

# Leadership Style & Organizational Effectiveness in Indian IT & Banking Industry

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*The attempt here has been to investigate the relationship between perceived leadership style and organizational effectiveness amongst middle level managers of two service sector industries in India. Information Technology (IT) and Banking Industry have been taken-up for the study considering them as the most prominent component of Indian service sector. 200 middle level managers were targeted (100 from IT Industry and 100 from Banking Industry) and a total of 150 responses were collected. The findings of the study confirm the relationship between leadership style and organizational effectiveness. There is a larger effect of perceived participative leadership style on organizational effectiveness in comparison to the instrumental and supportive leadership style.*

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## **Information Technology (including ITeS) Industry**

Services are the largest sector in the world, accounting for more than 70 per cent of global output. Indian service sector contribute more than 54% to Indian economy. The Indian IT Industry has been making a marked shift by offering services in IT consulting, system integration, remote infrastructure management, network consulting, KPO and integration processing services. The number of Indian software firms has grown from around 38 in 1988, who together contributed to nearly 65% of the industry revenue to over 1100 in 2007, who together contribute to over 95% of the revenue. The sector has increased its contribution to India's GDP from 1.2% in FY1998 to 7.5% in FY2012 (India Information Technology Report. 1012)). Given the abundant availability of manpower it becomes important for the industry to ensure that they develop and nurture effective leaders to motivate and retain the talent available.

## **Banking Industry**

The banking industry has moved gradually from a regulated environment

to a deregulated market economy. It has been seen that Indian banking industry had played a tremendous role in reinforcing the economy of India, by servicing the needs of three sectors of the economy: agriculture, manufacture, and service. The banking system of India was not hassle-free but was able to meet new challenges posed by the external and internal factors. India's gross domestic saving in 2006–07 as a percentage of GDP stood at a high 32.7%. The public sector banks hold over 75% of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively. Since liberalization, the government has approved significant banking reforms. While some of these relate to nationalized banks, like encouraging mergers, reducing government interference and increasing profitability and competitiveness, other reforms have opened up the banking and insurance sectors to private and foreign players.

### **Leadership**

**Leadership has been regarded as a critical factor in the success or failure of institutions**

“Leadership is one of the most observed and least understood phenomena on earth” (Burns, 1990). Although leadership has been widely discussed, written about, and practiced for thousands of years, it still remains an illusive area of inquiry and understanding (Bass, 1990a; Bennis, 1989; Bennis & Nanus, 1985; Yukl, 1981). Leadership has been regarded as a critical factor in the suc-

cess or failure of institutions (Bass, 1990b).

Leadership has been studied informally by observing the existence of great thinkers and leaders and formally by attempting to identify the personality traits of acknowledged leaders through assessment techniques in the past. Trait theories assume that successful leaders are born and that they have certain innate qualities which distinguish them from non-leaders (Stodgill, 1948). Style and behavioral theorists shifted the emphasis away from the characteristics of the leader to the behavior and style the leader adopted (Hemphill & Coons, 1957; Likert, 1961). The principal conclusion of these studies appears to be that leaders who adopt democratic or participative styles are more successful. In this sense, these early studies were focused on identifying the ‘one best way of leading’.

The major weakness of style and behavioral theories is that they ignore the important role which situational factors play in determining the effectiveness of individual leaders (Mullins, 1999). It is this limitation that gives rise to the “situational” and ‘contingency’ theories of leadership (for example, Fiedler, 1967; House, 1971; Vroom & Yetton, 1974) which shift the emphasis away from “the one best way to lead” to context-sensitive leadership.

Fiedler (1996) has provided a recent evaluation on the importance of leadership by arguing that the effectiveness of a leader is a major determinant of the success or failure of a group, organization, or even an entire country. However,

in an apparent return to the “one best way of leadership’, recent studies on leadership have contrasted ‘transactional’ leadership with “transformational’ leadership. Transactional leaders are said to be instrument and frequently *focus* on exchange and relationship with their subordinates. In contrast, transformational leaders are argued to be visionary and enthusiastic, with an inherent ability to motivate subordinates (Bycio et al, 1995; Howel & Avolio, 1991).

