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# Transformational Leadership in IT Sector: Test of Augmentation Hypothesis

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#### **ABSTRACT**

Project management is a crucial process in many organizations today. It brings together competencies and techniques from diverse fields for the purpose of achieving specific objectives. New projects cut across all sectors, and unfortunately they are plagued with high failure rates. More than ever before, leaders are being held highly accountable for projects that they manage. The purpose of this paper is to focus on the human dimension of project management in IT sector. In particular, the paper explores the role of project leaders in effectively managing human resources, and accomplishing project objectives. It attempts to show the importance of transformational leadership in project management and its relationship to extra efforts which their team members are willing to exert, effectiveness of the leader and the degree of satisfaction with their leadership style.

**Keywords**: Transformational leadership, Transactional leadership, Laissez-fair leadership

#### 1. INTRODUCTION

In 2004, the Standish Group reported that a staggering sixty-six percent of projects in the United States failed to meet their objectives. Of the 40,000 cases studied, project failure totalled \$55 billion. This sum was made up of \$38 billion in lost dollar value and \$17 billion in cost overruns. The good news is that the sixty-six percent failure rate was a drastic improvement over 1994's rate of eighty-four percent. Although projects differ in size and scope, an essential aspect of success rests in having good leadership and effective skills in managing resources. The leadership factor can account for success, just as it is capable of triggering failure. For the purposes of this paper, project failure is defined as exceeding deadlines, not meeting client needs, having an unclear scope, cancelling projects, and experiencing budget overruns. The leading causes of project failure are lack of planning (scheduling resources, activities, scope creep), communication breakdown within the team, mismanagement of resources, and uncontrolled escalation of costs. The root cause of each and every one of these issues is ineffective leadership and management. As touted in the behavioural leadership theory, leaders must manage two distinct aspects in a work environment in order to ensure success. The first is the task or technical side. In project management, this would involve dealing with tools and techniques. The second aspect has to do with managing interpersonal relationships. This paper focuses solely on the relationship management side, while taking a close look at Bass's transformational leadership approach. In organizations where there are more than one project taking place at any given time, project managers are needed to lead projects. They are needed to work from the planning stages making sure that costs and resources are available, through to the project delivery and execution stages, after which projects are handed off to clients. An important ingredient for the success of a project in the competitive globalised environment is, therefore, the guarantee of leadership behaviour that makes the goals and objectives attainable, for it is a well established fact that of all the tasks of management, managing the human resource is the central and most important task, because all else depends upon how well this is done. Quality of leadership represents a valuable source of organisational improvement and competitive advantage (Singh & Bhandarkar, 2002; Parry & Sinha, 2005). The question is how best to do this? What are the important kinds of leadership behaviour? Gill et al.(2010) believe that the new scenario requires transformational leadership that enables flexibility, horizontal

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networks, high trust relationship, adaptability to change and uncertainty, innovation and empowerment of employees. The leaders in the competitive environment need to be transformational who are able to protect their vision powerfully and create support for it, maintain a momentum and empower others to take responsibility for realizing their vision (Vishalli and Kumar, 2004). This requires paradigm shift in leadership. In line with this background, the paper will attempt to address one key question, namely, what behaviours project managers demonstrate as perceived by their team members and establishing its relationship to extra efforts which their team members are willing to exert, effectiveness of the leader and the degree of satisfaction with their perceived leadership style.

#### 2. THEORETICAL BACKGROUND AND HYPOTHESES

Although leadership has probably been written about, formally researched and informally discussed more than any other single topic, yet it still remains to be an elusive concept and researchers are continually coming up with new ideas about it. Stogdill (1974), who has studied leadership for thirty years, concluded that there are almost as many definitions of leadership as there are persons who have attempted to define the concept. Despite the multitude of ways in which the leadership has been conceptualized, there are some common themes attributed to the phenomenon of leadership. These are: (a) leadership occurs within a group context, (b) leadership is a process, (c) leadership involves influence, (d) leadership involves goal attainment, and (e) leadership is interaction of power between the leader and others. The evolution of theories of leadership reflects such a wide perspective – from 'Trait Theory' to 'Behavioural Theories' (The Iowa Leadership Studies; Ohio State University Studies; Likert's Management System; Blake and Mouton Leadership Grid) to 'Situational/Contingency Approaches' (Fiedler's Contingency Model; House's Path-Goal Theory of Leadership; Hersey and Blanchard Situational Theory; Reddin's 3-D Model of Leadership Effectiveness), and the currently popular 'Transactional-transformational Leadership' Paradigm.

