



## **The Impact of Transformational Leadership on Organizational Performance: The Mediating Role of Organizational Knowledge in Pakistan's Service Industries**

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ARTICLE INFO	ABSTRACT
<p><b>Keywords:</b> Transformational Leadership, Organizational Performance, Organizational Knowledge, Service Industry, Knowledge Management</p> <p><b>Corresponding Author:</b> <b>Malik Taimour Sarwar</b>, PhD Scholar, Perdana university, Malaysia, <b>Email:</b> <a href="mailto:maliktamoor45@gmail.com">maliktamoor45@gmail.com</a></p>	<p>The service industry is under pressure to redefine itself to improve organizational performance. This study investigates the impact of transformational leadership on organizational performance within Pakistan's service industries, with a specific focus on the mediating role of organizational knowledge. While prior research establishes a link between transformational leadership and performance, the mechanisms—particularly through organizational knowledge—remain underexplored, especially in the Pakistani context. The study aims to identify this impact, analyze the mediating effect of organizational knowledge (comprising knowledge slack, absorptive capacity, and tacitness), and provide practical implications for business practitioners. Addressing a gap in the literature, this research highlights how transformational leaders can enhance competitiveness and performance by fostering an environment conducive to knowledge creation, management, and application. The findings are intended to guide policymakers and organizational leaders in overcoming barriers to sustaining competitive advantage in a dynamic business environment.</p>

### **1.1 BACKGROUND**

Service industry is currently challenged to redefine them in order to achieve improvements in organizational performance (Sigala, 2016). Consequently, the present study aims and focuses to endeavour research in context of Pakistan's service industries to discover about the performance and competitiveness of the industry. Transformational actions and decisions are more important for the organization to achieve its goals and

objectives. The main role of the transformational leader in simple words is that the leaders who transform his or her vision in to reality and motivates employees or resources to exceed their personal interest for the good of the group Bateman & Snell (2011). Thus, transformational leadership takes part to boost the company's performance. organization relies on the employee's decisions, performance and strategies which he/she takes in organization. The main intention of the present study is to analyze the influence of transformational leadership on organization's performance in the context of Pakistan's Service industry and to measure the mediating role of Organizational knowledge. Understanding the impact of transformational leadership and the mediating role of organizational knowledge is very important to improve the organization's performance and to achieve competitive advantage. Transformational leadership is the practice in which bosses and subordinate assist each other to develop the confidence among each other and performance of organization (Burns J. , 1987) . This term is used in organizational psychology since Burns (1987) established two concepts, one being the transformational leadership and the second being the transactional leadership.

Transactional leadership creates an important change in life of employees and organization where their major purpose is to enhance the organization's productivity. It is also used to redesign perception and values, expected change and inspiration of employees. Transactional leadership is based on to give and take relationships. It reflects the leader's personality, values, traits and ability to make change through an individual experience if organization wants to change its productivity (McLean, 2005).

There are certain types and styles of behaviour which characterizes transformational leadership. According to most of the researchers (McLean, 2005; Riaz & Haider, 2010) the transformational leadership styles vary widely from person to person. These types of transformational leaders are hardworking, learners; their experiences help the organization to develop new strategies, polices, rules and regulations which affect the organization's performances (Riaz & Haider, 2010).

Transformational leaders make the difference between success and failure of any organization. Many factors are involved in it like willingness to accept calculated risk, contributed to his well-known speed, surprise and boldness (Zhu, Chew, & Spangler, 2015). The role of transformational leadership is to encourage the employees, retained the employees, motivate them to gain high productivity form their sides (Bass, 2006). Knowledge, skills and ability contributes to transformational leadership.

## 1.2 PROBLEM IDENTIFICATION

Although review of the past literature (Avolio & Bass, 2016; Bass, 1990; Burns J. , 1987; Medina, Lavado, & Cabrera, 2003) show that the transformational leaders employ a considerable influence on firm's performance. However, the ways by which these influences are employed are still limited. Transformational leaders are basically creating values, pathfinders, creators, interpreters and molders of an organizational culture (Egan, 1985). The vision of transformational leaders is very strong, their actions, decisions and strategies directly affects the organization's performance (Hernaus, Škerlavaj, & Dimovski, 2008) . Thus, transformational leaders deeply sense the system; they create long term strategies and also give the organization direction which helps to gain profit. Transformational leaders also know culture, norms, ethic believe that develop system of organization to achieve its purpose. They create innovation and motivation in such a way

that it molds the culture and meet the external and internal environmental need (Egan, 1985).

Anderson et al. (2006) explained transformational leaders as mostly a visionary. Transformational leaders are highly skilled in planning, controlling and leading in unpredictable change of environment (Anderson, Gisborne, & Holliday, 2006).

### **1.3 PROBLEM STATEMENT**

The present study seeks to fill the gap in the existing research literature on the impact of transformational leadership on organization's performance in the context of Pakistan's service industries. It describes and analyzes how transformational leadership influences the organization's performance through the mediating role of, organizational knowledge to meet the demands posed by ever changing business environments. Pakistan's service industry is facing performance and turnover issues. Industry needs leadership and retention of good employees. However, existing literature depicts a mild gap with regard to the mediating role of organizational knowledge especially in the context of Pakistan. Past research studies have analyzed the direct and indirect relationship between these variables and the impact of transformational leadership on organization's performance mediated through organizational knowledge. However, in the context of Pakistan's service industries previous research has not analyzed and explored these relationships.

