

LEADERSHIP STYLES AND ITS OUTCOME OF PERSONNEL IN THE BANKING SECTOR

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Abstract:

The study was performed with an aim to investigate the effect of transformational leadership and Transformational leadership on leadership outcome of supervisory employees working in banking sector. The Multifactor Leadership Questionnaire (MLQ-5x) developed by Avolio and Bass (2004) was administered to collect the relevant data from 300 supervising level employees at banking sector in Kerala. Among 300 questionnaire, 288 were received error free. A five point Likert scale questionnaire, consisting of 45 items was used for the study.. It is found that transformational leadership and transactional leadership have positively effects on leadership outcome. The transformational leadership has a stronger influence on leadership outcome in comparison with transactional leadership.

Keywords: Transformational leadership, transactional leadership, leadership outcome, Banking sector

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1. INTRODUCTION

Leadership is a bond which makes individuals to cooperate. Organizations at present are progressively worried about comprehension, advancement and enhancement of their leadership. Leadership dependably assumes a huge job to any group activities, and the nature of the leadership utilized will have a critical effect on the successful business transactions especially in organizations which strive to attain competitive edge over the others in the market. The disturbance brought about by the globalization has driven the business association to find better approaches for working and contending at the global level in pretty much every spheres of management. Technology, capital, land etc have limited scope for generating competitiveness in the market because of imitable quality and hence Human Resource is very vital. Competitiveness generated by way proper deployment of human resource is sustainable and provide competitive advantage. Present day leaders are capable of developing a frame of mind that help employees, give them a dream, develop trust, urge them to think inventive, individualized thought and expand the communication abilities.

Banking sector plays an important role in the economic development of the country. Commercial banks are an important part of the financial system of the country and hence hold a prime stake in the overall activities of citizens in the country. In recent days banking sector faces serious threats with regard to its operation and profit. New information age has brought many challenges in front banking sector. The Leadership style followed in the different sectors of banking industry plays a vital role in their overall performance, profitability and ultimately customer acceptability.

This study aims to test the effect of transformational leadership and transactional leadership in the leadership outcome in the banking sector in Kerala, India to cover existing gaps in the literature. The next section presents the literature review concerning previous research on transformational leadership and transactional leadership in the leadership outcome. It also explains the possible link between leadership styles and leadership outcome.

2. LITERATURE REVIEW

Leadership is a procedure of association among leaders and supporters where the leaders endeavors to impact followers to accomplish a shared objective (Northouse, 2010; Yukl, 2005).

According to Chen and Chen (2008), earlier studies on leadership have distinguished diverse types of leadership styles which leaders follow in managing organizations.(e.g., Davis, 2003; Spears & Lawrence, 2003; House, Hanges, Javidan, Dorfman, & Gupta, 2004; Hirtz, Murray, & Riordam, 2007).

A clear distinction was proposed by Bass (1985) between transformational and transactional leadership styles. Specifically, transformational leaders motivate their subordinates to perform at a more elevated amount by rousing their devotees, offering scholarly challenges, focusing on individual formative needs and accordingly driving adherents to rise above their very own personal responsibility for a higher aggregate purpose, mission or vision. On the other hand Transactional leaders, take part in a procedure of arrangement, negotiations, offering subordinates remunerates in return for the fulfillment of explicit objectives and finishing of settled upon assignments. Transactional leadership is characterized by focus on specific goals and agreed-upon rewards, which are considered to be quite effective, while transformational leadership aims to promote subordinates' feeling of pride to be working with a specific supervisor, which has been shown to exert an augmentation effect that is to add to the levels of productivity, satisfaction and effectiveness (Bass, 1985).

Among the more prominent leadership styles are Burns' (1978) transactional and transformational leadership styles. Transformational leaders emphasize followers' intrinsic motivation and personal development. They seek to align followers' aspirations and needs with desired organizational outcomes. In so doing, transformational leaders are able to foster followers' commitment to the organizations and inspire them to exceed their expected performance (Sivanathan & Fekken, 2002; Miia, Nichole, Karlos, Jaakko, & Ali, 2006; Bass & Riggio, 2006; Bass, 1985, 1998). With regard to today's complex organizations and dynamic business environment, transformational leaders are often seen as ideal agents of change who could lead followers in times of uncertainties and high risk-taking. Morgan (1997) contended that transformational leadership establishes a shared vision, which results in followers exercising their capacity for creative expressions of self, thus exploring their work as a means of self-actualization. In the author's opinion, transformational leadership ultimately involves an ability to define the reality of others.

