

Analysis Impact Of Leadership Style And Pay Fairness On Job Satisfaction And Organizational Commitment

Abdullah M. Al-Ansi¹, Kusdi Rahardjo², Arik Prasetya²

¹*Master of Business Administration, Faculty of Administrative Science, University of Brawijaya, Malang, Indonesia)*

^{2,3}*(Faculty of Administrative Science, University of Brawijaya, Malang, Indonesia)*

Abstract: *The purpose of this research were: 1) for analyzing the leadership style, pay fairness, job satisfaction and organizational commitment of the company. 2) for analyzing and examining the impact of leadership style and pay fairness on job satisfaction and organizational commitment. The research type is explanatory research. The sampling technique used in this study was a random sampling. Participants in research included 120 employees selected from all departments in the company. The study adopted the descriptive method using the survey and information from the company and analyzing the impact of leadership style and pay fairness on job satisfaction and organizational commitment by using path analysis. The results of this research showed that: firstly, leadership style, pay fairness, job satisfaction and organizational commitment in the company were evaluated and described. Secondly leadership style has negative impact on both job satisfaction and organizational commitment. Thirdly, pay fairness has positive and direct effect on job satisfaction and indirect effect on organizational commitment. Lastly, job satisfaction has positive and direct effect on organizational commitment.*

Keywords: *job satisfaction, leadership style, organizational commitment, pay fairness*

I. Introduction

Nowadays, Human Resources become the real business partner, which contributes strongly to the achievement of the overall business targets. Being the business partner, it develops its HR Strategy, which builds the unique competitive position of the organization on the job market. The smart top executives share their visions with their HR leaders. The HR Leaders are able to translate visions into HR Strategies. The strategies navigate managers and employees, as the overall performance of the company beats the competitors. The effective HR Management develops the potential of the organization, and builds a stronger and highly motivated workforce. The HR Management is definitely the competitive advantage of the modern and innovative company. The future of the HR Management is bright.

Leadership style and pay fairness are important determinations of job satisfaction and organizational commitment. Prior studies concluded that leadership role and pay fairness effect job satisfaction and organizational commitment. Several previous studies investigated the effect of leadership style on job satisfaction. The results of previous studies from different countries show that different styles of leadership do not have the same impact on job satisfaction (Stogdill, 1970; Walder, 1995). Based on the Stogdill's (1970) initiating structure, leadership style is more likely to provide greater commitment and job satisfaction in Asian firms, whereas in Western context consideration leadership style would provide greater job satisfaction. However previous studies have examined the impact of leadership styles on employee job satisfaction in various settings such as healthcare, military, education and business organizations (Hepworth, & Warr, 1989; Bass, 1990). These studies generally indicate the impact of leadership style on job satisfaction in the context of their countries.

Very few papers have investigated the impact on job satisfaction of pay changes. Using British Household Panel Survey data from 1991 and 1992, Clark (1999) finds the effect of pay on job satisfaction to be totally dynamic: the negative (reference) effect of lagged pay is equal to the positive effect of current pay. Clark (1999) uses dummies for nominal and real cuts interacted with pay growth, but do not detect significant non-linearity, thus finding no evidence of loss aversion. Grund and Sliwka (2007) find that job satisfaction is positively related to both pay level and pay change using German Socio Economic Panel data from 1994 to 2002. Grund and Sliwka (2007) do not distinguish between nominal and real changes (nominal pay is used but year dummies control for price changes) and nor do they investigate nonlinearities. According to Nyengane (2007), employee commitment reflects the quality of the leadership in the organization. Therefore it is logical to assume that leadership behavior would have a significant relationship with the development of organizational commitment. Previous researches suggest a positive direct relationship between leadership behavior and organizational commitment.

A relationship between leadership style and commitment has been reported in the organizational and management literature. Nyengane (2007) reported a positive relationship between leader support and commitment. In three separate studies, Popper, Maysless and Castelnovo (2000) in Nyengane (2007) found evidence to support the hypothesis that a positive correlation existed between transformational leadership and attachment. Kent and Chelladurai (2001) found that individualized consideration has positive correlation with both affective commitment and normative commitment. Hayward, Goss and Tolmay (2004) also found that transformational leadership has moderate positive correlation with affective commitment. Lower correlation coefficients between transformational leadership and normative, as well as continuance, commitment were found. No correlation was found between transactional leadership and affective, normative and continuance commitment. According to Walumbwa and Lawler (2003), there is considerable research available suggesting that the transformational leadership style is positively associated with organizational commitment in a variety of organizational settings and cultures. Nyengane (2007) indicated that transformational leaders are able to influence employees' organizational commitment by promoting higher levels of intrinsic value associated with creating a higher level of personal commitment on the part of the leader and followers to a common vision, mission, and organizational goals.

