

# THE IMPACT OF LEADERSHIP STYLE ON ORGANIZATIONAL EFFECTIVENESS OF SELECTED DOMESTIC COMMERCIAL BANKING INSTITUTION IN SRI LANKA (WITH SPECIAL REFERENCE TO THE WESTERN PROVINCE)

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## Abstract

*The study was mainly aimed to find out the impact of leadership style on organizational effectiveness of selected commercial banking institution in the domestic private sector of Sri Lanka. In this study, the organizational effectiveness was analyzed based on competing values model and the leadership style was analyzed based on transformational and transactional leadership model. A structured questionnaire under the survey method was used to collect data. Data was collected from subordinates from the branches of the selected commercial banking institution in the domestic private sector. To represent subordinates from each branch, stratified random sampling method was used. In order to analyze the data, for the purpose of finding answers to the research questions, descriptive statistics and appropriate inferential statistical tools were used. This study found that the selected banking institution in the domestic private sector in Sri Lanka was practicing characteristics of organizational effectiveness were satisfied or strongly satisfied level. The managers in this banking institution were practicing transformational leadership style and while practicing the transformational leadership style. Therefore, the study identified that transformational leadership positively impact on organizational effectiveness of the selected bank.*

**Keywords:** Organizational Effectiveness, Transformational Leadership, Transactional Leadership.

## Introduction

Today organizational effectiveness has become a dominant concept in the management, since the organizations are needed to be effective due to rapid challenging business environment at present. With the open economic system started in 1977, in Sri Lanka, the private sector is expected to play a major role with the main objective of developing the economy of the country. Having this main objective of developing the economy, a larger volume of human resources is pumped to the private sector. According to the Labour Force Survey-Quarterly Report 2022, 4<sup>th</sup> quarter, 43.4 percent employment was in the private sector. (Department of Census and Statistics, 2023).

The banking sector is a vital factor in developing the economy of the country. In Sri Lanka there are twenty-five (25) commercial banking institutions as at the end of 2022 (Central Bank, 2023). Mainly they can be categorized into two: 13 domestic commercial banking institutions and the branches of 12 foreign commercial banking institutions. Of these thirteen commercial banking institutions of Sri Lanka, two (02) banking institutions are state banks and the rest of banking institutions have been initiated by the domestic private sector.

As business organizations, the banking institutions too can fail from time to time since they are inherently risky business with the high competition in the business environment. Therefore, these banking institutions began to face great challenges. To address these challenges the productivity of these banking institutions has to be improved. The productivity is a combination of three basic elements: (i). Effectiveness. (ii). Economy. (iii). Efficiency. In this research study, it was considered organizational effectiveness of these banking intuitions to improve the productivity. It indicates that these banking institutions should pay their attention on strategies, resources, infrastructure, sustaining

people those need to achieve their organizational missions. Hence, organizational effectiveness of commercial banking institutions or Sri Lanka is an important factor which could be considered to overcome the challenges faced by them.

Leadership is a major contributor or direct cause of organizational effectiveness. Today, under the competitive business environment with the globalization, the leader of an organization faces a great challenge to run the organization effectively. Therefore, leadership an organization is vitally important at all levels within the organization and also, leadership directly affects to the organizational effectiveness. Therefore, this study seeks to examine the impact of leadership style on organizational effectiveness of selected commercial banking institution in the domestic private sector of Sri Lanka.

## Research Questions

This study aimed to find out the answers for the following questions in relations to Sri Lanka commercial banking institutions in the domestic private sector.

1. What is existing degree of organizational effectiveness?
2. What is the specific leadership style practices in selected institution?
3. What is the impact of leadership style on organizational effectiveness?

## Objectives

1. To measure the organizational effectiveness of the selected commercial banking institution in the private sector of Sri Lanka.
2. To identify the existing leadership style in this banking institution.
3. To measure the impact of leadership style on organizational effectiveness.

## Literature Review

### *Organizational Effectiveness*

The study of organizational effectiveness has long being province of those in the management science (Parhizani and Gilbert, 2004; Heerwagen and Heerwagan Associates, 2006). Therefore, today organizational effectiveness has become a dominant concept in the management. According to Cameron (1981); Sekaran (1984); Lachman and Wolf (1997); Gilbert and Parhizani, (2004), there is no universal definition of acceptable model for organizational effectiveness, since the best criteria remain elusive because of the goals and objectives of organizations are multiple and difficult to identify (Rodsutti and Swierczek, 2002). However, organizational effectiveness has been commonly defined as the extent to which an organization accomplishes it goal or mission (Cameron and Whetton, 1983).

There have been three primary approaches to define organizational effectiveness; (i). Goal attainment approach: considers as success if the goal of the dominant coalition are satisfied (Roy and Dugal, 2005). (ii). According to Perrow (1961); Simon (1964), the resources control approach; this approach considers if an organization wants to survive, it needs to be able to attract the needed resources from the environment to produce organization's output and here assumes that survival is the ultimate measure of the organizational effectiveness (Roy and Dugal, 2005). (iii). Multiple constituency approach: this considers the achievement of goals of different constituents' such as owners, employees, customers (Roy and Dugal, 2005).

