A Review Paper on leadership styles of managers among public and private sector banks and its relationship with other constructs

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Abstract - In global scenario there are several changes and challenges faced by the Banking Industry especially by public and private sector banks where leadership plays an important role in achieving organizational goals. In this literature survey, efforts have been made to collect the data from various articles, research papers on the banking sector on significance of leadership styles in the banking sector. This paper examines the theory and conceptual understanding of the leadership styles in banking. The present paper will attempt to study the evolution of leadership styles, types of leadership styles and its relationship between variables like demographic variables, type of bank, organizational performance, job satisfaction, and organizational commitment.

Keywords: Leadership styles, banking, relationship

I. INTRODUCTION

The banking sector in India has been subjected to structural reforms since 1991 by easing the internal as well as external constraints in the working of the banks. The diversification of ownership of banking institutions has enabled private shareholding in public sector banks. The increasing presence of private sector domestic and foreign banks has led to an unprecedented increase in competition in the banking sector, offering tremendous opportunities of business expansion and diversification nationally as well as globally along with threats from the emergence of new players in the industry. Acute competition with the advent of new generation private sector banks and foreign banks bringing in latest technology has resulted in putting greater focus on product innovation backed by IT advancement and thrust on customization of products. High average age of staff in public sector banks has been toned down by offering voluntary retirement scheme. The banks are on hiring spree recruiting younger persons with good educational background and IT skills to manage their expansion plans. Effective leadership is viewed as a key factor in attracting, motivating, and maintaining employees in organizations undergoing change and transformation. (Sandhu and Kaur; Cropanzano, Rupp & Byrme 2003)

II. BANKS

In today’s competitive world, Banks play an important role in achieving the objective of economic development through financing every sector of the economy and help for the smooth operation.

“A commercial institution that keeps money in accounts for individuals or organizations, makes loans, exchanges currencies, provides credit to businesses, and offers other financial services”. (Macesich, 2000)

III. BANKING
Section 5 (b) of the Banking Regulation Act 1949 defines “Banking” as “Accepting for the purpose of lending and investment, deposits of money from the public repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise”. No definition of banking can be comprehensive enough in the present context.

Kumudha and Abraham (2008) with an increased deregulation of the sector which resulted in a rising competition with the entry of private sector and foreign banks. The impact of globalization and privatization has affected the work culture of both the public sector and private sector banks. These are witnessing a fundamental shift in the work attitude and style due to open economy and increased competition.

Girdhar (2009) documented that Today’s world is distinct with its hyper competitive environment ‘Survival of the fittest’ is the mantra of this century and banking, being a service industry, is definitely no exception to it. Bank customers are fast changing in terms of their composition, needs, wants, desire and expectations. Today’s banks require new strategies to survive and operate profitably.

Shrivastava and Purang (2011) stated that after liberalization Indian banking sector is one of the oldest, biggest, and fastest growing financial service sectors which has seen tremendous progress.

Shrivastava and P. Purang (2011) stated that public and private sector banks differ from each other in terms of structure, operations, and efficiency. The private bank employees are more satisfied with their appraisal system as compared to the public sector bank employees.

IV. LEADERSHIP

The current understanding of leadership is that it is a long-term relationship, or partnership, between leaders and group members. Leadership is the ability to inspire confidence and support among the people who are needed to achieve organizational goals. Leadership has been defined in many ways that it is very difficult to suggest a single definition.

Bohn and Grafton (2002) described that leadership means the way to create a clear vision, filling their subordinates with self-confidence, created through coordination and communication to detail.

Rad and Yarmohammadian (2004) stated that leadership is a management function, which is mostly directed towards people and social interaction, as well as the process of influencing people so that they will achieve the organization goals.

Kouzes and Posner (2007) leadership is about creating a way for people to contribute in making something extraordinary happen.

Northouse, 2010; Yukl,( 2005) leadership is a process of interaction between leaders and followers where the leader attempts to influence followers to achieve a common goal.

Chu and Lai (2011) leaders play a significant role in achieving organizational goals by helping the employees to understand what is to be done and how to achieve the goal.

Ogbeidi (2012) leadership has been defined as a body of people who take and instruct the activities of a group towards a common goal. It refers to the ability to lead, direct and organize a group. Certo (2002) defined as a process of taking the behavior of others towards the accomplishments of some objectives. Cole (2002) views leadership as a changing process at work in a group in which one person in a particular organizational context over a period of time influences the other group members to devote themselves freely to attain a common goal.

