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## Impact of authentic leadership on employee engagement in the banking sector of Karachi

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**Abstract:** This study aims to examine the impact of dimensions of authentic leadership (namely self-awareness, relational transparency, internalised moral perspective and balanced processing) on the dimensions of employee engagement (namely vigour, dedication and absorption) in the banking sector of Karachi. Two separate instruments were adapted, the first instrument consisted of 16 items and was used for measuring the dimensions of authentic leadership, these instruments were filled by subordinates. Whereas, the second instrument consisted of 17 items and is used to measure dimensions of employee engagement, supervisors were asked to fill these instruments with respect to their subordinates. In all, data were collected from 230 pairs of respondents from the banking sector of Karachi. Three separate multiple regression analyses were used as the statistical technique. Results showed that relational transparency, internalised moral perspective and balanced processing have positive impact on vigour. Whereas, self-awareness, relational transparency, internalised moral perspective and balanced processing have positive impact on dedication. On the other hand, self-awareness has positive impact on absorption.

**Keywords:** employee engagement; authentic leadership; banking sector; Karachi.

**Reference** to this paper should be made as follows: Khan, M.M.S. and Ghayas, M.M. (2022) 'Impact of authentic leadership on employee engagement in the banking sector of Karachi', *Int. J. Business Performance Management*, Vol. 23, Nos. 1/2, pp.90–98.

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This paper is a revised and expanded version of a paper entitled 'Impact of Authentic Leadership on Employee Engagement in banking sector of Karachi' presented at FIR Conference, Dubai, UAE, 24 September 2020.

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## **1 Introduction**

### *1.1 Overview*

In the 21st century, leaders are expected to value the employees of their organisation and try to provide an optimistic environment that promotes individual contributions and affect employee engagement to the organisation's work. According to Myrick and Young (2005), the foundation of effective leadership is the authentic bond and attachment, which characterised the employer-employee relationship. Currently, the business environment across the world is going through rapid changes and organisations are facing challenges because of this rapid change in environment. Therefore, organisations need leaders who are able to motivate their employees to give consumer services better than before. Furthermore, researchers (Harter et al., 2002; Avolio et al., 2004) have argued that leadership plays a key role in enhancing the employee engagement in performing their work role. However, there is a debate about the use of different leadership styles.

A number of researchers have studied leadership styles. Some have even studied authentic leadership as well. Furthermore, researchers (Rego et al., 2012) have suggested that authentic leadership style has significant relationship with job satisfaction, organisational citizen behaviour, creativity, commitment, and employee engagement and thereby improves the work outcomes. Banks et al. (2016) explained authentic leadership as the state where employees think that their leader and organisation treat them in a positive manner and value them. This in turn helps may help the organisations to gain creative cooperation of employees. Therefore, this study seeks to test the relationship between the dimensions of authentic leadership and employee engagement.

### *1.2 Problem statement*

Researchers have argued that supervisor's support (leaders/managers support) is important for employees work related outcomes (Zahra et al., 2013). Therefore, a number of researchers (Northouse, 2018; Fairhurst and Connaughton, 2014; Shamir and Eilam-Shamir, 2018) have worked on leadership. Few people have worked on authentic leadership (George et al., 2007; Wang et al., 2014; Regan et al., 2016). Others (Walumbwa et al., 2011) studied the relationship between authentic leadership and work related outcomes such as organisational citizenship behaviour. On the other hand, researchers (Robinson et al., 2004; Macey and Scheneider, 2008), also worked on employee engagement. Schaufeli et al. (2002) suggested three dimensional model of employee engagement, these dimensions include vigour, dedication, and absorption. Abidin (2017) tested the association between perceived authentic leadership and employee engagement. Wang and Hsieh (2013) also tested the association between the authentic leadership and employee engagement in Taiwan's National Changhua University of Education but there is a scarcity of research on the topic of impact of authentic leadership on employee engagement in the banking sector of Karachi.

Therefore, this research study aims to test the relationship between authentic leadership and employee engagement in the banking sector of Karachi.