Four dimensions of leadership have emerged after reviewing the literature, which seem to comprise the basic structure of what one may term “leadership”:

1. Supportive - Behavior that enhances someone else’s feeling of personal worth and importance. The leader ensures that the team members are provided with ample amount of resources and opportunities to achieve common goals. Personal welfare of the team members is taken care of.
2. Participative - Behavior that encourages members of the group to develop close, mutually satisfying relationships. Feedback and consultation are the foundation stone of this kind of leadership style.
3. Goal emphasis - Behavior that stimulates an enthusiasm for meeting the group’s goal or achieving excellent performance. This is much similar to the task oriented leadership style.
4. Work facilitation - Behavior that helps achieve goal attainment by such activities as scheduling, coordinating,

planning, and by providing resources such as tools, materials, and technical knowledge.

Small (2002) has taken four leadership perspectives as suggested by Bolman & Deal (1984, 1991a, 1991b) who synthesized theories of leadership within organizations into four traditions and labeled them as frames. The four frames defined by Bolman & Deal include the structural frame, the human resource frame, the political frame and the symbolic frame.

Venkatapathy (1991) has attempted to study the perception of leadership styles and the climate created by practicing such styles. The three leadership styles viz., benevolent, optical and developmental show considerable promise from the application point of view among different organizations. The private and public sector executives differ on their leadership styles and, therefore, the climate created through such styles is also different in various organizations.

The measure of perceived leadership style of House (1971a,b) and House & Dessler (1974), which in turn was principally based on the earlier work of Fleishman (1957) and Stogdill (1963), was presented as reliable and valid by a number of respected authors and texts. Indeed, this measure of leadership style has been widely used in a variety of literatures and is generally accepted as a good measure of perceptions of leadership style. This measure categorizes the leadership style in three parts namely instrumental, supportive and participative leadership style.

The instrumental style is quite similar to transactional style which makes an assumption that they operate with some objectives and agendas. Participative leadership style assumes that the leader consults his team members before making important decisions and takes their feedback on various assignments. The third kind of leadership style which is supportive ensures that the leaders take a step further to help the subordinates and positively seek for their welfare.

### **Organizational Effectiveness**

Organizational outcomes such as profitability, productivity, quality, innovation, return on investment, efficiency, and competitiveness are often quoted whenever we discuss about organizational effectiveness. However, some authors have adopted a broader definition which blends financial and economic data with measures such as employee involvement and satisfaction, labor turnover and rates of sickness and absenteeism.

The effectiveness of organizations in achieving goals at the organizational level is called organizational effectiveness (Cameron & Whetten, 1983; Quinn & Rohrbaugh, 1983). The organizational effectiveness is also defined as the extent to which an organization fulfills the objectives (Thibodeaus & Favilla, 1995).

Effective organizations, as defined by Mott (1972) are “those that produce more and higher quality outputs and adapt more effectively to environmental and internal problems than do other similar organizations”. Cameron (1986) found a

wide variety of criteria being used to measure organizational effectiveness. These criteria can be divided into five major effectiveness categories: attendance, productivity, attitudes, strategy, and management.

The Human Relations model is concerned with maximizing the return on investment in human resources. This model incorporates the values of an internal focus and a flexible structure. According to this model, organizations that strive for effectiveness are interested in providing employees with motivating work experiences, promoting cooperation among work units, and usually have quite advanced training and development systems. In the human relations model, employee development and satisfaction are more important than environmental demands.

Cameron (1986) looked at 20 recent empirical studies from 1967 to 1978 from the point of view of the criteria utilized by researchers to measure organizational effectiveness. Of the 43 criteria studied, only 9 overlapped. He then conducted two studies looking at effectiveness in higher education. The first study was to develop two instruments, and the second was to test them. As a result of these studies, effectiveness criteria were grouped into nine dimensions of organizational effectiveness.

Organizational effectiveness is the concept of how an organization is achieving that it intends to produce. Richard, Devinney, Yip & Johnson (2009) have added that organizational effectiveness captures organizational performance plus

the myriad internal performance outcomes normally associated with more efficient or effective operations and other external measures that relate to considerations which are broader than those simply associated with economic valuation by shareholders, managers, or customers.

