

Factors Influencing Transactional Leadership in Commercial Banks of Nepal

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Abstract

This paper analyses different factors promoting transactional leadership in commercial banks of Nepal. The study is based on primary data with 131 responses. The self-administered questionnaires are used to collect the perceptive opinions from the respondents. The statistical tools used in this study include mean, standard deviation, coefficient of variance and ranking. The study concludes that leaders of commercial banks of Nepal provide subordinates with material and rewards contingent on the fulfilment of contractual obligations, monitored deviation from norms and provide corrective action, frequently implement punishment or corrective approaches are most important factors to transactional leadership styles. Transactional leadership style exists in commercial banks of Nepal.

INTRODUCTION AND STUDY OBJECTIVES

Leadership is an important situational variable in the employee's work situation, which will have a significant impact on the employee's psychology, attitudes and behaviour. Leadership is

the accomplishment of a goal through the direction of human assistants. Leadership in an organisation has a strong effect on employees' attitude about their job. The role of leadership in today's corporate organisations has changed. The success of any organisation is mostly dependent on

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an organisation's management team and the leadership style used (Saleem, 2015). Organisational leadership is a very important and complex issue; and a lot of researchers and scholars have spent a great deal of effort to recognise and improve it. Transformational, transactional, and relationship-oriented leadership have been remarkably supported in different studies (Cetin, Karabay, & Efe, 2012; Saleem, 2015).

Leading is all about creating hope and making the workforce dedicated towards optimal performance (Mishra, 2018). Mishra (2019) emphasised on value management as an investment in the brain which results in gain, however investments in cash may sometimes crash. Leadership style is the most prevalent factor that influences the employees' attitudes and behaviours including organisational commitment. Leadership is an important situational variable in the employee's work situation, which will have a significant impact on the employee's psychology, attitudes and behaviour. Leadership is the accomplishment of a goal through the direction of human assistants. The man who successfully marshals his human collaborators to achieve ends is a leader. The leader may not ever be a colourful person or may never use memorable devices to dramatise the purposes of his group or to focus attention on his leadership. As for the important matter of setting goals, the leader may be a man of little influence, or even of little skill. Leadership in an organisation has a strong effect on employees' attitude about their job. As an emerging and competitive sector of Nepal, the banking sector

is facing challenges in managing human resources so that employee engagement in the workplace is an important aspect to overcome such situations (Biswakarma, 2015). Mishra (2019) stated that leadership style is the most prevalent factor that influences the employees' attitudes and behaviours including organisational commitment.

Managing employee involvement levels within the organisation is a concern for leaders. Sanchez (2007) stated that leaders can conduct employee surveys as a benchmark for involvement by allocating time and investing money. He explained that communicating the results of the involvement surveys and taking necessary action for betterment is a positive step. Bass (1990), Avolio and Bass (2005) noted that transformational, charismatic, transactional and laissez-faire styles are the four predominant leadership styles. Transformational leaders have qualities such as enhancing commitment, articulating vision, and inspiring others (Piccolo & Colquitt, 2006). Charismatic leaders show charisma and inspiring vision to influence the people who look up to them. Transactional leaders focus on rewards or punishments to gain compliance (Kirkbride, 2006). Laissez-faire leaders have non-leader characteristics. This research addressed the different factors promoting transactional leadership in commercial banks of Nepal.

LITERATURE REVIEW

The "Great Man" theory of leadership states that historically, a civilisation's leader influences the organisation's

success Shaukat, Senin, & Ahmed, 2012. Leadership is one of the most extensively discussed topics of research around the world (Kuchler, 2008). A lot of definitions have been presented in the field of leadership and leadership styles. Traditionally, leadership has been defined in recent years as individual skills that are applied directly to the organisations (Nivala & Hujala, 2002). Cole (2002) has defined leadership as a dynamic process by which, during a specific period, and in a specific organisational field, one individual affects the group to achieve the overall objective. Lok and Crawford (2004) argued that leadership plays a crucial role in a company's ultimate success or failure. This leader must treat others as their equals while pursuing these changes. Gill (2011) saw leadership to help stimulate, motivate, and encourage the followers so that the company may achieve satisfactory results.

