

**UNIVERSITY OF KWAZULU – NATAL**

**DETERMINING THE RELATIONSHIP BETWEEN  
TRANSFORMATIONAL LEADERSHIP AND RISK MANAGEMENT IN  
THE RETAIL BANK**

**By**

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## DECLARATION

I Sthembile Millicent Ntsele declare that:

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## ABSTRACT

Risk Management is one of the challenges facing the banking industry, after 2008 financial crisis the banking industry has become one of the heavily regulated industries. This study intended to determine the association between transformational leadership and risk management. Appiah-Adu and Amaoko (2016) state that performance of the bank on risk management has leaders influence, as leaders are able to foresee the future and avoid the risk before it happens. Uddin, Fan & Das (2017) mention that the leadership style that has a positive influence on the organization performance is transformational leadership. This was a cross sectional study conducted among 42 employees who were working in the retail bank. Population consists of 60 managerial staff employees who were drawn from the retail bank in Durban, KwaZulu-Natal, South Africa. Census survey was employed for this study. Kumar (2014) mentioned that quantitative researchers gather data using instruments that can easily be converted to numbers. The research method employed for this study is quantitative approach. Data was collected using self-administered questionnaire. Statistical analysis revealed that there was a significant relationship between transformational leadership and risk management. One of the features of this study is that majority of participants perceive themselves as transformational leaders, however, strongly believe in transactional leadership style. It is recommended that managers adopt the transformational leadership style to improve followers' performance. Mhatre and Riggio (2014) mention that subordinates perform well under the appropriate leadership behaviours and leader's style. Transformational leader elevates the followers to act at the best interest of the organisation and become aware of the importance of risk management. The study can assist bank managerial employees to apply the relevant style when dealing with their followers to mitigate risk in the bank. Efficient risk management depends on the effectiveness of the leader. Sun & Wang (2014) mention that 2008 financial crisis is a strong evidence that poor risk management is detrimental to the bank performance. The results can assist human resource development team to identify gaps on banks' managerial employees' development plan.

**Key words: Transformational leadership, risk management and retail bank**

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# CHAPTER ONE

## OVERVIEW OF THE STUDY

### 1.1 Introduction

The rapid changes in technology and globalization have impacted the way banks are operating. Zakaria and Purhanudin (2017) argue that competitive advantage on its own, is no longer detrimental to the success of the organization. They add that the success and sustainability of the bank depends on its ability to create innovative ways to respond positively to the rapid changes of technology. According to Hull (2012), the 2008 financial crisis also contributed to changes in the banking sector, as the industry is heavily regulated. Banks need leaders who are charismatic, and who are able to motivate their followers to remain positive and enthusiastic during the change process (Jain, 2016; Hoque, 2016). One of the responsibilities of bank managerial staff is to ensure that employees are willing to meet and exceed organizational goals, while at the same ensuring that risk management is priority. This requires leadership who are able to display a good motivational style that is suitable for a heavily regulated changing environment. This study, in response to this issue, seeks a deeper understanding of the relationship between transformational leadership and risk management.

The study is divided into six chapters. The purpose of this introductory chapter is to present the shape and boundaries of this study. The chapter presents the background of the study, where the importance of human capital and the role played by transformational leaders to lead teams is outlined. The chapter presents the problem statement, revealing the challenges that it seeks to address. The section discusses the significance of the study; its objective and key questions, to determine relationship between two variables. The research design and the method the study followed to answer the research questions is discussed. The findings and conclusion and outline of chapters covered in the study are also presented.

### 1.2 Background

According to Luburic (2016), human capital is the most valuable asset in many organizations. Every organization needs a human element in order to be in existence and outperform its competitors. Employees can be a source of a company's profitability, growth and innovation, and sometimes the source of the risk in the organization. Cherian and Farouq (2013:105) believe that "the success of the organization depends on the effectiveness of human resources and its alignment to the organizational strategy". A well-crafted strategy can fail, when

insufficient time is invested in engaging human capital. Success of strategy implementation resides with human capital.

Jyoti and Bhau (2015) argue that in order for employees to perform to the best of their abilities, they require someone to lead them. According to Hoque (2016), leadership plays an important role in the performance of the organization. It is one of the core functions of the leaders to control and direct employees towards organizational goals. Jamaludin, Rahman, Makhbul and Idris (2011) outline that leadership style has a strong influence on the performance of the team. The leadership style shapes the attitudes and behaviour of the follower towards the degree of identifying and mitigating risk. Dartey-Baah and Ampofo (2015) believe that when bank managers adopt transformational leadership behaviour when dealing with subordinates, they can reduce staff stress levels. Although researchers revealed different types of leadership styles, the focus of the study is to determine the relationship between transformational leadership and risk management in the retail bank.

Dekoulou and Trivellas (2015:2) mention that “due to continuous changes as a result of vicious global competition, continuous technological evolution, growing market complexity and financial instability have an impact on bank operation”. George and Zakkariya (2015) support Dekoulou and Trivellas (2015) statement that the banking industry is facing rapid evolution due to continuously shifting consumer trends, globalisation, policy changes, swift changes in information technology and uncertainty. The rise in global competition has forced businesses to change their traditional ways of doing business in order to remain competitive and enhance corporate growth (David and David 2015). According to Amankwaa and Anku-Tsede (2015), businesses strive for competitiveness in order to improve business performance and are faced with technological disruptions.

