Transformational leadership in the case of x y insurance management essay

Business, Management

The University of SheffieldExecutive MBAUNDERSTANDING ORGANIZATIONAL BEHAVIORTransactional and Transformational Leadership in the case of" X&Y INSURANCE" Vladimir Nikolovvnikolov@city. academic. grcohort 20bExecutive Summary: In this paper we will critically evaluate and analyse the influence of transactional and transformational leadership approaches on several OB factors such as employee motivation, commitment and cohesion. In discussing leadership, focus will be given to the way leaders exercise influence rather than focusing on their personal characteristics, traits and behaviors. We will also pay attention to the usage of reward or punishment systems by CEO's and their effect on motivation in different circumstances. Theory will be applied in real life organizational settings of an existing insurance company with 180 employees. In this context we will use the so called new-leadership concept (transactional & transformational) as more contemporary approach to this theme.

Contents:

Introduction

The main focus of this paper will be directed towards transactional and transformational leadership and their capabilities to cope with real OB issues in organizations operating in the 21st century. Instead of traditional leadership theories, we will use the transactional and transformational leadership approaches as part of the so called new-leadership concepts. The main reason for this is our opinion that these leadership styles are more contemporary and applicable to OB matters in times marked by global economic crisis, globalization, technological innovations and changes

happening on daily level. By applying theories and academic viewpoints to real life situations, we will discuss and critically assess transactional/transformational leadership styles with main attention on the influence component of the two leadership approaches and their effect on followers' performance. We will correlate the reviewed literature to the insurance company " X&Y" which has been additionally internally influenced by the appointment of new CEO who brought change in the leadership style. We will conclude the paper with our standpoint on the capabilities of the two leadership styles for finding solutions to OB behaviors such as lack of motivation and commitment, reduced organizational loyalty and trust in organization under increased competitive pressure in times of economic crisis.

Literature Review

There are numerous theoretical, academic and empirical researches done in regard to transactional and transformational leadership and their capability to correct and eliminate increased lack of motivation, reduced commitment, loyalty and trust in specific organizational settings. What is certain is that there is a direct measurable link between executive leadership and followers' performance (Boala and Hooijbergb, 2000). However, although much research is done to analyze the effect of leaders to the followers, very little attention is focused on the influence subordinates have to leaders. Recent studies show that by upward influence subordinates can also affect leaders (Epitropakia and Martin, 2012). Traditional leadership theories (Trait; Behavioral; Ohio State Studies; Michigan studies;) are more focused on

leadership traits and behaviors and direct little attention to the influence component of leadership (Moorhead and Griffin, 2004). They spend more effort on describing characteristics of different leadership styles and behaviors, analyzing what leaders are like and what they do (George and Jones, 2011). Contrary to traditional theories, so called new-genre or new-leadership concepts are focused on subjects such as symbolic leader behavior, broader organizational mission and vision, emotional intelligence, feelings, ethical standards and values, individualized attention, creativity and like (Avolio et. al, 2009). Early and mid-20th century researches and studies in the field of leadership directed the main focus to the individual leader, but lately the field of leadership is broadened and it focuses not only on leaders but also on followers, supervisors, work environment and culture (McShane and Glinow, 2010). Although traditional approaches are still applicable and can be used in practice in contemporary organizations with more or less success, there is a trend -more attention to be directed towards new-genre/new-leadership models, mainly on transformational and transactional leadership approaches in organizational surroundings. The reasons for the increased interest for research and application of new leadership concepts according to Hellriegel and Slocum (2010) could be the global economic crisis, globalization and technology which have changed international and national markets, and have left tremendous impact on organizations. Despite the fact that transactional and transformational leadership belong to the so called new approaches to leadership, they can also be connected to some older theories and perspectives. For example the behavioral perspective of leadership makes distinction between two major