In addition to the above models of organizational effectiveness, Quinn and Rohrbaugh (1983), have presented the competing values model to organizational effectiveness. Quinn and Rohrbaugh (1983); Quinn (1988), based on competing values model, identified four models of effectiveness; (i). Human relations model: this model emphasis on flexibility and internal focus and Cohesion, morale, and human resources development as the criteria for organizational effectiveness. (ii) Open system model: based on the flexibility and external focus. These processes bring innovation and creativity. (iii). Internal process model: emphasis internal and control focus. This model brings stability and control. (iv). Rational goal model: based on control and external focus. Emphasis on rational action and assumes that planning and goal setting results into productivity and efficiency. Competing values model can be illustrated by the Figure 1.

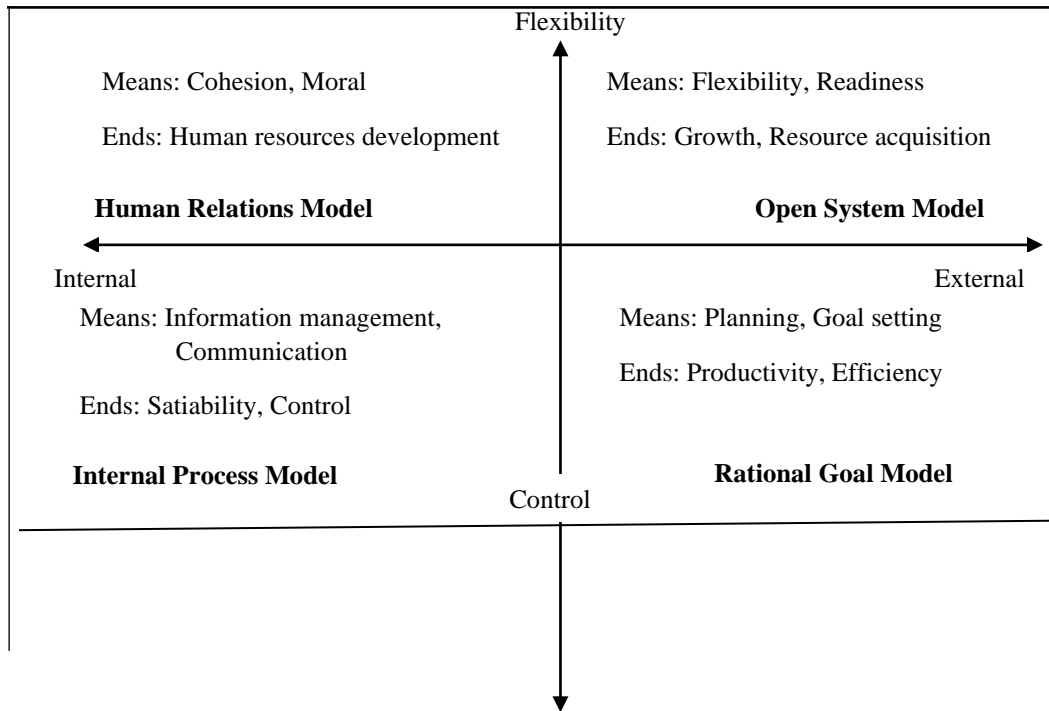


Figure 1: *Competing Values Model*  
 Source: *Quinn and Rohrbaugh (1983)*

**Measurements of Organizational Effectiveness**

Assessing effectiveness are products of different arbitrary models of organizations, effectiveness is a product of individual values and performance. Therefore, the best criteria for assessing effectiveness cannot be identified (Cameron, 1986). Gilbert and Parhizani (2000a; 2000b), have identified a lack of consensus of in prior literature that existing on the definitions.

According to Heerwagen and Heerwagen Associates (2006), the first step in evaluating organizational effectiveness is understanding the organization itself, how it functions, how it structured, and what is emphasize. And further, they have identified number of factors constantly show up in effectiveness matrix. They were; achieving organizational mission, customer satisfaction, product/service quality and value, capacity to innovation and creativity, adaptation to organizational and technological change, effective information sharing and communication, employee attraction and employee retention, effective group and individual work, operational efficiency.

**Leadership**

There are number of definitions for leadership. Leadership has been defined by Hersey and Balanchard (1990), as the ability of influencing people to strive willingly for group effectiveness. Gardner (2005), defined leadership as the process of persuasion and example by which an individual (or leadership team) induces a group to take an action that is accorded with the leader’s purpose of the purpose of all. Therefore, leadership can be identified as the process of others attempt directing and forcing them to achieve organizational objectives.

**Leadership Style**

Leaders tend to exhibit various behavioural patterns in how they providing direction, how they influencing, how they planning, and how they motivating people. These many ways of behavioural patterns can be identified as leadership styles.