In contrast, transactional leaders gain legitimacy through the use of rewards, praises and promises that would satisfy followers' immediate needs (Northouse, 2010). They engage followers by offering rewards in exchange for the achievement of desired goals (Burns, 1978). Although transformational leadership is generally regarded as more desirable than transactional, Locke, Kirkpatrick, Wheeler, Schneider, Niles, Goldstein, Welsh, &Chah, (1999) pointed out that such contention is misleading. They argued that all leadership is in fact transactional, even though such transactions are not confined to only short-term rewards. An effective leader must appeal to the self-interest of followers and use a mixture of short-term and long-term rewards in order to lead followers towards achieving organizational goals.

Dimensions of Transformational leadership Avolio, Bass, and Jung (1997) identified four dimensions of transformational leadership. These are idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.

Idealized influence concerns the formulation and articulation of vision and challenging goals and motivating followers to work beyond their self-interest in order to achieve common goals (Dionne, Yammarino, Atwater & Spangler, 2004). In this dimension, leaders act as role models who are highly admired, respected and trusted by their followers (Bass & Riggio, 2006). Leaders with great idealized influence are willing to take risks and are consistent rather than arbitrary by demonstrating high standards of ethical and moral conduct.(Bass and Riggio (2006),

Inspirational motivation refers to the way leaders motivate and inspire their followers to commit to the vision of the organization. Leaders with inspirational motivation foster strong team spirit as a means for leading team members towards achieving desired goals (Antonakis, Avolio, &Sivasurbramaniam, 2003; Bass & Riggio, 2006).

Intellectualstimulation is concerned with the role of leaders in stimulating innovation and creativity in their followers by questioning assumptions and approaching old situations in new ways (Bass & Riggio, 2006; Nicholason, 2007). They always encourage their followers to try new approaches or methods to solve the old problems.

Individualized consideration refers to leaders paying special attention to each individual follower's need for achievement and growth by acting as a coach or mentor (Bass & Riggio, 2006; Nicholason, 2007).

Dimensions of Transactional leadership Bass and Avolio (1995) proposed that transactional leadership consists of three dimensions, namely contingent rewards, management by exception (active) and management by exception (passive).

Contingent reward : This factor is based on a bargaining exchange system in which the leader and subordinates agree together to accomplish the organizational goals and the leader will provide rewards to them. Leaders must clarify the expectations and offer recognition when goals are achieved. . Contingent reward refers to leaders clarifying the work that must be achieved and use rewards in exchange for good performance.

Management-by-exception (active) : The leader specifies the standards for compliance, as well as what constitutes ineffective performance, and may punish subordinates for being out of compliance with those standards. This style of leadership implies closely monitoring for mistakes, and errors and then taking corrective action as quickly as needed. . This refers to leaders actively monitoring the work of followers and make sure that standards are met (Antonakis et al., 2003).

Management-by-exception (passive) : Passive leaders avoid specifying agreements, clarifying expectations and standards to be achieved by subordinates, but will intervene when specific problems become apparent. This style does not respond to situations and problems systematically.

Leadership outcomes The outcomes from leadership quality consist of three measurable factors: **Effectiveness** (reflects the leader's efficacy in achieving organizational outcomes, objectives, goals and subordinates' needs in their job);

Satisfaction (reflects the degrees to which subordinates are satisfied with their leader's behavior and the leader works with others in a satisfactory way); and

Extra effort (reflects the degrees to which the leader can increase subordinates' desire to succeed and subordinates exert effort higher than their normal rate).

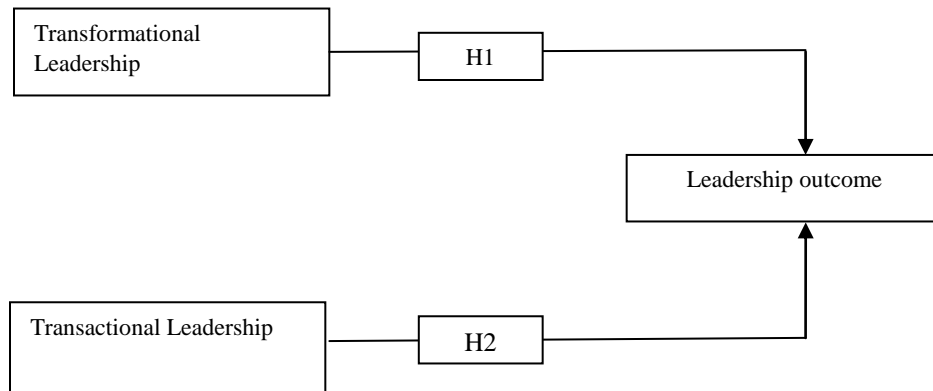
The study conducted by Fatima Bushra Ahmad Usman Asvir Naveed with a purpose to investigate the relationship of transformational leadership with job satisfaction and organizational commitment of employees working in banking sector of Lahore revealed that there are positive relationship. Another study to explore the leadership practices in the banking industry of Bangladesh was concluded with a finding that the most practiced leadership style according to both leaders and subordinates is bureaucratic style. The study conducted by a group of researchers on construction industry in Thailand shows the project managers can adjust their leadership behaviors to support subordinates in producing high work performance and increasing leadership outcomes. The transformational leadership style has a positive association with work performance and organizational commitment more than the transactional style. There finds a scope to investigate the leadership outcomes different leadership styles of professionals in the banking sector in Indian context and hence this study is conducted.