Thus, for an organisation to remain successful, having the right leader is crucial. The best employers know how they can participate with their employees to achieve the organisation's objectives (Cho & Tseng, 2009). There are a lot of different leadership styles (Mosadeghard, 2003); among which are the autocratic, administrative, free economy, democratic, cooperative, situational, functional, transformational, transactional, charismatic and laissez faire styles. Almost in all studies, transformational, transactional and relationship-oriented leadership styles had significant positive effects on employee involvement and no study was found in which the mentioned styles have no effect on employee involvement.

In transactional leadership all things are seen with the overall amount of benefits the individuals get and the relationship between the leader and disciples is speculative based on exchanging one thing for another. (Bass, 1985; Avoilio, 1999). Bass and Avoilio (1994) believed that transformational leaders are more successful than transactional ones.

Empirical results also indicate that this approach makes the leadership of transformational leaders more comprehensive, and effective than transactional leaders (Hater & Bass, 1988). Bass and Avoilio (1994) stated that the transactional leaders, compared to transformational ones, are more likely to increase an individuals' displacement. Transformational leaders also expand production, returns, and employees' job satisfaction. Transactional leaders pay attention to the social interactions and transactions between leaders and followers and are called managerial leadership. It focuses on supervision, organisation, and group dynamics. Transactional leadership can be described as a style of leadership in which the leader champions compliance of the followers through both reward and punishment. Opposing transformational leadership, transactional leaders would rather keep their current situation because they are not optimistic about change in the future. They are fault finders, as they are constantly finding ways to track faults in the employees.

Transactional leadership is better adopted in crisis and emergency situations, as well as when work is needed to be carried out in a specific

mode. Transactional leaders conduct their business by identifying the needs of their followers and donating rewards satisfying these needs for positive performances. The leader's freedom to act is constrained by the followers' perception of the leader. Followers will only show the demanded behaviours when they experience a certain authority over them and when there are possibilities for rewards (Bass, 1985). Leaders motivate their subordinates through observing their performances and reacting to errors and failures.

A transactional leader is aware of the needs of his or her followers and facilitates negotiation with them to meet the overall need of the company or group. A transactional leader will do all the tasks with his followers to meet the final target (Bogler, 2009). The following dimensions of transactional leadership have been identified as contingent reward, management by exception active, and management by exception passive, and laissez-faire in line with Bass (1985). Leadership style has a few different theoretical components: contingent rewards and active management by exception. Contingent reward is the degree to which a leader arranges constructive transactions with followers. The leader is very clear about his or her expectations and he or she establishes rewards to promote better performance. The leader clarifies what is expected from his or her followers by showing them what they might receive if they perform as desired. Active management by exception is another theoretical concept used. This type of concept is shown when a leader takes corrective action against his or

her employees based on their poor performance. As noted by Howell and Avolio (1993), the difference between management by exception active and management by exception passive lies in the timing of the leader's intervention. Before creating any serious problems, active leaders control follower behaviour, predict problems, and make corrective adjustments along the way. Passive leaders, however, wait until the behaviour has already created problems before taking any action. These leaders implement their adjustments after problems have occurred. Their goal is simply to maintain current performance levels. Transactional leaders using the Passive Management by Exception method intervene only when performance is not in accordance with expectations. Punishment is used simply as a reaction to unacceptable performance. Passive management-by-exception leaders tend to react only after problems have become serious and then take the corrective action. The leaders often avoid having to make any decisions at all (Bass, 1985).

