

Leadership Styles and Organisational Performance: A Study from Selected Banks

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ABSTRACT

This paper seeks to examine the difference in leadership styles and organisational performance across three selected banks viz J&K Bank, SBI and HDFC in Kashmir division of Jammu and Kashmir. The paper presents the empirical evidence regarding the aforementioned differences among the selected banks. The leadership styles chosen for the study include transformational leadership style, transactional leadership style and autocratic leadership style. The organisational performance has been measured using the balanced scorecard approach which requires the measurement of performance from four different perspectives viz financial perspective, customer perspective, internal business perspective and learning & growth perspective. The study found that the leadership styles varied significantly across banks which in turn had a significant impact on their performance. Transformational leadership style was found to be most positively related to performance followed by transactional leadership style. Autocratic leadership style, on the other hand, had negative effect on the performance.

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INTRODUCTION

Yukl (2010) defines leadership as the process of influencing others, to understand and agree about what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives. This definition of leadership implies a linkage between leadership and performance in a way that accomplishing the objectives indicates how well an organisation is performing. It has been a study of great interest for researchers over time to know if and how leadership influences the performance.

Over years researchers have made attempts to determine the relationship between leadership and organisational performance. The earlier studies concluded that some intrinsic qualities that leaders are born with are required to improve organisational performance (Stogdill, 1948). Later researchers claimed that the personality traits of leaders have a significant impact on corporate success (Argyris, 1955). Succeeding researches however emphasized that the organizations' success is influenced by the behavior and style of leaders (Hemphill and Coons, 1957; Likert, 1961). Still some others argued that leaders enhance self efficiency of followers and improve their performance by emphasizing on relationships with them which ultimately influences organisational performance (Bass and Yammaranio, 1989). Fiedler (1967) claims that the success of a group, organization, & even a country depends upon the leadership. Pfeffer (2002) too highlights that leadership is the single most important factor in business that maintains its competitive advantage. These studies illustrate that leadership in some way or the other influences organisational performance which is the ultimate criteria for the success or failure of an organisation.

As the success or failure of an organisation ultimately depends on its performance, it is important to know what performance constitutes of. Richard et al. (2009) are of the view that organizational performance covers three specific areas of outcomes: (a) financial performance (profits, return on assets, return on investment, etc.) (b) product market performance (sales, market share, etc.) and (c) shareholder return (total shareholder return, economic value added, etc.). But the present-day literature suggests that the organisational performance is a blend of financial and non-financial measures. Organisations cannot succeed by focusing only on either of the two and ignoring the other. The organisations need to focus on both these measures in order to succeed in the long run.

In line with the above, the current study investigates the differences in leadership styles and performance across the selected banks so as to examine whether the variation in leadership styles caused the variation in organizational performance.

SCOPE OF THE STUDY

The current study examines the leadership styles and organisational performance of the select banks. The leadership styles chosen for the study include transformational leadership style, transactional leadership style and autocratic leadership style. The study attempts to compare the leadership styles and organisational performance across banks in order to scrutinize whether the difference in leadership styles across banks results in the difference in organisational performance as well. The study thus makes an attempt to understand and examine the importance of leadership and organisational in current business environment.

REVIEW OF LITERATURE

Leadership background

The leadership literature proposed by the researchers so far represents different behaviours and styles. The literature reveals a series of thoughts from “Great Man” and “Trait” theories to “Transformational” leadership. While early theories focused upon the characteristics and behaviours of successful leaders, later theories began to consider the role of followers and the relative nature of leadership. A paradigm shift occurred in the past few decades with the emergence of new leadership theories and models which give more emphasis to the leader-follower relationship.

Traditionally, the leadership style adopted mostly was the autocratic leadership style as apparent from the literature. It was because of the fact that leaders believed people hate work and would avoid it and so need to be dealt accordingly which are the assumptions of McGregor’s Theory X (1960). The leader used to dictate the terms to his followers. Management had no or little confidence & trust in employees. Employees were not involved in significant issues. But various changes have taken place since last few decades. Employees nowadays are more educated, skilled and capable. So, they want to be given the due significance. They no longer want to be dictated vehemently. They want to be engaged in matters that are important to the organisation. They

want to have a say in significant issues and want to be valued by their leaders. So, the leadership style relevant in the contemporary world is transformational leadership style.

