

The Linkage between Transformational Leadership, and Organizational Sustainability: Testing the Mediating Role of Psychological Empowerment

Wustari L. Mangundjaya

Department of Industrial and Organizational Psychology, Faculty of Psychology, Universitas Indonesia, Depok, Indonesia

*Corresponding author:

Wustari L. Mangundjaya

Department of Industrial and Organizational Psychology

Faculty of Psychology, Universitas Indonesia

Depok, Jawa Barat, Indonesia

Email address: wustari@ui.ac.id

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Abstract— Enterprises are challenged to be an effective, efficient, and powerful organization that can sustain challenges in the competitive world. Many variables play an essential role in making this happen, two of which are leadership and people. The aims of this study are to examine the link between the position of transformational leadership on organizational sustainability and psychological empowerment as a mediator. The study was conducted at one of the manufacturing enterprises with 350 respondents. Data was collected using three questionnaires: a) transformational leadership; b) psychological empowerment; and, c) organizational sustainability. Data was analyzed using Structural Equation Model. The results revealed that transformational leadership had a direct impact on organizational sustainability and psychological empowerment acted as a partial mediator for the relationship between transformational leadership and organizational sustainability. It can be concluded, therefore, that psychological empowerment is also a significant variable for achieving organizational sustainability. The implications of this study for management and organizational psychologist practitioners lies in developing organizational sustainability, by paying attention to the transformational leadership of their leaders.

Keywords: transformational leadership, organizational sustainability, psychological empowerment

Introduction

To survive and compete in a turbulent and continuously changing environment, the focus of an organization must look beyond competition and market share, toward more fundamental questions such as long-term survival and sustainability. Every organization needs to be able to sustain itself. However, not every organization can be sustainable. One of the critical variables that influences organizational sustainability is the leader. As a result, a high force organization should have a style of leadership that encourages and fosters flexibility and agility. In this regard, a leader is a person who is dynamic and has the power to form the path of a nation, and this may affect the organizational management (Bono & Judge, 2003; Bono & Judge, 2005). Leadership is also perceived as a prime force that may determine the corporation's competitiveness in a global economy (Ismail, Mohamed, Sulaiman, Mohamad, & Yusuf, 2011).

Transformational leadership is one type of leadership style that has the characteristic of enabling to motivate and inspire followers (Bass, 1999). A transformational leader can, with his style of leadership inspire, motivate, and empower followers, and as a result, can also develop the organization. A transformational leader can influence followers and enable them, according to Spreitzer (Spreitzer, 1995; Spreitzer, 2007), to generate psychological empowerment of a person is a result of interaction between a characteristic of the individual and organization and work environment, including the leader-member relationship. This paper will discuss the linkage

between transformational leadership on organizational sustainability while noting how psychological empowerment serves as the mediator. This will be achieved through model testing. The core research question is as follows: Does transformational leadership have a positive impact on organizational sustainability with psychological empowerment as the mediator?

Sustainability is about keeping the business going, which implies a simultaneous focus on economic, social, and environmental performance. Colbert and Kurucz (2007), introduced the concept of a three-way focus for organizations striving for sustainability, namely: a) Operational/organizational capital; b) HR Capital/Human Capital; and, c) Image/Social Capital. Moreover, Smith (2011), has stated that organizational sustainability is a continuous process of co-evolution.

Transformational leadership style refers to the extent that employees can interpret and understand how leaders implement leadership practices that can increase the commitment, engagement, loyalty, and employee performance (Bass, 1999). Moreover, Bass and Riggio (2005) also note that transformational leadership is leadership where the leader raises consciousness through communicating and functioning as a role model. This behavior of a leader motivates and develops a relationship with followers and thereby encourages optimal performance (Rubin, Munz, & Bommer, 2005). Furthermore, transformational leadership inspires followers to exceed their self-interest for a universal, idea, mission, and purpose (Feinberg, Ostroff, & Burke, 2005). A leader also motivates and holds high expectations for encouraging his subordinates to achieve more than what they imagine or think, and enables them to reach the expectations and goals of the organization (Arnold, Nick, Barling, Kelloway, & McKee, 2007). Transformational leadership has five dimensions namely: a) Idealized Influence Attributed; b) Idealized Influence Behavior, (these two dimensions were the extension from idealized influence), which refers to charisma (Avolio & Bass, 2004); c) Inspirational Motivation; d) Intellectual Stimulation; and, e) Individualized Consideration.

