

## IDENTIFICATION OF THE TRANSFORMATIONAL LEADERSHIP BEHAVIOUR OF SALES PERSON IN SRI LANKAN CORPORATE BANKING SECTOR

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### ABSTRACT

The Concept “Transformational Leadership” has become a popular concept among the practitioners in last decades. In this age of rapidly changing business environment, leadership is more important than ever. Furthermore in the recent economic catastrophe, banking sector is the foremost recipient and they are struggling because of their high outlay. The present organizational focus on revitalizing and transforming organizations to meet competitive challenges ahead has been accompanied by increasing interest among researchers in studying transformational leadership. The objective of this study is to identify the transformational leadership behavior of the salesperson in corporate banking sector in Sri Lanka. Following research problem has been advanced in this study. “What kind of transformational leadership behavior can be seen from the sales person in Sri Lankan corporate banking sector?” According to the literature on transformational leadership four variables identified as four key variables in transformational leadership. They can be named as idealized influence, intellectual stimulation, inspirational motivation and individualized considerate behavior of salesperson. It was decided to employ a survey to collect data for the study, thus the questionnaire method is more appropriate. Financial sector has been selected because of its dominant position in Sri Lankan services sector. The results of this study revealed that more transformational leadership behavior of the salesperson can be seen from private banks than in state banks. The validity of bank-corporate client partnership strategy depends on how effectively it is implemented. For that, training of salesperson is a must. Firm can develop salesperson with the qualities of transformational leadership. Thus findings of this research will be helpful to prepare training manuals, training guidance as well as training programs to develop the competencies of the salesperson.

### BACKGROUND

The concept of “Transformational Leadership” has become a popular concept among the practitioners in last decades. In this age of rapidly changing business environment, leadership is more important than ever. The present organizational focus on revitalizing and transforming organizations to meet competitive challenges ahead has been accompanied by increasing interest among researchers in studying transformational leadership. Such leadership is necessary for identifying new market opportunities quickly and for developing appropriate competencies within organizations. As literature suggests transformational

leadership consists of four factors – charismatic leadership or idealized influence, inspirational leadership or motivation, intellectual stimulation, and individualized consideration. Financial sector has been selected mainly because of the intense competition and also for some other reasons. According to the annual report of Central bank of Sri Lanka for 2006, financial service activities grew by 9.7%, as against 6.5% growth in the previous year. Activities of financial institutions further expanded during 2006. It is revealed that the total assets of the financial institutions increased by 18%, reaching Rupees. 3,706 billion. This is 1.3 times the GDP. Commercial banks which accounted 57.4% of the total assets

in the financial sector continued to hold a dominant position in the financial sector.

### **THE OBJECTIVE OF THE STUDY**

Having considered the importance of transformational leadership, the following research problem is advanced in the study. "What kind of transformational leadership behavior can be seen from the sales person in Sri Lankan corporate banking sector?" Hence present study examines impact of the transformational leadership behavior of sales person in Sri Lankan corporate banking sector. This paper briefly discusses transformational leadership. Then it provides details of theoretical background. Then it covers research methodology and the analysis. Further it discusses the findings and their managerial and theoretical implications. Finally it covers the limitations and the directions for further research.

### **THEORETICAL BACKGROUND**

According to Burns (1978), transformational leadership occurs when one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality, and results in transforming effect on both leaders and followers. Transformational leadership raises the level of human conduct of both leader and follower. Transformational leaders throw themselves into a dynamic relationship with followers who will feel elevated by it and become more active themselves (Krishnan, 2001). Bass (1985) built on Burns (1978) work and described transformational leadership in terms of the impact that it has on followers; followers trust, admiration, and loyalty towards the leader. Transformational leaders motivate followers to do more than the latter originally expected to do. Transformational leaders also change the organizational culture (Bass, 1985). Transformational leadership concept emerged after the inception of the concept of transactional leadership. According to Burns (1978) transactional leadership occurs "when one person takes the initiative in making contact with others for the purpose of an exchange of valued things. The exchange could be economic or political or psychological in nature: a swap of goods or one of good for money; a trading of

votes between candidate and citizen or between legislators; hospitality to another person in exchange for willingness to listen to one's troubles. Each party to the bargain is conscious of the power resources and attitudes of the other. Each person recognizes the other as a person. Their purposes are related, at least to the extent that the purposes stand within the bargaining process and can be advanced by maintaining that process. But beyond this the relationship does not go. The bargainers have no enduring purpose that holds them together; hence they may go their separate ways. A Leadership act took place, but it was not one which binds the leader and followers together in a mutual and continuing pursuit of higher purpose (Burns, 1978). Furthermore Bass (1985) stated that transactional leadership involves role clarification, the initiation of structure, attempts to meet the social needs of subordinates, and the distribution of rewards and punishment according to performance. It relies on management-by-exception and/or contingent reward. Burns's (1978) comprehensive theory formed the foundation for Bass's (1985) transformational-transactional differentiation which has become highly important in the study of leadership in organizations. The model of transactional leadership is based "on a series of exchanges between leaders and followers" (Bass, 1985). Transactional leaders clarify followers' roles and what they must do to obtain designated outcomes. Also leaders recognize followers' needs and how need fulfillment was exchanged for enacting the role to attain designated outcomes. This leadership behavior provides followers with confidence and motivation to achieve desirable performance. According to Bass (1985) transformational leadership is an additional effort by further increasing the confidence of subordinates and by elevating the value of the outcomes for the subordinates.