3. OBJECTIVE OF THE STUDY

The main objective of the study is to examine the influence of transactional leadership on the leadership outcome and to examine the influence of transformational leadership on leadership outcome among the supervisory level employees in the banking sector in India.

4. RESEARCH MODEL AND HYPOTHESIS

The objective of this study is to identify the effect of transformational leadership and transactional leadership on the leadership outcome. The hypothesized model of the study is presented below in figure I.

Fig 1

4.1 Hypotheses

Based on the above discussions, the following hypotheses are presented:

H0.1: Transactional leadership has a positive influence on leadership outcome.

H0.2: Transformational leadership has a positive influence on leadership outcome.

5. RESEARCH METHOD

This study followed the quantitative approach for collecting the relevant data from respondents. In particular, a survey was administered to 300 supervising level employees at banking sector in Kerala. Among 300 questionnaire, 288 were received error free. 146 numbers cater from public sector banks and 142 from private sector banks. In the proposed model, the number of constructs are three and the communalities for each construct are modest the sample size is adequate for SEM analysis (Heir, 2017, p.574). The measurement scales of constructs were adopted and adapted from previous studies to ensure that the respondents can easily understand them and suit the context of this study. As stated above in the literature review, Transformational and Transactional leadership are measured. Avolio and Bass (2004) developed a new version of the Multifactor Leadership Questionnaire (MLQ-5x). The different leadership styles are measured using this questionnaire. It measures leadership styles: 1) Transformational, 2) Transactional 3) Passive/ Avoidant. In addition, it measures the leadership's outcomes: 1) Extra effort, 2) Effectiveness, 3) Satisfaction. Transformational leadership (TFL) is measured by five dimensions viz. 1. Idealized Influence-Attributed (IIA), 2. Idealized Influence – Behavior (IIB), 3. Inspirational Motivation (IM), 4. Intellectual Stimulation (IS) and 5. Individualized Consideration (IC). These dimensions are measured through four items each. Transactional leadership (TSL) is measured by three dimensions viz. 1. Contingent Reward (CR), 2. Management

by Exception-Active(MEA) and 3. Management by Exception-Passive(MEP). Each dimension is measured through four items. Leadership Outcome(LO) is measured by 3 dimensions viz, 1. Extra Effort(EE) -three items, 2. Effectiveness(EFT)- four items and Satisfaction(SAT) -two items. The questionnaire aims an effort to gather as much information for leadership behaviors. The measurement of items are carried out through five point Likert scale ranging from “1=not at all” to “5= frequently/always”. Through the match of questions with leadership elements, the average of each element is extracted.

5.1 Sample description

The respondents' profile shows 202 (70.1%) of the participants are male, while 86 (29.9%) are female. On age profile, the majority of the participants (42.4%) belong to the age group of 26 to 35 years old, followed by the age of 36 to 50 years that is represented by 25.3%. Those whose ages below 25 years accounted for 21.5% of total responses, and only 31 (10.8%) were 50 years and above. In terms of education, this study has 20 (6.9%) Undergraduates, 127 (44.1%) staff who have Graduate degree, and 111 (38.5%) with postgraduate education. The responses from public sector 146 (50.7%) and private sector 142 (49.3%) banks are almost equally represented.

6. DATA ANALYSIS AND RESULTS

Statistical Packages for Social Science (SPSS) version (22) was used to analyze the data collected through the surveys. The study applied the Structural Equation Modelling (SEM) technique and utilized AMOS version (22) tools to test the hypotheses among the variables in the model. Structural equation modelling (SEM) is a statistical technique that allows the researcher to examine multiple interrelated dependence relationships in a single model. SEM is a popular approach in social science research. It is popular analysis technique because it has flexibility for interpreting the theory to be tested and the sample data. The following section will illustrate the analysis of the study in more detail.