Psychological empowerment according to Spreitzer (1995) is a sum of mental and psychological states that are significant and important for every individual to enable them to exert control over work. Psychological empowerment consists of 4 dimensions, namely: (1) meaning, i.e., a congruence situation between the people's need in their work role and their beliefs, values and behaviors (Spreitzer, 2007); (2) competence, i.e., self-efficacy, or self-confidence in their own capability in performing work activities (Spreitzer, 2007); (3) self-determination, i.e., the behavior of initiating and regulating action; and, (4) impact, i.e., the degree to which people's activity may influence the outcomes at work (Spreitzer, 2007). Moreover, Spreitzer (1995) and dan Spreitzer (2007) note that psychological empowerment is not a trait, but rather a state that can have resulted from the impact of the interaction between people and their working conditions.

The role of transformational leadership on organizational effectiveness had been studied by researchers as follows: transformational leadership had a significant relationship with team performance (Dionne, Yammarino, Atwater, & Spangler, 2004) organizational citizenship

behavior (Lin, 2013) and organizational commitment (Saeed et al., 2013; Malik, Chagatai, Iqbal, & Ramzan, 2013). Furthermore, research conducted by Sparks and Schenk (2001) showed that transformational leadership had achieved high productivity, low turnover rate, high motivation, and job satisfaction. Moreover, the previous study by Ejere and Abisilim (2013) showed that transformational leadership had a significant and positive impact on the performance of the organization. From these previous studies, it is evident that such leadership styles play a critical role in fostering and reinforcing followers, and furthermore allows us to focus on understanding the characteristics of organizations in co-creating complex social systems. Organizational sustainability consists of operational capital, financial capital, and HR capital, as variables in creating an organizational performance. Based on this discussion, the hypothesis for this research as follows:

Hypothesis 1: Transformational leadership has a positive impact on organizational sustainability.

Transformational leaders direct their follower's attention by providing mentoring and coaching their followers to prepare followers to take greater responsibility within the organization with the ultimate goal of helping followers become leaders themselves at some point (Yukl, 2007). As the transformational leader is also a charismatic leader, in this case, a leader might use his/her intellectual stimulation and display individualized consideration as a means of empowering followers by challenging the follower's beliefs, values, and mindsets (Avolio, Zhu, Koh, & Bhatia, 2004). A leader should also take the initiative to motivate and hold high expectations for encouraging his subordinates to achieve more than they imagine to be possible and thus reach and potentially exceed the expectations and goals of the organization (Arnold et al., 2007). The transformational leader also encourages a sense of self-determination, which can enable followers to feel that his/her actions and work have value, so he/she becomes more committed to his work and organization overall [17] [16].

Spreitzer (1995, 2007) noted that in this regard, psychological empowerment is actually the consequences of the interface between individual characteristics and the working environment, particularly involving the style of leadership therein. As a result, with the transformational style of leadership, he/she can provide the followers with coaching, mentoring, as well as providing motivation and inspiration. Research by Arnold et al., (2007) has shown that transformational leadership had a positive impact on the psychological well-being, and on empowerment [3]. Based on these discussions and research, the Hypothesis 2 as follows:

Hypothesis 2: Transformational leadership has a positive impact on psychological empowerment.