styles of leadership, the people-oriented, and the task-oriented leadership (McShane and Glinow, 2010). If we make theoretical comparisons, then most elements of the people-oriented style can be linked with the transformational and many characteristics of the task-oriented style correspond to the transactional leadership approach. Transactional leaders most often assign specific goals to employees, set time frames in which a project or an assignment should be realized, push management to show quick results and to perform beyond the previously exhibited standards (Bass, 1990). We can also relate these characteristics with those who define the directive and/or achievement-oriented leadership style in the contingency perspective-path-goal theory of leadership (Schermerhorn et al., 2010). There are even more arguments which illustrate similarities between newer approaches and traditional leadership theories. For example, according to Hartog et al. (1997) transformational leadership combines various ideas from trait, contingency and style theories of leadership. Avolio et al. (2009) argue that transactional leadership style is " largely based on the exchange of rewards contingent on performance." p. 427. Furthermore, according to previous analysis made by Bass (1990) transactional leadership consists of contingent reward, active management by exception, and passive management by exception. On the same topic, in more recent studies the above mentioned transactional leadership mechanisms are more precisely described as tools used for awarding or punishing subordinates' performance, looking for mistakes in order to apply corrective actions, and for intervening in situations only after problems emerge on the surface (Antonakis et al., 2003; Hinkin and Schriesheim, 2008; Wang, H et al., 2011). In the same direction,

Groves and LaRocca (2011) state that the transactional "... leadership dimension emphasizes close monitoring of followers for any deviances, mistakes and errors so that corrective action can be taken as soon as possible." p. 513. All these leadership behaviors are used in practice by the new leader of " X&Y Insurance", who also closely monitors followers' performance, their duties and results in order quick reaction to be applied when subordinates' performance results in non-acceptable or poor outcome. However, contrary to transactional leadership- mainly oriented on results and tasks, according to Aydogdu and Asikgil, (2011) transformational leaders take different path and practice techniques with the goal to change core values, to commit and inspire subordinates and to raise awareness and create self-confidence by empowering them. Furthermore, the same authors elaborate that such leaders also tend to create greater autonomy and to achieve higher level of performance in employees. By doing all that, transformational leaders accept the risk to create top trained work force which is capable to take their own place in the company (Aydogdu and Asikgil, 2011). They also aim to propagate the wider picture in organizations, by influencing subordinates through transferring the wider vision, the collective interest of the team and the organization as a whole (Groves and LaRocca, 2011). Furthermore, according to Antonakis et al. (2003) transformational leaders act proactively, focusing energy and time on raising attention on organizational interests rather than individual, and are eager to help followers to accomplish exceptional outcomes. Comparing transactional vs. transformational organizational culture Bass and Avolio (1993) argue that in transactional environment employees have low level of understanding of

broader company mission and vision and the focus of employees is predominantly on self-interest rather than the collective one. Furthermore, colleagues work individually, without too much collaboration with other coworkers. Contrary to this, in transformational culture cohesion between employees is higher, they also show higher level of commitment, have higher sense of belonging to the organization, higher interconnection, affiliation and identification with mutual goals (Bass and Avolio, 1993). Markets now are more competitive than before, and economic and other changes occur with unprecedented speed (Cameroon, 2003). In this context Hitt et al. (1998) state that in a time prone to continuous changes, competitive environment, economic crisis, technological and other innovations, organizational success depends on an adaptive capacity and the level of flexibility to adapt to changing market conditions. Moreover, a study made by Andrews and Field (1998) showed that the style of applicable leadership is dependent on the specific circumstances in the wider surrounding. So, " it has been proposed that transactional leadership is more appropriate in times of stability, and transformational leadership in times of change" (Andrews and Field, 1998, p. 131). We have to agree that in R. Macedonia's economic environment impacted by EU area crisis, decreased foreign investments and export, there is no use of leadership approach which aims to keep matters stabile. On the contrary, the insurance industry (in which " X&Y" operates) is in development, it is prone to changes and quick and unpredictable moves of competitors. Moreover, few years ago the competitive climate was also strengthened by entrance of well-known global insurance brands like Vienna Insurance Group, UNIQA and others. All that

speaks in favor to an adaptive leadership style such as the transformational leadership which is even more needed than before the crisis and the market changes took place. There is need for leaders who can adapt, who can find and implement solutions for problems and can lead companies emerge from the turbulent economic times unharmed (McShane and Glinow, 2010).