## **Transactional-Transformational Leadership Paradigm**

Burns (1978) first introduced the concepts of transformational and transactional leadership in his treatment of political leadership. Bass (1985) applied the concept of transformational and transactional leadership in organizational settings.

# **Transactional Leadership**

According to Burns (1978), transactional leadership involves a leader subordinate exchange relationship in which the subordinate receives some reward related to lower-order needs in return for compliance with the leader's expectations, that is, "leaders approach followers with an eye toward exchanging" (p. 4). The transactional leader helps the follower identify what must be done to accomplish the desired results. Bass (1985) states that transactional leadership depends on contingent reinforcement and this could be either a positive contingent reward (CR) or the more negative active or passive forms of management-by-exception (MBE-A or MBE-P).

#### **Contingent Reward**

Transactional contingent reward leader defines and communicates the work to be done by followers, how it will be done and rewards and recognition followers will achieve for carrying out the assignment satisfactorily. As long as the leader and follower find the exchange mutually rewarding, the relationship is likely to continue.

### **Management-by-exception**

This is corrective form of leadership. The corrective transaction may be active (MBE-A) or passive (MBE-P). In active MBE-A (constructive corrections), the leader specifies the standard for compliance, as well as what constitutes ineffective performance. The leader

arranges to monitor deviances from standards actively and takes corrective action if necessary. MBE-P leader is reactive and waits for deviances, mistakes and errors to occur and then taking corrective action.

## **Transformational Leadership**

Transformational leadership goes beyond exchange and is based on more than mere compliance by followers. Burns (1978) views transformational leadership as a relationship in which the leader encourages subordinates to maximize their potential in order to achieve group goals and satisfy higher-order needs, such as, achievement and self-actualization. Transformational leadership is a relationship of mutual stimulation and elevation that converts followers into leaders and may convert leaders into moral agents. Current research on transformational leadership, in contrast to Burns, focuses more on pragmatic task objectives than on the moral upliftment of followers (Yukl, 2008, p. 267).

Transformational leaders motivate followers to achieve performance beyond expectations by transforming followers' attitudes, beliefs, and values as opposed to simply gaining compliance (Bass, 1985; Yukl, 1999). Successful transformational leaders "dumb down" their vision to grab followers' interest, attention, and understanding (Tichy & Devanna, 1986). Avolio, Yammarino & Bass (1991) described the characteristics of transformational leadership in terms of four I's - idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, that are similar to behaviours specified in theories of charismatic leadership.

### Idealized Influence (Attributes and Behaviours)

One of the most important elements of transformational leadership is the charisma called idealized influence. Transformational leaders are admired, respected, and trusted because of their values, beliefs and attitudes. Followers want to emulate their leaders because of the strong emotional attachment and personal identification with the leader.

### Intellectual Stimulation

Transformational leaders challenge the status quo and stimulate their followers' effort to be innovative and creative by questioning assumptions, reframing problems, and approaching old situation in new ways, and even their own personal attitudes and values which have developed over their life span.

### Inspirational Motivation

The interplay of individualized consideration and intellectual stimulation strengthens the leader's inspirational appeal. Leader builds the team spirit by shared vision and thus the followers display higher degree of self confidence, optimism and enthusiasm to achieve the mission.

#### Individualized Consideration

These leaders pay attention to each individual's needs for achievement and growth by acting as a coach or mentor. The leader removes 'roadblocks' in the systems that inhibit both the development of the followers and their achieving optimum performance.

The above description of characteristics of transformational leadership is also upheld by number of researchers (e.g., Bass, 1990; Den Hartog et al., 1997; Hinkin and Tracey, 1999; House et al., 1991; Hunt, 1991, Jung et al., 2003).

#### **Laissez-Faire Leadership**

Laissez-faire represents a non-transactional kind of leadership style in which necessary decisions are not made, actions are delayed, responsibilities of leadership are ignored and authority remains unused. This is no leadership or avoidance leadership style and is most inactive, as well as most ineffective according to almost all research on the leadership style.