According to Spector (1997), he states that job satisfaction influences people's attitude towards their jobs and various aspects of their jobs. Job satisfaction is affected by personal and organizational factors, which cause an emotional reaction affecting organizational commitment (Mowday, Steers & Porter 1979). The consequences of job satisfaction include better performance and a reduction in withdrawal and counter-productive behaviors (Morrison 2008). Since job satisfaction involves employees' affect or emotions, it influences an organization's well-being with regard to job productivity, employee turnover, absenteeism and life satisfaction (Sempene, Rieger & Roodt 2002; Spector 2008). Motivated employees are crucial to an organizations' success, and therefore understanding people in their jobs and what motivates them could be a driving force in strengthening organizational commitment (Schein 1996).

Based on these facts of previous studies, the importance of leadership style and pay fairness for leading human resource development is increasingly changing depending on rapidly change in information technologies. This research focuses on these two factors of human resource which are leadership style and pay fairness. To make this research more particular, this research will examine and describe the effects of these two variables on job satisfaction and organizational commitment.

This research is aimed to give us a meaningful description and significant examining and analyzing of the relations between variables (leadership style, pay fairness, job satisfaction, and organizational commitment) in this company. This research is aimed to examine the effect of leadership styles and pay fairness on both of job satisfaction and organizational commitment.

Literature relevant to job satisfaction and organizational commitment indicate a number of variables which determine job satisfaction and organizational commitment. Some of these indicators are leadership style and pay fairness. Job satisfaction also considered as a mediator indicator between leadership style and pay fairness with organizational commitment.

Leadership Style: Leadership style is defined as the pattern of behaviors that leaders display during their work with and through others (Hersey and Blanchard, 1993). Miller et al. (2002) view leadership style as the pattern of interactions between leaders and subordinates. According to Hersey et al. (2000), the term "leadership style" can be interpreted as leadership behavior with two obviously independent dimensions: task and interpersonal relationships.

Pay Fairness: Pay is arguably one of the most critical, if not the most critical, outcome of organizational membership for employees (Gupta & Shaw, 1998). Actual pay and people's attitudes about it are the subject of much research (Lawler & Jenkins, 1992; Miceli & Lane, 1991) but, over the decades, the vast majority of studies concentrated on the precursors of different kinds of pay attitudes (e.g. perceptions of pay fairness, pay satisfaction, etc.) rather than on their consequences (Heneman, 1985). In addition, more research on the consequences of pay attitudes concerns the prediction of other workplace attitudes (e.g. Miceli & Mulvey, 1998) than the prediction of health and work-related behavior outcomes. This omission is curious in light of the argument that economic dimensions of employee attitudes may be stronger predictors of work-related behaviors among employees than are other, non-economic dimensions (Chacko, 1983; Diener, 1984).

Job Satisfaction: Job satisfaction is defined by Locke (1976) as "a pleasurable or positive emotional state resulting from one's job or job experiences" (p.1300). Later, Armstrong (2003) defined job satisfaction as the feelings and attitudes of people toward their job. He mentioned that if people have favorable and positive attitudes towards their job, this means job satisfaction, but if they have unfavorable and negative attitudes towards their job, this means job dissatisfaction. Organizational commitment and job satisfaction are important

attitudes in assessing employees' intention to quit and the overall contribution of the employee to the organization (Lok, & Crawford, 2003). Job satisfaction is influenced by many organizational contextual factors, ranging from salaries, job autonomy, job security, workplace flexibility, to leadership. In Sectionicular, leaders within organizations can adopt appropriate leadership styles to affect employee job satisfaction, commitment and productivity. Employee job satisfaction refers to the attitude of employees towards their jobs and the organization which employs them (Voon, et al, 2011).

