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ROLE OF LEADERSHIP STYLE ON ORGANIZATIONAL PERFORMANCE

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ABSTRACT

Existence and survival of an organization and its progress requires a concept and measurement of performance as a measuring tool for the achievement of organizational performance. Organizational performance is a pointer of the level of accomplishment that can be achieved and emulate the success of the leadership, so that the performance of the organization reflects the dynamics of organizational life cycle. The study examines the role of leadership style on organizational performance in a selected Banks in Pune. Effective leadership behaviors can facilitate the improvement of performance when organizations face new challenges. Leadership refers to the behavior of a leader to collect and direct the individuals towards any objectives. Leadership is a communication process of leader and individuals. So the effectiveness of an organization depends upon the effective leader and effective leader is that person who has an effective leadership style. Leadership is a very important factor for any organization or group. The present study attempts to investigate the most preferred leadership behaviors among the transformational and democratic leadership styles and its impact on Employees' and organizational performance in bank of Pune. Findings show that there is a correlation between leadership style and organizational performance. The study concludes that transformational and democratic leadership style should be employed by the Banks' management in order to grow stronger in a global competitive environment.

KEYWORDS

leadership style, organizational performance, transformational leadership, democratic leadership.

INTRODUCTION

The concept and definition of leadership and style may differ from one person, or situation, to the other. The word leadership has been used in various aspects of human endeavour such as politics, businesses, academics, social works, etc. Leadership style in an organization is one of the factors that play significant role in enhancing the interest and commitment of the individuals in the organization.

Leadership style in an organization is one of the factors that play significant role in enhancing the interest and commitment of the individuals in the organization (Obiwuru et al., 2011). Leadership is a critical management skill, involving the ability to encourage a group of people towards common goal. Leadership focuses on the development of followers and their needs.

A leader is person who influences, directs, and motivates others to perform specific tasks and also inspire his subordinates for efficient performance towards the accomplishment of the stated objectives. Leadership style is the manner and approach of providing direction, implementing plans, and motivating people.

According to Ngambi et al. (2010) and Ngambi (2011), cited in Jeremy et al. (2011), leadership is a process of influencing others' commitment towards realizing their full potential in achieving a value added, shared vision, with passion and integrity. The nature of this influence is such that the members of the team cooperate voluntarily with each other in order to achieve the objectives which the leader has set for each member, as well as for the group.

A leader helps followers to achieve their goals as they work in the organizational setting; it encourages followers to be expressive and adaptive to new practices and changes in the environment. According to Michael (2011) leadership has a direct cause and effect relationship upon organizations and their success. Leaders determine values, culture, change tolerance and employee motivation. They shape institutional strategies including their execution and effectiveness. They influence those around them in order to reap maximum benefit from the organization's resources, including its most vital and expensive.

The prime motive of many organizations is to achieve its stated objectives, hence the need to effectively coordinate and motivate the workers by an effective leader. Unfortunately, some organizations do not take cognizance of the leadership style adopted by their managers.

THE OBJECTIVE OF THIS STUDY

To identify the styles of leadership adopted by the managers, and examine its effect on employees' performance.

THE FOLLOWING HYPOTHESIS WAS FORMULATED FOR THE STUDY

Hypothesis (Ho): There is no significant relationship between Leadership styles on organizational performance.

REVIEW OF LITERATURE

Leadership is life blood of any organization and its importance cannot be underestimated. Many authors have studied this phenomenon, but there is no conscious definition of what leadership is, no dominant paradigm for studying it, and little agreement regarding the best strategies for developing and exercising it (Bennis, 2007; Hackman & Wageman, 2007; Vroom & Jago, 2007).

Omolayole (2006) views leadership as that kind of direction, which a person can give to a group of people under him in such a way that these will influence the behavior of another individual, or group. Ngodo (2008) perceives leadership to be a reciprocal process of social influence, in which leaders and subordinates influence each other in order to achieve organisational goals.