V. EVOLUTION OF LEADERSHIP

For decades, there are numerous theories of leadership that has been evolved to explain the concept and practice of leadership. Early theories tend to focus on the nature, behavior and skills of successful leaders, later theories begin to examine the role of followers and the contextual nature of leadership. This section provides an overview of better known theories:
<table>
<thead>
<tr>
<th>Period</th>
<th>Leadership Theory</th>
<th>Description</th>
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<tbody>
<tr>
<td>1840's</td>
<td>GREAT MAN THEORY</td>
<td>The historical evolution of leadership theory traced from Galton’s great man theory. It assumes that leaders are born and not made with inherited trait.</td>
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<td>1920's-1930's</td>
<td>TRAIT THEORY</td>
<td>This theory postulated that there are certain traits or characteristics associated with leadership. It assumes that if common person has possessed with certain universal characteristics, then he could be a great leader.</td>
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<td>1940's-1960's</td>
<td>BEHAVIOURAL THEORY</td>
<td>This theory identified 2 dimensions of leadership behavior:</td>
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<td>• People centered: concern for people</td>
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<td></td>
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<td>• Task centered: concern for production</td>
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<td></td>
<td></td>
<td>It also focused on - what leaders actually do instead of leader traits. - observed and categorized different styles of leadership viz. autocratic &amp; demanding style and democratic style</td>
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<td>1960’s-1970’s</td>
<td>SITUATIONAL THEORY</td>
<td>From the work of Stogdill 1948, 1974 and Mann 1959 suggests different styles of leadership requires in different situations. The factors that determine to adapt or adjust leader’s style based on the assessment of the competence and commitment of the followers.</td>
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<tr>
<td>1980's</td>
<td>CONTINGENCY THEORY</td>
<td>Fiedler(1964), House(1971), Vroom &amp; Yetton(1973) states that effective leadership depends upon the right fit between leader’s style and situations. Hersey &amp; Blanchard(1982) also of the same view; that linked task &amp; relationship behavior depends upon the situational context.</td>
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<tr>
<td>1990’s-2002</td>
<td>TRANSACTIONAL THEORY</td>
<td>From the studies of Hollander &amp; Offerman, 1990; Jacobs, 2002; McClelland, 1975; Yammarino &amp; Dansereau, 2002; Yukl, 2002 emphasized that effective leader’s job is to find the right match between rewards and recognition in return for the commitment of the followers.</td>
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<td>2003</td>
<td>TRANSFORMATIONAL THEORY</td>
<td>Transformational leadership evolved by Bass &amp; Hickman(1990) introduced as a concept by Burns (1978) &amp; later expanded in his new book Burns (2003). This theory focused that leaders get results by enforcing the enthusiasm, inspiration &amp; energy to the followers towards a vision.</td>
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**LEADERSHIP STYLES**

It refers to consistent behavior pattern of a leader as perceived by people around him. Every leader develops a pattern in the way he handles his subordinates & followers in various situations. The leadership style is the result of philosophy, personality and experience of the leader. It also depends upon the type of followers and the conditions prevailing in the organization.

Mosadeghrad,(2003) described that leadership style is based on a leader’s thinking, behavior and organizational environment. It can be viewed as a series of managerial attitudes, behaviors, characteristics and skills based on individual and organizational values, leadership interests and reliability of employees in different situations.

Newstrom(2007) highlighted that leadership style is the total pattern of explicit and implicit leader’s action as observed by employees. It shows a consistent, each style also reflects, implicitly or explicitly, a manager’s beliefs about a subordinate’s capabilities (Theory X or Theory Y). The way in which a leader uses power also establishes his leadership style-autocratic, delegative, and participative. Autocratic leaders centralize power and decision making in themselves. They structure the complete work situation for their employees, who are expected to do what
they are told and not think for themselves. The leader takes full authority and assumes full responsibility. Participative leaders decentralize authority. The leader and the group are acting as a social unit. Employees are informed about conditions affecting their jobs and encouraged to express their ideas, make suggestions, and take action.