A dominant approach to leadership styles, based on transformational and transactional leadership by Bass (1985), and operationalized by Bass and Avolio (1994). The model of transformational and transactional describes as a single continuum from transformational to transactional to laissez-faire leadership (Ushagbem, 2004).

### ***Transformational Leadership***

Bass (1985); Bass and Avolio (1994); Den Hartog et.al. (1997); Hinkin and Tracy (1999), defined transformational leadership as in terms of four leadership characteristics; (i). Idealized influence: the leader act as and perceive as a strong role model for followers. According to Bono and Judge (2004); Simic (1998); tone, Russel and Patterson (2003), idealized influence is about to building confidence of the followers. The leader is admired, respected, and trusted by followers, and provides sense of both mission and vision that others want to follow. The leader shares risks with followers and consistent in conduct with underlying ethics, principles, and values (Bass, Avolio, Jung and Berson, 2003). (ii). Inspirational Motivation: the leader inspires followers to pursue a shared vision over self-interest. This leader is capable of arousing the subordinates to a part of the organizational culture and the environment. And the leader encourages followers envision attractive future states which they can ultimately envision for themselves (Bass, Avolio, Jung and Berson, 2003). (iii). Individual consideration: this leadership pays attention to reach individual's needs for achievement and growth by acting as a coach<sup>1</sup> and mentor<sup>2</sup>. (iv). Intellectual stimulation: according to Barbuto (2005), the leader is in this style stimulates and encourages both creativity and innovation by questioning, assumptions, reframing problems and approaching old situations in new ways. Stone, Russel, and Patterson (2003), noted that leaders in this dimension empower followers by persuading them to propose new and controversial with fear of punishment or ridicule. Intellectual stimulation involves the arousal and change in follower's problem awareness and problem solving through the use of imagination with relation to belief and values (Bass, 1985). The most important aspect is how it relates to the intelligence of subordinates.

However, Tichy and Devanna (1999), noted that transformational leaders share number of common characteristics; (i). they identify themselves as change agents. Their professional and personal image is to make a difference and transform the organization that they have assumed responsibility for. (ii). they are encouraging individuals. These transformational leaders are risk takers, individuals who take a stand. (iii). they believe in people. They are powerful yet sensitive of other people, and ultimately, they work towards the employment of others. (iv). they are value driven. Transformational leaders are able to articulate a set of core values and exhibited behaviour that was quite congruent with their values, positions. (v). they are lifelong learners. They view mistakes as learning experiences. (vi). they have the ability to deal with complexity, ambiguity, and uncertainty. (vii). they are visionaries. Transformational leaders are able to dream, able to translate those dreams and images so that others could share them.

### ***Transactional Leadership***

Bass (1985), noted that the transactional leadership behaviours aimed to monitoring and controlling of employees through rational or economic means. Bass (1990); Bass and Avolio (1994), argued that transactional leadership is an exchange process between leaders and followers. In this leadership, the leader identifies the specific follower desires and provides goods that meet those desires in exchange for follower's meeting specific objective or performing certain duties (Ushagbem, 2004). On the other hand, leader are benefitted from completion of tasks while followers receive rewards for the job performance (Northhouse, 2001). Behaviours and traits of followers are influenced by incentives offered by the leader (Politis, 2003).

According to Bass (1985); Bass and Avolio (1994); Hater and Bass (1998); Den Hartog et.al. (1997); Bono and Judge (2004), dimensions of transactional leadership are; (i). Contingent reward: the leader provides rewards on follower's achievements of specified performance level. Bono and Judge (2004), noted that contingent rewards refer to leadership behaviours and focused on exchange of resources and leader provides tangible and intangible support and resources to followers in exchange for their support and performance. (ii). Active management by exception: the leader actively seeks out variations from desired performance on the part of followers with a view to taking corrective action (Pounder, 2001). (iii). Passive management by exception: the leader does not seek out deviations for desired

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<sup>1</sup> Plilippe Ronsinski (2005), defined the coaching as the art of facilitating and understanding of people's potential to reach meaningful important objective.

<sup>2</sup> Gardon (1997), defined mentoring as a fundamental form of human development where one person invests time, energy, and personal know-how is assessing to growth and ability of another person.

performance and only take action when problems present themselves (Pounder, 2001). This leadership is inactive and may be required and effective in some situations when it is necessary to supervise larger number of followers who directly report to the leader.

### ***Transformational, Transactional Leadership and Organizational Effectiveness***

According to Avolio and Howell (1992); Bass (1985); Selter and Bass (1990); Ross and Offerman (1997), few studies have actually examined the link between the exercise of transformational and transactional leadership, and overall organizational effectiveness (Pounder, 2001). Brunes (1998); Lachman and Wolf (1997), noted that examine the link between transformational and transactional leadership and organizational effectiveness is hampered by the absence of general agreed definition of organizational effectiveness (Pounder, 2001). Thus, Bass and Avolio (1994); Brunes (1998), have argued that transformational leadership is more proactive and ultimately more effective, than transactional, corrective or avoidant leadership in terms of motivating followers to achieve higher performance (Berson and Avolio, 2004).

