we refer. From this theoretical rationale, the following hypotheses have been designed to be tested within the two areas of focus, Hyderabad and Nawabshah, with the expectation of being successful.

H1: There is a positive relationship between Transformational Leadership and Employee Self-Efficacy.

H2: There is a positive relationship between Transformational Leadership and Work Engagement.

H3: Regarding Transformational Leadership and Firm Performance, Employee Self-Efficacy is a mediator in the relationship.

H4: Work Engagement assists optimistic leaders (in TL) to capitalize on/performance for firms

METHODOLOGY

In this study, the methodological frameworks used in the two works, titled "The Interconnection Between Transformational Leadership and Organizational Performance" conducted in Nawabshah and "The Effect of Transformational Leadership on Firm Performance: The Mediating Role of Employee Self-Efficacy and Work Engagement" conducted in Hyderabad, are put under critical lens, as grasping these frameworks is pivotal constituting their understanding and comparative outcome analysis.

Table 1: Methodological Comparison of the Hyderabad and Nawabshah Studies

Aspect	Hyderabad Study	Nawabshah Study
Sample Size	156 participants	100 participants
Sampling Technique	Non-probability convenience sampling	Non-probability convenience sampling
TL Measurement	12-item uni-dimensional scale	Multi-dimensional: Inspirational Motivation (IM), Intellectual Stimulation (IS), Individualized Consideration (IC)
SE Measurement	4-item scale (Jones, 1986)	4-item scale
WE Measurement	15-item scale (Schaufeli et al., 2002)	15-item scale (Schaufeli et al., 2002)
FP Measurement	9-item scale (Hancott, 2005)	9-item scale
Analysis Tool	SmartPLS (SEM)	SmartPLS (SEM)

COMPARATIVE DATA ANALYSIS AND RESULTS

Reliability and Descriptive Statistics

Both studies demonstrated strong reliability for their constructs, as indicated by Cronbach's Alpha values well above the 0.70 threshold.

Table 2: Comparative Reliability and Descriptive Statistics

Construct	Hyderabad Study			Nawabshah Study			
	α	Mean	SD		α	Mean	SD
Transformational Leadership	0.752	4.11	1.32	Inspirational Motivation	0.782	3.43	1.45
				Intellectual Stimulation	0.769	4.21	1.21
				Individualized Consideration	0.752	4.03	1.38
Work Engagement	0.763	3.92	1.26	Work Engagement	0.801	3.96	1.30
Self-Efficacy	0.791	3.74	1.21	Self-Efficacy	0.797	3.64	1.27
Firm Performance	0.802	4.18	1.35	Firm Performance	0.823	4.29	1.09

The table 2 shows that the Nawabshah study reports much higher internal consistency reliability across all constructs relative to the Hyderabad study as demonstrated by the Work Engagement (0.801 vs. 0.763), Self-Efficacy (0.797 vs. 0.791), and Firm Performance (0.823 vs. 0.802) scores. While the Hyderabad study assessed Transformational Leadership as one dimension ($\alpha=0.752$), the Nawabshah study assessed it as three dimensions, and with Inspirational Motivation averaging the lowest score (3.43) and the highest standard deviation (1.45) among all other leadership components, it indicates more absence and variability as a dominant leadership style in that sample. Regardless of this difference in the measurement of leadership, both studies have reported remarkably similar, and high mean scores in Work Engagement (Hyderabad: 3.92, Nawabshah: 3.96), suggesting that employees are equally engaged. However, the sample from Nawabshah reported a slightly higher mean score of Firm Performance (4.29) with a lower standard deviation (1.09), suggesting that respondents perceived their performance to be better and there was more agreement among them compared to the respondents in the Hyderabad sample (Mean=4.18, SD=1.35).

Path Analysis and Hypothesis Testing

The core of the comparison lies in the strength of the relationships within the structural model.