Organizational Commitment: Organizational commitment has been studied in the public, private, and non-profit sector, and more recently internationally. Early research focused on defining the concept and current research continues to examine organizational commitment through two popular approaches, commitment-related attitudes and commitment-related behaviors. A variety of antecedents and outcomes have been identified in the past thirty years. Meyer and Allen (1991) and Dunham et al (1994) identified three types of commitment; affective commitment, continuance commitment, and normative commitment. Normative commitment is a relatively new aspect of organizational commitment having been defined by Bolon in 1993. Affective commitment is defined as the emotional attachment, identification, and involvement that an employee has with its organization and goals. However in present study organizational commitment was measured as a whole rather than measuring its three components. Thus commitment continues to be an important area for research in human resource management and the present study is an attempt to find out its relationship with determinants i.e. leadership style, pay fairness and job satisfaction in Nizar Bordir Company.

Conceptual framework: As discussed above, previous studies regarded leadership style and pay fairness as indicators for job satisfaction and organizational commitment but they didn't explain the relationship among these variables specifically. Also, there was no study to examine job satisfaction as a pathway to connect that indicators to organizational commitment. Below are my proposed hypotheses.

- H (1): There is a significant and meaningful correlation between leadership styles and job satisfaction.
- H (2): leadership style has significant effect to organizational commitment.
- H (3): pay fairness relates significantly and positively to job satisfaction.
- H (4): Pay Fairness has significant and positive effect to organizational commitment.
- H (5): Job satisfaction relates significantly and positively to organizational commitment.



Figure 1. Conceptual Framework.

II. Methodology

2.1. Sample and Population: Research type is explanatory research. To test the hypotheses, a quantitative study of company's employees was conducted using convenience sample of 120 among 520 employees of Nizar Bordir Company. Nizar Embroidery is the art of embroidery Handicraft Company's Muslim fashion. It was established since 1992, which is in Bangil – Pasuruan, Indonesia. The questions of survey were separated in four forms related to each one of the subjects above. I also collected demographic and other information data of the study participants. To successfully conduct the research, stratified random sampling procedure was used. Stratified random sampling, according to Babbie (2013), is a modification of random sampling in which you divide the whole population into two or more strata based on one or more attributes. Sample was almost 23% of population. Employees were from 4 departments participated in this study.

2.2. Instrumentation: There are indicators chose to measure the related variables. These indicators included many items to describe the leadership style, pay fairness, job satisfaction and organizational commitment in related company. Also, survey included all items that shown in table down.

Table 1 Operationalization of Variables

NO	Variables	Indicators	Items
1.	Leadership Style (X1)	Transformational leadership <ul style="list-style-type: none"> - Charisma - Idealized Influence - Inspiration Motivation Transactional leadership <ul style="list-style-type: none"> - Contingent Rewards - Management by Exception (active): 	<ul style="list-style-type: none"> -Articulate - Perceptive - Self-Confidence - Friendliness - Sensitive - Dependability - Trustworthiness -Empathic - Taking risks - Providing Structure - Encouraging - Recognizing & valuing other - Finding practical solutions - Leader Energetic - Sensing Understanding
2.	Pay Fairness (X2)	<ul style="list-style-type: none"> -Justice -Fairness -Trust - Employee's Engagement - Rewards & bonuses 	<ul style="list-style-type: none"> - Proud of work for company - Long Term Welfare - Provided Training - I like my job i.e the work I do - Behavior of superior is fair. - Adequate opportunity - Recognize accomplishment - Safety & Health Standard - Receive prize - Healthy Insurance - Superior recognizing performance - Treats all employees same. - Salary - fairness of mediate superior - turnover of employee
3.	Job Satisfaction (Y1)	<ul style="list-style-type: none"> - Supervision -Job Characteristics - Rewards - co-worker Satisfaction 	<ul style="list-style-type: none"> - Connection Pay &Performance - Flexibility - Opportunity for Advancement - Influence Decision -Opportunity of technologies - Communication with Superiors -Received Recognition - Supervisors Management - Relationship with customers/clients/users -Supervisor's capabilities - Relationship with Peers - Understanding Mission - satisfaction with company - satisfaction with Job
4.	Organizational Commitment (Y2)	<ul style="list-style-type: none"> - Affective Commitment - Continuance Commitment - Normative Commitment 	<ul style="list-style-type: none"> - Willing to help Organization - Talking up this organization to friends as a great organization - Accept almost any type of job -My values are organization's values - Proud to tell others, I am working for this company. - I will not work for other company gives same salary. - Company inspires best in me - Extremely glad I chose this organization. - Much to be gained to sticking in this company. - Agree with Company Policies. - I care about fate of Company. -High loyalty to company.

