

Transformational Leadership Style and Breakthrough Performance in Sri Lankan Firms

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Extended Abstract

Background

Leadership is the pivotal force behind the successful organization, and that is to create a vital and viable organization (Bennis & Nanus, 2003). In response to increasingly complex environments and demands of stakeholders force, the organizations seek as to what style of leadership would create/build firms' capability in achieving high performance (financial and non-financial results) and sustain the same that are better than its peer group, over a period. Understanding the effects of leadership on performance is important and having the Chief Executive officer (CEO) with right leadership style is critical to manage these issues to build / achieve and sustain breakthrough performance in the organizations. There is a growing agreement among scholars that transformational leadership style (TFL) is the most widely accepted as the effective leadership style suitable for adoption by firm's CEOs to achieve breakthrough performance (BTP). In the Sri Lankan context too, there were empirical evidence that the TFL style had a positive impact on performance (eg., Sanjeevani & Jayakody, 2006; Abeysekera & Jayakody, 2011; Abeysekera & Wickramasinghe, 2012). However, these studies were limited and confined to the impact of TFL style on performance at individual/ group level. There were no studies conducted in identifying the impact of the firm's CEOs TFL style on performance at firm level. Therefore, the present research study has focused on the aspect of the firms' CEOs TFL style and its role in achieving BTP at firm level in the Sri Lankan firms.

Research Problem

Bass (1985) defined a transformational leader as one who motivates followers to do more than they originally expected to do. Interestingly, Saowalux and Peng (2007), and Burns (1978) tried to link the concept of transformational leadership/transactional leadership and organizational performance. In addition, Sarlak, Moradghol and Ghorbani (2012) in their studies found that the obtained results showed that transformational leadership has a meaningful positive effect on intellectual capital. However, it must be noted that most of these research studies have been done in the context of developed (American and European) countries and only a little research studies (only impact of TFL style on performance at individual/group level not the impact of firm's CEOs TFL style on performance at firm level) have been done in the Sri Lankan context. The primary desk review showed that there were few Sri Lankan firms also have been performing better while the rest of the firms were at lower level. The truth is that it is hard to discern exactly why some organizations perform better than its peers. In particular, the research problem developed was **whether TFL would lead to achieve BTP in Sri Lankan firms, and also to understand how CEOs of the Sri Lankan firms lead to create intangible capital (human-HC, organizational-OC, and informational-IC) which would help to achieve BTP of the firms?.**

Research Objectives

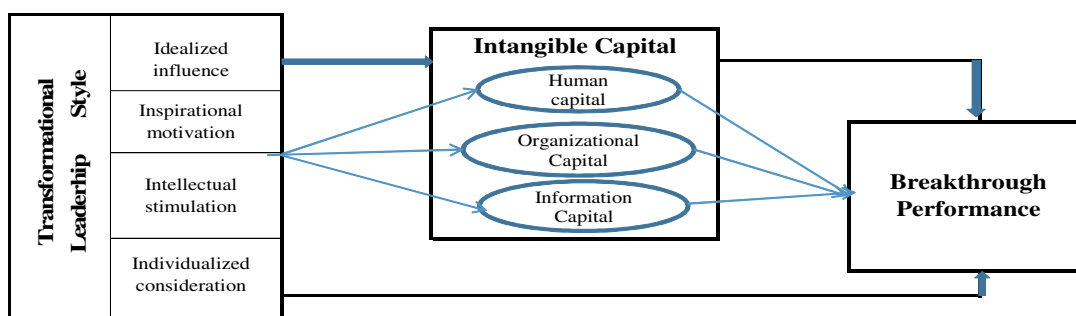
Based on the research problem the following two specific objectives were set in this present study.

- i. To identify, the association of transformational leadership style with breakthrough performance of Sri Lankan firms.
- ii. To evaluate how transformational leadership style has contributed to achieve breakthrough performance of Sri Lankan firms.

