

Transformational leadership ge and jack welch management essay

[Business](#), [Management](#)



BYSUMEYYE SAHINLERINTERNATIONAL UNIVERSITY OF

SARAJEVOTRANSFORMATIONAL LEADERSHIP: GE AND JACK

WELCHBYSUMEYYE SAHINLERA thesis submitted in partial fulfillment of the requirements for the degree of Bachelor of Arts in Faculty of Business and AdministrationInternational University of SarajevoMonth Year

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion; it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Bachelor of Arts in

.....

Supervisor

.....

Co-SupervisorI certify that I have supervised and read this study and that in my opinion; it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Bachelor of Arts in Management.

.....

ExaminerThis dissertation was submitted to the Department of and is accepted as a partial fulfillment of the requirements for the degree of Bachelor of Arts in

.....

Program Coordinator This dissertation was submitted to the Faculty of economics and Business Administration and is accepted as a partial fulfillment of the requirements for the degree of Bachelor of Arts in

.....

.....

Dean, Faculty of Business and Administration

DECLARATION

I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all materials and results that are not original to this

work Signature..... Date: INTERNATIONAL UNIVERSITY OF SARAJEVO

DECLARATION OF COPYRIGHT AND AFFIRMATION OF FAIR USE OF UNPUBLISHED WORK

Copyright © 2013 by All rights reserved.

TRANSFORMATIONAL LEADERSHIP: GE and JACK WELCH

No part of this unpublished work may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder and IUS Library.

Affirmed by

.....

SignatureDate

ACKNOWLEDGEMENTS

I m thankful to my family In addition; I would like to thank all my prelectors who contributed to my development; especially

TABLE OF CONTENTS

ABSTRACT

TRANSFORMATIONAL LEADERSHIP: GE AND JACK WELCH

Since late 1880s, different leadership concepts were identified and the conditions of these terms had a big influence in development of leadership concepts. Rapidly changing the conditions of business environment, development of technology, volatility in every field, and increasing competition requires transformational necessity. In this context, a transformational leader is found as a way of coping with this challenging environment. This thesis aims to analyze transformational leadership and its

development by analyzing through the frames of commitment, loyalty, performance, stress, empowerment, organizational culture, and satisfaction of followers. Theoretical and practical part of transformational leadership will be combined under the example of Jack Welch who was GE's CEO for twenty years. Keywords: transformational leadership, change, satisfaction, performance, empowerment, organizational culture, Jack Welch, GE

LIST OF TABLES

LIST OF FIGURES

INTRODUCTION

All people living in groups and communities need leaders. People achieve their aims, needs, and desires which cannot be achieved as an individual by making groups and selecting a leader who will help, guide, and lead the groups into achieving mutual targets. In the recent years, the concept of leader and leadership has become areas which are the most studied, and has put forward the new theories in management science. The new era which we live in has a challenging environment. It is challenging to be a leader in an environment that is becoming an increasingly uncertain and unstable environment. Many also believe that the reason of these economic woes, global instability in countries, and industries are direct result of failure of leadership. This challenging environment also reflects on a lifetime of businesses. According to recent researches, average lifetime for Top 500 companies is less than 40 years and one third of them disappeared from business life. (Senge, 2004). According to World Bank data, the average lifetime of Turkish companies decreased to 12 years. 80% of them went

bankrupt in 5 years and 96% of them shut down their business in ten years (Aksoy, 2008). This data tells us that a company's lifetime is shorter than even its founder. It is too difficult to comply with change by applying customary leadership behaviors. The lifetime of companies, corporations, and organizations are dependent on the ability to develop their organizational transformation. Transformational leadership gets change to the center. Because of these reasons, it is claimed that transformational leaders can adapt to change better. Organizations are not in a static environment; on the contrary, they are in a dynamic environment from all aspects. The falling down of other giant companies besides SME has also been seen. There are a lot of factors behind those failures. Some of these are; resistance to change, transformation and not having a leader who will be successful in this challenging, complex and volatile environment. We believe that adhering to our traditions and traditional activities are valuable but discarding of activities and values that do not comply with today's circumstances must also be learnt. We must keep alive our traditional values and activities that are functional. On the other hand, sometimes it is necessary to shed from old skin to renew like a snake.

The Purpose of the Thesis

Why transformational leadership? It is certain that the environment and conditions require us more than we can. Transformational leaders not also fit this challenging business, economic, and political volatility but also coach empowered, developed, loyal, committed, and satisfied followers who can go beyond the expectations. The purpose of the thesis is to explain the

importance of transformational leadership in this new era and to understand why this change is a crucial point for organizations. How do transformational leaders have an impact of commitment, loyalty and satisfaction on their followers? What kind of linkage is there between stress, empowerment, performance and transformational leadership? These subjects and their relationships between each other will be main focus of this thesis.

Structure of the Thesis

The thesis consists of five chapters. The first chapter consists of introduction and purpose part of the thesis. The second chapter is about briefly explanation of leadership and approaches to leadership. Transformational leadership will be explained in detail in the third chapter. Characteristics of transformational leadership, development of transformational leadership, performance, stress, empowerment, satisfaction, loyalty, commitment in transformational leadership will be explained. Chapter four will be about Jack Welch as a transformational leader and General Electric's transformation under Jack Welch. Chapter five will be conclusion that is summary of the thesis.

LEADERSHIP CONCEPTS

Leader and leadership concept have always been discussed; researched and different definitions and theories are put forward about it. There is no meaning, definition or theory that is accepted by everyone for a leader and leadership concept. The definitions and theories that have been made reflect a different dimension or method of leadership. A leader is " someone who can influence others and who has managerial authority." (Robbins & Coulter,

2008) Leadership is defined as a process of leading a group and influencing that group to accomplish its goals (Robbins & Coulter, 2008). Leaders are traditionally expected to see the "big picture" in the organization and are encouraged to oversee the links, interdependence among people, activities, functions and tasks. The environment is seen as a black canvas that creative ideas of leaders can be tested to move organization toward success. (McKee, 2011) The new generation parents teach their children to take their own actions, responsibility, confident in facing challenges, and to question the people in the top level when it is seen something wrong. In the 1950s, this thought was wrong. Children are taught to respect the government, authority, and avoid questioning the authority in the United States. This thought of accepting indiscriminately has replaced skepticism and cynicism in the 1990s. As it was thought that we are living in a cynical world, it must be aligned between individual members and organizations. Aligning the individual members' interests and values with those of the organization and gaining trust in leadership through internalizing organization's values requires transformational leadership at all level in the organization. (Bass, 1999)" This heightening of awareness requires a leader with vision, self-confidence, and inner strength to argue successfully for what he sees is right or good, not for what is popular or is acceptable according to established wisdom of the time." (Karl W. Kuhnert, 1987)

APPROACHES TO LEADERSHIP

Trait Theories

" Traits are enduring and distinguishing personal characteristics that may be inherited, learned or developed." (McKee, 2011). Research into the traits of leaders began in the 1930s and nearly 300 studies were made about the traits of a leader. There are some questions and unambiguous points here. Can a person be a leader by possession of appropriate traits? Or does those appropriate effective leadership traits can change over time? (Jennifer M. George, 2007). Do the effective, good, successful leaders possess those traits? On the other hand, some good leaders do not have all these traits. It is not sufficient to explain an effective good leader just by looking at the traits or characteristics. In the 1960s, Researchers began to look for other ways such as behavior to explain and understand effective leadership. (McKee, 2011)

Behavior Approach

Behavioral approaches focus on specific behaviors of effective leaders rather than traits. Ohio University had the leading position for researching leader behavior approach in the 1940s and 1950s. (Jennifer M. Geoerge, 2007) They have found two dimensions of behavior regarding to leadership as consideration and initiating structure. Consideration structure implies people-oriented behaviors such as openness to employees, respect, ideas and concern for employees' well-being. Open communication and teamwork are the focus points to create trusting environment in the organization. Initiating structure refers to task and goal-orientation behaviors such as

planning and setting schedule and deadline, monitoring employees and performance. It is identified clearly what needs to be done to achieve the task. Researcher at University of Michigan began to research behaviors of effective supervisors. These are product-oriented and employee-oriented behaviors. Product-oriented behaviors refers to efficiency, cost adhering to schedules and meeting deadlines. The main aim was to achieve job tasks and work procedures. Employee-oriented behavior approach regards to employees supporting and assisting in the achieving of high-performance goals. (McKee, 2011) Trait approach focuses on traits and characteristics of a leader while ignoring the situation. The behavioral approach takes into account behavior but ignores how the situation will affect a leader.