2.3. Data Analysis: Data analysis technique is an attempt to find the answer of the research hypothesis. There are two methods of data analysis used in this research. Descriptive statistical analysis and Inferential Statistical Analysis. Descriptive statistical analysis in this research described the data for each indicator that used to measure latent variables. Inferential statistical analysis used two methods. Regression and Path analysis

III. Findings And Discussion

3.1 Descriptive Statistics:Table 2 shows the means, number of participants and percentage for all the variables used in the study. (SDA) Strongly Disagree, (DA) Disagree, (N) Natural, (A) Agree, and (SA) Strongly Agree. Total Mean of leadership style indicators was 4.3094 of 5 which means there is effective leadership in Nizar Bordir Company and reflects the employee’s satisfaction of their leadership style. Total Mean of pay fairness indicators was 4.2627 of 5 that showing how the employees are satisfied in the company. Total Mean of job satisfaction was 4.2881of 5 showing how the employees are satisfied of their jobs in the company. Total Mean of organizational commitment was 4.2430 of 5 which mean there is a high organizational commitment in the company. Contributing of participants opinions are shown in table 2.

Table 2 descriptive statistical analysis of variables

Variables	SDA		DA		N		A		SA		mean 5
	N	Pre.	No.	Pre.	No.	Per.	No.	Per.	No.	Per.	
Leadership style	0	0%	12	0.6%	204	11.5%	799	44.3%	785	43.6%	4.3094
Pay Fairness	3	0.2%	27	1.6%	262	14.5%	710	39.4%	798	44.3%	4.2627
Job Satisfaction	2	0.1%	21	1.4%	232	13.6%	679	40.2%	755	44.7%	4.2881
Organizational Commitment	2	0.1%	14	1%	212	14.7%	616	42.8%	596	41.4%	4.2430

3.2 Reliability and Validity Variables:For testing consistency among multiple measurements Cronbach’s alpha coefficient was calculated. Table 3 shows that these coefficients for all factors are greater than 0.8, which is good for scale reliability according to Nunnally and Bernstein.^[14]Nunnally's (1978) "what a satisfactory level of reliability is depends on how a measure is being used. In the early stages of research . . . one saves time and energy by working with instruments that have only modest reliability, for which purpose reliabilities of .70 or higher will suffice. Based on this, reliability in this research was: leadership style .855, pay fairness .899, job satisfaction .866 and organizational commitment .748. These results showed that all variables were high reliable.

Table 3 Reliability Statistics of Variables

Variables	Cronbach's Alpha	N of Items	Reliability
Leadership Style	.855	15	Reliable
Pay Fairness	.899	15	Reliable
Job Satisfaction	.866	14	Reliable
Organizational Commitment	.748	12	Reliable

3.3 Correlation among variables:Table 4 shows that the variables are highly correlated at the significance level of 0.01. Due to the high correlations between the variables.Validity of all items used in this research are shown it table 3. All the indicators used in this research are valid. The amount of the acceptable value for the validity is above 4. All the values in table 4 are more than 4 which show good and acceptable values.

Table 4Result of Validity Test among Items

Ques.	LS	JS	PF	OC	Validity
1.1	.626**	.452**	.643**	.417**	Valid
1.2	.565**	.704**	.720**	.618**	Valid
1.3	.624**	.793**	.709**	.672**	Valid
1.4	.608**	.654**	.801**	.739**	Valid
1.5	.653**	.701**	.688**	.589**	Valid
1.6	.568**	.661**	.685**	.694**	Valid
1.7	.623**	.540**	.653**	.635**	Valid
1.8	.491**	.639**	.620**	.550**	Valid
1.9	.492**	.595**	.641**	.533**	Valid
1.10	.546**	.473**	.627**	.537**	Valid
1.11	.546**	.642**	.489**	.546**	Valid
1.12	.480**	.593**	.678**	.583**	Valid
1.13	.566**	.565**	.583**	--	Valid
1.14	.661**	.443**	.549**	--	Valid
1.15	.543**	--	.567**	--	Valid

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

I tested the multicollinearity in the commitment model that includes both leadership style and pay fairness as independent variables by examining correlation and validity between all indicators.