In Transformational leadership style, the leader gives due importance to the followers. Such a leader attends to each follower's needs, listens to the followers' concerns, is empathetic, keeps communication open and seeks followers' ideas. The leader clears a vision that is inspiring to followers. These things make the leader trustworthy and respectful among his/her followers. The followers of such a leader are loyal and because of the qualities of the leader are willing to work harder than originally expected (Bass, 1985).

The concept of transforming leadership style was first given by Burns (1978) according to whom transforming leadership is a process wherein leaders and followers help each other to move forward to a higher level of morale and motivation. He established two concepts viz transforming leadership and transactional leadership which were later adapted by Bass (1985) who used the term 'transformational' instead of 'transforming'. The transactional approach is based on a give and take relationship. Transactional leaders generally do not endeavor for cultural change in the organization but they work in the existing culture. These leaders can be efficient to the extent that they clarify goals, but they generally abandon to focus on developing the long-term potential of followers.

Later, Bass & Avolio (1990) identified the dimensions of transformational and transactional leadership and developed a model called as Full Range Leadership Model. The transformational leadership style includes four dimension viz inspirational motivation, individualised consideration, intellectual stimulation and idealised influence. Transactional leadership style includes three dimensions viz Contingent Reward, Management by Exception (Active) and Management by Exception (Passive).

Researchers like Obiwuru et al., (2011), Islam et al., (2012), Ravazadeh and Ravazadeh (2013) and many more believe that transformational leadership style is most relevant in the contemporary business scenario as the followers of a transformational leader feel secure, contented and are willing to exert more effort, thus positively influencing the organisational performance. Skarholt et al., (2015) also supports the fact that transformational leaders create a cordial environment and influence the performance positively. Conversely, autocratic leadership

style creates a hostile atmosphere where employees feel stressful and anxious which in turn hampers the overall performance of an organisation

Organisational Performance

Bennett et al., (2014) define performance as good ranking with the hypothesized conception of requirements of a task role. Researchers have given various definitions of performance or organisational performance over time. The gist of all the definitions is that performance is the ultimate outcome of any product, service or an organisation.

The performance outcomes of an organisation cannot be determined without some kind of measurement activity. In order to measure the final outcomes, the organisations need some measurement activity. Neely et al., (1995) define performance measurement as the process of quantifying the efficiency and effectiveness of action. For years it had been a subject of interest for scholars to know what needs to be measured and how to measure. Traditionally organisations would focus on financial indicators only to test out the performance. These financial indicators included ROI, sales per employee, productivity etc. But the literature suggests that the measurement approaches that relied on financial outcomes only are being replaced by more efficient approaches that include both financial and non-financial aspects. This is because of the fact that organisational performance includes not just the financial aspects but non financial aspects too. A major breakthrough towards performance measurement is that of Kaplan and Norton's Balanced Score Card (BSC) (1992). The BSC measures performance from four different perspectives viz Financial Perspective, Customer Perspective, Internal Business Perspective and Learning and Growth Perspective. Subsequently, many studies were carried out to validate the importance of Balanced Scorecard approach. One such study was conducted by Bergin and Jago (2007) who focused on identifying the key constructs of performance for small firms. The findings of the study indicate that the successful managers employ a balanced approach to performance measurement by utilising a number of measures like gross revenue customer feedback, word of mouth referral to examine results and to review management activities.

Henceforth, the studies suggested that the organisational performance is a blend of financial and non-financial measures. Organisations cannot succeed by focusing only on either of the two and

ignoring the other. The organisations need to focus on both these measures in order to succeed in the long run. The current study has adopted this BSC approach to measure the organisational performance.