Contingency Theory of Leadership

It is models and theories of leadership that take into consideration both characteristics and behaviors of individuals and followers and various aspects of organizational situation. It states that many different variables comes into play, the situations are unique and requires its own approach (McKee, 2011).

The Fiedler Model

Contingency theory was developed by Fred Fiedler in 1967. Fiedler proposed two leadership styles as task-oriented and relationship oriented.

Relationship-oriented emphasizes good relationship with employees. Task-oriented leadership emphasizes accomplishments and performing well on the job. According to this theory, shifting from one leadership style to another is difficult for a person so that effectiveness rely on matching a

leader's style to the situation in the organization (McKee, 2011). The combination of type of a leader, task-oriented or person oriented, and relative degree of favorability of the situation can lead leadership effectiveness. Favorable situation exists when the leader has good relations with subordinates, highly structured task, or has considerable position power (Hitt, Black, & Porter, 2011). First situation refers to existence of trust, confidence and respect between member and leader. Second one refers to highly structured of the tasks, repetitive assembly-type operations, and routines. Otherwise, it will be difficult for manager to have control on unstructured tasks. Third situation is position-power that is extent to degree of authority of a leader over members (Ellis & Dick, 2003). The theory emphasizes the nature of the situation that has influence on leader's effectiveness. The conditions that leaders face could make a leader effective or vice versa (Hitt, Black, & Porter, 2011).

Situational Leadership Theory

It is a contingency model developed by Paul Hersey and Ken Blanchard. The theory refers to follower's readiness to their jobs and responsibility of the leader to notice this and adopt accordingly. Capability, confidence, and willingness of employees are meant by readiness. It is a missing point for new managers. They ignore the fact that they need to adjust their behavior to people and situations (McKee, 2011).

Path-Goal Theory

Path-Goal theory states that a leader is responsible for motivating employees to achieve goals. In contrast to Fiedler Model, it states that leaders can

change their styles and behaviors. Four different ways were defined as to how leaders behave. Directive way is related to clear expectations, work tasks, and setting performance standards. Participative way is related to collaboration with employees and participation in decision making process. Achievement oriented way refers to setting challenging goals, giving importance on performance and trust employee's ability to achieve goals (McKee, 2011).

Contemporary Approaches

In this part, contemporary approaches are explained including charismatic leadership, authentic leadership, and transactional and transformational leadership.

Charismatic leadership

Charismatic leader is defined as self-confident and enthusiastic leaders whose personalities and actions influence people to behave in certain ways. Charismatic leaders have five characteristics which are ability to articulate that vision, willingness to take risks to achieve that vision, follower needs and sensitivity to both environmental constraints, and behaviors that are out of the ordinary. There are a couple of questions that make expert to think about it such as can it be learned, trained, or born with it? Small numbers of experts think that it cannot be learned, you must born with it. Most of the experts think that it can be learned through training. Robbins and Coulter (2008) states that charismatic leadership may be more appropriate in an environment that involve high degree of stress and uncertainty. It may

explain why charismatic leaders crop up in politics, crisis, wartime, and starting process of business.

Authentic leadership

Authentic leaders are defined as " those who are deeply are aware of how they think and behave and are perceived by others as being aware of their own and others' values/moral perspectives, knowledge, and strengths; aware of the context in which they operate; and who are confident, optimistic, hopeful, resilient and of high moral of character." Authentic leadership has nine components; positive psychological capital, positive moral perspective, leader self-awareness, leader self-regulation, leadership process/behaviors, follower self-awareness/regulation, follower development, organizational development, organizational context, and sustained performance. Authentic leaders know which issues are important, values, and beliefs. The key distinguishing factor for authentic leadership is authentic leader's own deep sense of self. They know where they stand on important issues, values and beliefs. With that base, they convey to others through actions, not just words, what they represent in terms of values, principles, and ethics (Avolio & Gardner, 2005).

Transactional and Transformational Leadership

" Transactional leaders are people who follow a traditional approach to management in which leader and follower behavior is an instrumental exchange." (McKee, 2011). It means that transactional leaders reward their employees with high performance and reprimanding them for their mistakes and low performance." Transformational leaders are people who have social

and emotional intelligence and who can inspire others to seek an extraordinary vision." (McKee, 2011). People are valued and taken into account their growth. Transformational leadership may engage in transactional leadership but transformational leaders encourage their followers to support and share the vision, personal interests is left aside for the sake of the organization and they are passionate in their jobs. Therefore subordinates develop and grow more under transformational leadership (Jennifer M. George, 2007).

TRANSFORMATIONAL LEADERSHIP

Transformational leadership and Transactional Leadership concepts were identified by James MacGregor Burns in 1978. Burns described transformational leadership as increasing level of motivation and morality to higher level between followers and leaders when one or more people engage with others and Bernard Bass broadened Burn's transformational leadership theory and stated that " a leader one who motivates us to do more than we originally expected to do." (Bass, 1985).

the Concept of transformational leadership

Bass came up with a discussion about this concept by emphasizing its importance. He applied the ideas to organizational management and states that a leader with self-confidence, vision, and inner strength can be successful in raising and developing followers, clients, subordinates and colleagues to an increasing awareness about the issues of consequence and not direct regarding to what is popular or acceptable during that time. Transformational leaders do what they see right or good (Bass, 1985).

Transformational leadership is seen on the leaders who inspires and influences followers to accomplish challenging extraordinary goals, develop followers by empowering, coaching, mentoring, increasing interest and awareness of them and align the objectives and goals of followers with the leader, the group and the organization. (Bass & Riggio, 2006). It is required for the leader to align the self-interests of followers and the organization. Transformational leaders change followers, employees' beliefs in a way that goes on the same line with organization and represent innovation and transformation. Followers are pleased of recognizing with their leaders. When they are asked them about strong impact of a person in their life, they are glad to define themselves with their leaders, since transformational leadership is associated with standards, values, ethics, opinions and long-term goals of people or group (Ngodo, 2008) Randy Dobbs view that transformational leadership as driving success in complex business challenges and being an artist in a business suit. Transforming a company can be a reason to start early and work until late hours and seeing job as a brief of a fresh air (Dobbs & Walker, 2010). Thus, transformation is not an easy job; first of all, it requires having self-discipline, self-conscious, self-esteem, and self-confidence. It is not available to just everyone. Therefore, a leader must go beyond oneself. Transformational leadership requires extraordinary effort in every field. Transformation is infused from individuals to entire organization. Building trust between a leader and employees is crucial for success of transformation. Trust removes anxious, concerns, and suspense about their future and resistance and it is required of to be loyal, satisfied, and committed for employees. Communication is also another

crucial factor. It represents the base for building trust, loyalty, commitment, and other factors. Bill Fenoglio states in one of his interviews that any struggling and troubled organization waits eagerly for a leader, who is willing to take risks, lifting up the organization, execute and energize employees. Two-way communication steps in here. If your employees do not understand what you mean no matter how you put effort on your side. Randy Dobbs draw attention to two-way communication with his experience. When he was a plant manager in Reynosa-Mexico, a fire broke out. In Mexican culture, even a highest ranked employee is foreign to knocking the door and talking face to face with the manager. Therefore, until the employee says that the plant is on fire, Robb Dobbs could smell it. He asked one of the employees to climb the after tank and tell how much water is left. When the employee asked how he was supposed to measure it, he answered " Usa una ropa - use a rope"). When the employee was then asked how much water there was. He said he did not know because he dropped the rope in the tank while trying to see the rope from the top of tank. The employee did not understand- the manager did not communicate clearly (Dobbs & Walker, 2010). This example clearly demonstrates the significance of a two way communication. Thus, it can sometimes bring disaster to organization. Sometimes the things that are sufficient for you may not be sufficient for others. To transform people, transformational leaders must go beyond what they see is enough. Transformational leaders take into account risk and calculate it and raise standards. Instead of surviving the organizational culture they are in, they prefer to challenge and change that culture (Bass, 1990). Burns states that " the result of transforming leadership is a

relationship of mutual stimulation and elevation that converts followers into leaders and may convert leaders into moral agents." (Burns, 1978). It is defined that some of the values that followers have are as 'end-values' such as justice and integrity. Those values cannot be exchanged or negotiated between followers and leaders. Transformational leaders are capable of both uniting followers and shifting in their beliefs, goals and needs (Kuhnert & Lewis, 1987). Transformational leadership is "like riding the power of the wind: The power is there for all, but only a few catch it and ride it where they want to go." (Dobbs R. , 2010).

Dimensions of Transformational Leadership

Transformational leadership has four dimensions; idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration.