Kunwar (2020) discovered that employees who view their supervisors or managers as transactional leaders, tend to have lower levels of employee involvement in comparison to transformational and charismatic leaders. Three research hypotheses were formulated and tested to test the relationship of three leadership styles (transformational, charismatic and transactional) with employee involvement. The correlation results were used to answer the three research hypotheses which were supported by regression analysis. The

result of this research study indicated that transformational and charismatic leadership styles were effective in positively influencing the levels of employee involvement.

In the present context, Nepal is facing an economic crisis from a global pandemic situation, banking leadership has challenges of leading our economy from such a critical condition. Therefore, this research can be helpful in identifying the right leadership needs in Nepalese commercial banks. Hence, the objective of the study is to examine the different factors affecting transactional leadership in commercial banks of Nepal.

RESEARCH METHODS

The descriptive statistical tools were used for the data analysis and presentation. To evaluate and test the various statements in the response, mean values of each variable, standard deviation and coefficient of variation were used as per the need of the study. Items featured a five-point Likert scale.

The population for this study comprises employees of commercial banks of Nepal. The two-stage sampling technique has been used to draw the sample from the population. A convenient sampling technique has been adopted to select the banks and the employees as respondents. Out of the 27 commercial banks present in Nepal, 7 commercial banks (Private + Governmental) were taken for study. A set of 175 questionnaires has been distributed to employees working in different banks and 131 responses

were collected and analysed, which are the required sample size for this study. This study is based on primary data. In this study questionnaire, both hard and soft-copies (surveyed through online survey platforms) were utilised as the data collection tool.

To achieve the specific objective of the study, data has been gathered from primary sources. This study has adopted a questionnaire method to accomplish the desirable result. This has helped identify how others have defined and measured key concepts, their findings and the data sources they have used. Use of these sources has also helped to discover the relevant information and revealed how this research project is related to other studies.

DATA ANALYSIS AND DISCUSSION

This section presents the descriptive analysis of transactional leadership and presents its current scenario in commercial banks of Nepal. Transactional leaders also offered rewards or impose punishments to gain compliance (Kirkbride, 2006). With transactional leadership, followers do not perform beyond expectations (Robbins & Judge, 2007). Transactional leadership is the aggregate combination of the three transactional leadership sub-factors: contingent rewards, management by exception active and management by exception passive. The combining of the three sub-factors into the transactional leadership independent variable was accomplished through the averaging of the three sub-factors (Avolio & Bass, 2005).

Table 1
Descriptive Statistics of Contingent Rewards

| Code | My Current Manager | Rank | Mean | SD | CV |
|--------------------|--|------|------|------|-------|
| LSQ1 | Expresses with a detailed word what we could and should do. | 1 | 4.19 | 1.03 | 24.58 |
| LSQ2 | Make clear what one can expect to receive when performance goals are achieved. | 2 | 4.13 | 0.99 | 23.97 |
| LSQ3 | Satisfied when others meet agreed standards. | 3 | 4.08 | 1.03 | 25.25 |
| Contingent Rewards | | | 4.13 | 1.01 | 24.46 |

Note. Field survey, 2022

Table 2
Descriptive Statistics of Management by Exception Active

| Code | My Current Manager | Rank | Mean | SD | CV |
|--------------------------------|--|------|------|------|-------|
| LSQ4 | Focuses attention on irregularities, mistakes, exceptions. | 1 | 4.19 | 1.01 | 24.10 |
| LSQ5 | Direct my attention towards failures to meet standards. | 3 | 4.02 | 1.11 | 27.61 |
| LSQ6 | Keep track to avoid mistakes or correct mistakes. | 2 | 4.15 | 1.02 | 24.58 |
| Management by Exception Active | | | 4.12 | 1.05 | 25.49 |

Note. Field survey, 2022

Table 1 shows the descriptive statistics of an individual item and as a whole of contingent reward sub-factor. Mean values of all items were above the level of 4.0. Among three statements, the statement code "LSQ1" had score highest mean of 4.19 with C.V 24.58 it means consistency in the data is acceptable and statement with code "LSQ3" had score lowest mean of 4.08 with C.V 25.25 it means consistency in the data is acceptable. The aggregate mean of contingent reward is 4.13 with C.V 24.46 which indicates good consistency in the data. This shows that leaders of Nepalese commercial banks provide subordinates with material and rewards contingent on the fulfilment of

contractual obligations. They provide rewards to get a reasonable degree of involvement, loyalty, commitment and performance from subordinates.