Although transactional leadership model has long been advocated as an effective model for achieving acceptable standard of performance but it lacks key characteristics of "ideal" leader. Also, many research studies have found significant and positive relationship between transformational leadership and the amount of efforts the followers are willing to exert, satisfaction with the leader, ratings of job performance and perceived effectiveness, developing subordinates' competencies, followers' dependence and their empowerment (Bycio et al. 1995; Hater and Bass, 1988; Waldman et al.1999; Vishalli and Kumar, 2004). Keeping in view the above literature, it is hypothesized that;

**H1:** Project managers will exhibit transformational leadership behaviour more frequently than transactional leadership.

**H2:** As compared to leaders' transactional leadership style, their transformational leadership will have stronger positive relationship with the followers' extra effort.

**H3:** As compared to leaders' transactional leadership style, their transformational leadership will have stronger positive relationship with the effectiveness of the leader.

**H4:** As compared to leaders' transactional leadership style, their transformational leadership will have stronger positive relationship with satisfaction with the leader.

**H5:** As compared to leaders' transactional leadership style, their transformational leadership style will have stronger impact upon followers' extra effort.

**H6:** As compared to leaders' transactional leadership style, their transformational leadership will have stronger impact upon the effectiveness of the leader.

**H7:** As compared to leaders' transactional leadership style, their transformational leadership will have stronger impact upon satisfaction with the leader.

#### 3. DATA BASE AND RESEARCH METHODOLOGY

### **Sample Description**

The data were collected from members of 10 project teams in IT companies in Bangalore city. 80 team members rated their project leader on leadership scale. 96 percent of raters were below 35 years of age. 72 percent were graduates and 28 percent were having post graduation as their academic qualification. 47 percent were women.

#### **Research Instrument Used**

# Multifactor Leadership Questionnaire (MLQ Form 5X)

Revised Multifactor Leadership Questionnaire (MLQ Form 5X) developed by Bass and Avolio's (1997) has been used for collecting ratings on leadership behaviour. Transformational leadership behavior was measured with 20 items on five dimensions – idealized attributes II(A), idealized behaviour II(B), inspirational motivation (IM), intellectual stimulation (IS) and individualized consideration (IC). Transactional leadership behaviour was measured using 12 items representing three dimensions - contingent reward (CR), management-by-exception (active) (MBEA) and management-by-exception (passive) (MBEP). Laissez Faire Leadership (LF) was measured using four items. The relationship between the leadership styles was also studied with the rated criterion of extra effort (EE), effectiveness (EFF) and satisfaction with the leader (SAT) using items of MLQ. While rating their leader on MLQ, the respondents were asked to report how intensely their project lead displayed the behaviours described in the questionnaire, using a 5-point scale ranging from 1 (Not al all), 2 (Once in a while), 3 (Sometimes), 4 (Fairly often), 5 (frequently if not always).

#### 4. RESULTS AND ANALYSIS

### **Internal Consistency of the Instrument**

The internal consistency reliability coefficient of the instrument was assessed using Cronbach alpha. The alpha coefficients ranged between 0.66 and 0.85 (see Table 1) for all the

dimensions of the construct in this study which exceeded 0.60 criterion of acceptable level of reliability for social sciences (Nunnally & Bersnstein, 1994). Table 1 represents descriptive statistics for MLQ sample.

Table 1
Descriptive Statistics for MLQ sample

Factors	Mean	SD	Alpha
Idealized Attributes (IIA)	3.41	0.92	0.85
Idealized Behaviour (IIB)	3.49	0.75	0.74
Inspirational Motivation (IM)	3.59	0.82	0.78
Intellectual Stimulation (IS)	3.31	0.72	0.67
Individualized Consideration(IC)	3.03	0.73	0.66
Transformational Leadership (TL)	3.36	0.63	0.84
Contingent Reward (CR)	3.49	0.80	0.77
Management-by-exception: Active (MBEA)	4.40	0.74	0.70
Management-by-exception: Passive (MBEP)	2.11	0.83	0.68
Transactional Leadership(TNL)	3.05	0.48	0.71
Laissez Faire (LF)	1.90	0.90	0.73
Extra Effort by followers (EE)	3.55	0.84	0.82
Effectiveness of the leader (EFF)	3.59	0.87	0.75
Satisfaction with the leader (SL)	3.63	0.96	0.73