Idealized Influence

Rowold and Heinitz states that "idealized influence is a personality behavior characteristics and attribute which enables a leader to instill pride in and respect for the leaders as well as make him or her a trustworthy and energetic role model for the followers." (Ngodo, 2008) Having committed workers, inspiring and engaging followers providing employees to build a bridge between gaps in the organization, their lives, setting high standards, ideals, shifting followers' beliefs, needs and goals are all associated with individualized influence. By means of idealized influence, transformational leaders motivate and inspire followers to achieve tasks and goals successfully more than expected. They build a degree of trust and

confidence between followers and themselves. Additionally, followers want to identify with them because transformational leaders have power, charisma, influence, determination and this gives courage to followers. The actions of leaders with idealized influence draw attention to form behaviors, traits, beliefs and values required to realize the vision (Ngodo, 2008).

Transformational leader with idealized influence must give energy and vision to their followers. Therefore, transformational leaders must develop transparent visions and inspire their followers to pursue, realize and believe in a new vision. Trust helps followers to have emotional identification with leader and vision (Givens, 2008). Bass and Avolio substituted dimension of charismatic with idealized influence. There are several reasons for this substitution. First of all, charismatic has a lot of meanings known by public and the media such as celebrated, magnetic, and awe-inspiring. Secondly, most dictators and pseudotransformational leaders like Adolf Hitler seen having of component of charisma (Bass, 1999). Under the component of idealized influence, trust and respect are the crucial points for a transformational leader to perform the meaning of idealized influence by doing the right thing instead of making certain that subordinates do things right. According to Humphreys and Eirstein, personal values such as justice and integrity play an important role in uniting the followers by expressing these personal standards and values which is out of deeply held, so that changes in follower' beliefs and goals will be easier for those transformational leaders (Modassir & Singh, 2008). Idealized influence gives opportunity to the leaders to be a role model for their followers because leaders behave in a way that persistent, determinant, risk taking, achieving

extraordinary tasks which allow them to gain their followers' trust, respect and admiration (Bass & Riggio, 2006).

Inspirational Motivation

" Transformational leaders inspire their followers to accomplish great feats by communicating high expectations by using symbols to focus efforts and by expressing important purposes." (Modassir & Singh, 2008). As stated by Modassir and Singh (2008), communicating, using symbols, and expressing are some of the main factors to inspire followers but in a way that they need not assume clear communication in your mind is at all clear in followers' minds. As Randy Dobbs states that " communication stands as the rallying point or death threat to your business. It all depends on you to create clear, two-way communication." (Dobbs & Walker, 2010). Transformational leaders behave in a way that provides meaning and challenges their followers' works, pull team spirit and demonstrate optimism and enthusiasm and commitment to the shared vision and goals (Bass & Riggio, 2006). As a consequence of inspiration, transformational leaders help followers to realize and commit to the shared vision and arise desire to be a part of this unified vision from followers. Transformational leaders use emotional appeals and inspiring symbols together in a way that paying attention to group, team and organization efforts rather than making effort in self-interest and make them aware of behaving in a shared-interest rather than being in self-interest efforts (Ngodo, 2008).

Intellectual Stimulation

Another dimension of transformational leadership is intellectual stimulation. Followers are stimulated to be creative, innovative and gain new approaches against the situations and problems. Individuals are not criticized or judged because of their different ideas, solutions, or mistakes. In contrast, transformational leaders give courage to their followers try new approaches, produce, generate creative ideas, reframe the problems and situations (Bass & Riggio, 2006). Followers are supported to find innovative and proactive ways in dealing with situation and problems in the organization (Ngodo, 2008). While giving support to followers, transformational leaders do not answer all questions of their followers make to seek out to obtain answers on their own. Transformational leaders stimulate their followers intellectually by doing that. (Modassir & Singh, 2008). Lorenz Iversen, a former president of the Mesta Machine Company, is a great example of intellectual stimulation. He said his employees that " We got this job because you are the best mechanics in the world!" (Bass, 1990).

Individualized Consideration

Each follower carries importance for transformational leaders. Transformational leaders give more autonomy, encouragement, task structure or other supports in terms of their followers' individual differences. They accept it and coach, mentor, and support them according to the differences in their desires and needs. Individualized consideration is demonstrated and applied when required supportive action in a new learning organizational environment. Transformational leaders pay close attention to

their followers' ideas and listen to them effectively and provide support, assistance when needed by followers. They assess and monitor followers but followers do not feel being checked by their leaders. When transformational leaders demonstrate two-way exchange communication and "management by walking around" while practicing individualized consideration. Previous conversations, seeing the individual as a whole person instead of just an employee and being aware of individual concern are crucial factors during interactions between followers and the leaders (Bass & Riggio, 2006).

Commitment, Loyalty, and Satisfaction of Followers

Transformational leadership is correlated with the three organizational behaviors that are commitment, loyalty and satisfaction. Transformational leader has more committed, more loyal, and more satisfied followers. The question in this part is how transformational leaders are successful in establishing committed, loyal, and satisfied employees in the company. Mowdow, Porter and Steers define organizational commitment as "the relative strength of an individual identification with and involvement in a particular organization" (Avolio, Zhu, & Koh, 2004). Another expression defines commitment as a force that binds an individual to a course of action of relevance to one or more aims. (González & Guillén, 2008) There are three dimensions that are involved in commitment. Identification which is the feeling of belongingness and pride with organization by employees constitutes first dimension. Involvement is the second dimension which refers to extent to employee's willingness to participate in the relationship of the organization. The last dimension is loyalty. It measures the degree of

acceptance of the authority and demands of the organization by employees. Employees can have a lot of reasons to feel committed to their organizations. These reasons could be type of work, pay and benefit, the work itself, people in the organization, recognition, and career development. If you are working in a charitable organization, then positive feelings of helping other and positive feedbacks from them can be reasons to be committed to the organization. Commitment has different facets. If transformational leaders manage to align these different facets of commitment and show that goals and values of follower, then the group, the leader, and the organization will be able to find a common ground. Leadership is one of the factors that help to build this commitment and loyalty to an organization. Transformational leaders have strong effect on their followers' commitments to their organization. Furthermore, the underlying factor for extraordinary performance of groups led by transformational leaders could be an exceptional commitment of followers of transformational leaders (Bass & Riggio, 2006). Leadership has a significant impact on determining employee's commitment. According to researches, employees are more attached to their organization if they feel that they are pleased with their leaders or supervisors and behaved as valuable person with respect (Bushra, Usman, & Naveed, 2011). There are some researches involved in analyzing commitment and transformational leadership. According to research by Pitman, it was found that a positive relationship between transformational leadership and white-collar employees in six organizations regarding to level of commitment of employees. Niehoff, Eng and Grover surveyed 862 insurance employees and found that giving

inspiration and encouraging innovativeness by top management was positively affected commitment of employees to the organization. The report by Hertog, 267 employees who gave rating their leaders as more transformational was committed to their works (Avolio, 2011). There are several effects of dimensions of transformational leaders on commitment. Idealized influence which is the first dimension of transformational leadership refers that followers want to identify with their leaders. This identification maybe with the goals, values of the leader, and interest. Once a follower identifies themselves with their leaders, it is easy to build a commitment to a group's or an organization's values, goals or standards of behavior. Inspirational motivation is used to build emotional commitment to mission and goal by leaders. Transformational leaders encourage followers to consider values, beliefs, responsibilities involved in their duties as members of the organization, unit and profession. From the perspective of intellectual stimulation, followers are encouraged to approach old problems in a new creative and innovative way. Education, innovation and creativity are encouraged among followers. For instance, engineers in 3M are encouraged to spend up to 15% of their time working on whatever projects they liked and this encouragement ended up with the development of original products such as Scotch Tape and Post-it Notes. The fourth and last dimension, individualized consideration, indicates that transformational leaders pay special attention to their followers' personal career needs for achievement and development by mentoring and coaching to them (Bass & Riggio, 2006). A high level of identification with the leader, the organization, goals, and values of the organization, and the leaders are requirements for

commitment. It entails putting extra effort forward and willingness to maintain membership in the organization. Only if it is built trust between the leader and the followers, this level of commitment appears in the organization. Trust into the leader, organization, and commitment are required to achieve the leader's vision (Ngodo, 2008). Bass and Riggio (2006) state that trust, job satisfaction, and organizational citizenship behavior have impact on the level of commitment, satisfaction, and loyalty of followers.