It has been argued that the early theorists were concerned with transactional leadership based, as it was, on economic and quasi-economic transactions between leaders and followers and appeals to self-interest of the followers. In contrast, transformational approaches were used to appeal to followers beyond their self-interest, and occur when one or more persons engage with others in such a

way that leaders and followers raise one another to higher levels of motivation and morality, i.e. both they, and the social system in which they function, are transformed (Bass, 1985; Burns, 1978). Transactional leadership is generally sufficient to maintain the status quo, but transformational leadership stimulates change and innovation. Transformational leadership “motivate[s] others to do more than they originally intended and often even more than they thought possible” (Bass and Avolio, 1994). But Usage of these two leadership styles together is well admired in the literature. As it suggests, transformational leadership, whatever its form, is likely to add to transactional leadership, in moving subordinates to make greater efforts to achieve better performance with more satisfaction (Bass and Avolio 1994). Bass (1985) defined a transformational leader as one who motivates followers to do more than they originally expected to do. As literature suggests transformational leadership consists of four factors – charismatic leadership or idealized influence, inspirational leadership or motivation, intellectual stimulation, and individualized consideration. Hence it is worthwhile to discuss each and every concept further. Idealized influence exercised by such leaders being role models for their followers. They show great persistence and determination in the pursuit of objectives, show high standards of ethical and moral conduct, sacrifice self-gain for the gain of others, and share the success and the limelight. As a result, the leaders are admired, respected and trusted, and followers identify with them and want to emulate (Avolio and Bass, 1991). Inspirational motivation creates a clear picture of the future that is both optimistic and attainable. Leaders set high expectations, use symbolism to focus efforts, and communicate a vision to followers in simple language. Followers react by willingly increasing their efforts to attain the vision (Avolio and Bass, 1991). Intellectual stimulation describes leadership behavior which encourages followers to use their imagination and to re-think old ways of doing things. The leader provides a flow of ideas, questions assumptions, creates a broad, imaginative picture and encourages followers to come up with their own structures and solutions to problems. The message is that followers should feel free to try out new approaches, and

their ideas will not be publicly criticized because they differ from those of the leader (Avolio and Bass, 1991). Individualized consideration means that the leader gives personal attention to followers, building a considerate relationship with each individual, focusing on that person’s needs. The leader provides challenges and learning opportunities and delegates the authority to subordinates to raise their skill and confidence. In the process, the leader exhibits trust, respect, and some tolerance for mistakes that occur as learning proceeds. The result is that followers are more likely to be willing to develop competence and take initiative. Furthermore, they feel trust and respect of the leader (Avolio and Bass, 1991). A primary measure of transformational leadership has been Multi-factor Leadership Questionnaire (MLQ), developed by Bass and Avolio (1990). The MLQ is comprised of *four* distinct transformational leadership factors of idealized influence or charisma, inspirational motivation, intellectual stimulation, and individualized consideration. Accordingly to operationalized the transformational leadership concept Multi-factor Leadership Questionnaire (MLQ) was used with some modifications.

#### **METHODOLOGY**

The concept of Transformational leadership can be operationalized by using the items of multifactor leadership questionnaire developed by Bass and Avolio (1990). This mainly consists of Idealized influence or charisma, Inspirational motivation, Intellectual stimulation and Individualized consideration. These variables were taken with some modifications as indicators of transformational leadership. It was decided to employ a survey to collect data as the questionnaire method is more appropriate. Data for this study was drawn from the questionnaire. Questionnaire consists of two parts. Part one was covered the four dimensions of transformational leadership behavior. Part two comprised of the background information about the respondents. This includes Gender, length of relationship with the salesperson, ownership of the specific bank which corporate customer deals with, designation of customer, visits per month and the educational qualifications. Before distributing the final questionnaire researcher did a pilot survey with ten (10) corporate

customers five (5) each from two (2) state banks and private banks. After the pilot survey certain modifications were carried out according to the findings. Pilot survey was conducted to check whether the questionnaire was understandable or needs improvements etc. According to the industrial experts around 700 CROs (Customer relationship officers) work in corporate banking departments of 23 commercial banks operating in Sri Lanka. It was decided to restrict the study to local banks. Thus two state banks and six private banks were selected. It was decided to select both state banks because the largest proportion of CROs (will be called salespersons hereafter) are attached to these two banks. Six major private banks were selected to make the sample representative and also because of the growing competition in the sector. According to the Economic and Social Statistics of Sri Lanka (2007) out of 1,345 branches of commercial banks operated, 592 branches operated in Western province(44%). And out of 1,345 branches 774 represented by two state banks (57%). From these eight banks a random sample of 170 corporate customers were selected. Customers’ names and contacts were obtained from the salespersons of that specific banks and researcher personally administer the survey henceforth. A total of 100 customers returned the questionnaire and all were suitable for the analysis. 52% respondents were from state banks while 48% from the private banks. Hence it can be clearly seen that sample was evenly distributed among state and private banks.

