

BUILDING MANAGERS AS TRANSFORMATIONAL LEADERS IN PUBLIC SECTOR BANKS

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Extensive globalization and competition has produced economic environment that are more turbulent and volatile than ever before. Breath taking changes are making it difficult for the business organizations to survive and thrive in a highly competitive world and banking industry is no exception. In the changing scenario, it is the human capital in terms of effective leadership and committed employees who will be the drivers of growth. Consequent to the implementation of landmark reforms in the financial sector, banking sector in Iran has witnessed vast changes with the removal of bureaucratic controls, encouragement to private and foreign investment and integrating Iranian banking system with the global economy. The entry of new private banks and foreign banks are posing a challenge to the leadership in public sector banks. The purpose of the current study is to examine the leadership styles of Regional Heads of public sector banks of Iran as perceived by their subordinates and establishing its relationship to extra efforts which their subordinates are willing to exert, effectiveness of the leader and the degree of satisfaction with the perceived leadership style.

1. Introduction

Around the world the service sector of the economy is going through a period of almost revolutionary changes brought by highly competitive, complex and demanding business environment. Static, permanent and traditional organizations working in a predictable world are giving way to flexible, adaptive and innovative organizations more suited in a new world of change and transformation. In this new era of multiple changes, it is the leadership style that can bring change in the organization culture and influence the working environment. An open mind, managers' broad vision and committed human resource are necessary to bring radical changes in the public sector banks. In the last two decades, employee relations in banks have been marked by frequent branch level work stoppages, adoption of restrictive practices, union supremacy, employee empathy, alienation, and distrust between management and unions, employees' indiscipline, chaotic work environment, archaic delays, unfriendliness and in some cases hostility at the counters (Bhide and Khandelwal, 1986). These banks require leaders who can

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initiate a process of transformation by bringing transformative shifts in the mindset, outlook and perspective of their followers with their visionary appeal. Gill et al. (1998) believe that the new post bureaucratic organizations will require transformational leadership that enables flexibility, horizontal networks, high trust relationship, adaptability to change and uncertainty, innovation and empowerment of employees. Their leaders in the competitive environment need to be transformational who are able to protect their vision powerfully and create support for it, maintain a momentum and empower others to take responsibility for realizing their vision (Vishalli and Kumar, 2004). This requires paradigm shift in leadership.

2. Theoretical Background and Hypotheses

2.1. Transformational Leadership

Until the 1980s, most leadership research focused on transactional leadership. Today, transformational leadership is viewed as the most prominent topic in the current research and theories of leadership (Bass, 1998). This term was conceptualized in 1978 by J.M. Burns in his seminal book, 'Leadership'. He described it as not a set of specific behaviors but rather a process by which "leaders and followers raise one and another to higher level of morality and motivation" He stated that transformational leaders are individuals that appeal to higher ideals and moral values such as justice and equality and can be found at various levels of an organization. Burns contrasted transformational leaders from transactional leaders which he described as leaders who motivated by appealing to followers' self interest. Bass (1985a, 1985b) describes transformational leaders as those who:

- Raise associates' level of awareness of the importance of achieving valued outcomes and the strategies for reaching them.
- Encourage associates to transcend their self-interest for the sake of the team, organization, or larger policy.
- Develop associates' needs to higher levels in such areas as achievement, autonomy, and affiliation, which can be both work related and not work related.

Transformational leadership encourages followers to both develop and perform beyond expectations because they identify themselves with the mission and vision of the organization and extend full support to achieve the mission. Through this process of personal identification, their motivational level is raised, their self-efficacy is enhanced, and their willingness to accept extraordinary challenges is much greater (Shamir, 1990). Other researches have described transformational leadership as going beyond individual need, focusing on a common purpose, addressing intrinsic and higher psychological needs such as self-actualization and developing commitment with and in the followers (Bass, 1985). Kotler and Heskett (1992) identify successful leaders as those who repeatedly communicate their vision, allow people to challenge these messages and stimulate middle managers to take up the cause and provide leadership themselves, characteristics similar to transformational leadership. Transformational leaders take their subordinates well beyond their day to day work dealing so that subordinates begin to realize their own potential (Burns, 1978). Such change in the subordinates' behaviour is the result of the senior manager's conscious decision to share the organization's vision to intellectually inspire, stimulate and empower them (Bass and Avolio, 1994). Avolio, Waldman and Yammarino (1991) broadened the earlier conceptualization of leadership by including the four items which constitute transformational leadership:

2.1.1. Idealized Influence (Attributes and Behaviors)

One of the more important elements of transformational leadership is the charisma called idealized influence. These leaders are admired, respected, and trusted because of their values, beliefs and attitudes. Followers want to emulate their leaders because of the strong emotional attachment and personal identification with the leader.