According to Spreitzer (1995, 2007), people who have developed their sense of psychological empowerment, how the feeling that their work is important, and consequentially will have confidence regarding their competency, thus enabling them to make competent decisions. Consequently, they will have the sense that they can influence their work environment. Based on these characteristics of psychological empowerment, people who develop psychological

empowerment will have higher job satisfaction (Jha, 2008). Furthermore, they can build their commitment to the organization (Ismail, et.al, 2011; Saeed, et.al, 2013). Thus, it concludes that psychological empowerment has an impact on the following: job satisfaction; follower's performance; and, organizational commitment. When people are satisfied with their job and the organization, they are also committed to the organization and such employees will be loyal to the organization and will support the organization and management. This kind of support is needed to make the organization healthy and able to face the external demand and competition i.e., to develop the sustainability of the organization. Noting this, the current researcher proposes the following hypothesis:

Hypothesis 3: Psychological empowerment has a positive impact on organizational sustainability.

Previous research showed that psychological empowerment acts as a mediator between transformational leadership and organizational commitment (Jha, 2008; Ismail, et.al, 2011; Ambad & Bahron, 2012; Malik et al., 2013; Saeed, et.al., 2013). Furthermore, transformational leadership has been noted to have an impact on job satisfaction (Sparks & Schenk, 2001; Saif, 2013), and moreover affects organizational performance (Ejere, and Abisilim, 2013). Noting this, the researcher proposes the Hypothesis 4 as follows:

Hypothesis 4: Transformational leadership has an impact on organizational sustainability through psychological empowerment.

Methods

The responses collected from one manufacturing company consists of 350 participants, using convenience sampling. The inclusion criteria were: permanent employees; two years of minimum working within the organization; the minimum level of educational background is senior high school; and, with an age range between 21–56 years old. The respondents consisted of non-staff up to management level, who had the impact of the organizational sustainability.

Organizational Sustainability

Organizational sustainability was measured based on the concept of Colbert and Kurucz (2007), consisting of three dimensions. Firstly, Operational/Organizational Capital (OC), as systems and practices enabling the organization to get things done and to do them well and consistently. This dimension consists of the following: physical space (infrastructure); organizational culture and practices; strategic and business planning; operational system and related technology; and, financial capital, which represents the financial health of the organization in the form of currency. This dimension was tested with Cronbach Alpha (0.921). Secondly, HR Capital/Human Capital, which represents: a) knowledge, skills, abilities, capabilities possessed by people involved in the social enterprise, which consists as board of directors, top management, staff, volunteer (if any); b) Intellectual capital, which is the knowledge assets of an organization such as opinions, ideas, inventions, general knowledge designs, and processes. This dimension was tested with Cronbach Alpha (0.921). Third, Image/Social Capital, which

represents the number and quality of the social enterprise's relationships. It composes of business-related, mission-related, and cross-cutting. This dimension was measured and tested with Cronbach Alpha with the score 0.922. There were 18 items on the questionnaire, which was translated into Bahasa Indonesian and modified with six-point scales. The questionnaires were tested for its reliability using Cronbach Alpha (0.925) and the validity was checked using Confirmatory Factor Analysis.

Transformational Leadership

Transformational leadership was measured based on The Multi-Factor Leadership Questionnaire established by Avolio and Bass (2004), which is a valid research tool. The Multi-Factor Leadership Questionnaire consists of five dimensions. Firstly, Idealized Influence Behavior, refers to the charismatic behavior of the leader who has his/her orientation on values, beliefs, and a sense of mission (Antonakis, Avolio, Sivasubramanian, Dehkordi, 2003). Tested with Cronbach Alpha (0.918). Secondly, Idealized Influence, refers to the perception of the leader who is charismatic, influential, and confident. The score of Cronbach Alpha is 0.916. Thirdly, Inspirational Motivation relates to the means leaders undertake to inspire the followers to achieve both personal and organizational goals (Den Hartog, Van Muijen, & Koopman, 1997). In this regard, leaders create meaning, challenge, and create motivation in their followers (Avolio & Bass, 2004). The subscale had the score of 0.923 of Cronbach Alpha. Fourthly, Intellectual Stimulation is the activity that encourages followers to question their values, assumptions, and beliefs and even the values and beliefs of their leaders (Den Hartog et al., 1997). The leader welcomes the new ideas and solutions offered by the followers. He/she stimulates followers to think about new solutions to old problems. In this way, followers will be able to see and solve the unforeseen problems by the leader (Avolio & Bass, 2004). The score of Cronbach Alpha was 0.919. Fifthly, Individualized Consideration, refers to treating followers as individuals and not just members of a group (Dionne et al., 2004). In this regard, leader will satisfy the follower by advising, supporting and paying attention to their individual needs, and motivate them to develop themselves. Its reliability was measured by Cronbach Alpha, with the score of 0.919. The questionnaire consists of 20 items translated into Bahasa Indonesian and was modified according to six-point Likert scales, and tested for its reliability using Cronbach Alpha (0.923). Validity was tested using Confirmatory Factor Analysis [through Structural Equation Model (SEM)].