**Measurement of Organizational Effectiveness**

Till date numerous models have been used by the authors to measure organi-

zational effectiveness and majority of them have been derived by inductive means. With few exceptions, models of organizational effectiveness have taken a decidedly macro approach, focusing their attention exclusively on such organization-wide variables as profit, productivity, and so on. The dynamic relationships between individual behavior and organizational effectiveness have been largely ignored. Major dimensions of organizational effectiveness which have been studied by various authors are mentioned in Table. 1

**Table.1 Major Dimensions of Organizational Effectiveness**

Authors	Dimensions Studied
Georgopoulos & Tannenbaum (1957)	Productivity, Flexibility, Absence of organizational strain
Bennis (1962)	Adaptability, Sense of identity, Capacity to test reality
Blake & Mouton (1964)	Simultaneous achievement of high production-centered and high people-centered enterprise
Caplow (1964)	Stability, Integration, Voluntarism, Achievement
Katz and Kahn (1966)	Growth, Storage, Survival, Control over environment
Lawrence & Lorsch (1967)	Optimal balance of integration and differentiation
Yuchtman & Seashore (1967)	Successful acquisition of scarce and valued resources
Friedlander & Pickle (1968)	Profitability, Employee satisfaction, Societal value
Price (1968)	Productivity, Conformity, Morale, Adaptive
Mahoney & Weitzel (1969)	Productivity-support-utilization, Planning, Reliability, Initiative
R & D Model	Reliability, Cooperation, Development
Schein (1970)	Open communication, Flexibility, Creativity, Psychological commitment
Mott (1972) <sup>1</sup>	Productivity, Flexibility and Quality, Adaptability
Duncan (1973)	Goal attainment, Integration, Adaptation 22 decision units
Gibsonetal. (1973)	Production, Efficiency, Satisfaction, Adaptiveness, Long-run Survival
Negandhi & Reimann (1973)	Manpower acquisition, Employee satisfaction, Manpower retention, Interpersonal relations, Interdepartmental relations, Manpower utilization Economic index Growth in sales, Net profit
Child (1974,1975)	Profitability, Growth
Webb (1974) D C	Cohesion, Efficiency, Adaptability

Source: Richard M. Steers (1975)  
<sup>1</sup> Model taken as base for the current study

Out of the seventeen models mentioned in Table 1, the model suggested by Mott (1972) has been taken for the current study which includes quantity of the product, quality of the product, efficiency, adaptability, and flexibility. One of the major reasons of selecting this for the study is that the generalizability of this model has been tested in all kinds of industry and the ease of administering this model in Indian service sector context. The other reason of taking the model is that the variable adaptability and flexibility have been taken by majority of the researchers. Although the questionnaire has been customized and a couple of statements have been added to increase the validity of the instrument for the targeted audience. Moreover what is used here is a type of normative model which makes an attempt of suggesting the things what organizations should do to be successful. Several studies have been done on Mott Model of organizational effectiveness, but in Indian service sector the model has not been tested before.

“Flexibility is conceptually different from adaptability because the organizational changes that result from meeting emergencies are usually temporary, and the organization returns to its pre-emergency structure” (Mott, 1972: 20).

### **Leadership Style & Organizational Effectiveness**

A study by Rodsutti et al (2002) identified the key relationships of organizational effectiveness and leadership in Southeast Asia. Managers from 1,065 multinational companies based in Thai-

land and representing 31 different nationalities participated in this study. International leader characteristics and organizational culture are found to determine an appropriate multicultural management style. Executive motivation is strongly influenced by this multicultural management style. Different dimensions of organizational effectiveness, including return on assets, most admired, job satisfaction and personal satisfaction are related to specific aspects of leader characteristics, organizational culture and multicultural management style.

Carmeli & Sheaffer (2009) have investigated the correlation between leadership style and organizational decline and downsizing. Data collected from 85 firms indicate that both leadership risk-aversion and self-centeredness are significantly related to organizational decline. This results in intensified organizational downsizing.

**Both leadership risk-aversion and self-centeredness are significantly related to organizational decline.**

A study by Fey & Denison (2003) examines the role of culture on organizational effectiveness for foreign-owned firms operating in Russia. The authors argue that effectiveness in Russia relies more on adaptability and flexibility than it does in the United States. The authors have explored their ideas using survey data on 179 foreign-owned firms operating in Russia and compare the results to those obtained for firms in the United States.

More than 25 independent dissertations and projects have been completed in USA which talks about the relationship between the leadership style and organizational effectiveness. But there has been no study which took place in India exploring this relation. Widely celebrated cases of a direct leadership-performance link may be found in numerous anecdotal accounts of improvements of company performance attributed to changes in leadership (see, for example, NichoUs, 1988; Quick, 1992; Simtns, 1997). However, empirical studies into the links between leadership and organizational effectiveness have been lacking.