Current " X&Y" OB situation – challenge for the new leader

" Leadership is about influencing, motivating, and enabling others to contribute toward the effectiveness and success of the organizations of which they are members" (McShane and Glinow, 2010, p. 360)." X&Y" is currently market leader by gross written premiums in the national insurance market. However, due to high competition, price wars and unfair market strategies of competitors the last two to three years the leading position is under continuous pressure and the market share is falling down. Until recently the company was led by a CEO who had extensive knowledge of the business, as he had over 30 years of professional experience in insurance. He was predominantly practicing transactional leadership style, focusing on stability with intention to keep the leading market position. Half a year ago the board of directors appointed new, younger CEO, who is new in the company environment. Contrary to the previous, the newly appointed CEO although with long experience in the sales and financial services industry as a CEO, did not have any experience in the insurance business. However, according to Bettin and Kennedy (1990) leaders with experience in various managerial positions may be more experienced than leaders who have held less previous managerial positions and are same or longer time in specific

companies. Furthermore, it can be presumed that the more positions a manager has held the more chances for accumulating know-how and competence he had (Bettin and Kennedy, 1990). But what is the current OB climate like? Are employees motivated and committed, is job satisfaction at high level? For presenting the current OB climate in " X&Y" we can relate to a survey made in U. S. A. by Robert Half International Inc. which showed that lack of recognition, lack of advancement opportunities and unhappiness with management were the main three factors pointed by respondents as main reason for their decreased motivation and commitment (Westchester County Business Journal, 2004). This survey closely resembles the current OB issues in " X&Y" insurance, where members of management and other employees are de-motivated from various factors but especially and most significant by-lack of recognition and rewards by company. What are the reasons for this? Are problems over spilled from external market pressure and economic crisis or are generated internally inside the organization? According to employees the reasons for their decreased motivation and commitment lay not in the economic crisis or external competitive pressure. Contrary to many other companies, in " X&Y" even the level of salaries is not perceived as a negative factor for motivation, because they are above the average in the industry (State Statistical Office, 2012). The problem should be located somewhere else. Many employees believe they perform their duties demonstrating strong effort, ability, skills, loyalty and they have feeling that in return the company does not objectively recognize their professional performance. According to Maslyn and Uhl-Bien (2001), this situation can influence the intensity and quality of leader-follower alliance which relies upon reciprocal

realization of their mutual obligations. According to middle managers and other employees in the company the lack of respect and recognition is pointed as main de-motivator. Theory recognizes the described situation as a so called emotional conflict, which "…involves interpersonal difficulties that arise over feelings of anger, mistrust, dislike, fear, resentment, and the like." (Schermerhorn et al., 2010, p. 232). Furthermore, in " X&Y Insurance" we can also find elements of perceived psychological contract breach, which according to Jafri, (2011) "…results in several negative job behaviors for the organization such as reduced commitment, reduced citizenship behavior, lowered employee trust and probability to leave the organization, which may affect overall organizational performance." p. 19. On the other hand, the approach of the new CEO by employees is perceived as strongly task-oriented and transactional, especially in communication with middle management. With a constructive idea to transform the inherited and accumulated unwanted habits, slow performance, lack of commitment and motivation, the leader's focus is concentrated on close and regular tracking of individual and overall performance, on looking for mistakes, measuring of achieved results and implementing penalties if goals aren't fulfilled (Antonakis et al., 2003). The theoretical definitions of transactional leadership mechanisms are totally comparable with the approach shown by the new CEO, who mainly practices punishing poor performance as a way of setting example, expecting better future performance. According to (Parry and Bryman, 2006) this leadership style is based mostly on practice of control and exercise of power. But how does this transactional approach act on the already demotivated team? It seems that the practicing of

transactional leadership doesn't have positive measurable effect on employee motivation and burnout (Harland et al., 2005). The CEO has come in demotivated environment and has inherited middle management team with most of the power burned out in the previous years. Looking for mistakes, punishing middle managers and non-practicing of reward systems acts even worse on the de-motivated team which feels deprived, not respected and angry to top management for not recognizing good performance. Theory suggests that transactional approach can change things only up to certain point and is ineffective in radically transforming motivational issues (Judge and Piccolo, 2004). On the contrary, according to Bass and Riggio (2006), to increase motivation in followers above expectations, transformational leadership approach is more suitable.