3.4 Regression Analysis: The adjusted R-squared coefficient for this multi-variant regression model (leadership style, pay fairness and job satisfaction) is 0.857, meaning that 85.7% of job satisfaction variation is explained by leadership style and pay fairness. Standardized coefficient (Beta) of leadership style on job

satisfaction is negative (Beta = -.044) and insignificant (P = .229 > .05). Effect of pay fairness on job satisfaction is high and positive (Beta = .914) and significant with (P < 0.01). The adjusted R-squared coefficient for this multi-variant regression model (leadership style, pay fairness, job satisfaction and organizational commitment) is 0.231; meaning that 23.1% of organizational commitment variation is explained by leadership style, pay fairness and job satisfaction. Standardized coefficient (Beta) of leadership style on organizational commitment was very low (Beta = .037) and insignificant (P = .662 > .05). Effect of pay fairness on organizational commitment also was low (Beta = .058) and insignificant (P = .787 > .05). Effect of job satisfaction on organizational commitment was positive (Beta = .436) and significant (P < .045 < .05).

Table 5 Leadership Style and Pay fairness on Job Satisfaction and Organizational Commitment

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std.			
(Constant)	13,284	3,532		3,761	,000
Leadership Style & Job satisfaction	-,046	,038	-,044	-1,208	,229
Pay Fairness & Job satisfaction	,778	,031	,914	25,290	,000
(Constant)	24,237	7,282		3,328	,001
Leadership Style & Organizational commitment	,033	,075	,037	,438	,662
Pay Fairness & Organizational Commitment	,041	,152	,058	,271	,787
Job Satisfaction & Organizational Commitment	,365	,180	,436	2,027	,045

Dependent variables: Job Satisfaction and Organizational Commitment

3.5 Path Analysis: Two separate multiple regression analyses were conducted to test the study hypotheses. The first hypothesis was tested using multiple regression analysis with job satisfaction as a dependent variable and leadership style with pay fairness as independent variables. The second hypothesis also was tested using multiple regression analysis with organizational commitment as a dependent variable and leadership style, pay fairness with job satisfaction as independent variables.

The path coefficients for the full model (with all the arrows) are derived from a series of “layered” multiple regression analysis. For each multiple regression, the criterion is the variable in the box (all boxes after leftmost layer) and the predictors are the variables that have arrows leading to the box.

1. with (JS) as the criterion and LS & PF as the predictors.
2. with (OC) as the criterion and LS, PF and JS as the predictors.

For calculating error {e} for job satisfaction and organizational commitment respectively as following:

$$e_{Am} = \sqrt{1 - R^2} = \sqrt{1 - 0.857} = 0.378$$

$$e_{Am} = \sqrt{1 - R^2} = \sqrt{1 - 0.231} = 0.876$$

$$e_{AM} = .378$$

$$e_{AM} = .876$$

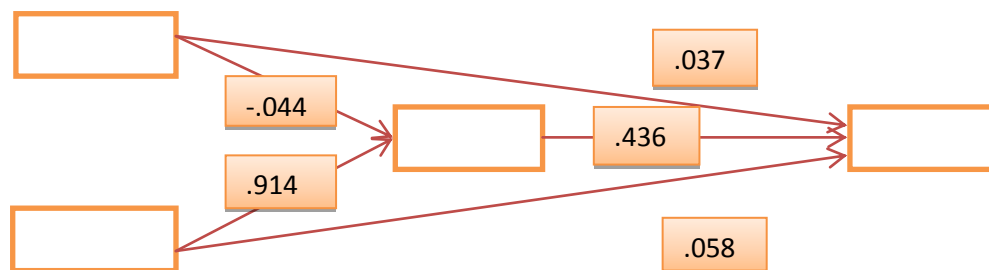


Figure 2. Path Analyses (Full Model).

Examining this model we would note: 1) Leadership style has negative effect on job satisfaction, 2) Pay fairness has a strongly positive impact on job satisfaction, 3) Job satisfaction influence organizational commitment, 4) Pay fairness has no direct effect upon organizational commitment, but has indirect effect through job satisfaction and 5) Leadership style has no effect upon organizational commitment.