## **2 Literature review**

### *2.1 Theoretical background*

This study is based on leader-member exchange (LMX) theory. Graen and Uhl-Bien (1995) suggested that leader-member exchange (LMX) theory is a relationship-based approach to leadership that focuses on two-way relationship between leaders and their followers. Hence, this theory talks about the existence of relationship between the leaders and followers. The theory further suggests that the quality of that relationship among leaders and followers influences the work outcomes of subordinates (Deluga, 1998). Since, this research study talks about authentic leadership, therefore, it is assumed that use of dimensions of authentic leadership helps improving the relationship between the leader and the subordinates which in turn helps the firms to enhance the level of employee engagement among the sub-ordinates. Hence, this study is based on the conceptual underpinnings of the leader-member exchange (LMX) theory.

### *2.2 Authentic leadership*

Leadership is an interesting subject and several researches have studied a number of leadership styles such as transactional, transformational, autocratic, authentic, democratic, servant, situational, bureaucratic, charismatic and laissez-faire (Mosadeghrad, 2004). However, selecting the best leadership style is a difficult task. It is primarily because of the fact that situation often dictates the requirement of leadership style. According to Walumbwa et al. (2008) authentic leadership can be described as the state in which the leaders leads to promoting the ethical climate that will encourage self-awareness, balanced processing of information, the internalised balance perspective and relational transparency.

### *2.3 Dimensions of authentic leadership*

There are four dimensions of authentic leadership. These are self-awareness, relational transparency, internalised moral perspective and balanced processing. Kernis (2003) defined self-awareness as the process of having awareness of people's motivations, requirements, and self-related thoughts. According to Lagan (2007) self-awareness is the understanding one have about himself/herself or how these understanding impacts on his or her self-reflection over time. On the other hand, relational transparency is described as being genuine, sincere and straightforward in dealing with others. It is therefore argued that authentic leaders do not have secret or unknown agendas, therefore, employees know where they stand with an authentic leader. Gardner et al. (2005) stated that authentic leaders have relational transparency in communicating their true feelings and emotions to followers or employees. Relational transparency means personal releases, such as knowledge sharing, and conveying true feelings and thoughts with employees and other relevant (Walumbwa et al., 2010). The third dimension of authentic leadership is internalised moral perspective. This dimension talks about the internal ethical standards

and values of leaders (Avolio and Gardner, 2005). Authentic leaders display high level of moral honesty. Whereas, balanced processing is the last dimension of authentic leadership. The balanced processing means analysing all relevant information accurately, termed balanced processing (Gardner et al., 2005).

#### *2.4 Employee engagement*

Schaufeli et al. (2002) suggested that employee engagement is a positive, satisfying, working mental state. The researchers further argued that the engagement is a continuous emotional cognitive state, which is characterised by vigour, dedication, and the absorption. Saks (2006) stated that engagement is the level of focus rather than the attitude and is different from the job involvement.

#### *2.5 Dimensions of employee engagement*

The literature pertaining to employee engagement suggests that there are three dimensions of employee engagement. These are the vigour, dedication and absorption. According to Maslach et al. (2001) vigour is described as an extraordinary level of energy and mental flexibility for the duration of work, enthusiasm to spend struggle in people's effort, and persistence even in the facing of problem and complications. On the other hand, dedication is described in terms of quality of being committed or loyal to a purpose or a task. According to Maslach et al. (2001), experiencing a sense of significance, passion, interest, motivation, encouragement, pride challenges and being strongly involved in people's work is known as dedication. Absorption is the last dimension of employee engagement. Maslach et al. (2001) considered absorption to being fully focused and well occupied in effort.

#### *2.6 Authentic leadership and employee engagement*

Researchers have argued that supervisor's support (leaders/managers support) is important for employees work related outcomes (Zahra et al., 2013). Therefore, many researchers (Northouse, 2018; Fairhurst and Connaughton, 2014; Shamir and Eilam-Shamir, 2018) have worked on leadership. Few people have worked on authentic leadership (George et al., 2007; Wang et al., 2014; Regan et al., 2016). Whereas, others (Robinson et al., 2004; Macey and Scheneider, 2008) have worked on employee engagement. Abidin (2017) tested the effect of perceived authentic leadership on employee engagement. However, there is no such study that tests the impact of authentic leadership in the banking sector of Karachi, therefore, this research study aims to test the impact of the dimensions of authentic leadership on the dimensions of employee engagement in the banking sector of Karachi.