Source: Primary data

The mean values of the factors of Transformational Leadership Behaviour from idealized influence to individual consideration are ranging between 3.03 and 3.59. These values are above the theoretical mean (3.00). Considering the scale labels, the scores imply that those behaviours were observed 'sometimes' to 'fairly often'. The mean values are similar to those in earlier studies using MLQ-I and MLQ-5 (Bass 1985; Bass and Avolio, 1990). Management-by-Exception: Active (MBEA) has the mean score of 4.40 which signifies that this behaviour was observed 'fairly often' to 'frequently if not always'. Contingent Reward (reinforcing leader) has the mean score of 3.49 which is also above the theoretical mean of 3.00 indicating that project managers display both transformational and transactional leadership behaviour. The reason for this is simply because of the fact that both transactional and transformational leadership represents active and positive forms of leadership. The low mean score of Management-by-Exception:Passive (MBEP) and Laissez Faire i.e. 2.11 and 1.90 respectively, indicate that passive and avoidant type of leadership is rarely found in IT sector. The reason is obvious as the project leads of these companies cannot afford to be complacent due to increasing competition and the pressures from senior management.

The project leads have been rated higher on transformational leadership scale than the transactional leadership scale. The composite mean score of transformational leadership behaviour is 3.36. Since the lowest possible mean score is 1 (no transformational leadership) and a maximum is 5, a high score of 2.5 and above reflects a relatively high behavioural intention on the part of the leader to engage in transformational leadership behaviour. A reported mean of 3.36 (higher than that of 3.05 for transactional leadership) provide evidence of the existence of transformational leadership, though it is still below the ideal bench mark for engaging in transformational leadership behaviour. Hypothesis H1 thus stands accepted. However, the profile of the results does not correspond to an optimum leader. An optimum leader would be described with a value superior to 4 in the transformational scale, and a value less than 3 in the transactional scale (Avolio and Bass, 1995). Findings of the study point out the fact that project managers need to develop more of transformational skills to meet the growing challenges of leadership.

Table 2
Correlation Analysis

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.IIA	1	.62*	.69*	.50*	.39*	.83*	.63*	.37*	-25*	.40*	-43*	.58*	.71*	.65*
2. IIB		1	.67*	.61*	.34*	.82*	.64*	.37*	-19*	.44*	-30*	.56*	.63*	.59*
3.IIM			1	.57*	.35*	.84*	.66*	.40*	-25*	.43*	-44*	.62*	.69*	.59*
4.IIS				1	.46*	.78*	.62*	.39*	-16*	.46*	-25*	.56*	.60*	.56*
5.IIC					1	.64*	.43*	.19*	03	.32*	-14*	.37*	.44*	.40*
6.TL						1	.76*	.44*	-23*	.52*	-41*	.69*	.79*	.72*
7.CR							1	.37*	-19*	.64*	-37*	.62*	.73*	.67*
8. MBEA								1	01	.72*	-15*	.34*	.32*	.29*
9. MBEP									1	.47*	.57*	-13*	-26*	-30*
10. TNL										1	.05	.45*	.43*	.35*
11. LF											1	-36*	-47*	-51*
12. EE												1	.77*	.65*
13. EFF													1	.82*
14.SL														1

**Note:** Correlation coefficients are significant at 0.05 level (two-tailed)

Table 2 shows correlation of leadership factors with outcome variables of extra effort, effectiveness and satisfaction with the leadership behaviour. The following observations can be made:

- 1. Transformational leadership factors were highly positively correlated with all rated criterion variables such as followers' rated Extra Effort (r=0.69), Effectiveness (r=0.79), and Satisfaction (r=0.72). Thus, hypotheses H2, H3 and H4 have been supported.
- 2. Contingent reward (CR) and MBE (Active) were also positively related with the outcome measures, but less so than the transformational scale ratings.
- 3. MBE (passive) and LF were strongly negatively correlated with Extra Effort, Effectiveness and Satisfaction with the leader.

#### **Augmentation Effect of Transformational Leadership**

To further test hypotheses 5, 6 and 7, a hierarchical regression analysis was performed. The transactional leadership was entered first, followed by transformational leadership behaviour of the superior. The results of the hierarchical regression analysis are reported in Table 3, 4, and 5.

Table 3
Hierarchical Multiple Regression Analysis: Extra Effort by followers

Variables	Standardised 1	Beta (β)	$R^2$ Adj.	$R^2$	$\Delta R^2$	F
Transactional Leadership	.447*	.200	.196		54.	.47*
Transformational Leadersh	ip .624*	.484	.479		.284	101.65*

*Notes:* \*p < 0.001.