### **1.4 Objectives of the Study**

Given the problem statement, the following objectives are set for the present study:

- To identify the potential impact of transformational leadership on organization's performance in Pakistan's service industries.
- To analyze the mediating role of organizational knowledge between transformational leadership and organization's performance.
- To provide implication for business practitioners to improve organization's performance and strengthen competitive advantage.

### **1.5 Research Questions**

Specifically, this study formulates the following research questions:

*Q1. What are the potential impacts of the transformational leadership on Organizational performance in Pakistan's service industries?*

*Q2. What is the empirical analysis to support the mediating role of knowledge, organizational knowledge between transformation leadership and organizations' performance?*

*Q3. How can the implication be analyzed for the business practitioners to improve organization's performance and strengthen competitive advantage?*

## **LITERATURE REVIEW**

### **2.1 Transformational Leadership**

Transformational leadership has intrigued many researchers and most of the work done in this field has been carried out in the past two decades (Avolio & Bass, 2004; Conger & Benjamin, 1999; Howell & Avolio, 1993). The findings of these studies presented that transformational leadership was surely influential on the outcome of the organizational working(Pillai, Scandura, & Williams, 1999; Burns, 1978; Densten, 2005).

More recently, it was tested in a model where it was confirmed that the transformational leadership is quite supportive towards a business which is conscious about the value and market sustainability (Barling, Christie, & Turner, 2008). Alternatively, another pressing idea was the fact that leaders of the corporate world are expected to overcome challenges

and facilitate the world around them with hopes of creating a better and enhanced system focusing on human values for a future benefit; thus, leadership can be argued to be a responsibility than being a privilege (Maak & Pless, 2009).

The relative theory on leadership where it used the concepts such as power, relationship with others and the purpose of such establishment was presented in the year 1978 where a theory was presented to evaluate the change factor in an organization (Burns, 1978).

The term itself was coined by Downton (1973) where the context of the term was used in a much different manner and was more inclined towards a political setting (Downton, 1973) . Burns (1978) primarily used this term around 5 years later in reference to organizational change. The theory involved the factors that produced organization change from the direction of the leadership concept and the relationship of leaders and the followers with the relative values and motives. The purpose was to identify whether change was instigated through the use of power or motivation directed towards the employees. The model presented by Burns (1978) explained transformational leadership with a mutual effort to collaborate and working with each other to collectively increase the morale and motivation among the leader and followers. Another model presented by Avolio and Bass (2004) which they called the 'Full Range Leadership Model' which essentially covered the behaviors under different leadership styles such as transactional, transformational and laissez-faire that initiate and support organizational change (Michel, Lyons, & Cho, 2011).

### **2.3.1Impact of Transformation Leadership on Organizational knowledge**

According to Barrett and Sexton(2006), management of knowledge enables the firm to achieve competencies that will enhance the organizational performance and lead the firm to survive in competitive environment. Transformational leader treat organization as knowledge based system.In this system information and knowledge, absorptive capacity, or existing knowledge i.e. knowledge slack circulates in the organization. This circulation of knowledge is done by processes of organizational learning. It generates new knowledge and when it is applied; it leads towards (innovation) and as a result generates organizational performance and the desired competence (Nonaka and Takeuchi 1995; Senge et al., 1994).

Thorlindsson's study (1987) on Icelandic ships showed that the leadership qualities of the captain under identical conditions produced a variation of 35% to 49% among the total catch that various ship crews were able to get primarily due to the leadership style of the captain that promoted a certain team learning and technique.

The crew was observed with the captain for a period of three years which allowed the captain to develop a certain level of skill in the crew. As mentioned earlier through various studies, transformational leaders are charismatic, and inspirational (DuPont, 2002; Downton, 1973; Realin, 2003).

Thus, transformational leadership is influential towards innovation indirectly through the process of communication and the process of organizational knowledge creation. Transformational leaders promote good communication channels and build trust, enables, generates and transmit knowledge (Senge, 1990; Slater and Naver, 1995).

On the basis of above discussion we can draw these two hypotheses.

H1: Transformational leadership has significant impact on organizational performance.

H2: Transformational Leadership has significant impact on Organizational Knowledge.

### **2.3.2 Impact of Knowledge Management on Performance**

Researchers working on knowledge management suggest that knowledge acquisition activities would enhance company's strength and abilities. Companies practicing knowledge management activities can perform its role efficiently and effectively (Grant, 1996). This is not possible to manage all the needed knowledge within organization. But organizations having such practices can gain competitive advantage over the rival firms (Chen and Lin, 2004; Zahra and George, 2002). If a firm has a stronger capacity in acquiring knowledge, there are more chances to achieve better organizational performance (Minonne & Turner, 2009).

The study conducted by Minonne (2009) included around 250 organizations from which 260 samples were extracted in Europe which showed that the knowledge management was not integrative, and the measurement of effects of Knowledge management was not present which resulted in a poor performance level among the samples.

The subject of study was a middleman company which acted as an intermediary for the client and the vendor. The results of the study were concluded that the transnational intermediaries will be catering more than 50% of the industry service based on their capability to learn and gain new knowledge (Mahnke, Offshore Middlemen: Transnational Intermediation in Offshore Systems Development, 2007). On the basis of above discussion we can draw this hypothesis.