HYPOTHESES

Following hypotheses are proposed for the study:

H1: There is no significant difference in leadership styles across select banks

H2: There is no significant difference in organisational performance across select banks

RESEARCH METHODOLOGY & DATA COLLECTION

The present study followed explanatory research design. The target population for the study constitutes full time employees, which included the non-managerial personnel, of the three major banks of Kashmir division of Jammu and Kashmir State: JK Bank, SBI, and HDFC. The total population for the study constituted 4288 employees, out of which a representative random sample of 325 employees were selected for the purpose of primary data collection. The sample size of 325 has been arrived with the help of online sample calculator with confidence level 95% and confidence interval (margin of error) of 5.

The secondary data was collected from various books, journals, and other print and electronic publications. The primary data were collected from the respondents from the selected organizations in the sample area with the help of a structured questionnaire. Leadership styles were measured using Multifactor Leadership Questionnaire (MLQ) (Form 5x-short, rater form) developed by Bass and Avolio (1995) wherein the leadership styles of managers were measured from their subordinates' perspective. The organizational performance has been measured with the help of items adapted from Kaplan and Norton's (1992) Balanced Scorecard framework.

RESULTS & DISCUSSIONS

The difference in leadership styles across the selected banks was analyzed to see whether the leadership styles adopted in the selected banks varied considerably or not. Among the three banks J&K Bank was found to score highest on transformational leadership style followed by SBI and HDFC. In case of transactional leadership style SBI scored highest followed by HDFC and J&K

Bank. The mean score of autocratic leadership style for all the three banks was found to be below 3.5 which indicates that autocratic leadership style was least adopted by all the selected banks. HDFC was found to score highest for autocratic leadership style among the three banks followed by SBI and J&K Bank. Table1 below gives the details:

Organisation		TRF	TRNS	AUT
J&K bank	Mean	4.1076	3.5075	3.0033
	N	145	145	145
	Std. Deviation	.55364	.48041	.67000
SBI	Mean	4.0033	3.6920	3.0880
	N	100	100	100
	Std. Deviation	.45160	.40692	.65054
HDFC	Mean	3.7018	3.6170	3.3800
	N	80	80	80
	Std. Deviation	.51220	.43518	.66231
Total	Mean	3.9862	3.6464	3.0698
	N	325	325	325
	Std. Deviation	.51672	.44941	.66477

Source: Data compilation by the scholar for the present study

Note: TRF= Transformational leadership Style, TRNS= Transactional Leadership Style, AUT= Autocratic Leadership

Next, in order to check whether the difference in mean scores among the selected banks was significant or not, one way ANOVA was applied, which gave the following results:

		Sum of Squares	df	Mean Square	F	Sig.
TRF	Between Groups	.947	2	.474	1.780	.058
	Within Groups	112.259	322	.266		
	Total	113.206	324			
TRNS	Between Groups	.427	2	.213	1.057	.044
	Within Groups	85.210	322	.202		
	Total	85.637	324			
AUT	Between Groups	2.139	2	1.070	2.437	.039
	Within Groups	185.234	322	.439		
	Total	187.374	324			

Source: Data compilation by the scholar for the present study

Note: TRF= Transformational leadership Style, TRNS= Transactional Leadership Style, AUT= Autocratic Leadership.

It was found that the leadership styles varied significantly among the organizations with p value of .058, .044 and .039 in transformational, transactional and autocratic leadership styles respectively. Hence, hypothesis H1 which says “*There is no significant difference in leadership styles across select banks*” is rejected.

Afterwards, the mean scores and standard deviation of the performance in the selected banks was calculated, the details of which are given in the Table 3 below:

Table 3. Descriptive Statistics of Banks Regarding Organisational Performance			
Organisation	N	Mean	Std. Deviation
J&K bank	145	4.0228	.54208
SBI	100	4.0213	.52548
HDFC	80	3.8400	.61780

Source: Data compilation by the scholar for the present study

The overall performance was highest in case of the J&K bank (M=4.0228), followed by SBI (M=4.0213) and HDFC (M=3.8400). Subsequently, it was tested whether this difference in performance across banks was significant or not, for which ANOVA was applied, which gave the following results:

Table 4 Difference in Organisational Performance across Banks					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.539	2	1.270	4.106	.017
Within Groups	130.502	322	.309		
Total	133.041	324			