Psychological Empowerment

Psychological empowerment was measured using the Psychological Empowerment Inventory adapted from Spreitzer (1995, 2017) which consists of 4 dimensions, namely: meaning; competence; self-determination; and, impact. Each dimensions consist of 4 items. Meaning is a fit between the needs of individual's work role and their beliefs, values, and behaviors (Spreitzer, 2007). Cronbach Alpha was 0.876. Self-efficacy, is a belief of people's capability to perform work activities with their skills (Spreitzer, 2007). The Cronbach Alpha 0.877. Self-determination is a sense of choice in initiating and regulating one's actions (Spreitzer, 2007). Cronbach Alpha's score was 0.876. Impact is the degree to which one can influence strategic, administrative, or operating outcomes at work (Spreitzer, 2007), Cronbach Alpha 0.870. The

total of 16 items translated into Bahasa Indonesia with six-point (1 to 6) of Likert scales (0.882), and validity was tested by Confirmatory Factor Analysis.

Data were tested using SEM to examine the model, and descriptive analysis was performed to analyze the profile of respondents.

Results

Results of the analysis of respondents (Descriptive analysis), inter-correlation analysis and hypothesis and model testing using SEM.

The results showed that the majority of the respondents were male (98%), had a bachelor degree (69%), and had been working for around 2–5 years (40%). This profile of a typical respondent, represented the majority profile of the employees.

To check whether there is a relationship between organizational sustainability, transformational leadership, and psychological empowerment. Table 2 shows the inter-correlation analysis.

Table I. Descriptive Analysis

Variables	N	%	Organizational Sustainability		Transformational Leadership		Psychological Empowerment	
	350	100	Mean	Standard Deviation	Mean	Standard Deviation	Mean	Standard Deviation
Gender								
Male	344	98	4.70	0.59	4.42	0.67	4.71	0.53
Female	6	2	4.70	0.36	4.13	0.52	4.62	0.66
Age								
>25 years old	80	23	4.79	0.49	4.60	0.56	4.71	0.52
26–44 years old	224	64	4.64	0.62	4.36	0.69	4.69	0.54
45–56 years old	46	13	4.79	0.56	4.34	0.72	4.80	0.54
Education								
Sr. High School	52	15	4.74	0.59	4.26	0.88	4.85	0.56
Diploma	48	14	4.48	0.51	4.20	0.69	4.66	0.53
B. Degree	241	69	4.75	0.58	4.47	0.64	4.68	0.53
Master	9	2	4.60	0.94	4.53	0.46	4.66	0.50
Length of Work								
2–5 years	140	40	4.69	0.52	4.52	0.55	4.74	0.48
>5–10 years	107	31	4.64	0.57	4.29	0.66	4.64	0.56
>10–20 years	66	19	4.73	0.67	4.41	0.85	4.69	0.57
>20 years	37	10	4.83	0.72	4.38	0.71	4.78	0.58

Table II. Means, Standard Deviation, Correlation, and Reliability among Variables

Variable	N	Mean	Standard Deviation	Cronbach	Organizational Sustainability	Transformational Leadership	Psychological Empowerment
Organizational Sustainability	344	4.698	0.591	0.925	1	0.923	0.311**
Transformational Leadership	344	0.442	0.672	0.923	0.526**	1	0.343**
Psychological Empowerment	344	4.707	0.534	0.882	0.311**	0.343**	1

** Level of significance $p < 0.01$

Analysis Model by Structural Equation Model

The following will measure and test the impact of transformational leadership on organizational sustainability with psychological empowerment acting as mediator.