H3: Organizational Knowledge has significant impact on Organizational Performance.

### **2.4 Transformational Leadership**

The framework designed for this research circles around the formally represented relationship and the causal attribution of the leadership factor on the subsequent factors which will be tested later in the study. Transformational Leadership will be major focus here and the effect it has on the organizational elements which determine the learning capacity of the employees and the ability of the organization to facilitate the performance that they produce and illustrate in order to gain growth and achievement in their career.

The literature review has been depicting the effects of the transformation leadership style on the organizational attributes and the employees. Transformational leadership is a leadership which affects the followers which in this case are the organizational employees through the charismatic, inspirational and intellectual ability of the leader.

The basic purpose of such qualities is to make the processes of the organization productive and original in its true sense so that the organization can be termed as a pioneer of its own method of operating in the market (Conger & Benjamin, 1999). Thus, communication is pivotal in this process since the leadership can facilitate knowledge creation and can greatly contribute towards the success of the organization.

It is visible in the real life scenario that communication is the most stressed element in the working of the organization. Other elements which are equally important are the relationships which are based on trust, to promote the effectiveness of communications network and transmission of knowledge and the creation of knowledge as well while reducing slack and handling tacitness of the knowledge (Slater & Naver, Market Orientation and the Learning Organization, 1995).

#### **2.4.1 Knowledge Management**

The literature review has shown that the knowledge management basis of the organization is quite crucial in determining the performance attribute of the organization and it is imperative that the knowledge management function is made seamless to equip

the workforce with the latest trends in the market and the market knowledge to compete efficiently with the competitive forces present. Knowledge slack and tacitness of the knowledge are accompanying factors which are present to cause a variation in the knowledge management function. The organizational performance surely is not affected by the knowledge alone which is why Knowledge slack and tacitness has been included in the study as well under the same heading. Another subheading of the knowledge variable is the absorptive capacity of the employees which is important to understand the beneficial effect of the knowledge in the first place. If the absorptive capacity of the employees is less, the effect of knowledge will be effective as such and vice versa.

There is a consensus among the management scholars that the firms are able to excel in their respective areas, the results are visible as a higher level of competitive advantage and organizational performance when compared to the competitors (Tippins & Sohi, 2003).

#### **2.4.2 Knowledge Management and Service Industry Performance**

The idea of the research being conducted is to see whether the variables will affect the performance of the Service Industry of Pakistan. The acquisition and utilization of knowledge essentially enhances the ability of the organization to perform on a better level (Grant R. , 1996). All knowledge cannot be generated or created through experience which is why the industry knowledge is important to acquire and disseminate among the employees. The dissemination of the relative organization knowledge has to be effective to ensure that the organization stays up to date with the recent trends and views of the industry and the insights they have to run a proper set of operations (Mahnke, Wareham, & Bjorn-Andersen, Offshore Middlemen: Transactional Intermediation in Offshore Systems Development, 2007).

The competitive advantage of the organization is enhanced with this knowledge to operate on a bigger scale (Grant R. , 1996). The same idea was promoted through the research work of Teece (1998). Darroch (2005) approached the topic with a different angle stating that the use and propagation of new knowledge can be used to initiate improvements in the department since more people are exposed to it (Darroch, 2005). On the basis of above discussion we can draw this hypothesis.

H4: Organizational Knowledge has mediating effect in relationship between transformational leadership with organizational performance.

#### **2.5 Organizational Performance**

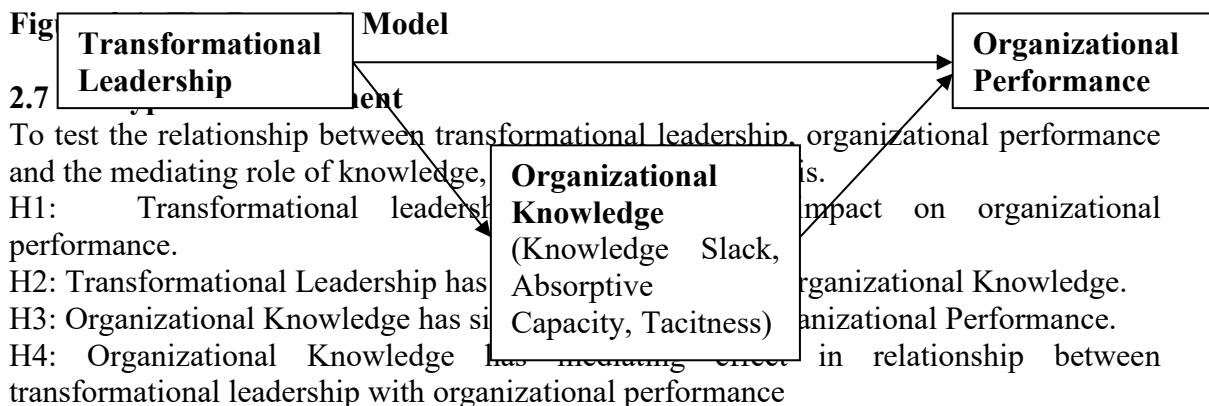
An organization is quick in absorbing external influences and internally it has to be able to adopt the influences which are positive, hence the targeted areas of transformational leadership which also increases the organizational performance (Zahra & George, 2002). According to Barrett and Sexton(2006), management of knowledge enables the firm to achieve competencies that will enhance the organizational performance and lead the firm to survive in competitive environment. Transformational leader treat organization as knowledge based system. In this system information and knowledge, absorptive capacity, or existing knowledge i.e. knowledge slack circulates in the organization. This circulation of knowledge is done by processes of organizational learning. It generates new knowledge and when it is applied; it leads towards (innovation) and as a result generates organizational performance and the desired competence (Nonaka and Takeuchi 1995; Senge et al., 1994).