The analysis was performed by SPSS 13.0.Linear regression technique has been used to test relationship between variables and test the hypothesis.

**ANALYSIS AND FINDINGS**

**RELIABILITY ANALYSIS**

In this study reliability was examined on all items. As a test of reliability Cronbach’s Alpha was adopted to represent internal consistency. Table 1, shows the reliability test with all values grater than threshold of 0.60(Walsh, 1995). Hence it can be concluded that the items reliably measure the defined constructs and variables.

**Table 01: Results of reliability test**

Variables	No. of items	Alpha
Idealized Influence Behavior	10	0.938
Intellectual Stimulation Behavior	10	0.942
Inspirational Motivation Behavior	10	0.940
Individualized Considerate Behavior	9	0.938

Note. Survey data

**COMPARISON BETWEEN TWO TYPES OF BANKS TO IDENTIFY THE TRANSFORMATIONAL LEADERSHIP BEHAVIOR**

As the descriptive statistics in table 2 shows a significant difference between state and private banks in transformational leadership behavior, it was decided to examine whether the differences are significant or not. For this purpose independent sample T-test was performed. This test is used when there are two experimental conditions and different subjects were assigned to each condition. As Table 2 shows there is significant relationship between relationship marketing and the ownership of bank. Hence it can infer that transformational leadership behavior of the salespersons can be seen in private banks than in state banks.

**Table 02 Transformational leadership orientation of banks**

State banks		Private banks		Independent
Mean	Std. Dev.*	Mean	Std. Dev.*	Sample T-Test
3.53	0.642	3.82	0.523	2.503**

Std. Dev.\* - Standard deviation

\*\*significance at 0.05 level

Note. Survey data

## DISCUSSION AND CONCLUSION

It has been found that there is a significant relationship between transformational leadership and the ownership of bank category (private and state). In other means the variables of idealized influence, inspirational leadership or motivation, intellectual stimulation, and individualized consideration have been well practice by private banks than in state banks. This is an important finding because of the competition in the industry and the dominant nature of the state banks in Sri Lanka. There is an immense competition in the banking sector because of the growing nature of the industry. According to the annual report of Central bank of Sri Lanka for 2005, GDP contribution of this sector is increasing as, in 2004 there was an increase of 6.6% in financial services and in 2005 it further increased by 7.5%. Each bank should develop and create differentiated products/services according to its resources and strengths. A competitive bank-key corporate client strategy provides banks with significant benefits such as additional business from current clients, favorable word-of-mouth communications, reducing the level of price competition, increasing market attractiveness, and attracting tomorrow's customers. The validity of bank-corporate client partnership strategy depends on how effectively it is implemented. For that, training of salesperson is a must. This can be further discussed as Bass (1997) has stressed the usefulness of the concepts of the full-range of leadership into sales training. In fact, it is applicable to salesperson selection too (Bass, 1997). According to Bass (1997) "selling will be more effective when salespersons are both emotionally and intellectually appealing as well as considerate of their customers' need". Thus findings of this research will be helpful to prepare training manuals, training guidance as well as training programs. Further these findings, especially transformational leadership qualities of salesperson can be used as one of the criteria in selection process. Hence human resource department can use these attributes for the performance evaluation as well as career development planning for its salespersons. Furthermore in the recent economic catastrophe, banking sector is the foremost recipient and they are struggling because of their high outlay. So this research would be a very momentous contribution for the Sri Lankan banking sector as well as banking sector of many developing countries. Another important piece of information is that the majority of corporate customers who deals with the banks are males and most of the female like to visit their corporate bank only once a month. This will shed light for future research as to find out any possible impact of gender involvement in corporate banking in Sri Lanka. Moreover study reveals that 96% of the

respondents who are dealing with banks hold managerial or positions above. According to the study more than 25% of respondents are degree holders while professional qualification represents the second place with more than 20%. This highlights the fact that CEO and owners of the company prefer private banks for their corporate dealings. Thus findings of this research will be helpful to prepare training manuals, training guidance as well as training programs. Further these findings, especially transformational leadership qualities of salesperson can be used as one of the criteria's in selection process. This study is limited to corporate banking sector in local commercial banks in Sri Lanka. It avoids the issue of generalizability. Future researchers should employ this study in many other fields of services including other sectors in banking (retail banking, foreign commercial banks etc), insurance industry as well as other services to empirically validate the findings of the study.

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