Table 3 presents the results of the hierarchical regression analysis for Extra Effort by followers. Overall, the antecedent sets explained 48 per cent of the variance in Extra Effort. Transactional leadership behavior of the superior contributed only 20 per cent variance in the Extra Effort which the followers are willing to exert. The transformational leadership of the superiors made additional 28 per cent contribution ( $\Box R^2 = 0.28$ ) to Extra Effort by their followers.

Table 4
Hierarchical Multiple Regression Analysis: Effectiveness of the Leader

Variables	Standardised B	Seta (β)	$R^2$ A	dj. $R^2$ $\Delta I$	$R^2$ $F$	
Transactional Leadership	.433*	.188	.184		49.	465*
Transformational Leadersh	nip .776*	.619	.616	.43	173	.09*

Notes: \* p < 0.001.

Table 4 shows the results of hierarchical multiple regression analysis for Effectiveness of the leader. Overall, the antecedent sets explained 62% of the variance in Effectiveness of the leader. Transactional leadership behavior of the managers explained 19 per cent of the variance in Effectiveness of the leader. The transformational leadership made 43 per cent incremental contribution ( $\Delta R^2 = 0.43$ ) to Effectiveness of the leader.

Table 5
Hierarchical Multiple Regression Analysis: Satisfaction with the Leader

Variables	Standardised :	Beta (β)	$R^2$	Adj. $R^2$	$\Delta R^2$	F	
Transactional Leadership	.353*	.124	.120			30.96*	
Transformational Leadersh	nip .729*	.512	.508		.388	113.86*	

<sup>\*</sup> p < 0.001

Table 5 displays the results of hierarchical multiple regression analysis for Satisfaction with the leader.

Transactional leadership explained only 12% of the variance in satisfaction with the leader. Transformational leadership made 39% incremental contribution to satisfaction with the leader. The results of hierarchical regression analysis (table 3, 4, and 5) lend support for augmentation hypotheses 5, 6 and 7.

### 5. DISCUSSION

This study set out to explore the leadership behaviour of project managers of IT companies in India. Leadership behaviour was measured by Multifactor Leadership Questionnaire (MLQ Form 5X) developed by Bass and Avolio (1997). Project managers have been found to display transformational leadership behaviour more frequently than transactional leadership behaviour. However, the mean score of transformational leadership displayed came out to be moderate only. The profile of the results does not correspond to an optimum leader. An optimum leader would be described with a value superior to 4 in the transformational scale, and a value less than 3 in the transactional scale (Avolio and Bass, 1995). Transformational leadership factors were highly positively correlated with all rated criterion variables such as followers' rated Extra Effort, Effectiveness, and Satisfaction with the leader. Result of the research suggests that managers who behave like transformational leaders were found to be seen by their team members as satisfying and effective leaders and cause employees to exert extra effort on their behalf. The results correspond to the results of earlier studies which have found significant and positive relationship between transformational leadership and the amount of efforts the followers are willing to exert, satisfaction with the leader and perceived effectiveness. (Hater and Bass, 1988, Dumdum et al. 2002; Fuller et al.1996; Lowe et al. (1996).

Contingent reward and Management by exception (Active) were also positively related with the outcome measures, but less than that of the transformational scale ratings. Management by exception (passive) and Laissez-faire leadership behaviour were strongly negatively correlated with extra effort which the followers are willing to exert, effectiveness and satisfaction with the leader. Hierarchical regression analysis reiterated the augmentation effect of transformational leadership over transactional leadership. The results are similar to earlier researches across cultures and national boundaries (Avolio and Howell, 1992; Bass 1985; Hater and Bass, 1988) which clearly signal avoiding focusing more on mistakes and taking corrective steps later. Instead, they should prod their human resource to realize their potential and perform beyond expectations in their own interest as well as the interest of the organization.

#### 6. CONCLUSION

A paradigm shift is needed in the way in which the business is managed as also change in the role of project managers and their mind sets. Project managers require not only different kind of skills but change in attitude and a new mind-set at all levels of the bank and hence the need for new paradigm and perspectives in HRM function of IT companies. Employees are a very important source to achieve competitive advantage. It is known that the human being is the most important input of any organisation. The importance of human resource increases even more in service organisations. Worldwide experiences have indicated that the old instruments for competitive advantage-better financial and technology management, superior growth and marketing strategies-though important, will not add significant value in the long run without leveraging the collective energy of people. The challenge, therefore, lies in effectively managing and mobilizing people.

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