6.1 Reliability and validity

This study used Cronbach's alpha to measure the internal consistency. (Straub 1989), outline that internal consistency is a commonly used technique to assess the reliability by using Cronbach's alpha. Also, (Hair Jr, Black et al. 2010) suggests that the reliability test should be conducted

before the construct validity analysis is commenced. Constructs are considered reliable when Cronbach's alpha is .70 or higher (Hair Jr, Black et al. 2010). As shown in table 3, all estimated values of the constructs were above the recommended value (0.70) which indicates that there is a strong reliability and high internal consistency in measuring relationships in the model.

Table 3

Construct	No of Items	Cronbach's Alpha
TFL	5	0.845
TSL	3	0.769
LO	3	0.759

All the constructs were shown to have a composite reliability greater than the threshold level of 0.70 and their Average Variance Extracted (AVE) is also greater than the threshold level of 0.50 as shown in TABLE 4. Also, all the indicators (factors) had significant loadings greater than 0.50 ($p < 0.001$) on their respective constructs as shown in table 4.

Since their factor loadings were meaningful and highly significant, they were retained in the measurement model. Moreover, Average Variance Extracted (AVE) is greater than the squared correlation of constructs shown in table 6. These results indicated that the measurement model possessed substantial convergent validity and unidimensionality. Table 4. Convergent validity results

Table 4

Variable	CR	AVE
Transformational leadership(TFL)	0.845	0.522
Transactional leadership (TSL)	0.775	0.535
Leadership Outcome (LO)	0.760	0.515

Table 5. Discriminant validity: average variance extracted (ave) with squared correlation of construct

Table 5

Constructs	AVE	Squared Inter Correlations		
		TFL	TSL	LO
TFL	0.522	1	0.506	0.516
TSL	0.535		1	0.488
LO	0.515			1

6.2 Hypothesis Testing Results and Structural Model

Testing of hypotheses aims to determine which independent variables provide a statistically meaningful relationship to the dependent variables. This study tested the hypotheses using SEM. SEM provides information about the hypothesized impact and the structural path diagram. This study was conducted using AMOS 22.0. The structural model is shown in figure 2.

Figure 2.