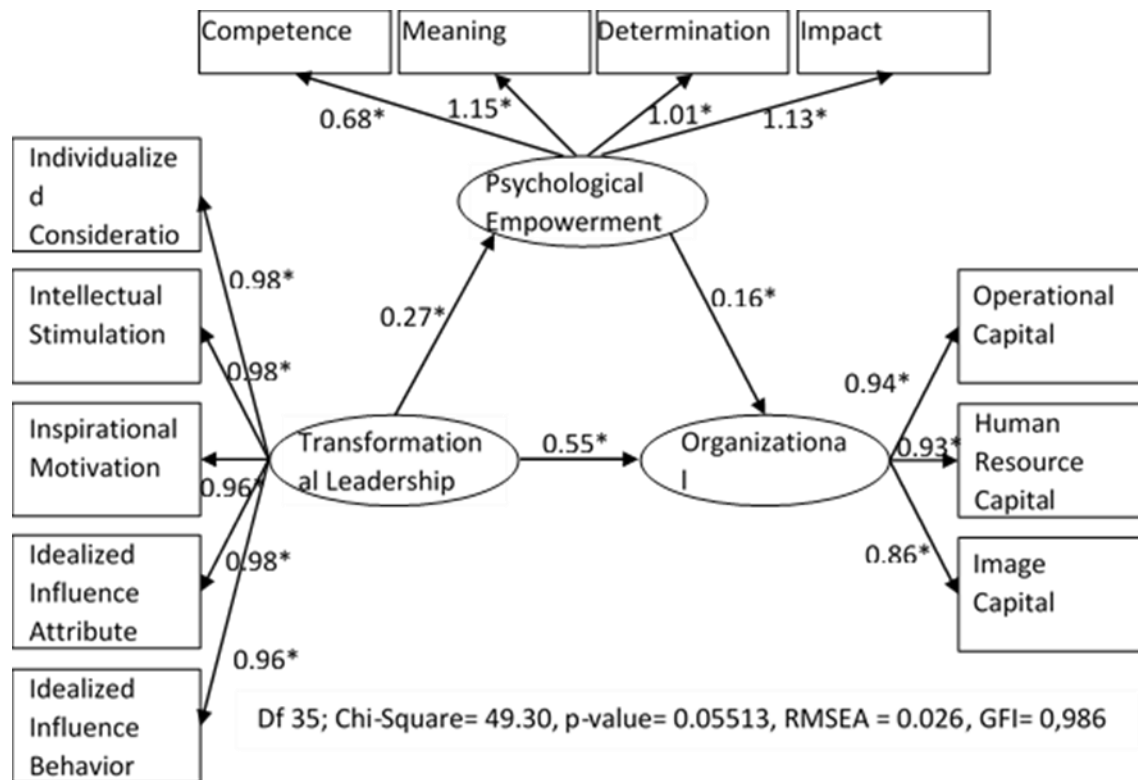


Fig. 1. The full-model analysis

The results revealed that transformational leadership had a direct impact on organizational sustainability (standardized score 0.55, positive coefficient, $t\text{-value} = 13.84 > 1.96$). Hypothesis 1 is supported. In other words, a leader with transformational leadership will create a positive impact on organizational sustainability, which includes: operational sustainability; human resource sustainability; and, image sustainability. The sustainability is derived from organizational effectiveness and organizational performance as a whole, which in turn, will have a positive impact on organizational sustainability.