Bowers & Seashore (1966) reviewed the conceptual structure resulting from several programs of research in leadership practices, followed by a re-conceptualization that attempts to take into consideration all of these earlier findings. In an attempt to assess the usefulness of the re-conceptualization, it is then applied to leadership and effectiveness data from a recent study.

Raja & Palanichamy (2010) investigated the most preferred leadership behaviors among the transformational and transactional leadership styles and its impact on employees' organizational commitment in BHEL. The study concluded that while the positional identity of the respondents had some significant impact on leadership style perception and organizational commitment, salary did not seem to make a difference from among the sample respondents.

The study by Erkutlu (2008) administered on a total of 722 subjects (60 managers and 662 non-managerial employees) from 60 boutique hotels (in Turkey) for the purpose of identifying leadership style and Organizational Effectiveness. Multi-factor leadership questionnaire, organizational commitment questionnaire and job descriptive Index, were used to assess leadership behaviors of the boutique hotels' first-line managers and commitment and satisfaction levels of employees, respectively. The findings of the study suggests that there exists significant relationship between leadership behaviors and both organizational and leadership effectiveness. The findings support the suggestion in the literature that transformational leadership behaviors stimulate organizational commitment and job satisfaction in the hospitality industry.

**Transformational leadership behaviors stimulate organizational commitment and job satisfaction in the hospitality industry.**

Moore (2007) study was for measuring the impact of leadership style on Organizational Effectiveness including the impact of leader gender, location, and size of territory served within United Way of America (a non-profit environment). Leadership was examined through the lens of the full range of leadership developed by Avolio & Bass (2004) including transformational, transactional, and passive-avoidant leadership styles. The study indicated that the relationship between leadership style and organizational effectiveness is most impacted by leader gender

and location. Critically, while the levels of organizational effectiveness were comparable for both genders, the range of effective leadership behaviors and styles was narrower for female leaders.

### **Objectives of the Study**

1. To ascertain the dimensions of Leadership style and Organizational effectiveness and compare those with respect to the dimensions available in literature.
2. To study the relationship between the perceived Leadership style and Organizational effectiveness for both the industries.

### **Methodology**

The questionnaire consisted of three parts including the leadership effectiveness scale, organizational effectiveness scale and the personal demographic part.

*Sample Size:* A sample size of 200 was targeted which include middle level managers from various banks and IT companies in and around NCR. All the major private banks were included for the study which includes ICICI Bank, HDFC Bank, Axis Bank and UTI Bank. Amongst IT companies the respondents were from both large and small IT companies which are situated in NCR region. A total of 75 responses were sought from the banks and the same number of respondents was taken from IT companies. After cleaning the data a total of 130 responses was found to be complete and valid.

### **Instrument for measuring leadership style**

The measure of perceived leadership style of House (1971a,b) and House and Dessler (1974), which in turn was principally based on the earlier work of Fleishman (1957) and Stogdill (1963), has been taken as the tool for measuring the perceived leadership style. The instrument consists of 13 statements and a 5 point Likert Scale has been used to administer the instrument. The reliability of the instrument was tested and was found to be 0.67.

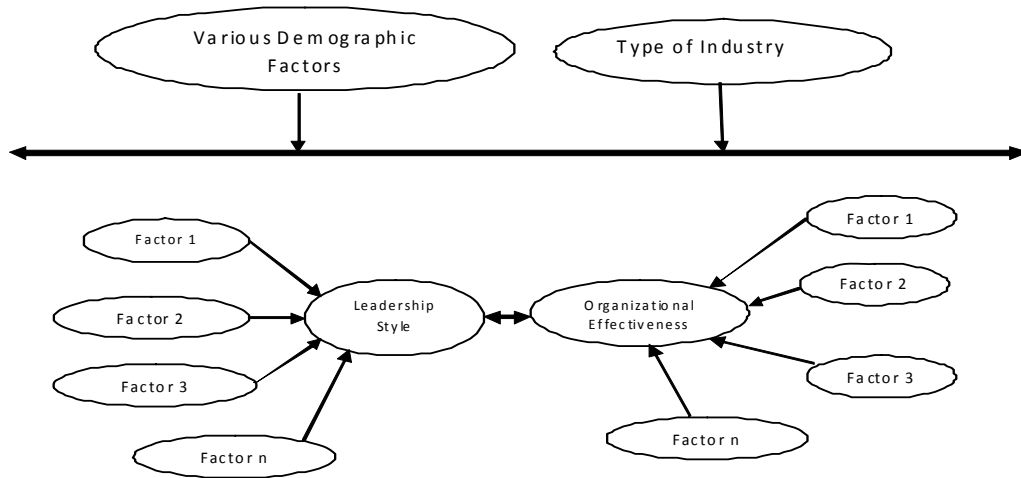
### **Instrument for measuring organizational Effectiveness**

Since Mott's Model to measure organizational effectiveness has been taken as a base and the same variables have been explored, the same instrument with some modifications has been considered for the current study. The instrument has been divided into 8 parts and all the five effectiveness measure have been explored. The reliability of the instrument was tested and was found to be 0.72.