Impact of Trust

Being fair in treatment among followers, maintaining their integrity, dedication and giving empowerment that shows transformational leader's faith in followers are the factors to gain trust of followers for transformational leaders. When transformational leader behaves in self-sacrificial behavior, they show their dedication and gain follower trust through it. Gaining trust is easier face to face rather than virtually, such as virtual work teams. Virtual work teams are connected in a virtual environment. Thus, trust becomes a more important issue. According to Avolio, Chai and Dodge, transformational leaders are able to build follower trust in the e-teams than non-transformational leaders. The research of Hoyt and Blascovich provides evidence that members of virtual teams had a high degree of trust in transformational leaders. This gave rise more satisfaction with the leader and more work group cohesiveness. (Bass & Riggio, 2006). Transformational leader is required to prompt followers' commitment toward to the leader's vision. Therefore, transformational leaders must deserve their followers'

trust to be successful in mobilizing and guiding them. A leader who cannot gain the trust of their followers cannot have committed followers toward the leader's vision, whatever the vision is (Ngodo, 2008). The degree of trust in the organization has impact to determine the organization's character, job satisfaction, commitment, communication and organizational citizenship behavior (Givens, 2008).

Job Satisfaction

An organization's success is greatly contingent on its workforce. Employees who are more satisfied and happy with their jobs tend to bring more productivity to the organization and be more creative and innovative in approaching to their tasks which can result in making the organization competitive at international level (Bushra, Usman, & Naveed, 2011)." Job satisfaction is defined as the attitude of workers toward the company, their job, their fellow workers, and other psychological objects in the work environment." (P. J. Visser, 1997). Another expression defines job satisfaction as " a pleasurable or positive emotional state resulting from the appraisal of one's job and job experience" (Givens, 2008). Two major approaches are defined for the concept of job satisfaction under the concept of organizational behavior. An employee's general feeling about his or her job composes one approach, this approach stresses on the feelings about the facets of the job such as security, salary, and social aspect of the job. The fulfillment of one's important job values and how harmonious one's needs are can be an assessment for job satisfaction. Empirical studies indicated that trust between supervisor and subordinate has influence on the

relationship subordinates' job satisfaction (Ngodo, 2008). There are two meta-analyses which measured the correlation between measures of follower satisfaction and all dimensions of transformational leadership. It shows significantly high average correlations ranging from 0.51 to 0.81 between these. When contingent reward and satisfaction is compared to transformational leadership dimensions, a lower dimension ranging from 0.34 to 0.60 was seen. According to Podsakoff, trust of the leader and follower satisfaction with the leader has a mediating role on the impact of transformational leadership on organizational citizenship behavior (Bass & Riggio, 2006).

Organizational Citizenship Behavior

" Organizational citizenship behavior is discretionary behavior that is not part of an employee's formal job requirement but it is that which promotes the effective functioning of the organization." (Modassir & Singh, 2008).

According to Bolino and Turnley, it is organization's ability to exert employee behavior which is beyond of the duty. They found that OCB is not directly enforceable and representative of the extra or special effort. It means that these behaviors are not a duty and required part of one's job (Modassir & Singh, 2008). Organ defined organizational citizenship behavior as non-obligatory and voluntary behavior which goes beyond the normal duties and not related any type of organizational reward (Givens, 2008) Theoretical and empirical evidences showed that transformational leaders affect organizational citizenship behavior by building trust. Bass explained in detail about transformational leadership behavior revealing the level of motivation,

resulting in commitment and performance beyond all expectation (Ngodo, 2008) Follower's trust and satisfaction between transformational leader and follower has influence of transformational leader behaviors on followers' citizenship behaviors. Podsakoff, MacKenzie, Moorman, and Fetter (1990) examined the aggregate effects of transformational leader behaviors on the organizational citizenship behaviors. They found that transformational leader behaviors have indirect effect rather than direct on OCBs and followers' trust in their leaders has mediating role in OCBs. Individualized support that is part of individualized consideration is the most influencing determinant factor for employee organizational citizenship behavior. The study shows that followers who perceive their leaders as supportive tend to engage in organizational citizenship behaviors than followers do not receive individualized support. MacKenzie and colleagues have found that a few direct relationship between transformational leadership and organizational citizenship behaviors in their research which consists of data from 477 sales agent workers of a national insurance company. On the other hand, trust was found as a significant mediating variable between transformational leadership and organizational citizenship behaviors (MacKenzie, Podsakoff, & Rich, 2001). Another research shows that transformational leadership has strong positive influence on in-role job performance and organizational citizenship behaviors. The increased trust in the leadership forms a part of reason for the impact of transformational leadership on OCBs (Diamond & Vartiainen, 2007).

Transformational Leadership and Performance

What do leaders do? What kind of behavior do they engage in, in order to lead effectively? Could this be one approach towards the study of performance? The result of the leader's followers, group, team, unit or organization from their activities is focus area of leader performance. As was stated earlier, followers of transformational leaders go beyond expectations.

Transformational leaders increase self-concept of their followers. Followers are encouraged by transformational leaders to be identified collective and personal identification with both a leader's and organization's goals and objectives and this is more enhanced when follower engages in the challenges of mission. It is obtained a performance that is beyond what would be motivated by other type of leadership (Bass & Riggio, 2006).

Transformational leaders enhance self-efficacy and self-concept of followers firstly. It is proven that self-efficacy increase both group and performance (Bandura, 1997). The next factor is identification. Identification with group, unit and the leader both collectively and individually are important. Shared values and aligned goals form a key factor in motivating follower

performance. Eventually, transformational leader empower followers to go and perform beyond expectations. According to Bass and Riggio (2006) these three mediators form the base for enhanced performance of followers for transformational leader. These are self-concept/self-efficacy,

identification with the leader, and aligned goals and values." Self-efficacy is a group's shared belief in its conjoint capabilities to organize and execute the courses of action required to produce given levels of attainment" (Bandura, 1997). It was found in a research conducted in a teaching hospital that

transformational leadership lead to higher morale in work teams, which in turn cause enhanced work group innovation, which benefit to patients. Therefore, it is seen that self-efficacy/confidence was the main reason for high morale (Wilson-Evered, Hartel, & Neale, 2001). Trust and confidence in a leader strengthening the followers' identification with the leader refers to the second mediator. The last one is aligned goals and shared values. Barling, Loughlin and Kelloway (2002) showed that value alignment can be used to influence group performance by transformational leaders. The research involves leaders and workers in the fast food industry and showed that safety consciousness of followers was increased and this led to increased safety climate and decreased likely to occur of accidents and injuries. There are also other effects that have influence on performance of transformational leadership such as stress, implementing change, and developing leaders (Bass & Riggio, 2006). There is a saying that only the only constant thing in the universe is change. The fear for almost all leaders is how followers will react to change. It is inevitable and people react to it in different ways. Randy Dobbs gives a good example about the way people react to change. From a coast of ocean, he observed people and their reaction to change were in three different ways. First one, some people took their breath and dove under each wave. Waves washed over them. When turbulence passed, they stood up at the same point and waited for the second one. The second way in which they reacted was; when a wave came, people kept their breath at an angle and jumped as high as possible to keep their heads above the water. Third way, others waited waves bravely and swam as hard as they could against it. They were smiling and laughing when

the wave caught them and carried them to the shore. Dobbs defines this situation as " No one catch ever wave and there are times what is appropriate to dive under or jump above it." (Dobbs R. , 2010). If transformational leader can predict the break and swim just ahead, they will be ready when a wave comes. If transformational leaders build a team and the team catches waves together, they will achieve anything and therefore, the performance will be higher. One of the core elements for transformational leaders is to development of their followers in a way that enhances their capabilities and their capacity to lead. Sosik, Goldshak, and Yammarino (2004) says that " both mentors and transformational leaders act as role models who encourage learning and development, and work to develop others' self-confidence, personal identity, and well-being. Thus, transformational leaders likely to serve as mentors and mentors likely exhibit various degrees of transformational leadership behavior." Leader's ability to influence followers' development can be the determinant factor for effective performance of a transformational leader. According to Levy, Cober and Miller (2002), followers of transformational leaders seek feedback for their development more than followers of transactional leaders. Transformational leadership and stress is another element which has influence on performance of transformational leadership. In the next chapter, it is covered how transformational leadership copes with stress and its influence on performance. There are some researches that analyze the relationship between transformational leadership and performance. Lowe, Kroeck, and Sivasubramaniam (1996) showed that transformational leadership has a positive relationship with performance. Unfortunately, a conceptual

framework or a systematic research was not developed to examine the impact of transformational leadership on follower development.