Raj and Srivastava (2016) state that technological disruptions require the organization to be innovative. As a result, businesses are expected to review their business strategies from time to time in order to keep up with the rest of the world. When the business reviews its strategy, in most cases this requires change to the organization’s internal processes or technology, depending on what the organization want to improve. Change is good for organizational growth and financial sustainability Uddin, Fan and Das (2017) mention that the workforce needs to find ways to handle different challenges in the work environment due to these changes. They further assert that leaders need to ensure that risk is managed properly at every level of the organisation. When risk is not managed, it can lead to financial instability and ultimately to

bankruptcy. George and Zakkariya (2015) add that technological changes bring different challenges to the employees. Teams are expected to keep up with organizational change. When teams are left behind, the wave of change that normally opens up a risk gap in the organization.

Abiola and Alousi (2014) in Nigeria emphasise the importance of risk management in banks due to challenges resulting from technological disruptions that the industry is experiencing currently. Technological disruptions complicate the function of risk management in banks. Birasnav (2014), outlining the relationship between risk management and performance of the organization, notes that transformational leaders focus on the implementation of risk management process to improve organizational performance. When leaders understand the damage non-compliance and negligence can cause to the bank, they will ensure that staff adhere to the policies.

There are different types of risk that banks face. Luburic (2016: 560), in discussing the impact of human nature on risks, states that “among many risks that occur in the financial and banking system, operational risks have attracted considerable attention in recent times”. Financial Institutions must adhere to Compliance and Regulatory requirements at all times to avoid financial loss. Compliance is highly observed in banks. Human errors and negligence can lead to financial loss. Branch managers must ensure compliance in their branches. Leaders are required to keep up with change and deliver on monthly targets while ensuring that compliance is one of the priorities. It is the responsibility of leadership to ensure that teams adhere to bank processes and comply with Banks Act (1990) requirements at all times. When the institutions do not comply with Financial Intelligence Centre Act (38 of 2001) may result in both financial loss and reputational risk.

### **1.3 Motivation of the Study**

Cherian and Farouq (2013:105) mention that “risk management and people management are two challenges facing the banking industry”. The study was motivated by the fact that leadership is expected to channel employees in a desired manner to attain the vision of the organisation and improve productivity in a turbulent economic climate due to technological disruptions (Landis, Hill and Harvey, 2014). Technological disruptions complicate the function of risk management in banks. Abiola and Alousi (2014) in Nigeria emphasise the importance of risk management in banking sector due to challenges resulting from technological disruptions that the industry is experiencing currently. Belias and Koustelios (2014:187) mentioned that “transformational leadership is a specific leadership style applied by superiors

who motivate their subordinates to perform at a higher level by inspiring them, offering them intellectual challenges and paying attention to their individual needs”. The study seeks to determine the suitable leadership style, for managers to adopt in order to mitigate risk in the retail bank. The study intends to benefit human resource development, clients, management teams and the body of knowledge on banking sector.

#### **1.4 Focus of the study**

The study aims to find relationship between transformational leadership and risk management. The focus is to on find suitable leadership style to mitigate risk in the retail bank. The components of transformational leadership are discussed. Antonakis, Avolio and Sivasubramaniam (2003) mention that the full range of transformational and transactional leadership consists of charisma, inspirational, intellectual stimulation, individualized consideration, contingent reward, management-by-exception and *laissez-faire* leadership. The study covered the full range of transformational and transactional leadership and different types of risk that commonly affect the banking industry. The importance of risk management in the bank as well as the leadership understanding of the impact of risk on business performance, is part of the focus.

#### **1.5 Problem Statement**

Operations is one of the most important core functions of any business. It carries risk as it is highly affected by change. Lam (2014) mentions that an organisation’s risk profile is driven by the decisions and actions of its employees. When the organisation is doing well in managing risk, there is a high possibility that it also manages operations well. Risk Management is the direct responsibility of management as it remains management’s task to ensure that the company achieves its objectives and is not exposed to excessive risk. The success or failure of the bank depends on the calibre of its management (Abiola and Olausi, 2014).

According to Hora and Klassen (2013), bank leaders and other stakeholders have highlighted an increase in risk via operations staff, as they are always under pressure to deliver on demanding targets while ensuring that accuracy is part of the process at all times. Hull (2012) puts forward that banks are heavily regulated organizations. Bankruptcy of the well-established banks across the globe forced governments to regulate banks in order to ensure financial stability within the financial sector. The Banks Act (1990) outlined that any person who carries on the “business of the bank when concluding a transaction with a customer must comply with

The Financial Intelligence Centre Act (2001)". Financial Intelligence Centre Act (2001) outlined that "A person convicted of an offence may be liable for an imprisonment up to 15 years or a fine not exceeding R10 000 000". When information is captured incorrectly that creates a risk gap. Non-compliance and clients' information captured incorrectly is a big problem in the banking industry; it can result to financial loss and reputable risk.