Source: Data compilation by the scholar for the present study

The difference was found to be highly significant with p value of .017 and F value of 4.106. It specifies that the leadership styles in the selected banks varied significantly which in turn influenced their performance. So, we reject hypothesis H2 which says “*There is no significant difference in organisational across select banks*”. Although transformational leadership style

was the dominant leadership style in all the selected banks, but the extent to which this leadership style was exhibited affected the performance of the selected banks. Among the three banks the leadership style in J&K bank was found to be more transformational which had a positive effect on the bank's performance as the mean score of performance was found to be highest in case of J&K Bank. HDFC, on the other hand, scored lowest on both the transformational leadership style as well as mean performance score. SBI is placed in between the other two banks as far as the transformational leadership score and the organizational performance are concerned.

FINDINGS

From the above analysis it is concluded that:

- Transformational leadership style is the dominant leadership style in the current business organizations as this style is exhibited most in the organisations followed by transactional leadership style.
- The difference in leadership styles causes the difference in organisational performance as evident from the empirical data. The organisational performance varies considerably with the difference in leadership styles.
- Transformational and Transactional leadership styles influence the organisational performance positively with transformational leadership style influencing the most.
- Autocratic leadership on the other hand has a negative impact on organisational performance.
- The more transformational leadership style is exhibited, the more positive results, with respect to organizational performance, which is in conformance with some of the previous studies regarding leadership and performance.

CONCLUSION

This study has attempted to study the leadership styles and link them with the organizational performance, the ultimate outcome in which organizations are interested. The study has reported that the organizations having higher performance, measured on balance score card measures, tend to have transformational leadership as dominant leadership style. This work, although limited as far as number of sample organizations is concerned, points out that organizations

should focus more on grooming and developing not only the current leaders but also the future and second line of leaders to adopt transformational leadership style as their dominant style in order to compete and be successful in today's fast changing business environment. In future environment also leadership, strategy, technology and people will constitute the deciding factors for an organization to be successful and to lead an industry. However, it can be easily concluded that the success of these factors depend on how they are glued with each other and aligned with the organizational vision and mission. This most vital task performed by leaders of an organization makes leadership the most crucial and critical task. It has assumed more than ever importance in today's highly diversified workforce, where workers are taking over the role of knowledge workers and include sizable number of women and people from varied cultures, societies, countries, casts, creed, ethos and religions. Thus leadership styles play the most vital role in keeping an organization as one unit and team to strive towards a common goal. As such the current study makes a significant contribution to the academia and industry not only by educating about the importance leadership styles and organizational performance but also by recommending transformational leadership style as the dominant leadership style to be adopted by the business leaders.

IMPLICATIONS

The study comes up with the following implications:

- The leadership style which is most relevant in the contemporary businesses is the transformational leadership style. Since this leadership style has a positive impact on organisational performance, leaders should be encouraged to exercise more of this leadership style while dealing with their subordinates.
- Leaders should take suggestions from employees in significant issues so that the employees feel relevance in the organization.
- Employees should be treated fairly, communicated effectively and given due respect and importance by their leaders.
- Transactional leadership style too influences the organisational performance positively but to a lesser extent. Hence, this style should be exhibited in limited cases where the idea of give and take serves the purpose.

- Autocratic leadership style, having negative effect on organisational performance, should be avoided as the employees no longer want to be dictated insensitively. They want to be taken due care of. So, the autocratic leadership style is irrelevant in the modern business world.
- Leaders exhibiting autocratic leadership style should shun this style and be more transformational in their approach for the betterment of employees as well as of the organization.

LIMITATIONS

Despite following a thorough analysis procedure, the findings reported herein should be inferred in light of certain limitations. There are certain areas that serve as limitations to the current research work. In the present study all the variables are measured subjectively (using a questionnaire). Therefore, the limitations inherent in such surveys where responses are dependent on respondents' perception could not be overcome. Furthermore, using banking industry and Kashmir division only as a target population and sample area respectively may raise concerns about the generalization of results. So, expanding the research to other sectors and regions may help understand the relationship between leadership and performance comprehensively.

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