Transformational leadership had a direct impact on psychological empowerment (standardized score 0.27, positive coefficient, $t\text{-value}=4.54>1.96$), in which Hypothesis 2 is supported. It concludes that a leader with transformational leadership, can motivate, inspire, and empower organizational members. With the support of a transformational leader, followers will have the sense that their job is meaningful, and they will also have substantial self-confidence in their competence. Furthermore, they will have high self-determination which helps them to make their own decisions, and thus also have the feeling that they have a tangible impact on the organizational environment, hence enabling them to feel confident facing any organizational changes.

The results also showed that psychological empowerment had a direct impact on organizational sustainability (standardized score 0.16, positive coefficient, $t\text{-value} = 5.65 > 1.96$), and that Hypothesis 3 is supported. Organizational members who had high psychological empowerment (feelings of meaning in their job; competence; self-determination; and having an impact on the working environment) will lead organizational members to have high confidence in facing any situation in their organization, including the situation of organizational change, which in return will have an impact on the sustainability of the organization.

Transformational leadership had an indirect impact on organizational sustainability through psychological empowerment (standardized score 0.04, positive coefficient, $t\text{-value}=3.535>1.96$), and thus Hypothesis 4 is supported. Results showed that transformational leadership had an impact on psychological empowerment, and in turn psychological empowerment had an impact on organizational sustainability, allowing us to conclude that transformational leadership had an indirect impact on organizational sustainability with psychological empowerment as a mediator. In other words, a leader with transformational leadership will be able to contribute on organizational effectiveness and in return, those people who have high psychological empowerment will have an impact on organizational performance, which in turn will also lead to organizational sustainability. In addition to that, it showed that transformational leadership had a stronger direct impact on organizational sustainability compared with psychological empowerment. To conclude, psychological empowerment cannot be thought of as a partial mediator on the relationship between transformational leadership and organizational sustainability. Results of the study also showed that all the five dimensions have almost the same amount of loading factor, meaning that all five dimensions are indicators representing transformational leadership, and have the same role and influence.

Furthermore, results of the study showed that Operational/OC and HR Capital have a higher loading factor compared to Image Capital, allowing us to conclude that the best indicator of organizational sustainability are Operational and HR Capital. From this result, it also can be assumed that Operational Capital and HR capital are more important to achieve organizational sustainability compared to Social or Image Capital. This finding stressed the importance of human resources in the organization as well as the management of the business operation in creating organizational sustainability.

In addition to that, results of the study also showed that the dimension of the meaning of work had the highest loading factor of Psychological Empowerment. In this model, if an organization's member attached a high level of meaning to their work, they will feel that they are essential in their working environment. This can lead to feeling appreciated, and satisfied with their job, which then can also lead to higher level of psychological empowerment. Results also showed that the dimension of impact had the second highest loading factor of psychological empowerment. Organizational members feel that if they can influence the working environment, it will make them feel more empowered and more confident in facing all potential organizational conditions/problems. Meanwhile, the lowest loading factor of psychological empowerment is competency. In this study, competency is not the best indicator of psychological empowerment, in comparison with the other three dimensions, competency is not as important a factor in developing a sense of empowerment, compared to the meaning of the work itself, having a sense of self-determination, and being able to create an impact.

Discussion

The impact of organizational leaders on organizational effectiveness and performance has attracted attention from organizational researchers (Fritz and Ibrahim, 2010). In this regard, a leader is significant to the success or failure of the organization (Quinn, 2004). Transformational leadership is one of the key leadership styles, and it consists of charisma, vision, personal concern to a follower and the advocacy for the empowerment of follower. It can be regarded as an effective leadership style in maximizing organizational performance and organizational effectiveness. Findings showed that transformational leadership had a significant impact on organizational sustainability.