The literature in leadership has been showed that the relationship between the transformational leadership. According to Bass (1985), transformational leadership increases the confident and motivation of followers to obtain performance beyond expectations (Politis, 2003). A study relating to leadership done by Geyer and Sterer (1998), evaluated Austrian bank branches and reported stronger positive relationship between transformational leadership and long-term versus short term performance. Thus, they could find a strong relationship between transformational leaders and long-term performance due to transformational leaders are creating more inspired, committed and cohesive in their banks (Bass, Avolio Jung and Berson, 2003). According to Power and Bastman (1977), transformational leaders use their component abilities of inspiring intellectually, stimulating and individually considerate leadership to motivate followers to higher levels of achievements. And also, they achieve greater organizational performance by aligning individuals with the strategic vision, mission and collective goals of their organization (Berson and Avolio, 2004). As Kirkpartrick and Lock (1996), critical organizational outcomes such as, satisfaction, organizational performance, group performance, and commitment have associated with transformational leadership style. Thus, Meta-analysis conducted by Lowe, Kroeck, and Sivasubramaniam (1996); Patterson, Fuller, Kester and Stringer (1995), confirmed that the positive relationship between transformational leadership and performance, noted in the leadership literature (Bass, Avolio, Jung and Berson, 2003).

Transactional contingent reward leadership relates positively to performance in that such leaders clarify expectations and recognize achievements that positively contribute to higher levels of performance (Bass, Avolio, Jung and Berson, 2003). On the other hand, transactional leadership, performance context may elevate the importance of the role transactional leadership plays in contributing to effective leadership (Bass, Avolio, Jung and Berson, 2003). The effective leadership positively relates with the organizational performance and effectiveness. However, Burnes (1998), described transactional leadership as representing the lower type that transformational leadership should add to in predicting performance.

### **Hypotheses Development**

At present Sri Lankan banking Institutions are facing some challenges including improving of staff cost effectiveness. Therefore, the management should pay their attention on the organizational effectiveness of their institutions. Thus, the management is required to motivate, build the confidence of their subordinates to higher levels of performance and effectiveness of their institutions.

Transformational leaders are expected to enhance the performance capacity of their followers by setting higher expectations and generating a greater willingness to address for more difficult challenges (Avolio, 1999; Bass, 1998). Transactional contingent reward leadership also relates positively to performance by these leaders are clarifying expectations and recognize achievements that positively contribute to high level of organizational effectiveness (Bass, Avolio, Jung and Berson, 2003). Therefore, on the basis of prior literature, there is sufficient justification to propose transformational and transactional leadership model to test leadership style of commercial banking institutions in the domestic private sector of Sri Lanka.

Therefore, considering the dimensions of transformational leadership and organizational effectiveness, it can be argued that degree of transformational leadership of managers of this banking institution positively affects to its organizational effectiveness. Hence, the following hypothesis was developed for the study.

H<sub>1a</sub>: Transformational leadership style impacts positively on organizational effectiveness.

Thus, considering the dimensions of transactional leadership as well as the literature related to relationship between transactional leadership and organizational effectiveness, it can be argued that transactional leadership of managers of this banking institution positively effects to organizational effectiveness of this banking institution. Hence, the following hypothesis was developed for the study.

H<sub>1b</sub>: Transactional leadership impacts positively on organizational effectiveness.

**Conceptual Framework**

Conceptual framework of the study attempts to establish the relationship between the variables of the study. In this study the dependent variable is organizational effectiveness. The independent variable is leadership style. Therefore based on the literature, the conceptual framework seeks to establish the relationship between leadership and organizational effectiveness. The appropriate conceptual framework for the study can be elaborated by the Figure 2.

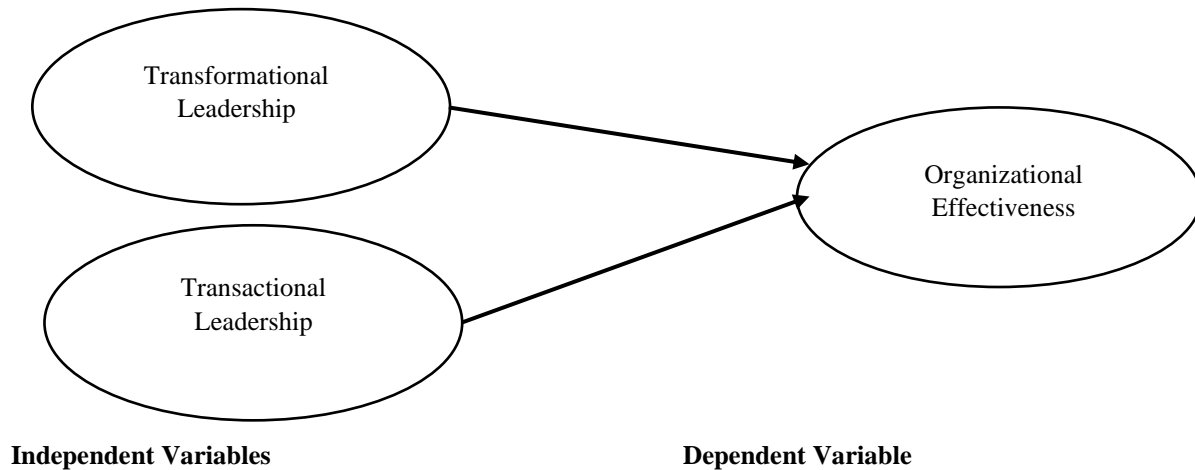


Figure 2: Conceptual Framework of the Study

**Methodology**

*Measurements of Variables*

In this study, the dependent variable was measured by following dimensions and it can be elaborated by Table 1.