### **Operational Model**

An operational Model (Fig. 1) has been constructed to test the association between the perceived Leadership Style and Organizational Effectiveness. The model has been depicted from two different studies. Perceived Leadership Style Model of House (1971a, b) and House and Dessler (1974). The second model which we have tried to confirm is the Organizational Effectiveness Model by Mott (1972).

**Fig. 1 Operational Model**



On the basis of the construct, the following null hypotheses have been formulated:

- H<sub>0</sub>1: Supportive Leadership Style is a constituent of Effective Leadership Style and has a positive impact on Organizational Effectiveness.
- H<sub>0</sub>2: Instrumental Leadership Style is a constituent of Effective Leadership Style and has a positive impact on Organizational Effectiveness.
- H<sub>0</sub>3: Participative Leadership Style is a Constituent of Effective Leadership Style and has a positive impact on Organizational Effectiveness.

**Data Analysis**

The data was fed into SPSS version 18 and normality of the data has been tested using one sample KS test and the data was found not normally distributed. The demographic investigation has been made (Table 2) and it is found that 70% of the respondents are males. The ma-

jority of the respondents are below the age of 45 and are post graduate.

**Table 2 Descriptive Statistics**

Age	Percent
25-35	59.34
35-45	32.97
45-55	5.49
55 and above	2.20
Educational Qualification	
Graduate and Equivalent	14.29
Post Graduate and Equivalent	76.92
Above post graduation	7.69
Type of Industry	
Banking	50.5
IT and ITeS Industry	49.5
Years of Work Experience	
Less than 3 years	29.67
Between 3 to 6 years	34.07
Between 6 to 10 years	20.88
More than 10 years	15.38
Gender	
Male	70.33
Female	29.67

The data has been analyzed into three parts. In the first part exploratory factor analysis has been applied using Principal

Component method and rotation of factors has been done using Varimax method. The total variance explained by these three factors is more than 50 percent. A total of three factors are extracted with Eigen Value of above 1.

**Table 3 Rotated Component Matrix (Leadership Dimensions)**

S.No	Statements	Factor Loading	Factor Loading	Factor Loading
1	I schedule the work to be done.	<b>0.66</b>		
2	I decide on my own about what and how things should be done.	<b>0.66</b>		
3	I explain my team members about the way the task should be carried out.	<b>0.63</b>		
4	I treat all my group members equal.	<b>0.52</b>		
5	I maintain definite standards of work.	<b>0.51</b>		
6	I listen to my subordinate's advice on which the assignments should be made.		<b>0.73</b>	
7	I regularly ask my subordinates for their suggestions.		<b>0.67</b>	
8	Before taking any action I consult with my subordinates.		<b>0.51</b>	
9	Before making decisions I consider what my subordinates have to say.		<b>0.42</b>	
10	In case of a problem I consult my team members and subordinates.		<b>0.41</b>	
11	I look out for the personal welfare of my team members.			<b>0.75</b>
12	I make less effort to make the work of my team members and subordinates enjoyable.			<b>-0.67</b>
13	I help people (my team members) in making their tasks and responsibility more pleasant.			<b>0.47</b>

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 20 iterations.

The results of the exploratory factor analysis (Table 3) confirm the literature and we can divide the 13 statements into three factors on the basis of the score of the factor loading. The three factors which are explored can be named as instrumental, participative and supportive leadership style.

*Instrumental Leadership Style* – This factor includes first 5 statements (S1-S5) and it loaded with high Eigenvalue which is more than three. The

statements like “I schedule my work to be done”, “I maintain definite standards of work” etc (Table 3) have been clubbed together which may be termed as transactional, directive or Instrumental Leadership Style.

*Participative Leadership Style* – This is the second factor which has been explored by the factor analysis and it includes 5 statements (S6-S10). Statements like listening to the subordinates, asking for feedback and con-

sulting the team members are a part of this style. This style can be referred to as consultative or participative leadership style.