With process of shared knowledge company can get synergistic benefits. This can be obtained from the processes of knowledge sharing among employees (Nonaka and Takeuchi 1995; Nonaka and Konno, 1998). In this process knowledge sharing will enhance the competitive advantage as knowledge will be part of the organization (Grant, 1996). Knowledge management capabilities within the company can avail a positive input to the organizational performance.

## 2.6 The Research Model

The following theoretical framework has been developed on the basis of evidence available in above mentioned literature. The dependent variable is organizational performance and mediating variable is organizational knowledge and the independent variable is transformational leadership.

The variables such as the knowledge slack, tacitness which cannot be stated and only implied are elaborated. With this variable, the organization performance surely gets affected and it is needed to be highlighted with the respect to the practice of transformational leadership. The graphical representation of the Conceptual Framework is as follows:



## RESEARCH METHODOLOGY

Current research is applied research and by using quantitative approach, the responses from the group of people (population) gathered. This approach used in behavioural studies (social sciences, sociology, etc.). The current study is applied research in nature because hypothetical statements tested in order to determine the significance level among the predictors and dependent variable of proposed model. This study used Hypothetical-deductive approach (Sekaran, 2000). The study was carried out among the employees of banking, telecommunication and health care industries in the region of Rawalpindi, Islamabad in Pakistan. These companies have a global business many countries of the world. All items were measured on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The result of reliability analysis are presented in table which shows that TL consists of the 4 items, the reliability of this variable is 0.84, the reliability as per original scale was 0.87. The reliability of OP is 0.784 with 6 items but the reliability of original scale is 0.75. The reliability of OK is 0.773 with 10 items and the original scale reliability was 0.78. All items were measured on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Variable	No. Of Items	Reliability
Transformational Leadership	4	0.84
Organizational Knowledge	10	0.773
Organizational Performance	5	0.784

N= 60

### 3.9 Methods and Model Testing

To analyse the data from the questionnaire, structural equation model technique used. Both SPSS and AMOS 20 were used for the data analysis. Through Cronbach's alpha, the validity and reliability of scale was confirmed and show right direction of the study. Mediation analyses tests applied on the obtained information, investigating the impact of dependent variable on independent one. To conclude the research study it shows in systematic order and make it easier for the reader. After analyses stage discussion, manipulation, and implications of results are discuss in detail.

## RESULTS AND DISCUSSION

### 4.1 Demographic Analysis:

**Table 4.1 Frequency Distribution With Respect to “Gender of Respondents”**

	Frequency	Percent
Male	200	63.0
Female	118	37.0
Total	318	100.0

Above Table shows the respondent's age with respect to frequency and percentage. From the total 318 valid respondents, 63% are male's respondents with their proportion of 200 and 37% are female with their proportion of 118 only. Therefore, the demographics of above study depicted that male ratio is more as compare to female.

**Table 4.2 Frequency Distribution With Respect to “Marital Status of Respondents”**

	Frequency	Percent
Single	81	25
Married	237	75
Total	318	100.0

Table 4.2 shows the marital status of respondents such as single and married. Among the total of 318 respondents maximum number of respondents are married with a percentage of 75% having a proportion of 275 persons and single with a percentage of 25% having a proportion of 81 persons from a total of 318 valid respondents. The table also shows that most of persons who are married are respondents of this study.

**Table 4.3 Frequency Distribution With Respect to “Age of Respondents”**

	Frequency	Percent
20 – 25	28	9.0
26-30	93	29.0
31-35	100	31.0
36-40	51	16.0
40-45	30	10.0
45-above	16	5.0
Total	318	100.0

Table 4.3 shows the ages of respondents who took participation. Among 318 valid respondents, 29 % respondents are in the age group of 26 to 30 with a proportion of 93 number of respondent. Similarly, 33% respondents are in the age group of 31 to 35 years with an adequate proportion of 100 persons and only 5 % respondents are in the age group of 45 above years with a proportion of 16 persons from a total of 318 valid respondents.

**Table 4.4 Frequency Distribution With Respect to “Education of Respondents”**

	Frequency	Percent
Intermediate	28	9.0
Bachelor's	87	27.0
Master's	128	40.0
Mphil/MS	75	24.0
Total	318	100.0

Table shows the qualification level of respondents such as intermediate, graduation, masters and M.Phil/MS. Among the total of 318 respondents, only a minor portion of 9% is having intermediate qualification with a proportion of only 28 persons. Similarly, maximum number of respondents is having master qualification with a percentage of 40% having a proportion of 128 persons from a total of 318 valid respondents. At the

end, only 75 respondents are having M.Phil/MS education by making a percentage of 24%. The table also shows that most of persons who are employed are having the master qualification.

