

A Study of Transformational Leadership and Organisational Commitment: With Special Reference to the Banking Sector

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ABSTRACT

Leadership plays a key role in building organisational commitment and motivating employees. Transformational leadership has been widely recognised as a key factor influencing organisational commitment across industries. This study focuses on examining the relationship between transformational leadership and organisational commitment, with special reference to the banking sector. Drawing insights from existing literature, the study develops a conceptual framework linking transformational leadership behaviours — such as inspiring vision, fostering trust, and encouraging innovation — to enhanced employee commitment. It also examines how these leadership practices vary across public and private sector banks and how they influence employee loyalty, motivation, and overall performance. The findings aim to provide practical insights for HR professionals and policymakers to enhance leadership strategies and cultivate a more committed workforce within the banking sector. Additionally, this study highlights areas for future research further to explore the dynamics of leadership and organisational commitment.

Keywords: Transformational Leadership, Organisational Commitment, Banking Sector, Public Sector Banks, Private Sector Banks, Employee Motivation.

INTRODUCTION

Leadership: Concept and Importance

Leadership is widely acknowledged as a fundamental driver of organisational success. It is the process of influencing individuals or groups towards the achievement of common goals. Leadership is not merely about issuing orders or managing day-to-day operations; rather, it involves inspiring people, shaping organisational culture, and guiding teams through change and uncertainty. The ability of leaders to motivate and direct employees toward shared objectives has a direct impact on organisational performance, employee satisfaction, and long-term sustainability.

Theories of leadership have evolved, moving from trait-based approaches (focusing on inherent qualities of leaders) to behavioural and contingency models that examine how leadership effectiveness depends on situational factors. Modern perspectives recognise leadership as a dynamic relationship between leaders and followers, where influence flows in both directions. In this regard, the role of leadership becomes even more critical in industries like banking, where competition, technological changes, and evolving customer expectations demand agile and visionary leadership.

Types of Leadership Styles

Leadership styles refer to the characteristic ways in which leaders interact with their teams, make decisions, and achieve objectives. Several well-known styles have been identified in management literature, each with distinct attributes and impacts on organisational culture and employee behaviour. The most commonly recognised leadership styles include:

- i. **Autocratic Leadership:** Leaders make decisions unilaterally without input from team members. This style can be effective in situations requiring quick decision-making, but may lead to employee dissatisfaction if overused.
- ii. **Democratic Leadership:** Leaders encourage participation and value the input of team members. This style fosters collaboration and can enhance job satisfaction and creativity.
- iii. **Laissez-Faire Leadership:** Leaders provide minimal direction and allow employees to make decisions. This style works well with highly skilled and motivated teams, but can lead to confusion and a lack of accountability in others.
- iv. **Transactional Leadership:** Focuses on clear structures, expectations, and reward-punishment systems to manage performance. It is effective in stable environments where tasks and processes are well-defined.
- v. **Transformational Leadership:** Inspires and motivates employees to exceed expectations by fostering innovation, trust, and a shared vision. This style is particularly valuable in dynamic, competitive industries.

Transformational vs. Transactional Leadership: Key Differences

Among modern leadership theories, **transformational and transactional leadership** are often compared due to their contrasting approaches and outcomes. Both are important, but they serve different purposes and create distinct organisational environments.

Aspect	Transformational Leadership	Transactional Leadership
Focus	Inspiring change, innovation, and long-term vision	Achieving specific, short-term goals through tasks
Motivation Method	Intrinsic (inspiration, shared vision, personal growth)	Extrinsic (rewards, punishments, performance standards)
Leader's Role	Mentor, role model, visionary	Supervisor, manager, evaluator
Communication Style	Open, participative, encouraging dialogue	Directive, focused on instructions and performance metrics
Employee Impact	Enhances creativity, loyalty, commitment, and job satisfaction	Ensures compliance, consistency, and performance efficiency
Adaptability	Best in dynamic, changing environments	Effective in structured, routine environments

Transformational leaders go beyond managing day-to-day operations; they actively shape organisational culture, challenge the status quo, and inspire employees to achieve their highest potential. They foster trust, empower teams, and align personal goals with organisational objectives. On the other hand, **transactional leaders** emphasise efficiency, productivity, and adherence to rules and standards, using structured processes and reward systems to drive performance.

Importance of Leadership Style and Its Impact

Leadership style significantly affects numerous aspects of an organization, including employee morale, productivity, innovation, and overall organisational commitment. Effective leadership can cultivate a positive work environment, enhance job satisfaction, and reduce turnover. In contrast, poor leadership may lead to disengagement, low morale, and high attrition rates.