*Supportive Leadership Style* – The third factor which has been extracted includes statements (S11-S13) like doing personal welfare for the employees, making their tasks more pleasant are included under this factor. Henceforth this factor has been named as Supportive Leadership Style.

**Factor of Organizational Effectiveness**

Similar type of factor analysis<sup>2</sup> (Table 4) was performed on the 8 variables under organizational effectiveness. Three factors of organizational effectiveness were extracted from the factor analyses which are similar to the Mott’s Extraction (1992) and can be named as Productivity, Adaptability, Quality and Flexibility.

The KMO value calculated was 0.7 and the total cumulative % is 60 which means that total 60 % of the variance in organizational effectiveness can be explained by these 3 factors. All the values extracted had Eigen value more than 1.

In Fig. 2, the big oval shape figure is containing the Latent variable or construct (which is symbolised by  $\hat{\iota}$ ), straight arrows from latent variable to square boxes containing the factor loadings (which is symbolized  $y \lambda x$ ), squared boxes comprise measured/observed or manifest variables (which is symbolized by X), then small circles on the extreme left side represent the errors (which is symbolized by  $\delta$ ).

The next step is to test the fitness of the measurement model in order to check the variance between the estimated covariance matrix. The researcher has assessed the overall model fit following Bollen’s (1989) recommendation to examine multiple indices, since it is possible

**Table 4 Rotated Component Matrix (Organizational Effectiveness Dimensions)**

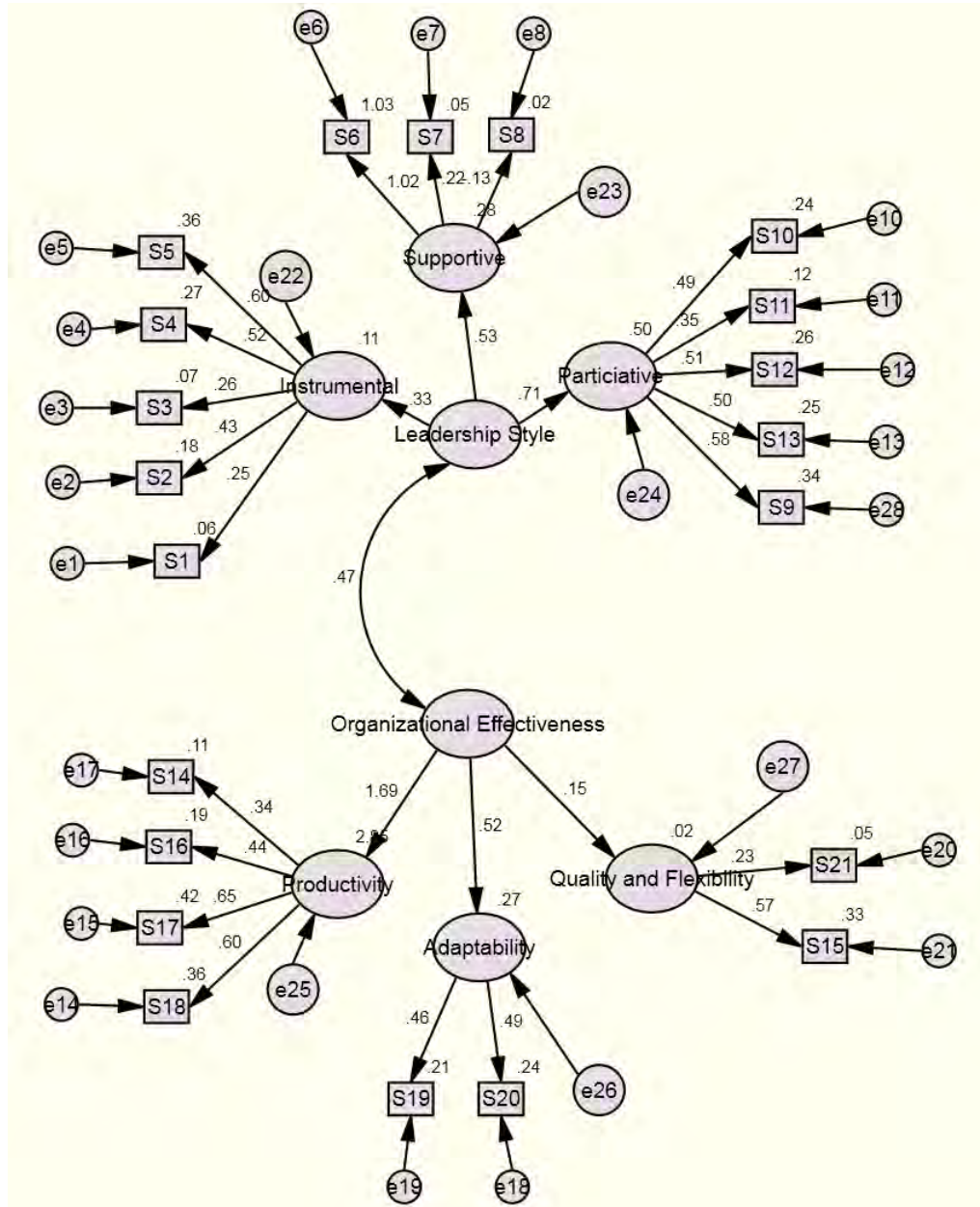
Variables Studied	Factor 1	Factor 2	Factor 3
Production	0.77		
Utilization of Resources	0.70		
Problem Solving	0.64		
Adoption of new techniques	0.59		
Acceptance to change		0.56	
Level of adjustment		0.55	
Quality of Output			.72
Cope-up with change			.71