IV. Discussion

Inferential statistical analysis based on the regression and path analysis examined the effect of leadership style and pay fairness on job satisfaction. The effect of leadership style, pay fairness and job satisfaction on organizational commitment was examined as well. Firstly, correlation between leadership style with job satisfaction was negative $r = -.269$ while correlation between pay fairness with job satisfaction was very high and positive with $r = .925$. Secondly, correlation between leadership style with organizational commitment ($r = -.095$) low negative, while correlation between pay fairness with organizational commitment was moderate positive ($r = .452$). Lastly, correlation between job satisfaction and organizational commitment was moderate positive with ($r = .479$). By using path analysis, the effect of leadership style on job satisfaction was insignificant and negative with ($-, 044$). Result showed high effecting of pay fairness on job satisfaction ($, 914$). Leadership style has insignificant effect on organizational commitment ($, 037$). Pay fairness has indirect significant effect on organizational commitment but insignificant direct effect with ($, 058$). Job satisfaction also has a high and positive effect on organizational commitment ($, 436$) and significant with $P < .05$. Result of negative correlation in this research related to some reasons. According to the related company, the negative relation between leadership style with job satisfaction and organizational commitment refers to workplace. Workplace in the related company is divided to different places and many of them are working in their own homes. On the other hand, there was very high correlation between pay fairness with job satisfaction. Employees' Satisfaction came from fairness in pay.

V. Conclusions

Leadership styles effect on job satisfaction and organizational commitment was negative and insignificant. Because, near to half of employees are working in their own homes, so this may be show there is no effective role for leadership. Direct impact and positive of pay fairness can also cover the other problems of leadership style. Job satisfaction leads to high and direct positive impact on organizational commitment. Results for negative correlation between leadership style and organizational commitment suggest that leaders or top management which involve ignoring problems or waiting for problems to become serious before taking action. Findings for organizational commitment explain that leaders and top management of Nizar border have to build trust, inspire a shared vision, encourage creativity, emphasize development, recognize accomplishments and bring new communication with employees of this company to make effective leadership style and create good communication between leaders (owners) with all employees.

VI. Recommendations

The Results of negative correlation between leadership style and organizational commitment suggest that leaders or top management which involve ignoring problems or waiting for problems to become serious before taking action. Findings for organizational commitment explain that leaders and top management of Nizar border have to build trust, inspire a shared vision, encourage creativity, emphasize development, recognize accomplishments and bring new communication with employees of this company to make effective leadership style and create good communication between leaders (owners) with all employees. Nizar Bordir Company also need for extra space in workplace. This space will help to share opinions, expertise and receive suitable training.

Acknowledgment

The author wish to thank all who supported him during this research.

References

- [1]. Stogdill's handbook of leadership theory, research, and managerial applications (3 ed., pp. 14). New York: The Free Press.
- [2]. Spector, P. 1997. Job Satisfaction: Application, Assessment, Causes and Consequences. California: Sage.
- [3]. Mowday, R., Steers, R. & Porter, L. 1979. 'The measurement of organizational commitment', Journal of Vocational Behavior, 14: 224-247.
- [4]. Morrison, R. 2008. 'Negative relationships in the workplace: Associations with organizational commitment, cohesion, job satisfaction and intention turnover', Journal of Management and Organization, 14: 330-344.
- [5]. Hersey, P., Blanchard, K. & Johnson, D. (2000) The Management of Organizational Behavior. (8th Ed). Upper Saddle River: Prentice Hall
- [6]. Meyer, J., & Allen, N. (1997). Commitment in the work-place. Thousand Oaks, CA: SAGE Publications.
- [7]. Lawler, E.E. III and Porter, L.W. (1967). The Effect of Performance on Job Satisfaction, Industrial Relations, pp. 20-28
- [8]. Heneman, H. G. III, & Schwab, D. P. (1985). Pay satisfaction: Its multidimensional nature and measurement. International Journal of Psychology, 20, 129-141.
- [9]. Locke, E.A. and Latham, G.P. (1990). A theory of goal setting and task performance, Prentice Hall, p.4
- [10]. Armstrong, M. (2006). A Handbook of Human resource Management Practice, Tenth Edition, Kogan Page Publishing, London, , p. 264
- [11]. Meyer, J., & Allen, N. (1997). Commitment in the workplace. Thousand Oaks, CA: SAGE Publications.
- [12]. Bateman, T. & Strasser, S. (1984). "A longitudinal analysis of the antecedents of organizational commitment". Academy of Management Journal, 21, 95-112.