2.1.2. Inspirational Motivation

These leaders behave in ways that motivate those around them by providing meaning and challenge to their followers' work. Leader builds the team spirit by shared vision and thus the followers display higher degree of self confidence, optimism and enthusiasm to achieve the mission.

2.1.3. Intellectual Stimulation

Transformational leaders challenge the status quo and stimulate their followers' effort to be innovative and creative by questioning assumptions, reframing problems, and approaching old situation in new ways. Followers are encouraged to try new approaches and their ideas are not criticized simply because they differ from leaders' ideas. Rather a bottoms-up type of influence is generated with two way intellectual stimulation. Both leaders and followers develop their own capabilities to recognize, understand and eventually solve future problems.

Individualized Consideration

These leaders pay attention to each individual's needs for achievement and growth by acting as a coach or mentor. Individuals are developed to realize their potential with due recognition to their individual uniqueness. The considerate leaders listen to the individual; understand their strengths and weaknesses while helping to nourish abilities and confidence.

2.2. Transactional Leadership

(Bass, 1985) characterized the transactional leader as one who operates within the existing system or culture, has a preference for risk avoidance, pays attention to time constraints and efficiency, and generally prefers process over substance as a means for maintaining control. Transactional leadership entails an exchange between leader and follower in which the leader rewards the followers for specific behaviors, and for performance that meets with the leader's wishes, and criticizes sanctions or punishes non-conformity or lack of achievement. Rewards may be tangible, such as financial 'perks' and incentives, non – tangible, such as praise and recognition, and better work assignments, and the like, depending on the organizational context. Such exchanges cater to the self interest of followers (Bass, 1998a). Such type of relationship survives till both leader and follower finds exchange agreement mutually rewarding. Zalesnik (1977) refers to transactional leaders as managers and states that they 'concentrate on compromise, intrigue, and control. They focus on process, not the substance, of the issues. They are often seen as inflexible, detached and manipulative. Transactional leaders display behaviors associated with constructive and corrective transactions. The constructive style is labeled as contingent reward and the corrective style is labeled as management-by-exception.

2.2.1. Contingent Reward

Transactional contingent reward leader defines and communicates the work to be done by followers, how it will be done and rewards and recognition followers will achieve for carrying out the assignment satisfactorily. As long as the leader and follower find the exchange mutually rewarding, the relationship is likely to continue (Homans, 1961).

2.2.2. Management-by-exception

Management-by-exception (MBE) tends to be less effective than contingent reward. This is corrective form of leadership. The corrective transaction may be active (MBE-A) or passive (MBE-P). In active MBE-A, the leader specifies the standard for compliance, as well as what constitutes ineffective performance, and may punish followers for being out of compliance with those standards. Leader arranges to actively monitor deviances, mistakes, and errors in the followers' assignments and to take corrective action as necessary. MBE-P leader is reactive and waits for deviances, mistakes and errors to occur and then taking corrective action. Passive leaders avoid specifying agreements, clarifying expectations and reacts to problems, if it is absolutely necessary.

2.3. Laissez-Faire Leadership

This is no leadership or avoidance leadership style and is most inactive, as well as most ineffective according to almost all research on the leadership style. Laissez-faire represents a non-transactional kind of leadership style in which necessary decisions are not made, actions are delayed, responsibilities of leadership are ignored and authority remains unused.

The nationalized banks have predominantly hierarchical and bureaucratic model of administration. Hierarchical models tend to generate very top down and relatively autocratic leadership practices, which seemingly would not be compatible with transformational leadership (Walumbwa et al., 2004). It is hypothesized that;

H1: Regional managers will exhibit transactional leadership behavior more frequently than transformational leadership.

Although transactional leadership model has long been advocated as an effective model for achieving acceptable standard of performance but it lacks key characteristics of "ideal" leader. Also, many research studies have found significant and positive relationship between transformational leadership and the amount of efforts the followers are willing to exert, satisfaction with the leader, ratings of job performance and perceived effectiveness, developing subordinates' competencies, followers' dependence and their empowerment (Bycio et al. 1995; Hater and Bass, 1988; Waldman et al.1987; Vishalli and Kumar, 2004; Kark et al. 2003) Keeping in view the above literature, it is hypothesized that;

H2: As compared to leaders' transactional leadership style, their transformational leadership will have stronger positive relationship with the followers' extra effort, effectiveness and satisfaction with the leader.