Transformational leadership as solution for raising employee motivation and commitment

The experienced leader of General Electric- Jack Welch has stated " we spend all our time on people. The day we screw up the people thing, this company is over." (Welch, cited in Fortune Magazine, 1999). In this context the main consideration of top management should be the people employed in the company, because they are the motors behind the organizations, they are the key factors implementing projects and the players who make the overall results. Having motivated and committed people could mean that half of the work is done. Large quantity of research supports the argument that transformational leadership in most cases has a positive effect on employee attitudes and performance, on individual as well on organizational level (Weichun et al., 2012). Extensive research has also shown positive

relations between transformational leadership and followers' motivation, cohesion, commitment and overall organizational performance (Grant, 2012). One of core roles of top managers using transformational approach of leadership is to motivate subordinates and to inspire them to achieve excellent results by using enriching and stimulating management techniques, focusing attention on building greater vision, strengthening organizational cohesion, confidence and enthusiasm (Aydogdu and Asikgil, 2011; Grant, 2012). According to Bass and Avolio (1993) the main tools in the hands of such leaders are the so called 4I's of transformational leadership. " These four factors include idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration." (Bass and Avolio, 1993, p. 112). All these 4I's include behaviors such as administering clear vision and mission, practicing and promoting high moral and ethical standards, motivating employees, stimulating creativity, teamwork and effectiveness, supporting followers, as well as showing individual interest and consideration for subordinates, their individual problems or performance (Warrick, 2011). By applying these theoretical standpoints in practice, and by focusing on people, not only on results, the CEO can make positive change in the overall company environment. The negative climate and the intensive burnout he inherited can be positively affected by showing more consideration for some more soft issues, other than the goals and results. For succeeding in this the leader has many options but what makes transformational leaders different than others according to Bass and Avolio (1993) is that transformational leaders are more visible in the organization, they are close to employees and play the

roles of tutors, advisers, instructors and serve as role model leaders. When showed respect, workers can do the extra mile by themselves, exceeding all expectations. All these arguments speak in favor of practicing more transformational leadership behaviors as a tool for improving decreased motivation, commitment and trust between employees. This opinion is also backed up by vast amount of empirical studies which have shown that transformational leadership has positive correlation with improvement in job satisfaction and performance and even more important to trust and commitment of employees (Bass, 1990). Furthermore, it creates "... a shared vision and commitment to higher level goals and builds respect and trust between leaders and followers." (Warrick, 2011, p. 13). In this direction, according to Warrick (2011) transformational leadership is proved to be effective not only in improving performance but also in decreasing work related stress and burnout. As Bass and Riggio (2006) argue, in transactional leadership leaders and followers are not closely connected in reaching common wider purpose, whereas in transformational leadership the leader inspires followers in such way that their aims, ambitions and wider goals are fused. In condition when even the salaries are not perceived as a problem, the recognition of the work done and some positive attitudes empowering shared values and interests can trigger the change which has to take place if the company seriously wants to keep the leading market position. Opening doors of top management for ideas and propositions from bottom up can also positively affect the climate. People will perceive that their ideas and proposed solutions to problems are valued as important and recognized, so

that can increase their feeling of belonging to the firm and mutual and shared values (Warrick, 2011).

Conclusion

In current times of global economic markets, globalization, economic crisis, uncertainties and quick changes the most needed asset of a company is its adaptive capacity. Our standpoint is that in times as such -transformational leadership is much more adequate and more capable to cope with the continuously occurring changes in internal and external organizational environments. Last decade, markets have undergone huge shocks and transformations and therefore companies need newer, different and more efficient approaches to leadership which can influence and transform organizational culture from bottom up. Modern companies do not need only managers and management but also leaders and leadership. In times when stability is word from the past, readiness for change and acceptance of new ideas is the key for company success. The demand for transformational leaders is growing as they are ideal for unifying the individual and wider organizational goals, they are proved to be efficient in resisting hard times by strengthening the cohesiveness and sharing the mutual greater vision of future success.