Leadership style is viewed as the combination of traits, characteristics, skills and behaviours that leaders use when interacting with their subordinates (Marturano & Gosling, 2008, Jeremy et al., 2011).

Flippo & Musinger (1999) see leadership as a pattern of managerial behavior designed to integrate personal or organizational interest and effect, in pursuit of some objectives.

Fiedler (1969) postulates that leadership style refers to a kind of relationship whereby someone uses his ways and methods to make many people work together for a common task.

In modern leadership theories, five leadership styles have been presented, including (i) charismatic leadership, (ii) transactional leadership, (iii) transformational leadership, (iv) visionary leadership, and (v) culture-based leadership (Yukl, 1994; Bass, 1990; Sashkin, 1996; Sergiovanni, 1987).

Tannenbanum and Schmidt (1958) also identify four different types of leaders which have been most widely accepted and used.

There are some common leadership styles, which are discussed below:

Charismatic leaders: have a vision, as well as a personality that motivates followers to execute that vision. As a result, this leadership type has traditionally been one of the most valued. Charismatic leadership provides fertile ground for creativity and innovation, and is often highly motivational. With charismatic leaders at the helm, the organization's members simply want to follow. It sounds like a best case scenario.

There is however, one significant problem that potentially undercuts the value of charismatic leaders: they can leave. Once gone, an organization can appear rudderless and without direction. The floundering can last for years, because charismatic leaders rarely develop replacements. Their leadership is based upon strength of personality. As a result, charismatic leadership usually eliminates other competing, strong personalities. The result of weeding out the competition is a legion of happy followers, but few future leaders (Michael, 2010).

Transactional leadership: The wheeler-dealers of leadership styles, transactional leaders are always willing to give you something in return for following them. It can be any number of things including a good performance review, a raise, a promotion, new responsibilities or a desired change in duties. The problem with transactional leaders is expectations.

The style is defined as the exchange of rewards and targets between employees and management American Journal of Business and Management 204 (Howell & Avolio, 1993). Transactional leaders fulfill employee needs of rewards when targets are met (Bass, 1990; Howell & Avolio, 1993; Humphreys, 2002).

Pounder (2002) defines this style as the transaction of needs fulfillment from both sides of the organization and employees. Transformational leadership style focuses on the development of followers and their needs.

Transformational leadership: acts as a bridge between leaders and followers to develop clear understanding of follower's interests, values and motivational level. It basically helps follower's to achieve their goals working in the organizational setting; it encourages followers to be expressive and adaptive to new and improved practices and changes in the environment (Bass, 1994).

Autocratic leadership: Autocratic leaders are classic "do as I say" types. Typically, these leaders are inexperienced with leadership thrust upon them in the form of a new position or assignment that involves people management. Autocratic leaders retain for themselves the decision-making rights. They can damage an organization irreparably as they force their 'followers' to execute strategies and services in a very narrow way, based upon a subjective idea of what success looks like.

Bureaucratic leadership Bureaucratic leaders create, and rely on, policy to meet organizational goals. Policies drive execution, strategy, objectives and outcomes. Bureaucratic leaders are most comfortable relying on a stated policy in order to convince followers to get on board. In doing so they send a very direct message that policy dictates direction. Bureaucratic leaders are usually strongly committed to procedures and processes instead of people, and as a result they may appear aloof and highly change adverse.

Democratic leadership: Tannenbaum and Schmidt, (1958) describe democratic leadership as one where decision-making is decentralized and shared by subordinates. The potential for poor decision-making and weak execution is, however, significant here.

The biggest problem with democratic leadership is its underlying assumption that everyone has an equal stake in an outcome as well as shared levels of expertise with regard to decisions. That is rarely the case.

While democratic leadership sounds good in theory, it often is bogged down in its own slow process, and workable results usually require an enormous amount of effort. Leadership style and organizational performance Relationship between leadership style and organizational performance has been discussed often.

Most research showed that leadership style has a significant relation with organizational performance, and different leadership styles may have a positive correlation or negative correlation with the organizational performance, depending on the variables used by researchers (Fu-Jin et al., 2010).