### **3 Methodology**

To examine the impact of authentic leadership on employee engagement in banking sector of Karachi, survey questionnaires were used for data collection and to obtain the factual results. Two separate instruments were adapted for the purpose of conducting this research study. A 16 item instrument was used for measuring the dimensions of authentic

leadership. Whereas, a 17 item instrument was used to measure the dimensions of employee engagement. The first instrument was used to measure that if the supervisors are showing authentic leadership, the data were collected from sub-ordinates working in the banking sector. Whereas, the second instrument was used to collect the data about employee engagement, supervisors were asked to fill the instruments with regard to the employee engagement of their respective sub-ordinates. For measuring the employee engagement, items were adapted from the job engagement scale of Schaufeli et al. (2006) whereas for measuring the authentic leadership, items were adapted from Avolio et al. (2004). Respondents were requested to rate their opinion for respective questions asked in a five-points Likert scale. The scale was fluctuating by strongly disagree to strongly agree. In all, this cross-sectional study collected the data through two separate survey questionnaires from a total of 230 pair of respondents from banking sector of Karachi. Since, employee engagement is conceptualised as a three dimensional construct (namely vigour, dedication and absorption) in this research study, therefore, three separate multiple regression analyses were employed to test the association between dimensions of authentic leadership and each of the dimension of employee engagement. For analysis, following regression equations were developed:

$$VGR = \alpha + \beta_1 SA + \beta_2 RT + \beta_3 IMP + \beta_4 BP + \varepsilon$$

$$DDC = \alpha + \beta_1 SA + \beta_2 RT + \beta_3 IMP + \beta_4 BP + \varepsilon$$

$$ABS = \alpha + \beta_1 SA + \beta_2 RT + \beta_3 IMP + \beta_4 BP + \varepsilon$$

where, VGR is vigour, DDC is dedication, ABS is absorption, SA is self-awareness, RT is relational transparency, IMP is internalised moral perspective, BP is balanced processing,  $\alpha$  is constant,  $\beta$  is the regression coefficient and  $\varepsilon$  is the error term.

## 4 Results

### 4.1 Reliability

Cronbach's alpha test was run to check the internal reliability. The standard value is 0.70 or above, it reflects that data received from questionnaire is reliable and can be used for further statistical analysis and interpretation of results. The Cronbach alpha values of the variables have given in Table 1.

**Table 1** Reliability analysis

<i>Variable name</i>	<i>Number of items</i>	<i>Cronbach alpha</i>
Self-awareness	4	0.702
Relational transparency	6	0.700
Internalised moral perspective	4	0.707
Balanced processing	3	0.792
Vigour	6	0.701
Dedication	5	0.779
Absorption	6	0.707

Since, the Cronbach alpha value for all the variables is greater than 0.7 so the data is reliable.

#### 4.2 Results of regression analysis for model 1

Since, there are three dependent variables in this study, therefore, three separate regression analyses were used to test the hypotheses. In the first model, dimensions of authentic leadership are regressed against vigour. The results of this models are given in Table 2.

**Table 2** Regression results for model 1 – vigour as dependent variable

<i>Variables</i>	<i>β estimate</i>	<i>t-value</i>	<i>p-value</i>	<i>VIF</i>
Constant	1.909	7.879	0.000	
SA	-0.101	-1.680	0.094	1.241
RT	0.161	2.893	0.004	1.239
IMP	0.216	3.413	0.001	1.719
BP	0.174	3.418	0.001	1.494

Notes: Adjusted R-square = 0.236, F-statistics = 18.712 and sig-value = 0.000.

Since, the F-statistic is greater than 3.5 and its significance value is 0.000 that is lower than 0.05, which indicates that there is no issue of model fit for the model. Furthermore, the adjusted R-square value was 0.236 indicating that 23.6% of variance in the dependent variable can be explained through the dimensions of authentic leadership. Furthermore, since the VIF values for all the variables are less than 10, therefore, it is suggested that there is no issue pertaining to multicollinearity. Results indicated that three (relational transparency, internalised moral perspective and balanced processing) of the four dimensions of authentic leadership have significant association with vigour.