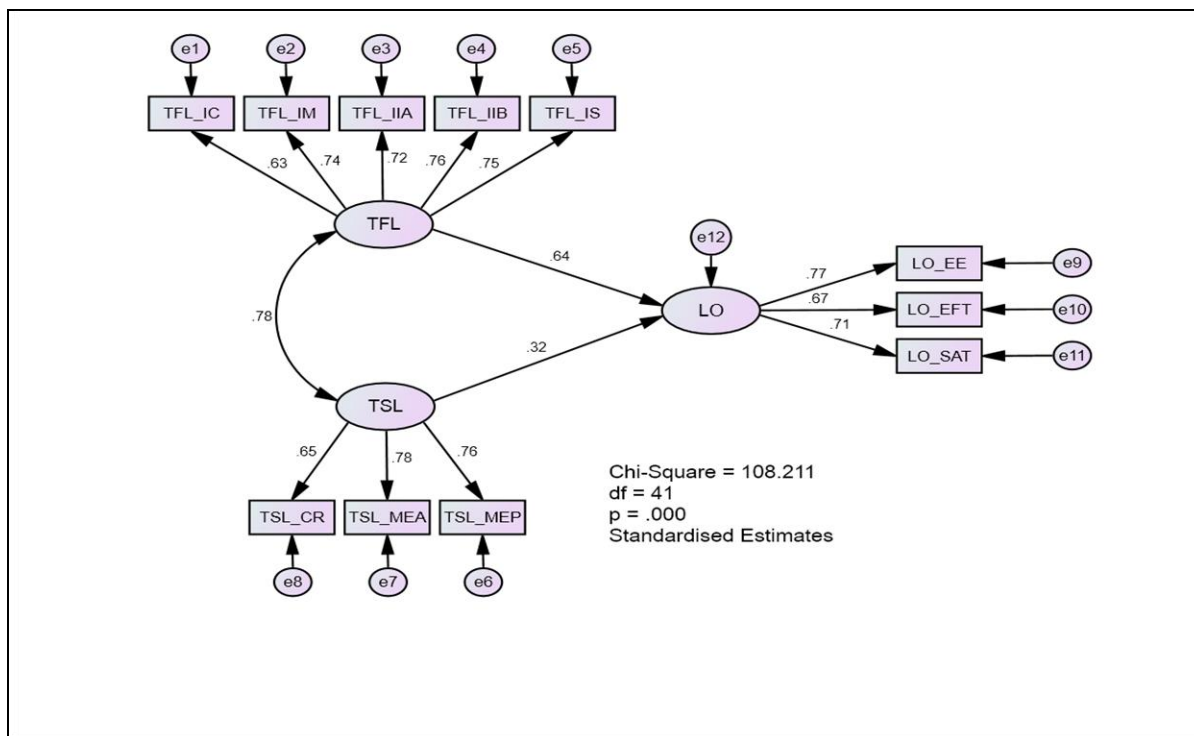


Table 7

No	Hypothesis	Standardized estimate (Beta Value)	p-Value	Remarks
H1	Transformational leadership has positive effect on leadership outcome.	0.642	***	Supported
H2	Transactional leadership has positive effect on leadership outcome.	0.318	0.002	Supported

***significant at $p < 0.001$

Table 7 shown above represents the results of testing the current study hypotheses. The result column indicates whether that hypothesis was supported or not supported depending on the result of the p value. The factors TFL and TSL have a bearing on LO in banking sector. This model tests out the fact and helps to understand the relationship between the above variables. TFL and TSL are the independent variables and LO is the dependent variable. From Figure 2, it can be observed that the path values for influence of TFL on LO is 0.64 and , TSL on LO is 0.32. It is clear that TFL has a stronger influence on LO. This is reinforced from the summary of estimates in the output. The statistics of the model based on the SEM output are: RMSEA 0.076, Chi-square/df 2.639, CFI 0.952, TLI 0.936. These values are within the threshold limits prescribed.(Hair Jr, Black et al. 2010)

6.3 Findings and interpretation

- The Hypothesis H0 1, Transactional leadership has a positive influence on Leadership Outcome ($\beta=0.318$, $p<0.05$) is supported. The different dimensions of transactional leadership influence leadership effectiveness. The study supports the previous research on the same field that certain dimensions of Transactional leadership have positive effect on Leadership outcome (Timothy A Judge and Ronald F Piccola 2004)

- The hypothesis H0 2, Transformational leadership has a positive Influence on Leadership outcome ($\beta=0.642$, $p<0.05$) is strongly supported. The same positive relationship of Transformational leadership on leadership outcome in banking sector was suggested by DimitriosBelias and Athanasios Koustelios (2014)
- The Transformational leadership style has stronger influence on Leadership outcome than Transactional leadership. The path values for influence of Transformational leadership on Leadership Outcome is 0.64 and Transactional Leadership on Leadership Outcome is 0.32. This finding is supported by the earlier researches on these dimensions by KedsudaLimsila and Stephen O. Ogunlana (2007)

6.4 Recommendation

Transactional leadership and Transformational leadership have positive influence on Leadership outcome. The transformational leadership style carries enhanced leadership result in examination with transactional leadership style. Transformational leaders motivate their subordinates to perform at a higher level by inspiring their followers. Transformational leadership establishes a shared vision, which results in followers exercising their capacity for creative expressions of self, thus exploring their work as a means of self-actualization. Based on the findings of this study, transformational leadership is more important in terms of Leadership outcome than transactional leadership in banking sector. The findings suggest that banking organizations have to concentrate on empowering the transformational leadership style among their professionals to have more control and viability. It is also suggested that organization should have the right person to lead the employees and give supervisors suitable training to cultivate strong insight on Transformational Leadership traits. This study was based on limited size of respondents and exclusive focus on banking sector alone, total generalization of concepts resolved through the result may need further studies

7. CONCLUSION

The aim of this study is to identify and test empirically the leadership factors that affect leadership outcome. The study is proposed to be conducted in the banking sector by way of survey through questionnaire. 288 respondents were approached from banking sector for the primary data for analysis and testing. This study has attempted to offer a better understanding of

the relevant factors that may influence leadership outcome. Based on the data collected and the results of the analysis, this study showed significant relationships between factors such as transactional leadership style, transformational leadership style and leadership outcome. The study result exhibits the influence of leadership style on leadership outcome. Both transactional and transformational leadership styles have positive effect on leadership outcome. It is also revealed that transformational leadership style has stronger influence on leadership outcome. The results of this study generate some useful implications for professionals in the managerial positions. Enrichment of transformational leadership traits in professionals can prove better leadership outcome. Transformational leaders emphasize followers' intrinsic motivation and personal development. They seek to align followers' aspirations and needs with desired organizational outcomes. Further studies can be conducted in future to verify the results and also tests the factors in other cultural contexts. Also, future research can expand this study by including the effect of different factors such as organizational and technical factors that may impact the implementation

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