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 7 iterations.

<sup>2</sup> Factor Analysis was not shown in detail as it was not a part of the objectives.

Fig. 2



for a model to be adequate on one fit index but inadequate on many others. The use of comparative fit analysis (CFI), goodness of fit index (GFI), and

the root mean squared error of approximation (RMSEA) (Jöreskog & Sörbom, 2004) have been made to confirm the model fit.

Although the statistics (Table 5) shows that the value of RMSEA is less than the recommended values, but the values of CFI and GFI are more than the recommended value.

**Table 5: Model Fit Summary**

Indexes	Recommended Values	Model Indices
CFI	Greater than 0.6	.642
GFI	Greater than 0.8	.859
RMSEA	Less than 0.80	0.60

P value P < 0.05 0.02

Moreover the P value is also less than 0.05, so the model fit can be accepted and we can conclude that there is weak significant correlation between the two latent variables studied.

Correlations: (Group number 1 - Default model)

Leadership Style <-> Organizational Effectiveness .47

With the values of coefficient of correlation we can predict the effect of various dimensions of leadership style on organizational effectiveness.

We can conclude that the effect of instrumental leadership on organization effectiveness –  $0.33 \times 0.47 = .15$

Effect of supportive leadership on organization effectiveness –  $0.53 \times 0.47 = .25$

Effect of participative leadership on organization effectiveness –  $0.71 \times 0.47 = .33$

**There is a larger effect of perceived participative leadership style on organizational effectiveness in comparison to the instrumental and supportive leadership style.**

So we can say that there is a larger effect of perceived participative leadership style on organizational effectiveness in comparison to the instrumental and supportive leadership style.

### Findings & Conclusion

Although a lot of work has been done on leadership style and organizational effectiveness separately, there is limited evidence regarding the link between the two. In an effort to explore the relation the survey was conducted and the relationship between the variables has been confirmed. The present study addresses the management areas which have been discussed a lot individually but have not been discussed together.

The study has been able to explore and confirm the leadership style of middle managers in the Indian service industry and results are analogous to the previous studies. Overall 3 factors / dimensions of leadership were identified which were the same as the literature suggested (House, 1971a; House & Dessler, 1974).

A comparison of various factors of organizational effectiveness suggests that there is no significant difference between the perception of re-

spondents from various banks and IT companies. The study further aimed at exploring the relationship between leadership style and organizational effectiveness in Indian service industry. A significant relationship between both the variables has been estimated using confirmatory factor analysis. The analyses suggest a positive association between both the variables which supports the findings of Moore (2007). The impact of instrumental leadership style is more as compared to participative and supportive leadership style on organizational effectiveness.

### **Limitations of the Study**

The sample size of the study was small and might have prevented the exact assessment of the relationship amongst variables. A similar study can be conducted with a larger sample which shall help the future researchers in generalizing the findings. Moreover the study was restricted to only a small geographical area. So the results may not be generalized in other parts of the nations and on other industries.

The responses were treated as candid and authentic. But there is always a risk of individual bias and non-candidness. A better scaling and response could be sought in future studies which shall give strength in the analysis.

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