Research Design and Methodology

The research study was carried out mainly based on deductive (quantitative) approach. Drawing from the literature the conceptual framework was developed (Figure 1), and empirically tested with the backing of literature. The conceptual framework was developed based on the empirical findings, the documentary evidence and theoretical explanation with concepts emerging from the performance gap. In order to identify the relationship of transformational leadership style with breakthrough performance in Sri Lankan firms, the four main characters of transformational leadership style (idealized influence, inspirational motivation, intellectual stimulation and individualized consideration) were employed as independent variables. Breakthrough performance was a dependent variable, and the intervening variables were intangible assets (human, organizational and information). The conceptual framework developed for this present study and the flow of relationship between variables, are depicted in the Figure 1.

Figure 1: Conceptual Framework



Source: Author

A survey was carried out among the study participants of the selected Sri Lankan firms listed in the Colombo Stock Exchange of different industries as well as a cross section of employee categories such as CEOs and directors at board level, senior managers at strategic and decision making level, managers/ executives/staffs at operations and implementation level, followed by interviews to explore in depth the findings from the questionnaire survey. There were 506 responses received from the 265 study participants. In data analysis and hypothesizes testing, both descriptive and inferential statistics were used.

Key Findings

The study findings indicate that the sample firms with transformational leadership had contributed towards building the competitive capability of the firms. It was observed that the CEO's with TFL

style have achieved BTP, and further noted that the relationship that existed between the firms' CEOs TFL style was highly and positively correlated with firms' BTP and in building intangible capital. According to the regression analysis, it indicated that a change in TFL of one unit would be expected to accompany change in BTP by 2.567 units at 1% level of significant, HC by 1.984 units, in OC by 3.710 units and in IC by 1.969 units at 5% level of significance respectively. The role played by the firms' CEOs TFL style in building intangible capital and mediation effects of IC have significantly contributed and helped in achieving BTP.

The CEOs TFL style of strategic thinking had enabled the senior managers to enhance the strategic awareness and strategic mobility (human capital). TFL style CEOs of the sample firms took a proactive stance and invested in technology development, and human resources development that had increased the company's capability to innovate the business process, and by improving performance they have achieved breakthrough performance. In addition, five characteristics of high performance organization, namely the strategy approach, leadership approach, customer approach, process and structure, and values and beliefs observed throughout the organization, in the sample firms where the CEO's leadership style was transformational. This indicates that TFL had built/created the intangible capitals (human, organizational and informational) by setting the long-term direction, communicating the vision and mission, developing a strategic readiness, strategic mobility of the employees, and alignment towards the common goals, and thereby achieved breakthrough performance of the firms through enhancing the performance of the followers.

Conclusion

The present study found that firms' CEOs with TFL style have produced greater effects than firm's CEOs with transactional leadership style. Further, firms CEOs with TFL style resulted in breakthrough performance that go beyond what is expected as noted by Bass & Avolio, (1990). Further, performances (financial and non financial) of the firms' CEO with TFL style behaviour have achieved /met the characteristics proposed by Kotter and Heskett (1982); Wall (2008). Therefore, this supports the theory of high performance in organizations in the Sri Lankan context. In addition, mediation effect of intangible capital was measured and also noted that CEOs with TFL style has built/created higher level of intangible capital that has enhanced the firm's performance. Therefore, these key findings of the present research study reasonably contribute to the domain of research in TFL style and organizational performance, especially on BTP and advancing the body of knowledge pertaining to the relationship between the firms' CEOs TFL style and organizational performance (overall) particularly BTP of the firms in diverse industries at firm level in the Sri Lankan context by shedding light on how a CEO of a firm could lead and play a major role in making the firm performance move towards BTP. As noted by Avolio and Gibbson, (1988) cited by Yuk (2006) to create a change, transformational leaders become strong role models for their followers. The present research study appears to make an early effort and looked at the practice of firms' CEOs TFL style achieving BTP, measured the effectiveness of TFL in building/creating intangible capital and the mediation effects of intangible capital on the relationship between TFL and BTP of diverse industries at the firm-level in the Sri Lankan context.

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