Transformational leaders demonstrate charismatic behaviors, inspirational motivation, intellectual stimulation and individualized consideration and these behaviors which are dimensions of transformational leadership, transform their followers by giving support to them so that they can reach their full potential and bring the highest level of performance. It was also conducted a research on group performance. According to the research based on analyzing group performance, transformational leadership showed that group performance is more likely to increase in a way that transformational leaders are instrumental in overcoming social loafing among group members (Dionne, Yammarino, Atwater, & Spangler, 2004). Social loafing is defined as reduced performance of individuals who act as part of a group rather than alone (Earley, 1989). Dianne, Yammarino, Atwater, and Spangler (2004) included teamwork process in analyzing the transformational leadership, team performance link. Teamwork processes include cohesion, conflict management and communication that improve team performance. Cohesion refers to the degree of emotional bonding between family members (Anderson, 1986). Teams which have a high degree of cohesion tend to show less absenteeism, high participation in team activities and high degree of coordination among members and during team tasks. Idealized influence and inspirational motivation have an impact on cohesion by visioning behaviors including the process of establishing mutual trust, respect and empathetic language. Communication is another teamwork process. Communication must be clear and open within a team to

achieve a goal and in daily team activities. . Individually considerate leaders are attentive in listening, decisive in teaching and good in coaching of their followers, and considerate in individuals' different needs, abilities, and desires. Therefore, dimension of individualized consideration has impact in appropriate messenger in affective from communication which increase team performance (Dionne, Yammarino, Atwater, & Spangler, 2004).

Transformational Leadership and Stress

There are different kinds of stress and it is crucial for a leader to manage it because stress has a negative effect in every aspect of our life. Stress is defined as a physical and mental condition which has impact directly on an individual's productivity, personal health, effectiveness, and quality of work (Gill, Flaschner, & Shachar, 2006). Chronic stress is related with long-lasting demands, daily-routines and non-changing environment which refers to lack of need satisfaction (Rowold & Schlotz, 2009). Job stress refers to how individuals react to environment characteristics which seem threatening to them (Gill, Flaschner, & Shachar, 2006). From the beginning of the thesis, it is stated that transformational leadership encourages followers to go beyond expectations but it is little known that this process could be a cause of stress on followers. There is increased demand and increased expectation in the level of performance. Therefore, this could result in a higher level of stress. Then, what is the role of a transformational leader in dealing with stress of their followers? The leader is the preventative factor in panic situations by encouraging well-trained, well-organized, and advanced preparation credible systems. Transformational leaders who are proactive, develop innovative

solutions, institutionalize new arrangements, and inspirational motivator is more affective under uncertain or crises-ridden conditions. Transformational leaders pay attention to contributions from followers. In considering proposals, they stimulate and inspire followers to develop creative and innovative solutions to problems. A leader is who is decisive but mindful, who is concerned but calm, and who is barely in responsible of inspiring confidence and trust of followers (Bass & Riggio, 2006). Transformational leader is effective in dealing with stress. Pines defines some ways that a transformational leader can apply in stressful situations. The leader can see any situation as more of a challenge than a threat. In the selection process, an employee who has the capability to cope with stress can be selected. Follower's commitment and involvement can be increased by empowerment which is effective in dealing with stress. Intellectually stimulating leader resembles, metaphorically, a mountain climber who does not look down and makes themselves stressed with dangerous exposures, but instead focuses on the grips and holds available in front of them by Pines (1980). According to research which has been conducted in Indian Hospitality service, empowerment reduces the stress level of employees (Gill, Flaschner, & Bhutani, 2010). Transformational leaders create a sense of identity with the group, unit, and organization by giving support. This feeling, of being a part of a larger entity, reduces stress among followers. A Sense of identity gives a sense of security and displaces the insecurity of feeling isolated. Adaptation and cooperation has significance in dealing with organizational crisis but these adaptation and cooperation can be achieved with trust and friendly relationship. Inspirational and charismatic leaders can create a trustworthy

environment which can be developed individually considerate leaders.

Therefore, transformational leaders are better in handling with crisis, uncertainty and threats of required change in organization (Bass & Riggio, 2006). The dimensions of transformational leadership, plays an important role when dealing with stress. One such role is idealized influence.

Transformational leaders concentrate on high level of goals, and therefore, they give encouragement to subordinates with a high level of performance. A

Second role is individualized consideration. Transformational leaders help and mentor followers in resolving individually work related problems which makes subordinates stressed out. A third one is intellectual stimulation which encourages and supports subordinates in thinking of new ways, to be innovative. The last one is inspirational motivation. Transformational leaders use communication a powerful tool to motivate their subordinates and in reframing stressful experiences of subordinates (Rowold & Schlotz, 2009).

Leaders can also be a cause of stress. For instance, charismatic leaders who are personalized and self-aggrandizing can cause more stress on employees.

Transactional leaders who stress reactive corrective actions may cause stress among employees but transformational leaders with individualized consideration, inspirational motivation, and proactive solutions are more likely to decrease the stress of followers. Transformational leaders are effective in increasing the self-esteem of their followers. When they are faced with a mishap, leaders must believe that it is more of a challenging problem than a crisis. Transformational leaders are more open to ideas and suggestions from their subordinates. Thus, transformational leaders can take effective decisions in response (Bass & Riggio, 2006). Gill, Flaschner and

Bhutani (2010) conducted research regarding stress and commitment. Workers in the hospitality industry face dynamic, multi-national, unplanned, and unpredictable situations and these are influential in increasing work-related stress. The result of the research shows that job stress is less in committed employees to their organization's mission goals and objectives.

Transformational Leadership and Organizational Culture

Founder is the base for organizational culture. Cultural scheme in their head establishes organizational culture. Founder's personal beliefs and values are guiding and restricting factors shaping an organizational culture. Three-fourths of CEOs of the fast growing companies are the founders and remain in their organizations until they die. 83% of these founders and CEOs never made a retirement plan in the U. S in the 1980s (Bass & Avolio, 1993).

Transformational leaders determine and develop strategic decisions in terms of external and internal threats. They articulate a mission, identify core competencies, and apply strategy and structure that fits with the organization. Articulating a vision is also another affecting factor shaping organizational culture (Peterson, Ashkanasy, & Wilderom, 2000). Vision is defined as " an ideal and unique image of the future for the common good." (Kouzes & Posner, 2010). The vision is created by understanding the past of the organization and determining the future tasks, behaviors will be highly required to succeed to a desired level of performance. Peterson, Ashkonasy and Wildrom (2000) identify the four ways which refers to how transformational leaders affect organizational culture. First way is making strategic and broad decisions which in turn affect organization's strategy,

structure, and competitive landscape. Embracing cultural values is another way because organizational culture is connected to cultural values. They articulate a compelling vision and communicate it which in turn, inspires followers to go beyond self-interest and identify themselves with the organization's mission and goals. Identifying and rewarding successful employees who demonstrate an example for desired culture is the last way of transformational leaders to affect the organizational culture. Managing and establishing of a vision allow people to change their minds in the context of organizational values. Leaders must be decisive in the culture required in organizational change for establishing a dynamic future. Six factors that leaders must have are defined for adaptation to cultural change. These are communication and innovation, overcoming resistance, individual loyalty and sacrifice, a vision, creating a commitment to the vision and institutionalization of the vision (Gokkaya, 2005). Randy Dobbs (2010) defines the single most important factor in implementing a vision; that leading cultural change is to build trust. Trust is not something given freely, a leader cannot authorize it. Trust, like respect, is earned. Understanding the existing culture is an essential part to establishing trust. It can be demonstrated that resistance can result in an organizational change. This resistance could be psychological, economical, or sociological. Psychological resistance emerges mostly due to lack of knowledge, technological changes and compliance issues. Sociological resistance threatens relationships in groups and can emerge from someone's losing of jobs. Vision, mission, involvement, communication, training are the factors that eliminate resistance to change (Tufekci, 2008). If transformational leaders reflect

organizational values in his/her vision, it is often internalized by followers. It is a kind of psychological contract which is a set of unwritten, mutual expectations between organizations and individuals that states explicitly what is expected to give and receive in the relationship of both parties. Transformational leaders foster psychological contracts. Organizational commitment is another factor which increases responsibility towards an organization's ethical values and behaviors, foster institutionalization of organizational ethics through transformational leadership (Carlson & Perrewe, 1995) Bass and Avolio state that organizational culture and leadership are the factors that affected mutually. Transformational leaders change their culture with two steps. First of all, the current culture is understood and analyzed, then realigned of its shared norms, values and assumptions (Bass & Riggio, 2006) Building a culture is a tactical and strategic thinking process because it is realigning process. Firstly, they must support the vision the leader established. Leaders are the innovating mechanism of strengthening and developing norms and behaviors (Bass & Avolio, 1993).