T.V.Rao and Raju Rao (2012) in their investigation found that developmental style of leadership is the most desirable style. It is associated with the creation of empowerment, growth, learning, high morale and satisfaction on the part of employee. In Goleman’s term this style creates resonance while the critical climate created dissonance. Benevolent or relationship dominant style has the potential of creating not only dependence but also resentment and avoidance of work. They have strongly recommended that in future focus should be laid on the developmental style of leadership as a desirable style.

Finlay (2000) described two leadership styles which emphasized on task and relationship of leader with its subordinates as ‘autocratic’ – high task oriented and low people oriented and ‘human resource oriented’ – low task oriented and high people oriented. Some researchers tried to develop and examine leadership styles purely from the perspective of business world particularly focusing on the service industry. Wilderom and van den Berg (1997) diagnosed the effectiveness of different leadership styles particularly in the service sector organization. The researchers developed four leadership styles as ‘transactional’ - high task oriented & a low people oriented, ‘transformational’- high people oriented and a high task oriented, ‘human relations’ – high people oriented and low task oriented, and ‘laissez faire’ – low people oriented and low task oriented.

Khoury & As-Sadeq (2005) investigated that transactional leadership style was found to be the most frequently used leadership style; transformational leadership was exhibited less frequently; and laissez - faire was noted as the least commonly occurring leadership style and more frequently among the leaders with low educational background, low previous managerial experience, and employee leaders.

The various styles of leadership can be broadly understood as mentioned below:

1. Idealized Leadership. This is the behavior that arouses followers to feel a powerful identification and strong emotions toward the leader.

2. Inspirational Motivation. A leadership behavior that models high values as an example and includes communication of an inspiring vision. It also promotes powerful symbols to arouse greater effort and a feeling of belonging.

3. Individualized Consideration. This behavior provides coaching, support and encouragement of specific followers.

4. Intellectual Stimulation. A behavior that influences followers to view problems from a fresh perspective and with a new increased awareness.
**Transactional leadership style**

Bass, Avolio, Jung and Berson, 2003) a transactional leader accomplishes goals by rewarding employees who meet expectations (Bass, 1990). These rewards come in the form of recognition, pay increases, and advancement. Employees who fail to perform the set expectations are penalized. Such transactions or exchanges – the promise of reward for good performance, and discipline for poor performance – characterize effective transactional leadership. (Burns1978)The main components of transactional leadership are contingent reward, which the leader provides rewards contingent on performance, management by exception (Active), which imply leader takes corrective action in anticipation of problem, and management by exception (Passive) defined as the leader takes corrective action when problem arise.

**Comparison of Transactional and Transformational leadership**

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<tr>
<th>TRANSACTIONAL</th>
<th>TRANSFORMATIONAL</th>
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<tr>
<td>Focuses on tactical issues</td>
<td>Focuses more on missions and strategies</td>
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<tr>
<td>Builds on man’s need to get a job done and make a living</td>
<td>Builds on a man’s need for meaning</td>
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<tr>
<td>Is preoccupied with power and position, politics and perks</td>
<td>Is preoccupied with purposes and values, morals, and ethics</td>
</tr>
<tr>
<td>Works with daily affairs</td>
<td>Transcends daily affairs</td>
</tr>
<tr>
<td>Is short-term and hard data orientated</td>
<td>orientated toward long-term goals without compromising human values and principles</td>
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<tr>
<td>Relies on human relations to lubricate human interactions</td>
<td>Releases human potential – identifying and developing new talent</td>
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<tr>
<td>Follows and fulfils role expectations by striving to work effectively within current systems</td>
<td>Designs and redesigns jobs to make them meaningful and challenging</td>
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<tr>
<td>Supports structures and systems that reinforce the bottom line, maximise efficiency, and guarantee short-term profits</td>
<td>Aligns internal structures and systems to reinforce overarching values and goals</td>
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Source Covey, 1992

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**VI. LEADERSHIP AND RELATED CONSTRUCTS**

Numerous studies has been undertaken in the field of leadership and to establish its relationship with other variables like demographic variables, type of bank, job satisfaction, organization culture, organizational commitment and effectiveness.

6.1 **Leadership and its association with demographic variables**

This section discussed the relationship between some demographic variables with leadership effectiveness among bank managers:
Ekaterini(2010), described that organizing function is having an important factor i.e. leadership. There is paucity in theoretical and empirical work on leadership styles and their effects on middle level managers. The study shows the relationship between the leadership and other factors like organizational commitment, their job satisfaction, their communication and managerial effectiveness. The result shows the impact of four leadership styles (i.e. transactional, transformational, empowering, directive) on organizational features (i.e. job satisfaction, organizational commitment, communication and effectiveness) regarding age, education and organizational structure (i.e. type of bank).