**Table 4.5 Frequency Distribution With Respect to “Sector of Respondents”**

	Frequency	Percent
Telecom	142	44.7
Banking	86	27.0
Health Care	90	28.3
Total	318	100.0

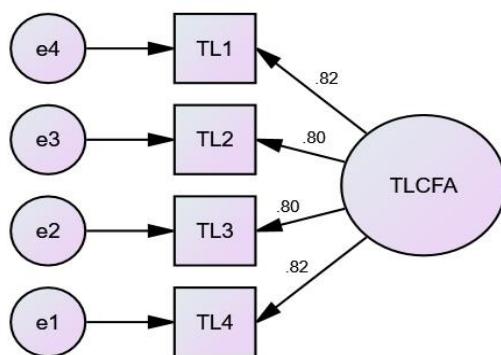
Table shows the demographics Sector categorized as Telecom, Banking and Health care. Among the 318 total respondents, 44.7% respondents are from Telecom Sector with a proportion of 142 persons. Additionally, 27% respondents are from Banking Industry comprising a proportion of 86 persons from total 318 respondents. In the same way, 28.3% respondents are from Health care making a proportion of 90 persons from a total of 318 valid respondents.

#### **4.2: CONFIRMATORY FACTOR ANALYSIS**

The CFA analysis with regard to the initial measurement model fit was carried out. As this analysis is not concerned with identifying the factor but it is concerned with the confirmation of a specific factor structure. CFA test was done by using AMOS 20 computer software.

##### **4.2.1: Factor Loading for TLC**

**Figure 4.2.1: Confirmatory Factor Analysis for TLC (N=318)**



**Table 4.2.1: Factor Loadings of TLC (N=318)**

Items		Standard Estimate/Factor Loadings ( $\geq 0.5$ )	Decision
TL1	The organization has leaders who are capable of motivating and guiding their colleagues on the job.	0.82	Included
TL2	Transformational Leadership transmits the organization's mission, reason for being, and purpose to all of the employees	0.79	Included
TL3	Transformational Leadership increases employees' level of enthusiasm	0.79	Included
TL4	Transformational Leadership emphasizes the use of employees' intelligence	0.82	Included

Table 4.2.1 depicts the standardized estimates and including or excluding of four items of TLC in its CFA. According to (Cua et al., 2001) a construct having the factor loadings above 0.4 are considered as practically significant construct. For four items TLC has factor loadings above 0.4, so that all these items were included in questionnaire for final survey and are practically significant.

According to typical cut-off criteria, the values of GFI, IFI, CFI, NFI and TLI should be equal or greater than 0.90 while the value of RMSEA should be less than 0.08. Table