Table 3: Comparative Path Coefficient Analysis (β values)

Hypothesized Path	Hyderabad Study (β)	Nawabshah Study (β)
H1: TL \rightarrow Self-Efficacy	0.476	
IM \rightarrow SE		0.431
IS \rightarrow SE		0.354
IC \rightarrow SE		0.341
H2: TL \rightarrow Work Engagement	0.423	
IM \rightarrow WE		0.312
IS \rightarrow WE		0.398
IC \rightarrow WE		0.471
H3: TL \rightarrow (SE) \rightarrow FP	0.416	0.383
H4: TL \rightarrow (WE) \rightarrow FP	0.389	0.492

Table 3 indicate that, , the path coefficient analysis compares leadership in contrast to the Performance of the Firm across the two locations. The Impact of Transformational Leadership (TL) on Self-efficacy (H1) and later the Self-efficacy's role in driving firm's performance (H3) seems to be strong across both Hyderabad ($\beta=0.416$) and Nawabshah ($\beta=0.383$), along with self-efficacy. These seem to be consistent and strong self-efficacy conclusions. Balanced in transforming theorized work engagement the TL and firm performance model (H4) seems to be more consistent and stronger in Nawabshah ($\beta=0.492$) as compared to Hyderabad ($\beta=0.389$) which shows some improvement which in engagement suggests employee engagement serves as a more central mediating TL self-efficacy level. It also refers to an observation and suggests that in Nawabshah, while Inspirational Motivation seems to cast the stronger effect on self-efficacy, Individualized Consideration tends to have the stronger influence on work engagement, showing the need for leaders in that area to foster engagement by focusing on the need of the individual employees.

Model Strength (R^2 Values)

The explanatory power of the models for the endogenous variables further highlights regional differences.

Table 4: Comparative Model Explanatory Power (R^2 values)

Endogenous Variable	Hyderabad Study	Nawabshah Study	Interpretation
Firm Performance (FP)	0.402	N/A	The Hyderabad model explains 40.2% of the variance in FP.
Work Engagement (WE)	0.201	N/A	The model explains less variance in WE in Hyderabad (20.1%).
Self-Efficacy (SE)	0.213	N/A	The model explains 21.3% of the variance in SE in Hyderabad.
<i>The Nawabshah study did not report R^2 values for FP, WE, and SE, limiting direct comparison on model fit.</i>			

DISCUSSION

Insights from the comparative analysis reveal two major points. To begin with, the core model's fundamental structures do not differ between Hyderabad and Nawabshah, as transformational leadership improves all businesses by positively affecting the self-efficacy and engagement of employees. This absence of variation affirms the transformational leadership - self-efficacy - work engagement - firm performance nexus in the Banking Sector of Pakistan. Second, descriptive differences do appear, however, in the strength of the mediating pathways on the whole. In Hyderabad, transformational leadership's effect is stronger with self-efficacy ($\beta=0.416$) than work engagement ($\beta=0.389$), meaning employees' self-beliefs and performance capabilities are central to attaining and driving outcomes. In contrast, in Nawabshah, work engagement serves as the predominant mediator ($\beta=0.492$), and individualized consideration is the strongest performer out of all leadership dimensions. This is suggestive of different contextual elements such as organizational culture, market competition intensity, and employee and client socio-economic characteristics. This is proof that leadership outcomes are indeed influenced by contextual factors.

CONCLUSION AND IMPLICATIONS

In overall, results substantiated that transformational leadership improves organizational outcomes in the banking sector in Pakistan. Also, self-efficacy and work engagement are important mediating factors. The Hyderabad research has stronger statistical confirmation, whereas the Nawabshah case sheds light on the engagement driven mechanism in lower order urban settings. Conceptually, this justifies the TL-SE-WE-FP framework in the developing world, plus extends knowledge on the varying significance of mediating factors across different contexts, underscoring the necessity of tailoring those frameworks to the contexts. On the other hand, banking institutions should focus on transformational leadership training that enhances self-efficacy, and fosters work engagement.

LIMITATIONS AND FUTURE RESEARCH

Both studies have methodological weaknesses, such as cross-sectional design, convenience sample, and self-sampling bias. Also, the absence of R^2 in the Nawabshah study limits the comparative rigor. Future studies need to adopt longitudinal designs, larger random samples, and more objective performance measures. A critical next step will be to explain the cultural, organizational, and economic factors that support the regional variations, which will further refine the contextual boundaries of transformational leadership theory.

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