**Table 1: Measurements of Organizational Effectiveness.**

Attribute	Indicators
a) Achieving organizational mission	Activities are aligned with the mission of the bank Institution achieved its goals guided mission to its optimal level
b) Capacity to innovation and creativity	Institution has sufficient capacity to innovate to cope with the changing environment
c) Adaptation to organizational and technology change	Institution changes or adopts its organizational structure from time to time to cope with the business environment Institution brings or adopts new technology as to achieve organizational objectives

d)	Effective information sharing and communication	Sufficient communication and sharing of clear information on time between institute and leader to achieve institutional objectives Sufficient communication and sharing of clear information on time between leader and subordinates to achieve institutional effectiveness Sufficient mutual support between leader and subordinates to achieve the targets of the institution
e)	Satisfaction	Self-motivated and work willingly and effectively
f)	Employee attraction and retention	Seeking another place for work and try to leave

Thus, the independent variable of the study, the leadership style was measured by the following dimensions and it can be elaborated by the Table 2.

**Table 2: Measurements of Leadership Style**

Leadership style	Dimensions	Indicator
Transformational Leadership	Idealized influence <sup>2</sup>	manager always tries to build subordinates' confidence Subordinates admire, respect and trust the manager Manager always shares risks as well as credits with subordinates
	Inspirational motivation	Manager directs us to pursue a shared vision rather than our self-interests Manager always inspires team spirit As the leader, manager always displays the enthusiasm and optimism
	Intellectual stimulation	Manager always considers the individual differences in terms of needs and desires Manager always tries to develop subordinates for higher levels of potential Subordinates can understand manager believes that delegation of authority is the most important to achieve the targets successfully
	Individual consideration	Manager encourages for creativity and innovation Manager empowers subordinates by persuading to propose new and controversial ideas in problem solving Manager seeks different perspectives when solving problems
Transactional Leadership	Contingent reward	Manager recognizes and appreciates the achievements of each of subordinate Manager provides tangible and intangible resources to subordinates for their efforts and specified performance levels Manager pays his/her attention to what his/her subordinate can get for what they performed
	Management by exception	Manager always monitors deviations from subordinates' desired performance Manager always monitors subordinates' mistakes and errors Manager takes immediate corrective actions to mistakes and errors done by subordinates

**Construction of Questionnaire**

Survey method was used to collect data for this study and a questionnaire was used to collect data from respondents. The questionnaire was built based on major concepts of literature and it consists of two sub sections. Part one consisted of questions related to respondents' demographic and general data. Part two to measure the variables of the study, the organizational effectiveness and leadership style.

**Sample and Sample Procedure**

The data was collected from the subordinates of a selected commercial banking institution in the domestic private sector of Sri Lanka. The study was limited to the subordinates of the branches of the selected banking institution located in the Western Province in Sri Lanka. The subordinates of this banking institution consisted of executives, junior executives, banking and graduate trainees, banking assistants and support staff. To represent

subordinates from each branch, stratified random sampling method was used. The sample size of the survey was set at 341 subordinates according to the table developed by Krejcie and Morgan (1970).

**Pilot Study**

According to Luck and Rubin (1987), a pilot study sample should around 10 to 30 members of the population, the developed research instrument was distributed among selected 20 members of the sample as a pilot test before moving to the main study. In this pilot study, the overall responses were satisfied.

**The Data Collection**

With the satisfied responses at the pilot study 350 questionnaires were distributed among subordinates of selected commercial banking institution in the domestic private sector of Sri Lanka, with the intention of meeting the target of collecting 341 questionnaires from the respondents. The response rate was moderate and total of 224 completed questionnaires could be collected. After checking the quality of responses, 27 cases were omitted due to missing values and 197 usable completed questionnaires were obtained and based on those 197 completed cases, the analysis was performed.

**Data Analysis**

The selection of the most suitable statistical analysis is very important part research study. In order to explore the research problems, objectives, and data characteristic, most appropriate statistical analysis should be selected. Therefore, in order to analyze the data for the purpose of finding answers for the research questions descriptive statistics and appropriate inferential statistical techniques were used.

**Reliability**

Internal consistency reliability was used to access the reliability of a summated scale where several items were summated to form total score (Bricks and Malhotra, 2006). Cronbach’s Alpha value for transformational leadership was 0.72 and 0.68 was for transactional leadership. Cronbach’s Alpha for organizational effectiveness was 0.69.