3. The Methodology

3.1. Sample Description

The data was collected from 102 managers of three nationalized banks in one of north Iran. 52 branch managers and 50 key officials in the rank of manager / senior manager / chief manager serving in the regional/zonal office rated their Regional Head on leadership scale. 86 percent of raters were above 35 years of age. 42 percent were graduates and 58 percent were having post graduation as their academic qualification. Only 7 percent were women managers indicating that managerial ranks in these banks are mainly occupied by their male counterparts. Average experience of the managers in the bank was 25 years.

3.2. Scale Used

The study has been conducted using Bass and Avolio's (1997) revised Full Range Multifactor Leadership Questionnaire (MLQ Form 5X) to assess the leadership behavior of the regional managers as perceived by the branch managers and their subordinate managers working in the regional offices. The transformational leadership style was assessed with the help of 20 items representing Bass's theoretical five sub dimensions: idealized attributes II(A), idealized behavior II(B), inspirational motivation (IM), intellectual stimulation (IS) and individualized consideration (IC). Transactional leadership style was measured using 12 items representing contingent reward (CR), management-by-exception (active) (MBEA) and management-by-exception (passive) (MBEP). Laissez Faire Leadership (LF) was measured using four items. The relationship between the leadership styles was also studied with the rated criterion of extra effort (EE), effectiveness (EFF) and satisfaction with the leader (SAT) using items of MLQ. Questions are sometimes raised about the validity of western studies in non-western cultures. Iran is high on collectivism and power distance (Hofstede, 1980) There are multiple and sometimes conflicting forces at work shaping Iranian management systems: bureaucracy rooted in the legacy of British colonial rule, traditional Iranian values rooted in conventional Western business values (promoted by multinationals and Iranian managers educated in the West). Concepts of leadership in Iran rooted in traditional values parallel aspects of western transformational leadership. The distance between leaders and subordinates is very deferential to superiors; but the superior's authority is rooted not just in position, but moral integrity. Thus leaders should provide care and affection to subordinates, as well as provide guidance and inspiration (Saied Javadain, 1997).

4. Results, Analysis and Discussion

Research was undertaken to understand the leadership behavior of regional managers of public sector banks as perceived by their subordinates in the middle and junior management. The relationship was also examined between rated criterion variable of extra effort, effectiveness and satisfaction with the leadership style. While rating their leader on MLQ, the managers were asked to report how frequently they observe the stated behavior in their Regional /Zonal Head and rate him on a 5- point scale ranging from 1 (Not at all), 2 (Once in a while), 3 (Sometimes), 4 (Fairly often), 5 (frequently if not always). Table 1 represents descriptive statistics for MLQ sample.

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Table 1: Descriptive Statistics for MLQ sample

Factors	Mean	SD
Idealized Attributes (IIA)	3.42	0.95
Idealized Behavior (IIB)	3.50	0.76
Inspirational Motivation (IM)	3.31	0.73
Intellectual Stimulation (IS)	3.03	0.63
Individualized Consideration(IC)	3.68	0.63
Contingent Reward (CR)	3.45	0.90
Management-by-Exception: Active (MBEA)	2.12	0.69
Management-by-Exception: Passive(MBEP)	2.12	0.69
Laissez Faire (LF)	1.90	0.88
Extra Effort (EE)	3.51	0.66
Effectiveness(EFF)	3.50	0.98
Satisfaction with Leader(SAT)	3.58	0.55

The mean values of the factors from idealized influence to individual consideration are over the theoretical mean (3) ranging between 3.03 to 3.68. Considering the scale labels, the scores imply that those behaviors were observed “Sometimes” to ‘fairly often’. The mean values are similar to those in earlier studies using MLQ I and MLQ-5 (Bass 1985; Bass and Avolio, 1990). Contingent Reward (reinforcing leader) has the mean score of 3.45 indicating that regional managers display both transformational and transactional leadership behavior. The reason for this is simply because of the fact that both transactional and transformational leadership represents active and positive forms of leadership. The passive and avoidant type of leadership is rarely found in public sector banks as the regional heads of these banks cannot afford to be complacent due to increasing competition from private banks and foreign banks and the pressures from top management of these banks. The mean values of extra effort, effectiveness and satisfaction with leader criterion show a mean value ranging between 3.5 to 3.58 indicating higher rating for leadership performance.