McGrath and MacMillan (2000) report that there is significant relationship between leadership styles and organizational performance. Effective leadership style is seen as a potent source of management development and sustained competitive advantage, leadership style helps organization to achieve their current objectives more efficiently by linking job performance to valued rewards and by ensuring that employees have the resources needed to get the job done.

Sun (2002) compares leadership style with the leadership performance in schools and enterprises, and found that leadership style had a significantly positive correlation with the organizational performance in both schools and enterprises.

FuJin et al. (2010) opine that when executives use their leadership style to demonstrate concern, care and respect for employees, it would increase interest of employees in their work and enable them to put up better performance, thereby affecting their job satisfaction positively.

SAMPLE AND PROCEDURE

The study covers one randomly selected bank in Pune. A structured questionnaire was used in gathering relevant data from the branch manager and accountants face to face respectively. Forty questionnaires were filled and returned by the respondents. Leadership scale adopted by **Zhu (2002) and Li (2002)** was used in this paper.

Leadership behavior was divided by its frequency performance into 5 levels, including "never", "little", "occasionally", "often" and "always" as scored by Likert's five-point scoring.

Sample of questions were: "My supervisor rewards performance when his/her expectations are fulfilled", "My supervisor will provide a new thinking approach for my difficult problem", "My supervisor is not present when he/she is needed",

"My supervisor will inspire me with new ways to think about old problems", "My supervisor speaks enthusiastically about our goals as a team", "Unless the problem gets worse, my supervisor interferes", "My supervisor makes me feel proud of being a member of the department", "I am confident in my supervisor."

In respect to measuring the reliability of the scale, the reliability coefficients (Cronbach's) of the charismatic leadership, the transactional leadership, the transformational leadership, the autocratic leadership, the bureaucratic leadership and the democratic leadership were 0.823, 0.791, 0.807, 0.644, 0.790 and 0.754 respectively.

TESTING OF HYPOTHESIS

The result shows that leadership style dimensions (charismas, transactional, bureaucratic, transformational, autocratic and democratic style of leadership) were joint predictors of organizational. This implies that both have negative significant effect on followers and performance. This means that leadership's greatest benefits, motivating and developing people are ignored and this will not induce employees to perform as expected. Furthermore, transactional leadership style ($\beta = -0.61$; $t = -0.296$; $P > .05$) has negative effect but not significant on followers and performance. However, transformational style of leadership ($\beta = 0.44$; $t = 0.298$; $P < .05$) and democratic style of leadership ($\beta = 0.001$; $t = 0.010$; $P < .05$) were significantly independent performance ($F(6, 53) = 2.635$; $R^2 = 0.23$; $P < .05$).

The predictor variables jointly explained 13% of the variance of organizational performance, while the remaining 77% could be due to the effect of extraneous variables. Charismas leadership style ($\beta = -0.395$; $t = -2.511$; $P < .05$); bureaucratic leadership style ($\beta = -0.562$; $t = -2.208$; $P < .05$) were significantly independent predictors of organizational performance.

This indicate that transformational and democratic styles of leadership focus on the development of value system of employees, their motivational level and moralities with the development of their skills and this induce employees to perform as expected.

Also bureaucratic style of leadership ($\beta = 0.072$; $t = 0.581$; $P > .05$) has positive effect but insignificant on followers and performance.

CONCLUSION

This study has investigated the effect of leadership style on organizational performance in a bank. The results of this study revealed that there is strong relationship between leadership style and organizational performance. On the basis of the findings of this study, it can be concluded that leadership style has both positive and negative effect on organizational performance.

The study found that transformational and democratic leadership style, in which employees are allowed to have sense of belonging, carry out higher responsibility with little supervision, and followers are helped to achieve their visions and needs enhance organizational efficiency. Surprisingly autocratic leadership style also

has positive effect on banks' performance although is insignificant. It is concluded that transformational and democratic leadership styles are the best for better management of bank.

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