Emporiki Bank of Greece and its branches which operates on three modes according to:
1) Capacity of their employees. 2) their employees job responsibilities. 3) Products & services they offer are taken into consideration. Various tables shows the relationship between the variables which are shown by the cross tabulation, one-way anova, correlation. The study also shows the dependency and independency of the various 3 branches of the bank with the leadership styles. Various significant and insignificant results are shown by the researcher in the study.
Chen (2000) and Zajac (1990) empirically observed the significant impact of employees whose demographic variables like age, education level, years of work in organization, duration of leadership on organizational commitment.

Mitchell (2000) conducted the study on American generations and suggested that there are various components that accounts for attitudinal and behavioral differences of workers with respect to generations. The study identified age and level of education affects the needs, wants and values of employees that makes them to behave and thinks in a different way. However, age also inclined towards the degree of expression of individualistic behavior in which the workers of young generations feels more comfortable in showing individualism.

Stoffey and Kabacoff (2001) conducted a study on age differences in organizational leadership. Their findings were described into two categories i.e. comparison of younger workers and older workers. In terms of leadership styles and behavior as compared to younger workers, the older workers study past problems in depth of their field and use this knowledge to approach problems in order to reduce risk and ensure predictability. They show more degree of concern for other workers, cooperate and delegate more. Similarly, on leadership and behavior; on the other hand younger workers as compared to older workers; the researcher found that younger workers feel more comfortable in taking risks and consider new approaches in fast changing environment. They have more ability to generate enthusiasm in others as they work with more energy and intensity. Moreover, they are more likely to seek opportunities for achieving high level of results.

6.2 Leadership and the type of bank

Since the culture, work practices, environment and policies vary in different types of banks. Hence, there is a likelihood that the type of bank will have a bearing on the style of leadership. It is often believed that the public sector banks since they are more traditional in their outlook, the style of leadership may also be traditional with more bureaucratic outlook. Hence, the managers may follow the autocratic style of leadership. As per the literature available, the leadership styles in different banks were mentioned as below:

Kaur(2004) established that the perception of employees towards transformational and transactional leadership behavior across private and public sector banks and also aimed to determine whether such perceptions vary depending on the socio - demographic variables. The analysis of results described that perception of employees towards transformational leadership behavior does not differ but this is not in the case of transactional leadership behavior, where employees of public sector banks have more positive perception towards transactional leadership than employees of private sector banks. Perception of employees towards leadership behavior varied according to marital status and work experience but did not vary according to gender, age, qualification and level of management. A positive perception of employees towards leadership behavior (transformational and transactional) invests more effort in their tasks when they get motivated and inspired to excel their performance. Mehta and mahajan (2012) attempted to compare managers’ perception about their own leadership style with the perception of subordinates regarding the managers’ style of leadership. The results revealed that the managers in public sector banks adopted critical style of leadership as compared to the managers in private sector. It described that in case of private bank managers there was a positive correlation between managers’ and subordinates’ perception w.r.t benevolent style and developmental of leadership On the other hand in case of public sector banks no correlation was found between managers’ and subordinates’ perception w.r.t various styles of leadership.

Al-Hazeymeh Ahmad Saleh (2013) the study was conducted in public institutions in Irbid governorate among randomly selected 100 employees that aimed at recognizing and understanding the role of managers they play throughout the difference between leadership styles (Autocratic, Democratic, Participatory, Balanced, And Dictatorial). The results concluded; the first was there is an average level of practicing the five leadership styles (Autocratic, Democratic, Participatory, Balanced, And Dictatorial) in public institutions in IRBID governorate. The second was there is a positive correlation between work functionality and leadership styles (Autocratic, Democratic, Participatory, Balanced, And Dictatorial) in public institutions. The study also recommended the principle of efficiency and equality of opportunities during the distribution of leadership positions for employees in public institutions and supporting the unity of human work in Jordan public institutions.