#### 4.2.2 shows the summary of results.

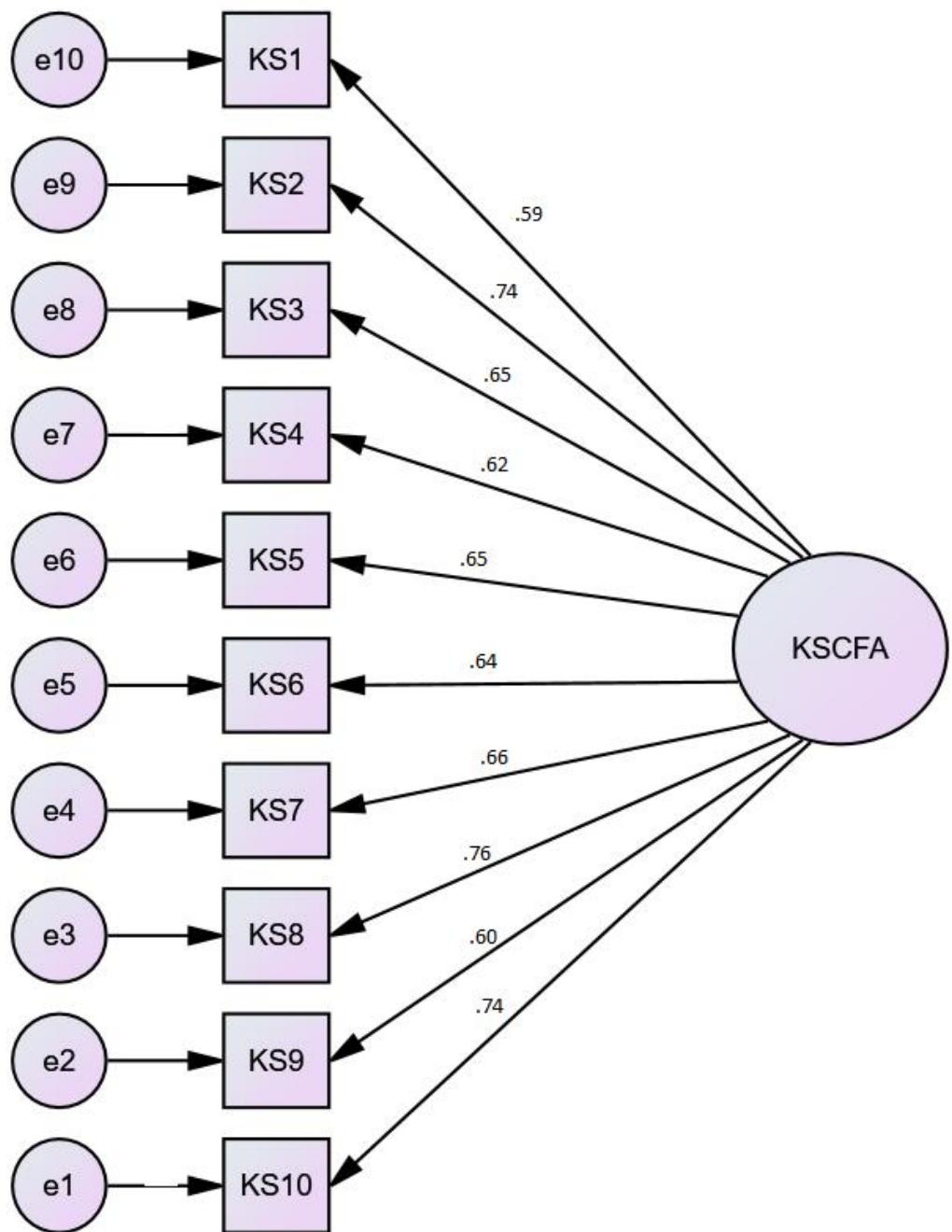
**Table 4.2.2 Model Fit**

Results		
<5	1.90	
$\geq 0.90$	0.910	
$\geq 0.90$	0.921	
$\geq 0.90$	0.942	
$\geq 0.90$	0.916	
$\geq 0.90$	0.891	
<0.08	0.052	

In the current study  $\chi^2=190.1$ , d.f.=100,  $\chi^2/d.f.=1.90$ , GFI=.910, IFI=0.921, CFI=0.942 NFI= 0.916, TLI=0.891 and RMSEA=0.052. These indices of model fit extracted the good results to accept the proposed model.

#### 4.2.2: Factor Loading for KS

**Figure 4.2.2: Confirmatory factor analysis for KS (N=318)**



**TABLE 4.2.2: FACTOR LOADINGS OF KS (N=318)**

Items		Standard Estimate/Factor Loadings ( $\geq 0.5$ )	Decision
KS1	The organization relies on abundant resources and prior knowledge slack to foster the training and development of the new knowledge needed to develop its tasks	0.594	Included
KS2	There is a continuous and significant amount of investment for the development of knowledge slack in the organization	0.736	Included
KS3	The organization has a clear division of roles and responsibilities for acquiring new knowledge	0.655	Included
KS4	The organization has the necessary skills to implement new acquired knowledge	0.622	Included
KS5	The organization has the competences to transform the new acquired knowledge	0.647	Included
KS6	The organization has the competences to use the new acquired knowledge	0.643	Included
KS7	The usual tasks for jobs in the organization are not completely specified	0.657	Included
KS8	The procedures for how to act in a specific position in the organization cannot be easily written	0.761	Included
KS9	There are no manuals on how to develop on-the-job tasks in the organization	0.597	Included
KS10	There is no documentation to describe the critical parts of the organization's productive processes	0.745	Included

Table 4.2.2 depicts the standardized estimates and including or excluding of ten items of KS in its CFA. According to (Cua et al., 2001) a construct having the factor loadings above 0.4 are considered as practically significant construct. For ten items KS has factor loadings above 0.4, so that all these items were included in questionnaire for final survey and are practically significant. According to typical cut-off criteria, the values of GFI, IFI, CFI, NFI and TLI should be equal or greater than 0.90 while the value of RMSEA should be less than 0.08.

**Table 4.2.1 shows the summary of results.**

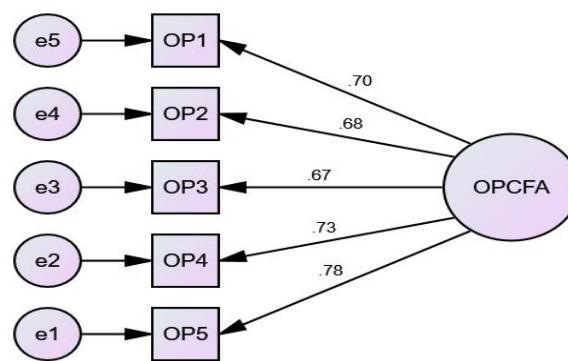
**Table 4.2.1 Model Fit**

Results		
	<5	1.51
	$\geq 0.90$	0.914
	$\geq 0.90$	0.934
	$\geq 0.90$	0.918
	$\geq 0.90$	0.956
	$\geq 0.90$	0.910
	<0.08	0.069

In the current study  $\chi^2=120.1$ , d.f.=80,  $\chi^2/\text{d.f.}=1.51$ , GFI=.914, IFI=0.934, CFI=0.918 NFI= 0.956, TLI=0.910 and RMSEA=0.069. These indices of model fit extracted the good results to accept the proposed model.

#### 4.2.3: Factor Loading for OP

Figure 4.2.3: Confirmatory Factor Analysis for OP (N=318)



**TABLE 4.2.3: FACTOR LOADINGS OF OP (N=318)**

Items		Standard Estimate/Factor Loadings ( $\geq 0.5$ )	Decision
OP1	Organizational performance measured by return on assets is good	.77	Included
OP2	Organizational performance measured by return on equity is good	.74	Included
OP3	Organizational performance measured by return on sales has increased	.83	Included
OP4	Organization's market share in its main products and markets has increased	.86	Included
OP5	Growth of sales in its main products and markets has increased	.83	Included

Table 4.3.3 depicts the standardized estimates and including or excluding of ten items of PAS in its CFA. According to (Cua et al., 2001) a construct having the factor loadings above 0.4 are considered as practically significant construct. For ten items PAS has factor loadings above 0.4, so that all these items were included in questionnaire for final survey and are practically significant. According to typical cut-off criteria, the values of GFI, IFI, CFI, NFI and TLI should be equal or greater than 0.90 while the value of RMSEA should be less than 0.08.