This study supported the previous research conducted by Bass (1999) who found that organizational leaders can influence behavior by creating systems and processes that fit the needs of the organization- both the needs of the individual, the needs of the group as well as those of the organization. Results of the study also supported research by Ejere and Abisilim (2013), which showed that transformational leadership had an impact on organizational performance. Results of the study also showed that transformational leadership had a direct impact on organizational sustainability and had an indirect effect on organizational sustainability through psychological empowerment. These findings showed that when a leader used the style of transformational leadership, by providing their followers intellectual stimulation, inspirational motivation, as well as influencing them by idealization both attribution and behavior, this kind of leadership could have a positive impact on the sustainability of the organization.

The study also showed that psychological empowerment acts as a partial mediator between transformational leadership and organizational sustainability. Thus, it can be concluded that psychological empowerment plays a significant role in developing organizational sustainability. In this regard, when people feel empowered, have competency, self-confidence as well as having an opportunity to create impact on the organization's condition, these conditions will enable them to have a sense of purpose/meaning within the organization. Consequently, this

kind of psychological empowerment will have a significant impact on the effectiveness of the organization as a whole (Spreitzer, 2007). In the end have it will also, therefore, have an impact on the sustainability of the organization. As a result, organizations and management are recommended to pay attention to the development of psychological empowerment by conducting many kinds of activities, as well as by developing cohesive organizational environments.

The results of this study support Bass' (1999) findings which found that every leader has a responsibility to give more attention in a building, and to move and to direct potential employees toward achieving organizational goals. However, this study has not supported the previous research that showed psychological empowerment positively mediates the relationship of transformational leadership and organizational commitment (Ambad & Bahron, 2012; Ismail et al., 2011; Malik et al., 2013; Saeed, 2013). The results of this study also supported Bass' (1999) findings that every leader has a responsibility to give more attention in a building, by moving and directing potential employees toward organizational goals.

Furthermore, the results of the study showed that Operational/OC and HR capital are the best indicators of organizational sustainability. In this regard, with effective and efficient operational management, an organization will achieve its objective, and when supported with a core of skilled human resource, this condition can lead to organizational sustainability. From the results, it concludes that with good HR and operational management, an organization can achieve high organizational performance followed by organizational sustainability.

Moreover, results of the study also show that in this model, competency had the lowest loading factor compared with meaning, determination and impact, enabling us to conclude that in this study competency is not the best indicator of psychological empowerment in comparison with the other three dimensions. This study had different results compared to the results of the research conducted at two Financial State-Owned Enterprise in Indonesia, which showed that competency is the highest indicator of Psychological Empowerment (Mangundjaya, 2016).

The study of the role of leadership in an organization is essential both from a theoretical point of view to develop theories of cross-cultural leadership, as well as from a practical point of view, since firms need to be competitive in an increasingly global environment (Dorman & House, 2004). This study was conducted in Indonesia, with the characteristics of people in one part of Indonesia. To identify the impact of cultural factors on leadership in organizations, future studies should be conducted in many parts of Indonesia as well as in different types of countries, such as ASEAN, ASIA, Australia, Europe, and America as they are all have different types of cultures.

Some of the limitations of this research are as follows. Firstly, the concept of organizational sustainability is still new and not yet standardized, and hence, results can be interpreted in multiple ways and according to varying interpretations. Secondly, this study is only using one single method in data collection, namely questionnaires that will contain Common Method Biases (Dorman & House, 2004). Third, the sample of this research comes from only one

manufacturing industry, which might have a unique characteristic, compared to another type of organization and/or industries. As a result, further replication of studies in various types of organization and industries is recommended.

Conclusion and Implications

Results of the study showed that transformational leadership plays a vital role in organizational sustainability either directly or indirectly through psychological empowerment. With this study, it concludes that with good transformational leadership, a leader can develop an individual's psychological empowerment and in turn will develop the sustainability of the organization.

The application of the study is useful for organizations and management therein, particularly for those in leadership positions. Results of the study can be implemented for management to develop organizational sustainability, type of leadership in this regard transformational leadership has an impact on the sustainability of the organization. Moreover, this study also can be used to understand the mechanisms creating psychological empowerment of the employees since only limited research takes attention has been paid to this issue.

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