Table 2: Composite Score of leadership Scale

Scale	Mean	SD
Transformational leadership	3.39	0.78
Transactional leadership	2.56	0.99
Laissez Faire	1.90	0.88

Table 2 shows composite scores of leadership scale. Contrary to H1, the regional managers have been rated higher on transformational scale than the transactional scale. The profile of the results does not correspond to an optimum leader. An optimum leader would be described as follows: with a value superior to 3 in the transformational scale, a value less than 2 in the transactional scale and less than 1 in the laissez faire factor (Avolio and Bass, 1995). It is important to consider that the American scales are coded from 0 to 4. Therefore Avolio and Bass’ optimum values must be corrected respectively by one point upward in the given sample. Even though the leadership in public sector banks has changed with changing times, still it needs to develop more of transformational skills to meet the growing challenges of globalization and privatization. In no case the regional managers can afford to behave like Laissez Faire

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leaders in the face of threats from foreign and new private banks which are attracting experienced staff working in public sectors banks.

4.1. Argumentation Effect of Transformational Leadership

Keeping in view the hypothesis 2, correlation was computed between the leadership style and its outcome variables of extra effort, effectiveness and satisfaction of the subordinates with the leadership behavior.

Table 3: Correlation of Leadership Factors with Outcome Variables

	II(A)	II(B)	IM	IS	IC	CR	MBEA	MBEP	LF
EE	0.64	0.56	0.71	0.68	0.49	0.38	-0.16	-0.18	-0.49
EFF	0.75	0.65	0.78	0.73	0.57	0.49	-0.21	-0.32	-0.62
SAT	0.71	0.64	0.67	0.67	0.47	0.48	-0.23	-0.34	-0.59

Table 3 shows correlation of leadership factors with outcome variables of extra effort, effectiveness and satisfaction with the leadership behavior. (1) Transformational leadership factors were highly positively correlated with all rated criterion variables such as followers' rated Extra Effort (EE), Effectiveness (EFF), and Satisfaction (SAT). Thus, H2 is supported. Result of the research suggests that managers who behave like transformational leaders were found to be seen by their subordinates as satisfying and effective leaders and cause employees to exert extra effort on their behalf. The results correspond to the results of earlier studies which have found significant and positive relationship between transformational leadership and the amount of efforts the followers are willing to exert, satisfaction with the leader and perceived effectiveness. (Hater and Bass, 1988, Dumdum et al. 2002; Fuller et al. 1996; Lowe et al. (1996). (2) Contingent reward (CR) was also positively related with the outcome measures, but less so than the transformational scale ratings. (3) MBE (Active & passive) & LF were strongly negatively correlated with EE, EFF and SAT which clearly signal alarming bell for the leadership of these banks to avoid focusing more on mistakes and taking corrective steps later. Instead, they should energies their human resource to realize their potential and perform beyond expectations in their own interest as well as the interest of the bank.

Table 4: Correlation of Leadership Style with Outcome Variables

Scale	EE	EFF	SAT
Transformational Leadership	0.74	0.83	0.77
Transactional Leadership	0.63	0.60	0.50
Laissez Faire	-0.49	-0.62	-0.59

Specifically in descending order, the transformational, transactional and non-transactional leadership scales were correlated with extra effort, effectiveness and satisfaction. The results are similar to earlier researches across cultures and national boundaries. (Avolio and Howell, 1992; Bass 1985; Hater and Bass, 1988)

4.2. Conclusion

Managing has become a challenging experience for bank managers as they have to constantly strike a balance between changing employee and customer aspirations, sophisticated

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technology and personal touch, hierarchical structure and flexible system, certainty vs. uncertainty and risk management. Changes necessitate changes in the behavior of personnel in banks, both in their individual self and in relation to others inside and outside the bank. Today, in banks one can see two distinct staff groups, viz. veterans and new entrants. To insure that these two groups work in harmony to attain the organizational goals would, no doubt, be a big challenge. Further, given the attrition rate and the fast changing and chaotic environment, it is imperative that banks must focus on attracting and retaining the talented and experienced staff.

The twenty first century managers need to be far more knowledgeable, dynamic, proactive and quick to bring radical changes and capable of leading themselves and their subordinates to embrace changes and put in extra efforts to meet ever increasing competition. Bank managers need to be transformed into leaders who can read the writings on the wall, challenge the status quo, and think innovatively and creatively in order to differentiate one bank from another bank and from so called 'non banks'. They are required to handle greater level of responsibility and uncertainty. They need to be more than merely managers but leaders who act as catalyst of change, who can bring significant changes in the work culture, become a role model with their values, beliefs, attitudes and inspire and motivate their followers to rise above self interest and work for the development of individual, group and organization as a whole so that threats are converted into challenges and challenges into opportunities in the midst of major transformations. The attributes needed in a leader are quite different than those needed in a manager. However the transition from a manager to an effective leader is quite possible, though difficult.

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