#### 4.3 Results of regression analysis for model 2

In the second model, dimensions of authentic leadership are regressed against dedication. The results of this models are given in Table 3.

**Table 3** Regression results for model 2 – dedication as dependent variable

<i>Variables</i>	<i>β estimate</i>	<i>t-value</i>	<i>p-value</i>	<i>VIF</i>
Constant	1.241	5.394	0.000	
SA	0.148	2.586	0.010	1.241
RT	0.111	2.091	0.038	1.239
IMP	0.248	4.129	0.000	1.719
BP	0.217	4.492	0.000	1.494

Notes: Adjusted R-square = 0.388, F-statistics = 37.259 and sig-value = 0.000.

Since, the F-statistic is greater than 3.5 and its significance value is 0.000 that is lower than 0.05, which indicates that there is no issue of model fit for the model. Furthermore, the adjusted R-square value was 0.388 indicating that 38.8% of variance in the dependent variable can be explained through the dimensions of authentic leadership. Furthermore,

since the VIF values for all the variables are less than 10, therefore, it is suggested that there is no issue pertaining to multicollinearity. Results indicated that all the four dimensions (self-awareness, relational transparency, internalised moral perspective and balanced processing) of authentic leadership have significant association with dedication.

#### 4.4 Results of regression analysis for model 3

In the second model, dimensions of authentic leadership are regressed against absorption. The results of this models are given in Table 4.

**Table 4** Regression results for model 3 – absorption as dependent variable

<i>Variables</i>	<i>β estimate</i>	<i>t-value</i>	<i>p-value</i>	<i>VIF</i>
Constant	3.274	12.453	0.000	
SA	0.131	2.012	0.045	1.241
RT	-0.177	-2.937	0.004	1.239
IMP	0.092	1.344	0.180	1.719
BP	0.049	0.888	0.376	1.494

Notes: Adjusted R-square = 0.049, F-statistics = 3.981 and sig-value = 0.004.

Since, the F-statistic is greater than 3.5 and its significance value is 0.004 that is lower than 0.05, which indicates that there is no issue of model fit for the model. Furthermore, the adjusted R-square value was 0.049 indicating that only 4.9% of variance in the dependent variable can be explained through the dimensions of authentic leadership. Furthermore, since the VIF values for all the variables are less than 10, therefore, it is suggested that there is no issue pertaining to multicollinearity. Results indicated that self-awareness has significant positive impact on absorption, whereas, relational transparency has significant negative association with absorption.

## 5 Discussion, conclusions and future research

### 5.1 Discussion

Nowadays, employee engagement has become a major concern for organisations. Employee engagement is the result of personal characteristics such as personality, skills, knowledge, abilities, temperament and attitudes, organisational context, which contains leadership, physical setting and social setting, and HR practices that directly affect the person, process and context mechanism of job performance (Vance, 2006). The researchers further argued that the engagement is a continuous emotional cognitive state, which is characterised by vigour, dedication, and absorption. Researchers (Walumbwa et al., 2008; Giallonardo et al., 2010) have previously suggested that authentic leadership style can be helpful in enhancing the employee engagement among the employees. Given these particular positive evidences, this research is conducted to examine the impact of authentic leadership on the employee engagement in the banking sector of Karachi. Therefore, this research study is of significance importance for the managers of banking sector of Karachi in appraising their knowledge about the ways to enhance the employee engagement among the employees of the banking sector.

## 5.2 Conclusions and policy implications

In this research, it is found that vigour has largely affected by three factors that are relational transparency, internalised moral perspective and balanced processing, and there is no significant relationship between leaders' self-awareness and vigour. Furthermore, it is also found that all the four dimensions of authentic leadership have significant association with the dedication. Results also suggested that self-awareness has significant association with the absorption dimension of employee engagement. Therefore, it is suggested that managers in the banking sector should use the discussed dimensions of authentic leadership style in order to enhance the employee engagement among the employees.

## 5.3 Future research

Since, it is found that the dimensions of authentic leadership are positively related to the dimensions of employee engagement. Therefore, it is suggested that future researchers should test the relationship between the dimensions of authentic leadership with the antecedent and consequences of employee engagement such as job satisfaction, organisational commitment, organisational citizenship behaviour etc.

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