Key Impacts of Leadership Style:

1. **Organizational Commitment:** Leadership style influences how connected employees feel to their organisation. Transformational leadership is strongly associated with higher levels of affective commitment, where employees align their values with those of the organisation.
2. **Employee Motivation:** While transactional leadership can ensure that employees meet performance targets, transformational leadership motivates employees intrinsically, leading to higher engagement and discretionary effort.
3. **Innovation and Change:** Transformational leaders are particularly effective in promoting innovation by encouraging creativity and taking calculated risks, which is crucial in rapidly evolving sectors like banking.
4. **Performance and Productivity:** Both leadership styles can impact performance, but transformational leadership tends to foster a proactive, enthusiastic workforce capable of adapting to changes, thereby driving sustainable organisational success.
5. **Organisational Culture:** Leadership shapes the cultural environment of an organisation, influencing openness to change, collaboration, ethical behaviour, and customer orientation.

Leadership in the Banking Sector

The banking sector operates in a complex, highly regulated, and competitive environment where leadership plays a critical role in navigating challenges such as technological advancements, customer expectations, and regulatory compliance. The effectiveness of leadership in banks impacts not only financial performance but also employee satisfaction, customer service quality, and reputation.

Leadership within banks must address multiple stakeholders, including employees, customers, regulators, and shareholders. In this context, transformational leadership is particularly valuable because it fosters adaptability, innovation, and resilience—qualities essential for sustained competitiveness in the financial sector.

The **banking sector in India** faces ongoing transformation due to digitalization, changing consumer behaviors, and increasing competition from non-traditional financial services. Leaders must guide their organizations through these changes while maintaining employee commitment, operational excellence, and customer trust.

Public Sector Banks vs. Private Sector Banks

Understanding leadership styles in the context of **public and private sector banks** reveals meaningful distinctions due to structural, cultural, and strategic differences between these two segments.

Public Sector Banks (PSBs):

Public sector banks are government-owned and traditionally focus on financial inclusion, serving broader socio-economic objectives alongside profitability. Their organizational culture tends to be more bureaucratic, with rigid hierarchies and established procedures. Leadership in PSBs often leans towards transactional styles, emphasizing compliance, process adherence, and risk management.

However, with increasing competition and modernization efforts, there is growing recognition of the need for transformational leadership within PSBs to drive change, motivate employees, and improve service quality.

Challenges for Leadership in PSBs:

- Resistance to change
- Bureaucratic inertia
- Limited autonomy
- Workforce diversity and unionized environments
- Emphasis on stability over innovation

Private Sector Banks (PvSBs):

Private banks are profit-driven and operate with greater flexibility and autonomy. They are typically more aggressive in adopting new technologies, customer service innovations, and market-driven strategies. Leadership in private sector banks often exhibits characteristics of transformational leadership, focusing on motivating employees through performance-based cultures, innovation, and continuous improvement.

Leaders in private banks encourage proactive behaviors, foster competitive spirit, and align employee incentives with organizational goals. This leadership approach has been instrumental in positioning many private banks as leaders in customer satisfaction and profitability.

Challenges for Leadership in PvSBs:

- High competition
- Pressure for innovation and differentiation
- Managing high-performing yet demanding workforces
- Rapid technological disruption

Comparative Overview: Leadership in PSBs vs. PvSBs

Aspect	Public Sector Banks (PSBs)	Private Sector Banks (PvSBs)
Ownership	Government	Private/Corporate
Focus	Financial inclusion, stability, public service	Profitability, market share, innovation
Leadership Style (Common)	More transactional, hierarchical	More transformational, flexible, performance-driven
Change Management	Slow, structured	Agile, responsive
Employee Motivation	Job security, benefits	Performance incentives, career growth
Culture	Bureaucratic, risk-averse	Dynamic, competitive, customer-focused

Objectives:

- To identify the key components of transformational leadership and the relationship with organisational commitment.
- To examine the relationship between transformational leadership and employees' organisational commitment within the banking sector.
- To explore, through existing literature, the differences in leadership approaches between public and private sector banks.

- To identify best practices from existing research that strengthen organisational commitment through transformational leadership in the banking sector.

Relevance of Study

This study is highly relevant in the context of the evolving leadership landscape within the Indian banking sector, where both public and private sector banks coexist and operate under distinct organizational cultures, structures, and objectives. Analysing the impact of transformational leadership on organisational commitment within this sector provides valuable insights for enhancing leadership strategies, fostering employee engagement, and improving overall organisational performance.