**Table 4.2.2 shows the summary of results.**

**Table 4.2.2 Model Fit**

Results		
<5	2.82	
$\geq 0.90$	0.945	
$\geq 0.90$	0.912	
$\geq 0.90$	0.934	
$\geq 0.90$	0.941	
$\geq 0.90$	0.824	
<0.08	0.043	

In the current study  $\chi^2=254.2$ , d.f.=90,  $\chi^2/\text{d.f.}=2.82$ , GFI=.945, IFI=0.912, CFI=0.934 NFI= 0.941, TLI=0.924 and RMSEA=0.043. These indices of model fit extracted the good results to accept the proposed model.

#### 4.3 Reliability Analysis

Variable	No. Of Items	Reliability
Transformational Leadership	4	0.801
Organizational Knowledge	10	0.791
Organizational Performance	5	0.753

To measure the respondents' attitudes, questionnaire was adapted from different researchers. The result of reliability analysis are presented in table which shows that Transformational Leadership consists of the 4 items, the reliability of this variable is 0.801, the reliability of Organizational Knowledge is 0.791 with 10 items, the reliability of Organizational Performance is 0.753 with 5 items. The overall Cronbach's alpha (all five variables) is 0.773 with 19 items. Overall reliability of all dimensions and variables is above 0.60, which is minimum requirement for a good results and model fitting. All items were measured on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

#### 4.4 Correlation Analysis

Descriptive Statistics			
	Mean	Std. Deviation	N
TTL	3.9631	.89360	318
OOP	3.8126	.77409	318
OOK	3.6483	.72235	318

Correlations			
	TL	OP	OK
TL	1		
OP	.490**	1	
OK	.589**	.548**	1

\*\*. Correlation is significant at the 0.01 level (2-tailed).

Where TL, Transformational Leadership

OP, Organizational Knowledge

OK, Organizational Performance

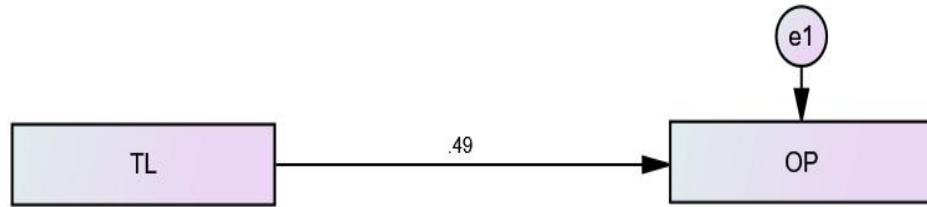
The above table shows the relationship of each variable, whether the relationships exist among them or not. Here the relationship among the variables must be less than 0.70, which ever surpass this level, there is probability to drop them from the test analysis should be considered. The results of our data from Pearson R correlation shows that all the dimensions of variables correlated among them positive or negative, where in this study all on are positively correlated. Nonetheless, the level of correlation was below 0.70 at significant level  $p<0.05$ .

This results of our study shows that TL and OP are positively and significantly correlated 49% with each other, OK is positively and significantly correlated with TL and OP at 58.9% and 54.8% respectively.

#### 4.5 Structural Equation Model (SEM) & Model Testing

The below figure reveals the direct effect of TL with OP. Direct and indirect both relations are important in structural equation model.

**Figure: 4.5.1 Direct Relationship**



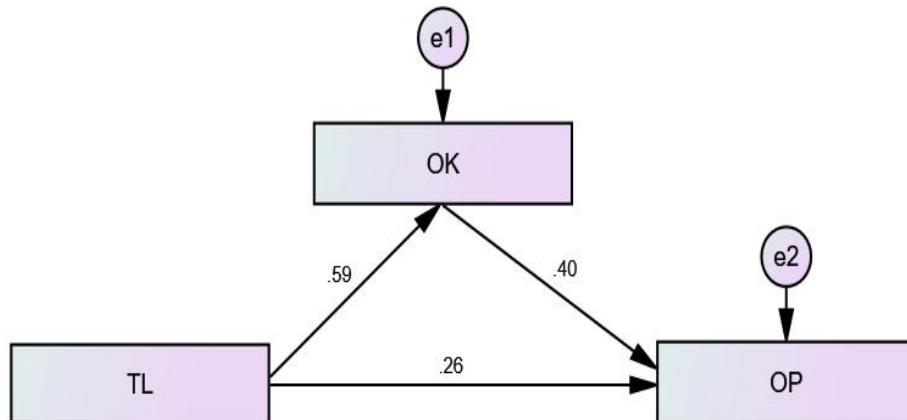
**Table: 4.5.1**

		Estimate	S.E.	C.R.	P	Label
OP	<---	TL	.425	.042	10.014	*** Accepted

Where TL, Transformational Leadership and OP, Organizational Knowledge

Hypotheses testing based on Regression Weights is presented in the above table. The beta of OP and TL shows value and P value is 0.00 (less than 0.05) the relationship of the variables. It is evident from the investigation that if one level in TL is changed then there will be 0.49 positive changes in OP. On the basis of our results hypothesis H1 is accepted which shows that TL has positive impact on OP.