**Data Analysis**

**Demographic Profile of the Sample**

Demographics are most contemporary statistics characteristics of a population. Commonly examined demographics include gender, race, age, employee status etc. Hence, the part I of the questionnaire covered the demographic characteristics of respondents such as gender, age, educational level, and working experience. And some background data such as employment status, and number of colleagues. Thus, the personal data will be helpful to contextualize the findings and the formulation of appropriate recommendations to the subject matter.

**Table 8: Demographic Profile**

	Frequency	Percentage
<b>Statuses of Employment</b>		
Junior Executive	68	34.5
Clerk	55	27.9
Banking Assistant	74	37.6
Total	197	100.00
<b>Gender</b>		
Male	160	81.2
Female	37	18.8
Total	197	100.00
<b>Age</b>		
30 and under	75	38.1
31-35	35	17.8



36-40	26	13.2
41-45	26	13.2
46-50	14	7.1
51-55	14	7.1
56-60	7	3.6
60 and above	0	0.0
Total	197	100.00
<b>Education Level</b>		
GCE O/L	9	4.6
CGE A/L	57	28.9
Diploma	59	29.9
Bachelor's Degree	26	13.2
Other	46	23.4
Total	197	100.00
<b>Professional Education</b>		
Institute of Chartered Accountants (ICA)		
Chartered Institute of management Accountants (CIMA)	08	4.1
Institute of Bankers in Sri Lanka (IBSL)		
Others	5	2.5
None		
Total	167	84.8
<b>Working Experience</b>		
0-5 Years	2	1.0
6-10 Years	15	7.6
11-15 Years	197	100.00
16-20 Years	35	17.8
More than 20 Years	51	25.9
Total	40	20.3
<b>Number of Colleagues</b>		
1-5	41	20.8
6-10	30	15.2
11-15	197	100.00
16-20	3	1.5
More than 20	16	8.1
Total	55	27.9
	66	33.5
	57	28.9
	197	100.00

According to Table 8, 37.6 percent were baking assistants and, is the majority, junior executives and clerks accounted for 63.4 percent from these 197 samples 160 (81.2%) respondents were male employees. From the sample, employees under 35 years accounted for 110 (55.8%). Respondents above 50 years were only 21 (10.7%). 131 (66.3%) of respondents had Diploma or higher level of educational qualification. Further, 167 (84.8%) out of 197 respondents processed IBSL professional qualification.

As indicated in the Table 3, the mean value of the distribution for organizational effectiveness was 4.2948. Therefore, organizational effectiveness of the respondents can be identified as 'good' since it was greater than 3.

**Table 3: Descriptive Statistics Results for Organizational Effectiveness**

<b>Organizational Effectiveness</b>	<b>Value</b>
Mean	4.228
Median	4.300
Mode	4.300
Std. Deviation	.268
Skewness	-.832
Kurtosis	.345

According to Table 3, median and mode values were higher than 4 and it has emphasized that majority of the respondents satisfied or strongly satisfied with the statements that were used to measure the organizational

effectiveness. The Skewness and Kurtosis of the distribution were -.831 and .345 which indicated that the data recorded for the organizational effectiveness were approximately normally distributed.

**Table 4: Descriptive Statistics Results for Organizational Effectiveness Dimensions**

		Mean	Median	Mode	Std. Deviation
Mean	Achieving Organizational Mission	4.177	4.000	4.000	.314
	Capacity to Innovation and Adaptation to Organizational Change	4.659	5.000	5.000	.495
	Information Sharing and Communication				
	Employee Satisfaction and Retention	4.293	4.333	4.000	.367
		4.031	4.000	4.000	.814

After the factor analysis six organizational dimensions have combined in to four. When consider those dimensions, as shown in Table 4, the combined variable ‘capacity to innovation and creativity’ and ‘adaptation to organizational and technological change’ have recorded the highest mean value as 4.659. And the median and mode values for that dimension were 5. It indicates that most of the respondents were strongly satisfied with the remaining statements (one statement was eliminated due to inconsistency) which were used to measure this combined dimension.

**Table 5: Descriptive Statistics Results for Leadership Styles**

		Mean	Median	Mode	Std. Deviation	Skewness	Kurtosis
Mean	Transformational Leadership	4.154	4.167	4.000	.193	.271	-.628
	Transactional Leadership	4.179	4.169	4.170	.264	-.227	.513

The mean values of the distribution of transformational and transactional leadership styles were 4.154 and 4.179 respectively. Thus, as indicated by Table 5, both leadership styles can be identified as ‘good’ since the values were greater than 3. However, transactional leadership has recorded higher mean value than that of transformational leadership. Both median and mode values recorded higher for transactional leadership. It indicated that most of the respondents were satisfied or strongly satisfied with the statements that were used to measure the transactional leadership. And the Skewness and Kurtosis of two distributions were laid between +2 and -2 which indicated that the distributions of leadership styles were normally distributed.