Transformational Leadership and Empowerment

Stephen Hacker and Tammy Roberts define empowerment as "aiding in the discovery of power found within others for their life purpose" (Hacker & Roberts, 2004). Empowerment is "the act of increasing the decision-making discretion of workers." (Robbins & Coulter, 2008). Warner Burke (1986) defines empowerment as an antidote to powerlessness, because power is shared to empower others. It is not an easy matter. Empowerment is a

complex process which must be learned. The degree of involving subordinates in determination of the clarity is the dependent factor for empowerment. Burke defines five possible empowering processes. These are; providing direction for followers and subordinates, stimulating followers and subordinates, rewarding followers and subordinates, developing followers and subordinates and appealing to followers and subordinates needs. Leaders provide direction with their vision, goals, and purpose. Leaders providing distinctness of direction give empowerment but the direction must include a completely higher purpose, vision, and desire that require collective and planned effort. A leader appeals to a dependency need. Follower's need is direction. Successful leaders appeal to one need that most people have. The power within followers must be discovered and given direction toward the vision of the enterprise. The dreams, desires, talents, and capabilities of followers must be understood to be successful in mastery of empowerment. Empowered individuals involve themselves into the organization's vision and pursue this vision to become a reality (Hacker & Roberts, 2004). Transformational leaders foster their followers to develop new ideas, being innovative, and question automated activities and transactions in the business. According to Avolio and Gibbons, development of follower self-management forms the major goal of transformational leadership (Avolio, Shamir, Dvir, & Eden, 2002). Transformational leaders empower their followers by establishing the vision and also by giving courage and support regarding their capacity to achieve that vision (Givens, 2008). When followers see a problem, they solve it and bring the solution if they are empowered to do so. Randy Dobbs states that " every employee will

bring his or her brain to work every day." If a leader wants every brain engaged, it is necessary to give empowerment and accountability. If a transformational leader wants to be successful in this competitive business world, every brain is needed to be engaged, thinking about the business' future (Dobbs R. , 2010). A leader, who is responsive to the interest and wants of the group and good for the system is successful and responsive to real needs of followers by empowering them. The leader empowers via direction and inspiration (Burke, 1986). Although empowerment is an effective factor for positive outcomes of organization, it can have a negative side when the follower's goals are not aligned with the organization's goals or object to the organization's goals. Followers within these behaviors can be harmful for the organization. It does not mean that all empowered followers lead to affective outcomes. Internalization of goals is a significant constituent of successful empowerment of followers. According to research consisting of 300 employees in a U. S. Fortune 100 company, there is relationship between transformational leadership and job satisfaction and it is mediated by employee empowerment. Empowering leaders demonstrate inspirational motivation by pointing out the importance of a task, challenge, and the ways in which followers can be complementary to each other's weakness and strengths (Bass & Riggio, 2006). Empowered followers can try to develop a set of norms that do not align with the organization and leader's goal. Bass (2006) defines groupthink and social loafing as a counterproductive group process that can be connected to follower empowerment. Empowered followers may not want to share different perspectives or disagreements with each other to keep harmony within the group. This can cause loss of

innovative, different ideas and critical information that refers to countering groupthink (Janis & Mann, 1977). Transformational leaders can overcome this challenge by supporting unusual, different, and provocative ideas; giving courage, flexibility in the norms that may come from empowerment (Bass & Riggio, 2006). Another counterproductive group process that is social loafing refers to a " tendency for individuals to expend less effort when working collectively than when working individually" (Karau & Williams, 1993). Some followers can feel no responsibility for a shared responsibility of a group work. In this case, the leader can use transactional and transformational leadership by giving contingent reward, transformational diagnosis, and adjustment in workload (Bass & Riggio, 2006). Transformational leaders emphasize participation and cooperation in performing group works and providing opportunity for followers to learn from shared experience and delegated authority to execute any required action for an effective performance (Bass, 1985). Thus, transformational leaders increase group performance by empowering their followers and providing an environment where followers feel empowered being innovative in performing their jobs without fear of being penalized. Therefore, empowerment also reduces stress and increases innovation looking at it from different perspectives (Jung & Sosik, 2002). The key difference of transformational leaders is to give support and help to develop follower's potential and capacity instead of consistently depending on the leader's guidance for their work. (Bass, 1998). If followers have a shared vision and group identity that are provided by a transformational leader, they are empowered, needed closely monitoring of

higher performance and cohesiveness among members is not needed (Jung & Sosik, 2002).

Development of Transformational Leadership

There are a lot of methods that leaders apply to enhance their skills, capabilities, and management. Transformational leadership can also be developed, taught, and learned through training. Two methods are described for transformational leadership training. In the first one, individual counseling sessions are arranged. In these sessions, subordinates rate a leader's transformational leadership style and are presented to the leader.

Discrepancies between subordinate and the self-rating of leadership are emphasized and development of specific behaviors and action plans are prepared to enhance individual transformational leader behaviors. Second method is the use of a workshop. Common activities in workshop training are brainstorming, watching videos, describing different leadership styles in action and developing specific action plans to perform transformational leadership. According to the research by Kelloway, Barling, and Helleur (2000) training and feedback have impact on transformational leadership.

Both of them are effective and suggest that both of these two may be interchangeable approaches to leadership development. A management trainee's first supervisor could have a significant impact on the trainee's career success. Managers tend to imbue their leadership style on their followers. Therefore, if high-position leaders show more transformational behaviors, lower-level employees will more likely act with a transformational leadership behavior as they rise in the organization. Thus, transformational

leadership could be learned and be a subject of management development and training (Bass, 1990). Transformational leadership has doable nature in training and education because it requires both the ability and willingness to be more transformational. Training is the starting point to increase transformational leader behaviors. Facilitators and fellow trainees provide assistance in making plans and perceived obstacles to change. It takes three months to aim for their individual plans for trainees. Success of their plans is received, revised and obtain information more about what it can be done more transformational leader as a force for change in their organizational culture (Bass, 1999). Kelloway, Barling and Helleur (2000) examined effectiveness of leadership training in two different organizations and found significant improvements in transformational leadership. There were noticeable changes in the behaviors of leaders taking participation in training and behaviors of subordinates had noticeable changes in response to enhanced skills of transformational leadership. Transformational leadership style culminates in positive organizational outcomes. It is argued that training or recruiting/selecting needed competencies could be options for organization to use the knowledge of the transformational leadership style (Kelloway & Barling, 2000). Another way of enhancing development is to turn every event into a learning event. For instance, Hewlett-Packard arranges annual meeting reviews that include two units of division and discuss about what they have learned over the recent past (Bass & Riggio, 2006). Parents' moral standards and leadership experiences in school and extracurricular activities have influence to be more transformational later. According to the report, it was seen that industrial executives who were rated as highly

transformational by their subordinates, reported that they faced difficult challenges but was supported by their parents without considering the result being successful or not (Bass, 1999). Training can be misused by managers and their effort goes further into their own self-interest and values.

Employees can be lead away from their own interests and the organization as a whole. Training is not the absolute right solution to turn leaders into transformational ones. It must be directed in the right way. "

Transformational leadership is neither particularly uncommon nor limited only to world class leaders." Because of this, transformational leadership specific behaviors can be described, observed and adopted (Bass, 1990).

GE'S TRANSFORMATION UNDER JACK WELCH

who is JACK WELCH

Jack Welch was born in 1935 in Salem, Massachusetts. Welch learned a lot of things from his upbringing. He states his mother's saying when he lost a hockey game. " if you do not know how to lose you will never know how to win. If you do not know this you should not be playing." It can be said that these sentences played a big role in his business life. He graduated from chemical engineering in 1957. He was smart enough to obtain a Ph. D. in chemical engineering in three years. In the same year, 1960, he joined GE as a chemical engineer. He was elected as the youngest VP of GE in 1972. He took position as chairman in 1979 and he became CEO of GE in April 1981. He stayed on this position for twenty years. " If leadership is an art, then surely Welch has proved himself a master painter- Business Week (Slater, 2004). Financial times had named it the " most respected company in the

world." In his management, GE exceeded \$100 billion for the first time, operations margin and earnings per share increased in the record level (Abetti, 2006).

The GE Heritage

It was founded by Thomas Edison in 1878. Its operation focused on generation, distribution and use of electric power, but later it became a leading diversified, industrial company. In 1978, it engaged in the production of aircraft engines, medical systems, and diesel locomotives in addition to its core businesses. GE was highly centralized and tightly controlled. However, a decentralization process began by delegating responsibility to hundreds of department in the 1950s. Reg Jones, Welch's predecessor, started to restructure management process through a strategic business unit -based structure (SBU- based) with 43 SBU. There was a mass of information, thus it was shifted to new organizational layers known as " sectors". Therefore, operations were divided into sectors such as consumer products, technical products, and power systems (Barlett & Wozny, 2004).

4 I'S of Transformational Leadership

Idealized influence, intellectual stimulation, individualized consideration, and inspirational motivation were studied as dimensions of transformational leadership. This part studies which characteristics and practices of Jack Welch reflect these components.