**Figure 4.5.2 Indirect Relationship:**



**Table 4.9: Regression Weights**

		Estimate	S.E.	C.R.	P	Label
OK	<---	TL	.476	.037	12.986	*** Accepted
OP	<---	OK	.425	.060	7.038	*** Accepted
OP	<---	TL	.222	.049	4.553	*** Accepted

Where TL, Transformational Leadership

OP, Organizational Knowledge

OK, Organizational Performance

Above diagram shows that indirect relationship between TL and OP through mediating variable Ok is highly significant and that prove the mediating relationship exists. TL and OK relationship beta value with is 0.59 and OK with OP is 0.40 respectively. This relationship shows that TL and OP have significant relationship with OK. Hence, the indirect relationship show that TL has positive and significant relationship with OK and then OK has positive and significant relationship with OP, in other words the results show that OK plays an important and significant role between TL and OP, without OK, the relationship between TL and OP is less significant.

#### 4.6 Model Fit Summary

According to typical cut-off criteria, the values of GFI, IFI, CFI, NFI and TLI should be equal or greater than 0.90 while the value of RMSEA should be less than 0.08. Table 4.11 shows the summary of results.

Table 4.11 Model Fit

Results		
<5	1.28	
$\geq 0.90$	0.950	
$\geq 0.90$	0.978	
$\geq 0.90$	0.978	
$\geq 0.90$	0.908	
$\geq 0.90$	0.973	
<0.08	0.031	

In the current study  $\chi^2=140.8$ , d.f.=110,  $\chi^2/d.f.=1.28$ , GFI=.950, IFI=0.978, CFI=0.978 NFI= 0.908, TLI=0.973 and RMSEA=0.031. These indices of model fit extracted the good results to accept the proposed model. The results in table 4.11 show the model fitness, all results are satisfactory because results are in range. This section indicates testing of our hypotheses which developed on the basis of previous literature to ensure that they are significant or not.

H1: Transformational leadership has significant impact on organizational performance. Our results accepted the H1 because value of standardized path coefficient ( $\beta$ ) shows significant direct relationship between independent and dependent variables.

H2: Transformational leadership has significant impact on Organizational Knowledge. Our Results accepted the H2 because value of standardized path coefficient ( $\beta$ ) shows significant direct relationship between Transactional Leadership and Organizational Knowledge.

H3: Organization Knowledge has significant impact on Organizational Performance. Our Results accepted the H3 because value of standardized path coefficient ( $\beta$ ) shows significant direct relationship between Organization Knowledge and Organizational Performance.

H4: Organizational Knowledge will have mediating effect in relationship between transformational leadership with organizational performance.

Our study results indicates that value transformational leadership with organizational knowledge standardized path coefficient ( $\beta$ ) is equal to -0.08 but with organizational performance, organizational knowledge beta is positive i.e., 0.09. Overall total relationship is positive 0.01 but not strongly contributing in results organizational performance as a mediating variable.

#### **4.7 Discussion**

This study was conducted to bridge the gap between transformational leadership and organizational performance. Transformational leadership can progress organizational performance through changing business environments. This workshares it's work by showing the strategic role of organizational leadership and organizational knowledge. The results support hypotheses, which show that transformational leadership through organizational knowledge increases organizational performance.

Organizational learning and transformational leadership has significant potential to advance successful knowledge generation and execution (Kanter, 1983; Van de Ven, 1986). Basic objective of this study was to verify that transformational leadership can widen foundation of organizational knowledge in the firm.

The study has proved relationship between transformational leadership& organizational performance and knowledge directly and indirectly (Lei et al., 1999; Slater and Narver, 1995). The results helps the importance of transformational leadership in knowledge breeding (McDonough, 2000).

#### **5.1 Conclusion**

The initial purpose of this study was to check the mediation effect of organizational knowledge on organizational transformation to organizational performance. As for result organizational knowledge has been found to response significantly in determining organizational performance. There is probably because of sensitivity emotion of employees in banking, telecom and health care in Pakistan.

Companies require transformational leadership to advance in rapid changing business environments. This paper shares by viewing the important role of organizational knowledge. The Results support our hypotheses. Transformational leadership with mediating role of organizational knowledge increases organizational performance.

Companies should analyze all of its resources. Companies should adopt competences to face changing production and technology around the world. So organization should get a proactive vision that leads organizational performance. This will generate its own unique, valuable, hard to replace, and difficult to imitate resources and capacities. The results determine organizational performance is thus organizational knowledge has positive causal effects. (Calantone et al., 2002; Zahra et al., 2000).

#### **5.2 Limitations of Study**

In this research work the relation among transformational leadership and organizational performance through organizational knowledge is analyzed. Selected variables give details about variance in organizational performance (Senge et al., 1994). The focus in this study is the banking, telecom and health care sectors of Pakistan. This study is limited only to these sectors and other sectors e.g. education, industrial etc are not addressed in this study.

Future research could analyze the influence of these variables. Convenient sampling technique was used for collection of data because the exact population was unknown, organizations not provide their employees' data and list from where we can compute exact population and then apply sample size formula.

#### **5.3 Future Direction**

Researchers can also examine other aspects e.g., quality improvement, staff satisfaction, and improvements in relational capacity. Future research might well explicitly integrate the influence of external factors.

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