**Table 6: Descriptive Statistics Results for Transformational Leadership Dimensions**

		Mean	Median	Mode	Std. Deviation	Skewness	Kurtosis
Mean	Idealized Influence	3.7716	3.6667	3.67	.3783	.351	.154
	Inspirational Motivation	4.4518	4.3333	4.67	.3004	-.722	.417
	Intellectual Stimulation	3.8731	4.0000	3.67	.4341	.120	.249
	Individual Consideration	4.5186	4.6667	4.67	.3590	-.564	.114

According to Table 6, Kurtosis and Skewness values for all four dimensions of transformational leadership were laid between +2 and -2 and therefore they can be considered as normally distributed.

When consider each dimension of transactional leadership, as shown in Table 7, management by exception (TSL.f) has recorded the highest mean value than contingent reward (TSL.e) dimension. And it has received the higher median and mode values. It indicates that most of the respondents were satisfied or strongly satisfied with the statements that were used to measure the management by exception dimension. Kurtosis and Skewness values for both two dimensions were laid between +2 and -2 and therefore it can be considered as normally distributed.

**Table 7: Descriptive Statistics Results for Transactional Leadership Dimensions**

		Mean	Median	Mode	Std. Deviation	Skewness	Kurtosis
Mean	Contingent Reward	4.0237	4.000	4.00	.3291	.628	1.257
	Management by Exception	4.3333	4.3333	4.33	.4013	-1.064	1.919

**Impact of Leadership Style on Organizational Effectiveness**

The linear regression model used to examine the impact of leadership style on organizational effectiveness of these private sector domestic commercial banking institutions of Sri Lanka.

The regression coefficient of transformational leadership was 0.212 (see the Table 9), which highlights that the level of organizational effectiveness increased by 0.212 when the transformational leadership increases by one unit while the other dimensions remain constant in the commercial banking institutions in the domestic private sector of Sri Lanka.

**Table 9: Regression Analysis (Coefficient Table)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.275	.512		6.391	.000
	FAC_ Transformational Leadership	.212	.072	.217	1.644	.012
	FAC_ Transactional Leadership	.119	.099	.079	1.117	.265

a. Dependent Variable: FAC\_ Organizational Effectiveness

H<sub>1a</sub>: Transformational leadership impacts positively on organizational effectiveness.

Table 9, indicated that the Sig value of transformational leadership as .012, which was less than 0.05 (P<0.05). Thus, it indicated that the transformational leadership statistically predicts the dependent variable of organizational effectiveness. Therefore, it can be concluded as the transformational leadership impact positively on organizational effectiveness. Hence, the developed hypothesis for the study H<sub>1a</sub> was accepted.

H<sub>1b</sub>: Transactional leadership impacts positively on organizational effectiveness

As per Table 9 indicated that the Significant value of transactional leadership as 0.265 which was higher than 0.05 (P>0.05). Thus, it indicated that the transactional leadership statistically does not predict the dependent variable of organizational effectiveness. Therefore, it can be concluded that transactional leadership does not impact on organizational effectiveness. Hence, the developed hypothesis H<sub>1b</sub> for this study, was rejected.

Furthermore, this study seeks to identify what leadership style of managers has a greater impact on organizational effectiveness of the banking institutions.

As per the multiple linear regression analysis, F value was 1.948 which is closer to 2. According to the Table 10, P value was depicted as 0.045, which was less than 0.05. Thus, it indicated that the fitted model statistically predicts the dependent variable of organizational effectiveness significantly well.

**Table 10: Regression Analysis (ANOVA Table)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.277	2	.138	1.948	.045 <sup>a</sup>
	Residual	13.780	194	.071		
Total		14.056	196			

a. Predictors: (Constant), FAC\_ Transformational Leadership

b. Dependent Variable: FAC\_ Organizational Effectiveness

**Table 11: Regression Analysis (Coefficient Table)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.737	.302		12.361	.000
	FAC_ Transformational Leadership	.117	.072	.116	1.626	.048

a. Dependent Variable: FAC\_ Organizational Effectiveness

**Table 12: Regression Analysis (Coefficient Table)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.781	.412		9.188	.000
	FAC_ Transactional Leadership	.108	.099	.078	1.088	.278

a. Predictors in the Model: (Constant), FAC\_ Transformational Leadership

b. Dependent Variable: FAC\_ Organizational Effectiveness

As shown in the Table 11, transformational leadership had recorded P value as .048, which was less than 0.05. Table 12 depicted that the P value for transactional leadership as 278, which was higher than the standard level of 0.05. Therefore, consequently, it can be concluded that in the selected commercial banking institution, the impact of transformational leadership of managers on organizational effectiveness is higher than the impact of transactional leadership style on organizational effectiveness in this banking institution.