6.3 Leadership and organizational performance

Leadership styles have a significant influence on organizational performance. This can broadly be understood by the views of various researchers as mentioned below:
Mosadeghrad and Yarmohammadian, (2006); Chan (2010) found that organizational Success in achieving its goals and objectives depends on its managers and their leadership style. By using appropriate leadership styles, managers can affect employee job satisfaction, commitment and productivity. Evans and Akash (2012) focussed on training and development as one of the means to achieve performance in organization. With help of training, an organization can have better knowledge employees, improve productivity, and reduce accidents and better performance by the employees. The researcher even suggested that further research can be undertaken in the changing banking industry HRD should take care in the field of equipping people who can perform better in the bank.

Ejere & Abasiliim found the impact of leadership styles (viz. transactional & transformational) on organizational performance where 184 randomly selected employees were taken into study. The study disclosed that transformational leadership style had a strong positive impact and transactional leadership style had a weak positive impact on organizational performance. The study also suggested that the combination of both transactional & transformational leadership styles should be used by considering the situation and type of work allotted to the employees.

Rejas (2006) stated that transformational leadership style had a positive impact where as transactional leadership style had a negative impact on organizational performance.

Obiwuru et.al (2011) found that transactional leadership style had significant positive effect while transformational leadership style had positive but insignificant effect on organizational performance.

Pradeep and Prabhu (2011) revealed the relationship between effective leadership style and employee performance in India. The study examined that both transformational and transactional contingent reward behavior is positively related with employee performance.

Paracha mirza et.al (2012) carried out a study in some selected private schools in Pakistan to determine which leadership style can increase the performance of employees. The study suggested that both transactional and transformational leadership styles are positively linked with employee performance than transformational leadership style.

Muterera (2012) examined in the study carried out in USA, that both transactional and transformational leadership styles are positively associated with organizational performance but transformational leadership behaviour positively contributed to organizational performance over and above the contributions made by transactional leadership.

6.4 Leadership and job satisfaction, organizational commitment

Employees job satisfaction and commitment depends upon the leadership style of manager. A better understanding of these variables and their relationship can be studied through views of different researchers as under:

Benkoff (1997); Baugh & Roberts (1994) studied that there is a strong relationship between job satisfaction, organizational commitment, communication with turnover. Chen & Francesco, (2000); Mathieu & Zajac (1990) explored that dissatisfaction of employees leads to less commitment towards work and they will seek out opportunities to quit. If opportunities are not available, they may quit the job. So, job satisfaction, organizational commitment and communication are important components in evaluating employee’s intention to withdraw and the overall contribution of the employees towards organization.

Williams & Hazer 1986 founded the impact of leadership is significant on various factors viz. job satisfaction, communication and organizational commitment. Breckenridge, Pearce et.al (2000) established the influence of leadership styles on job satisfaction, organizational commitment and job performance.

Riketta (2002); Kramer (1991); Angle (1981) identified major determinants of organizational performance and effectiveness (Lashchinger 2001) are job satisfaction, organizational commitment and communication.

El-Nahas, El-salam and Shawky (2012) explored the relationship among different variables leadership behavior, organizational culture, job satisfaction, organizational commitment and turnover intentions. The study was conducted in one of the biggest company in Egypt with a sample size of 455 employees. The findings have shown significant relationship among leader behavior, organizational commitment, job satisfaction, organizational commitment and turnover.

Arikboga and Akdol (2015) conducted a study in fast growing 50 Turkey companies. The study focused on various leadership dimensions i.e. Empowerment, accountability, standing back, humility, authenticity, courage and forgiveness. The researcher identified the effect of leader behavior on job satisfaction. Various assessment tools i.e. multi dimensional measure for leadership developed by Van Dierendonck, Nuijten (2011) and Minnesota job satisfaction questionnaire developed by Weiss, Davis et al. (1967) were used in the survey. The results shows that there is significant and positive effect of empowerment, accountability, standing back, humility, authenticity and courage not only on overall job satisfaction but also on creativity facet of job satisfaction. Among these above
mentioned six dimensions of leader behavior; three dimensions (i.e. empowerment, humility and standing back) have greater effect on job satisfaction as compared to rest of the three.

VII. CONCLUSION

The literature survey reported in the paper discussed the areas of leadership in the banking sector. History of leadership theories, styles most notably Transformational and transactional leadership style have been discussed. The reviews predicted a significant relationship between leadership and other variables like demographic variables, type of bank, organizational performance, job satisfaction, and organizational commitment.

REFERENCES