Understanding the differences in how leadership styles are applied and perceived across public and private sector banks will assist policymakers, HR professionals, and banking leaders in developing more effective strategies to strengthen employee commitment, build resilience, and drive adaptability. Such insights are essential for maintaining competitive advantage, ensuring financial stability, and delivering superior customer service in the increasingly dynamic and technology-driven banking environment.

Additionally, this study contributes to the broader discourse on leadership by highlighting how transformational leadership can influence organizational commitment within highly regulated industries like banking, offering practical recommendations to align leadership practices with modern organizational needs.

LITERATURE REVIEW

The concept of transformational leadership was introduced by Burns (1978) and expanded by Bass (1985), who emphasised the leader's role in inspiring, intellectually stimulating, and supporting employees to achieve higher levels of performance and commitment. Transformational leadership focuses on aligning the values and goals of employees with those of the organization, thereby enhancing motivation and fostering innovation. Bass and Avolio's (1994) Full Range Leadership Model further elaborates on this style, identifying four key dimensions:

- **Idealized Influence** (leaders act as role models),
- **Inspirational Motivation** (communicating a compelling and challenging vision),
- **Intellectual Stimulation** (encouraging creativity and innovation), and
- **Individualized Consideration** (addressing individual needs and supporting development).

Several studies highlight the positive impact of transformational leadership on employee satisfaction, motivation, and organizational commitment (Podsakoff et al., 1996; Yukl, 2013). Such leaders cultivate a work environment where employees feel emotionally connected to organizational goals and are motivated to exceed expectations.

Organizational Commitment: Definitions and Dimensions

Organizational commitment reflects the psychological bond between an employee and their organization. Meyer and Allen's (1991) **Three-Component Model of Commitment** categorizes this construct as:

- **Affective Commitment:** Emotional attachment to, and involvement in, the organization.
- **Continuance Commitment:** Recognition of the costs associated with leaving the organization.
- **Normative Commitment:** A sense of moral obligation to remain with the organization.

Research consistently demonstrates that transformational leadership has a strong, positive influence on **affective** and **normative commitment**, as such leadership builds trust, respect, and a shared vision for the future (Eisenbeiss et al., 2008). Leaders who exhibit transformational qualities can create a more engaged and loyal workforce.

Sectoral Differences in Leadership Styles

Differences in leadership practices between **public and private sector banks** are well-documented. **Public sector banks** typically function within rigid hierarchies and bureaucratic frameworks that emphasize regulatory compliance and risk aversion. Consequently, **transactional leadership** is often more prevalent in these institutions (Rao & Krishna, 2013). Such leadership focuses on maintaining stability and following established protocols, often at the expense of innovation and flexibility.

In contrast, **private sector banks** operate within highly competitive environments where customer satisfaction, innovation, and profitability are prioritized. These institutions are more receptive to **transformational leadership** approaches that emphasize performance, adaptability, and strategic agility. Transformational leaders in private banks foster cultures of excellence, continuous improvement, and proactive service delivery, aligning individual goals with organizational objectives.

Several empirical studies underscore the importance of transformational leadership in enhancing employee commitment and organizational effectiveness. Eisenbeiss et al. (2008) found that transformational leadership fosters a culture of trust and mutual respect, which strengthens employees' organizational commitment. Podsakoff et al. (1996) also identified that transformational leadership positively affects job satisfaction, organizational citizenship behaviors, and reduces turnover intentions through the creation of a supportive and motivating work environment.

In the Indian context, Rao and Krishna (2013) highlighted the contrasting leadership styles between public and private sector organizations, noting that private organizations increasingly adopt transformational practices to remain competitive.

While the body of literature establishes the relationship between transformational leadership and organisational commitment, there remains a scarcity of focused studies examining this relationship within the Indian banking sector, especially from a comparative perspective of public and private banks. Most research has concentrated on broader industrial or multinational contexts, leaving a gap in sector-specific insights.

Moreover, limited attention has been paid to conceptual analyses that bridge the gap between theory and practice in banking environments that are uniquely shaped by factors such as government regulations, technological advancements, and customer expectations. This study addresses this gap by offering a detailed conceptual analysis of how transformational leadership influences organizational commitment in both public and private sector banks, enriching the literature with insights drawn from existing empirical and theoretical contributions. .

RESEARCH METHODOLOGY

Research Design

This study adopts a conceptual research design based on secondary data, drawing from peer-reviewed journals, books, and prior research studies related to leadership, motivation, and organisational commitment in the banking sector. Data has been collated through an extensive review of:

- Academic journals (e.g., Journal of Leadership Studies, Journal of Organisational Behaviour)
- Books on leadership theories and organisational psychology
- Industry reports on Indian banking sector trends

A thematic analysis approach is utilised to identify key patterns and relationships between transformational leadership and organisational commitment, with a comparative lens on public versus private sector banks.