## Discussion and Conclusions

With regard to the organizational effectiveness of selected commercial banking institution in the domestic private sector of Sri Lanka, it was practicing and employees were known about the organizational effectiveness with a satisfied level. In general, they were involved in good practicing on organizational effectiveness. The analysis had shown both mean and mode values for all dimensions of organizational effectiveness were more than 4.00 on a five-point scale. ‘Capacity to innovation and adaptation to organizational change’ accounted mode value as 5.00. That reflects the all practices in relations to organizational effectiveness of this selected commercial banking institution were satisfied or strongly satisfied. One reason which could be identified for this situation is the educational qualification and the professional qualification level. Two third of subordinates in this banking institution were having diploma level education or higher level of education. Thus, more than 90 percent of subordinates were having IBSL professional qualification. Academic qualification and professional qualification of employees are directly affected to their organizations’ effectiveness. Another reason is subordinates in selected banking institution was working with a larger number of colleagues in majority of branches. The analysis indicates that one third of subordinates were working with more than 20 colleagues. Thus, the analysis indicated that ‘capacity to innovation and adaptation to organizational change’ in this selected bank were in strongly satisfied level. Satisfied level in ‘capacity to innovation and adaptation to organizational change’ positively effect on their organizations’ effectiveness.

The analysis of this study depicted that transformational leadership style statistically predicted the organizational effectiveness significantly well. And also B value of transformational leadership style recorded as .212. With regard to the transactional leadership style, the Significance value was higher than 0.05. Thus, transactional leadership style did not predict the organizational effectiveness (see Table 9). Therefore, it can be concluded that transformational leadership positively impacts on organizational effectiveness of the selected banking institution.

This finding of the study was supported with the finding of study done by Geyer and Steer (1998), in relation to Asutrian Banks. The researchers reported a stronger positive relationship between leadership and performance. Another study done by Kirkpertrick and Locke (1996), found that critical outcomes such as satisfaction, organizational performance and commitment are associated with transformational leadership. The analysis of this study also depicted that subordinates satisfaction and retention of this bank were in higher level (see Table 4). A Meta-analysis conducted by Lowe, Krok and Sivasubramaniyam (1996); Patterson, Fuller, and Stringer (1995), confirmed that a positive relationship between the transformational leadership style and organizational performance.

The study found that managers in this banking institution were practicing characteristics of transformational leadership style. Within these characteristics, managers actively listen and also cares individual needs of their subordinates. Thus, subordinates are raised to higher levels of potential. Because of these leadership characteristics of managers, the moral of subordinates specially in younger subordinates increases to a higher level and it positively affects to the organizational effectiveness. And also, when consider the professional educational levels of subordinates in this bank, 84 percent of subordinates were having IBSL Institute of Bankers of Sri Lanka (IBSL) professional qualification. That reflected need of carrier development of subordinates. Therefore, the managers who are having this type of leadership characteristics are more effective for this bank. With regard to the other dimensions of transformational leadership style, the managers act as a strong role model for their subordinates. And also, the manager provide sense of both mission and vision that subordinates want to follow. Thus, with the inspirational motivation of dimension of transformational leadership, the manager encourages subordinates to envision attractive state which they can ultimately envision for themselves (Bass, Avolio Jung and Berson, 2003). That is a main need of younger subordinates. Therefore, this characteristics of leadership of managers encourage subordinates for achieving organizational objectives. According to Stone, Russel and Patterson (2003), under the intellectual stimulation dimension characteristics of transformational leadership style, the manager empower subordinates by persuading them to new and controversial ideas without fear or being punished or ridicules. Since the majority of subordinates in this selected bank were having IBSL professional qualification, which focused on the banking industry, these characteristics of managers were effective and it leads to the organizations' effectiveness. Hence it can be concluded that transformational leadership is suit with commercial banking institutions in the domestic private sector of Sri Lanka.

With regard to transactional leadership style in relation to this bank, dimension of management by exception recorded the highest mean and mode values. It reflected that the managers of this bank were practicing the characteristics of management by exception dimension of transactional leadership style. In this leadership dimension managers actively seek out deviations from desired performance of their subordinates with a view to taking corrective actions (Pounder, 2001). However, management by exception tends to be less effective than contingent reward dimension, the other dimension of transactional leadership. In this study, the mean and mode values for contingent reward dimension was less than the management by exception dimension which is less effective than contingent reward dimension. While practicing transformational leadership style by managers of this bank, they were practicing management by exception characteristics of transactional leadership style due to they have to achieve their organizational objectives with a majority of subordinates in this banking institution.

With regard to the fourth research question of the study 'what is the impact of leadership style on organizational effectiveness?' for this selected banking institution in the domestic private sector of Sri Lanka, transformational leadership recorded P value as 0.012, and B value was 0.212 (see Table 09). Thus, Table 09 depicted that P value of transactional leadership as 0.265 which is greater than standard value. Therefore, it can be concluded that the impact of transformational leadership style on organizational effectiveness is greater than the impact of transactional leadership style on organizational effectiveness in relation in this banking institution. Thus this finding was supported with finding of the study conducted by Bass (1985); Bass and Avolio (1994); Brunen (1998). They argued that transformational leadership style is more proactive than and ultimately more effective than transactional leadership style.

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