Idealized Influence

Welch demonstrated idealized influence dimension by being energetic, trustworthy, being committed to workers, and encouraging them to achieve tasks and goals successfully more than expected. In the restructuring process, the "being number one" strategy was an example of this idea. He gave energy and set a vision to his employees. His determinant, persistent, risk taking, and the ability of achieving extra ordinary tasks allowed him to obtain the trust and admiration of the employees. As Welch proceeded to reinvent GE, his idealized influence grew. In 1999, Fortune Magazine called him manager of the century demonstrating that he had gained the respect of the business world. Welch also showed idealized influence by being consistent with his messages and conviction. Being fair and being able to take risks are two of the components of idealized influence and jack Welch demonstrated his ability of taking risks by transforming the way of GE.

Inspirational motivation

A key aspect of Welch as leader was his practice of inspirational motivation. He involved his followers in envisioning attractive future states. A corporate value statement was developed with the input of 5000 employees. The statement described the corporate characteristics of the new company as agile and lean, demonstrating integrity, a sense of ownership. And individual characteristics of the leaders GE wanted to be running the company such as facing reality, openness, simplicity demonstrating integrity, encoring individual dignity. Welch clearly communicated his expectations to his employees. He always said that GE was a meritocracy; meaning that hiring

and promotion decisions were based on ability and achievements. The software phase of GE in the restructuring process was centered on reestablishing an organization in which intellectuals ruled over the bureaucracy and hierarchy, shifting the authority from managers to employees. Welch had to empower employees to make decisions, contribute ideas, and organize their own workdays. By doing so, Welch was attempting to constitute an environment that provided people with opportunities to be creative, take risks, and win, and to ensure that employees work had meaning by demonstrating how they contributed to the company. To challenge his employees and help them to tap into their unlimited potential, Welch set what he termed as "stretch goals" that included impossible targets. However, Welch did not punish for not meeting the target and said that even coming close to a stretch goal was worthy of celebration. Stretch became a way of life at GE and there is evidence that by challenging and empowering employees, Welch provided emotional support needed to inspire group members to exceed their initial expectations.

Intellectual Stimulation

There is a great deal of evidence that points to Welch providing intellectual stimulation to his employees. Through his cultural initiative, workout, Welch ensured that all group members were involved in the process of addressing problems and finding solutions. The central objective was to grow a culture where everyone's ideas had value. In the work-out session, cross-functional teams of employees and managers come together to identify problems. All participants focused on ways to reorganize work and maximize return on

time. The important point is the constructive approach. Criticizing must come with an improvement approach not just with the idea of criticizing. Also he did not allow executive officers to just criticize their employees. There was no point of it. Bureaucracy, hierarchical levels, and large numbers of units were decreased because of its inefficiency. The environment that was tried to be established was innovative and intellectually stimulating.

Individualized consideration

Each follower carries importance for transformational leaders. Welch was a leader who wanted to know his employees and wanted the employees to know him in return. Welch coached, monitored, and supported them with regard to their differences and desires. The assessment and monitoring processes were carried out in a way that prevented employees from having the feeling of being checked. Decreasing hierarchical levels and strategic units were other characteristics. He was enjoying going all around the company, from top to bottom, talking with his employees, opening sessions and sending handwritten notes to personnel. He was paying attention to his employees' needs and opinions. The sessions he created were an example of this. This will be talked about in more depth in a later section. He wanted from his managers to make close communication with his subordinates and support their ideas. Everyone must feel that they are valued, have the right to express their ideas and those ideas would be valued. He was taking into consideration his employees' ideas, from bottom to top of GE. When employees shared their ideas, taking part in the decision making of the

company regarding operations, they felt more attached, more loyal and more committed to the company.

Restructuring of GE

In 1981, U. S economy was surrounded by the effect of recession that caused rising in interest rates, highest unemployment rate, and the problem of strong dollar aggravated. Position of CEO was given to 45 year-old Jack Welch and his first goal was to become " better than the best" during this economic downturn (Barlett & Wozny, 2004). Change became number one strategic initiative for Jack Welch. He thinks that change is a critical element in the business. Significant developments were started in 1970s and 1980s. Offered products were in high quality and workforce was productive. Technology-intensive sectors and global companies were in the side of gaining power (Slater, 2004). Only gas turbine was the market leader among GE products. Welch developed " number one or number two" strategy. According to him, if company is number four or five in a market, when number one sneezes, other gets pneumonia (Slater, 1999). GE's restructuring process are divided into three parts as first, second, and third wave.

First wave: number one or number 2: fix, sell or close

During 1980s, according to Welch, inflation does not give chance to average companies to stay in the business. Therefore, to become number 1 or number 2 was essential (Barlett & Wozny, 2004)." Number 1 or Number 2" was the first strategy that was set by Jack Welch. The aim is to become number one or number two for each business in its industry. Welch wanted

to ensure that the best companies GE has in each industry. Providing a strategic development was the aim of this strategy. If the power is lost by any business in any sector and not developed, then it is sold or closed (Slater, 2004). It was sold more than 200 businesses between 1981 and 1990. 25% of 1980 sales were accounted for by this strategy. On the one hand businesses were sold. On the other hand, new acquisitions were made. The company acquired over 370 businesses by making investment more than \$21 billion. It was requested from GE leaders to make a research about their business environment and taking strategic decisions regarding to their analysis. Based on this, it was decided which companies should be supported. Destaffing process was started during this implementation of selling or closing strategy. Another strategy is downsizing. Number of workers was 404, 000, when Jack Welch took the position of CEO. He stated that questioners and checkers are not needed, each person's responsibility is thinking of how can add value to business to make it more competitive and effective (Slater, 2004). In 1985, it was aimed to decrease the number of hierarchical levels from nine to four. The underlying aim of this delayering process was to ensure that all businesses directly report to Welch. It was stated that " we used to go from CEO to sectors to groups to business. Now, we go from the CEO to business. There is nothing else." (Barlett & Wozny, 2004). 59, 290 salaried and 64, 160 hourly workers were laid off between 1981 and 1988. Revenues increased from \$27. 2 billion to \$29. 2 billion. This process was not so easy to apply as a strategy because downsizing was being applied by companies that are on the edge of bankruptcy by seeing it as a last chance. Laying off was perceived as a consequence of being failure

by business environment. It was admitted that laying off employees was the worst part of the business for him. The aim of delayering process was to construct sincere and open environment. Management layers were the obstacles for a sincere and open environment. The goal was to become " agile and lean GE". Excessive controls were making the decision making process lower, preventing from adopting changes in business world. It can be defined management layers in GE as follow; 250, 000 in manager positions, 500 senior executive and 130 vice presidents. The job of these managers was to control managers in the lower positions. This was the cause of high bureaucracy. It was made a decision by Welch for company leaders to report just to GE's CEO and two vice presidents (Slater, 2004).

Second wave

By the mid-1988, strategy was set to change the organization's software. Priorities started to change by these years. Welch defined this situation " a company can boost productivity by restructuring, removing bureaucracy and downsizing, but it cannot sustain high productivity without cultural change." In 1989, restructuring process of " second wave" was started in organizational culture. Core elements of organizational culture were defined. It was characterized by self-confidence, simplicity, and speed. The most important initiatives were " Work-Out" and " Best Practices" that were started by Welch. The purpose was to establish a desired management approach and organizational culture (Barlett & Wozny, 2004).

Work-Out

Work-Out was launched as a major change initiative by Welch and GE's director of management development, James Baughman. Work-Out practice is " a process designed to get unnecessary bureaucratic work out of the system while providing a form in which employees and their bosses could work out new ways of dealing with each other." (Barlett & Wozny, 2004). It is characterized by giving voice to every individual and establishing an idea of form where employee can receive immediate responses to their ideas and proposals. Work-Out has two basic goals as a practical and intellectual. Practical objective was to get rid of bad habits inside company. Second objective was putting leaders of each business in front of a hundred of employees and let them hear what they think. It was held eight or ten times in a year. Result of work-out demonstrated that many GE businesses became number one or number two in their industries worldwide (Tichy & Charan, 1989).

Best Practices

In 1996, it was written a letter to stockholders by Jack Welch. The problem was " limited ability to learn from customers, suppliers, and other global companies that had best practices that could be obtained benefit" (Slater, 1999). This session were based on learning from competitors. How GE can learn from its competitors that have higher productivity growth than GE. The aim was to increase the productivity. Obvious characteristics that belong to other higher productive companies than GE were identified. The characteristics of this session is keeping ahead of development process from

controlling process, customer satisfaction as key performance indicator, suppliers as partner, realizing the importance of the constant high quality new product for efficient production. Welch integrated this program to GE while pursuing on work-out sessions. GE units were begun to be revised. A general manager explained the benefit of the program to GE as " we should have focused more on how things get done on just what got done" (Barlett & Wozny, 2004).