DISCUSSION

The conceptual review undertaken in this study highlights a strong theoretical linkage between transformational leadership and organisational commitment, with particular emphasis on the affective and normative dimensions of commitment. Leaders who exhibit transformational qualities—such as articulating a clear vision, demonstrating empathy, fostering innovation, and encouraging adaptability—tend to cultivate stronger levels of trust, loyalty, and motivation among employees. These leadership behaviors positively influence employees' emotional attachment and sense of belonging to the organization.

While this relationship is evident in both public and private sector banks, the expression and impact of transformational leadership differ between the two sectors due to inherent differences in culture, hierarchy, and operational objectives.

Public Sector Banks

- In public sector banks, leadership structures are typically hierarchical and bureaucratic, which often restricts the full exercise of transformational leadership. However, where such leadership is practiced—even within these constraints—it leads to notable improvements in employee satisfaction, loyalty, and engagement. Employees in public sector banks, who often value stability, respect, and job security, respond positively to leaders who offer recognition, foster trust, and communicate a meaningful organizational vision.

Private Sector Banks

- In contrast, private sector banks operate in a more competitive, performance-driven environment. As such, transformational leadership is more prevalent and is actively encouraged as a means to drive innovation, efficiency, and growth. Employees in private banks are highly responsive to leaders who offer clear career growth paths, innovation opportunities, and public recognition of achievements. Here, transformational

leadership directly translates into increased commitment, higher morale, and better performance outcomes, aligning with previous literature and reinforcing the cross-sectoral value of this leadership style.

- The findings consistently reflect the insights of Dubey (2025), affirming that leadership strategies focused on recognition, goal clarity, and fostering a sense of belonging significantly enhance employee commitment across sectors.

Comparative Insights Between Public and Private Sector Banks

Aspect	Public Sector Banks	Private Sector Banks
<ul style="list-style-type: none"> • Leadership Expression 	<ul style="list-style-type: none"> • Structured, often restrained by hierarchy 	<ul style="list-style-type: none"> • Dynamic, encouraged by competitive demands
<ul style="list-style-type: none"> • Employee Response 	<ul style="list-style-type: none"> • Positive when transformational behaviors are present, despite systemic limitations 	<ul style="list-style-type: none"> • Highly responsive, leading to increased motivation and performance
<ul style="list-style-type: none"> • Motivational Drivers 	<ul style="list-style-type: none"> • Stability, respect, job security 	<ul style="list-style-type: none"> • Career growth, innovation, recognition

Findings

- Transformational leadership enhances both affective and normative commitment across public and private sector banks.
- Sectoral culture significantly moderates the impact of leadership styles.
- While private sector banks offer more flexibility for transformational leadership to flourish, public sector banks show that even limited application yields positive results.
- Alignment between leadership practices and employee expectations strengthens the relationship between leadership style and organisational commitment.
- Leadership rooted in recognition and belonging enhances employee motivation and engagement, even within rigid institutional frameworks.

CONCLUSION

This conceptual study reaffirms the critical role of transformational leadership in enhancing organisational commitment within the banking sector. Although both public and private sector banks benefit from transformational leadership, the degree and manner of its impact vary due to differing organisational cultures and employee expectations. Transformational leadership contributes significantly to building affective and normative commitment, fostering loyalty, motivation, and improved performance across both sectors. Building upon this research strengthens the argument that motivational strategies secured in effective leadership are universally relevant, transcending industry boundaries and organizational structures. By fostering trust, recognition, and alignment of values, transformational leaders play a pivotal role in enhancing employee engagement and organisational outcomes.

SUGGESTIONS FOR FUTURE RESEARCH

- Future studies should involve empirical data collection through surveys or structured interviews with banking employees to validate these conceptual insights. Measuring employee perceptions and leadership impacts in real-world settings will provide stronger, evidence-based conclusions.
- Comparative analyses across different districts, states, or countries can help generalise findings and identify regional or cultural influences on leadership effectiveness within the banking sector.
- Detailed case studies of successful transformational leadership initiatives in both public and private banks could provide practical insights and serve as models for replication across the industry.
- Investigating how transformational leadership interacts with transactional leadership in hybrid environments (such as public banks undergoing modernisation) could enrich understanding of adaptable leadership models in the banking sector.
- Future research may also explore how transformational leadership not only affects employee commitment but also influences broader performance indicators such as customer satisfaction, financial outcomes, and innovation rates within banks.
- Exploration of transformational leadership's impact on specific performance metrics.

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