Table 2 shows the descriptive statistics of an individual item and as a whole of management by exception active sub-factor. Mean values of all items were above the level of mid-range that is 4.0. Among three statements, the statement code "LSQ4" had the highest mean of 4.19 with C.V 24.10 and the statement with code "LSQ5" had the lowest mean of 4.02 with C.V 27.61. This states that leaders of commercial banks of Nepal, frequently focused attention on irregularities, mistakes, and

exceptions but less frequently directed subordinates' attention towards failures to meet standards. The aggregate mean of management of exception active was 4.12 with C.V 25.49 which indicates good consistency in the data. This shows that leaders of Nepalese commercial bank monitored deviation from norms and provide corrective action.

Table 3 shows the descriptive statistics of an individual item and as a whole of management by exception passive sub-factor. Mean values of all items were above the level of mid-range that is 2.0. The statement code "LSQ9" had score highest mean of 2.74 with C.V 43.07 that means the consistency in the data is not acceptable and statement with code "LSQ8" had score lowest mean of 2.15 with C.V 58.14 that means consistency

in the data is not acceptable. This states that leaders of commercial banks of Nepal frequently implement punishment or corrective approaches.

Table 4 shows the descriptive statistics of an individual sub-factor and as a whole of transactional leadership. Mean values of all items except 'management by exception passive' were above the level of 4.0. The sub-factor, contingent reward had a higher mean of 4.13 with C.V 24.46 and management by exception passive had lower mean was scored by 2.46 with C.V 50.81. The aggregate mean of Transactional leadership was 3.57 with C.V 37.82 which indicates good consistency in the data. This states that Transactional leadership style exists in commercial banks of Nepal.

Table 3
Descriptive Statistics of Management by Exception Passive

| Code | Statements | Rank | Mean | SD | CV |
|---------------------------------|---|------|------|------|-------|
| LSQ7 | My Current Manager fails to interfere until the problem is serious. | 2 | 2.49 | 1.27 | 51.00 |
| LSQ8 | My Current Manager waits for things to go wrong before taking action. | 3 | 2.15 | 1.25 | 58.14 |
| LSQ9 | My Current Manager implements punishments or corrective actions for mistakes. | 1 | 2.74 | 1.18 | 43.07 |
| Management by Exception Passive | | | 2.46 | 1.25 | 50.81 |

Note. Field survey, 2022

Table 4
Descriptive Statistics of Transactional Leadership

| Leadership Styles | Mean | SD | CV |
|--------------------------------|------|------|-------|
| Contingent Rewards | 4.13 | 1.01 | 24.46 |
| Management by Exception Active | 4.12 | 1.05 | 25.49 |
| Transactional Leadership | 3.57 | 1.35 | 37.82 |

Note. Field survey, 2022

CONCLUSION AND IMPLICATIONS

The study concludes that leaders of commercial banks of Nepal provide subordinates with material and rewards contingent on the fulfilment of contractual obligations, monitored deviation from norms and provide corrective action, frequently implement punishment or corrective approaches are most important factors to transactional leadership styles and transactional leadership style exists in commercial banks of Nepal.

Further research should work with a larger sample from employees from all commercial banks of Nepal. Further research could be conducted in other various service sectors and in the manufacturing sector. The study involved a quantitative research method. Future research could also include qualitative research methods for analysis. The qualitative method may prove useful in explaining the findings associated with the relations between leadership style and employee involvement.

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Conflict of interest

The authors declare having no conflict of interest in the research work.

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