Going Global

President of GE Europe, Paolo Fresco, explained why rationalizations of U. S operations were first focus area of Jack Welch. Fresco said " it is very difficult to jump into the world arena if you do not have a solid base at home, but once the solid base was created, we really took the jump". There was not a corporate global strategy. It was preferred to allow each business to take charge of implementing appropriate plans regarding to particular needs. According to Welch, businesses are global, not companies. It was explained in the part three that transformational leaders see crisis as opportunity not a problem. Welch also did the same thing. Europe was in economic downturn. This situation was taken as advantage by GE. \$17. 5 billion was invested on new plants and facilities, and financing acquisitions in 1995. It was seen the collapse of Mexican peso and this opportunity was not missed as well. Sixteen companies were acquired within just six months. While Asia was dragged into crisis, he saw it as a big opportunity and encouraged his managers to think in this way. Going global for each business has achieved significantly by 1998. In 1985, %20 of the company's operations was

operated outside, but the company expected to operate approximately half of its business operations outside of the U. S by 2000. Global revenues were three times higher than domestic revenues (Barlett & Wozny, 2004).

Developing Leaders

GE's new organizational strategic decision, direction, goal, and values must be realigned with mindsets and skill sets of GE's 290, 000 employees. This process was too hard because large number of employees laid off and demands were beyond the expectations. Company environment was overheated by distrust as a consequence of layoffs. Welch spent most of his time on teaching and developing these sessions. It was estimated at least %70 of his time spending for sessions. The aim was to build an environment in which employees can do their best through these sessions and tools. Crotonville management development facility was the major cultural change. It was invested \$45 billion on this facility while cutting all costs in each unit of business in the mid-1980s. Academicians from the well-known universities were hired to give lecture in those sessions. Crotonville was a training center for GE employees. It was aimed to develop a generation of leaders who are capable of aligning GE's new cultural norms and vision. Welch was also travelling to Crotonville twice a month. Not all managers were capable of adopting the new GE. Welch addressed this problem and " type 4 managers" emerged. According to this process, every manager ranging from highest level to lowest, were characterized in four ways. First type of manager was described as " the one who delivers on commitment". The values of the company must be shared by these managers. Second type is characterized

as the one who is not committed to the company. The values of the company must not be shared by these managers. The ones who share the values of the company but not meet commitment characterize the type 3 managers. The one who get commitment but GE does not share the values of the company. This was described the most difficult type to deal with, because these individuals are " who force performance out of people rather than inspires it." Type four managers were always ignored by leaders because they are always committed in short-term period. In this context, performance evaluation was applied into performance and extent to living of GE values. People who do not share the company values were removed. Welch explained in his letter to stockholders why these type four managers must be eliminated; " we have to remove these type 4's because they have the power by themselves, to destroy open, informed, and trust based culture. We need to win today and tomorrow." (Barlett & Wozny, 2004).

Third wave

GE was improving but still there was a problem with boundaries inside and outside the company. Moreover, there were boundaries that prevent information from flowing internally. " The left hand simply did not know what the right hand was doing." This was the reason to get started " boundaryless behaviors" (Slater, 1999).

Boundaryless Behaviors

The idea of integrated diversity became dominant in this period. Articulating a vision was a " boundaryless" company. Welch indicated to remove the barriers among businesses. Operations will be distinctness. It will be more

harmonized between people working together by removing the labels such as salaried, hourly or management. It was felt the effect of boundaryless model at GE. Businesses started to learn from each other. Productive solutions were learned from Lighting, transaction effectiveness from GE capital, and cost reduction techniques learned from aircraft engines (Barlett & Wozny, 2004).

Stretch: Achieving the Impossible

It was introduced the concept of stretch goals in the beginning of 1990s. The new GE cultural norm was defined as " using dreams to set business targets with no real idea of how to get there." Managers were not necessarily responsible for these goals but the ones who were successful, were rewarded by stock options or substantial bonuses. Problem solving was seen as enjoying part by employees and they wanted to pass to the next level. Therefore, it built a motivation for employees. Welch said that " we learned to do things faster than we would have going after doable goals" (Barlett & Wozny, 2004).

Service Businesses

In 1994, Welch wanted to start a new initiative. Reducing GE's dependence on industrial products was the next stage.

The economy had turned from production/manufacturing based to service-based economy in the 1990s. GE was almost a production-based company in 1980. 85% of revenues were coming from production and 15% of it was coming from service businesses. The transition to service businesses were started in 1980s, with Jack Welch, and accelerated in 1990s. Service businesses were seen as additional earnings in the beginning but later it was understood that it has effect much more on increasing the potential markets of the company. In 1995, approximately 60% of GE profits came from services. This percentage was 16.4% in 1980. Service business became a growth mechanism for GE (Slater, 2004).

Japanese companies were increasing the competition in 1990s. In order to survive against these companies, GE had to increase the quality standards. It was spent too much time on fixing and reworking process. Welch said that " we want to make sure or quality special, so valuable to our customers, so important to their success that our products become their real vale choice." (Slater, 1999). This is the starting point of Six Sigma Quality initiative.

Six Sigma Quality Initiative

GE had survey in 1995. The result of the survey showed that employees are not satisfied with the quality of its products and processes. Error rates in the production process were too high in compared to companies that apply six sigma quality program. The level was 3.4 defects per million operations for Six sigma, but GE was operating at error rates ten thousand times. This efficiency cost range between \$8 billion to \$12 billion in a year (Barlett & Wozny, 2004).

Six Sigma is " measurement of mistakes per one million discrete operations. Fewer errors mean high quality." In 1980s, six sigma initiatives were pioneered by Motorola to decrease the number of defects in production. At first, Welch thought that it was too centrally managed to work at GE. In 1995, it was started to implement through the courage of participants at Crotonville (Slater, 1999).

There was a massive training that consists of thousand of mangers at GE. Three cadres were formed as " green belts", " black belts", and " master black belts". The process had four steps; measuring defects generated by a key process, analyzing what variables case the defects, improve the process by determining three maximum acceptable ranges of these variables and controlling by making sure that variables stay within the range.

The result of six sigma showed that GE achieved the desired level. Railcar leasing achieved 62% reduction in turnaround time, approximately three times higher than closest complaints. Plastic business gained 300 million pounds of new capacity that is equivalent to new plant (Barlett & Wozny, 2004).

C: Usersexper1Desktopw6s-6satge97ar. jpg

Figure : Cost and Benefits of GE's Six Sigma Program (Barlett & Wozny, 2004)

It can be summarized Jack Welch's twenty years revolution as three waves. First wave consisted of hard initiatives such as establishing strategy to reorganization, acquisitions, and so on. The physical infrastructure of GE was changed. Second wave had software initiatives such as Work-Out and Best Practises. The organization and how people operated was changed. Third wave is combination of hard and soft initiatives such as boundaryless behaviors, shifting to service businesses, and setting stretch goals. During this wave, it was developed an integrated, stretched, boundaryless, and total quality company (Abetti, 2006).

<http://www.businessweek.com/1998/23/art23/a23mac5.gif>

Figure : Market Value, Net Income and Revenues between 1981-97

CONCLUSION

Through the decades, several leadership theories were put forward along with the changes in conditions in businesses, customers, employees and so on. It cannot be said that the leadership style fits all conditions. Some of them are highly contingently rewarded, some of them depend on the situation, some of them are highly bureaucratic, but this dynamic environment requires a leader to lead a company from all aspects; not run but lead. This thesis drew attention to the importance of transformational leadership in this new era. Transformational leaders have vision, self-confidence, and inner strength to increase awareness of followers to the problems, issues and situations. Transformational leaders inspire and influence followers/employees to go beyond expectations. Transformational leaders empower, monitor, and coach their employees. Aligning the

objectives of the leaders with employees, goals, and organizations take an important role in this leadership concept. Transformational leaders have an impact in changing their employee's beliefs. They are individually considerate; they stimulate intellectually, motivate by inspiration, and ideally influence. Transformational leaders see the person as the most important thing in the organization. Transformational leaders are open to change, innovation, and proactive. They establish an organizational culture that gives empowerment, build trust, lessen stress, and open chances for development. Transformational leaders motivate employees to think in an organizational level not as an individual. They empower and inspire employees/followers to go beyond expectations. First of all, they build trust between each other and establish a good correspondence amongst themselves. Through all these characteristics, it can be concluded that transformational leaders are capable of standing and developing under rapidly changing circumstances. Yet the job of leader is to deal with people and because of that, it is too complex and requires more understanding, research, and development over time.