## **1.6 Research Objectives**

The research objectives of this study are as follows:

- To measure how managers perceive themselves with regard to the transformational leadership style.
- To determine leadership's understanding of risk management in the retail bank.
- To examine if there exists a relationship between leadership style and risk management.

## **1.7 Research Questions**

The research questions driving this study are as follows:

- How do branch managers perceive themselves with regard to the transformational leadership style?
- What is the leadership's understanding of risk management in the retail bank?
- Is there any relationship between transformational leadership and risk management?

## **1.8 Significance of the study**

Bottomley, Burgess and Fox III (2014) point out that leadership directs the performance of the organization; the achievement or failure of organization objectives is credited to the nature of the leadership style. Caillier (2014) finds that transformational leadership has the ability to elevate the follower towards the shared and common goals of the organization. This study is significant as researchers found that the biggest threat in any financial institution is risk. Sun and Wang (2017) argue that poor risk management can affect the business reputation negatively. The best way is to ensure there are measures in place to detect and avoid risk. This needs leaders with a particular set of skills coupled with a relevant style of leadership. According to the study by Cherian and Farouq (2013), where he targeted 18 banks that were listed on the Abhu Dabhi Security Exchange and Dubai Financial market, it was evident that there is a direct impact of leadership style on the organization's performance. This study will

assist in identifying suitable leadership styles that managers can adopt in order to mitigate risk which will improve the organization performance. It will look into the relationship between transformational leadership and risk management to determine the correlation between two variables.

### **1.9 Research design and methodology**

The study took a positivist philosophical worldview to understand the relationship between transformational leadership and risk management in the retail bank. A mono-quantitative method was applied in the study. The researcher chose a deductive method as most researchers who have done similar studies used the quantitative method. The deductive approach allowed the researcher to analyse the relationship between transformational leadership and risk management. Creswell (2014:4), mentions that “survey research provides a quantitative or numeric descriptions, attitudes or opinion of a population by studying a sample of that population.” Hence this research will follow the survey research strategy in the use of questionnaires to collect data. The reason for the strategy choice is its convenience and affordability. Descriptive data was used to analyse quantitative data. The time horizon of this study is cross-sectional.

The study was conducted in Durban, KwaZulu-Natal (KZN), South Africa. The Durban area is divided into eight regions; each region consists of seven or eight branches of the retail bank. There are fifty two branches under eThekweni Municipality, and each branch has one Branch Manager. The population consists of 52 Branch Managers/Assistant Branch Managers. The probability sampling method that was used for this study is census. The researcher chose Durban as the organization applies the same model for all its branches. There is a high possibility that if the same study is conducted in any other province in South Africa, the findings will be more or less the same. The nature of this research project is descriptive. Both primary and secondary data were used for this study. Saunders, Lewis and Thornhill (2012) mention that surveys and questionnaires are most suited for gathering descriptive information. As a result, the data collection technique that was used for this study is questionnaires. Self-administered questionnaires would be time efficient as these allow for a timely response and can be analysed using statistical methods such as the Independent sample t test and Pearson correlation test, to measure the hypothetical relationship between transformational leadership styles and risk management.

## **1.10 Limitations of the study**

The findings of this study are limited to the relationship between transformational leadership and risk management in the retail bank. The data presented in Chapter Four was collected from bank managerial employees working in the banking sector only. The study focused on all branches falling under eThekweni Municipality in KZN, South Africa. Non-city branches were excluded from participating in the survey. The reason for choosing Durban branches is that accessibility and made this convenient for the researcher. The study conducted in Durban may not be representative of all bank managerial level employees in the retail bank.

It was stated that participants were at liberty to withdraw from participating in the study. As a result, this had a negative impact on the response rate as 30% of the sample decided not to return the questionnaires. Most regional managers did not return the questionnaires. A further limitation was that the study showed that the majority of participants were between 26 and 35 of age. It does not give a clear picture about the age of respondents. It would have been better if the age group was divided into the following categories: 26 – 30 and 31- 35 years. This would enable the researcher to gain a better understanding of responses between these two age groups categories rather than to put everyone under one blanket.

## **1.11 Outline of chapters**

### **Chapter 2: Theoretical overview of transformational leadership and risk management**

Chapter Two presents detailed insight into literature surrounding leadership, transformational leadership, transactional leadership, *laissez faire*, risk management and banking. The chapter also discusses the theoretical framework that guides the study. Opinions and critics from different researchers support the discussion of each topic. The chapter outlines a definition of leadership explained by different scholars as well as the definition of transformational leadership. The transformational leadership style is discussed together with its four components which are idealised influence, intellectual stimulation, inspirational motivation and individualised consideration. Most researchers, when discussing transformational leadership, compare it with transactional leadership and a *laissez faire* style. The transactional leadership style is covered together with its two components and the non-leadership style. A definition of risk management as well as six types of major risk that affect the banking industry are discussed. Different opinions and views about banking are presented in this chapter. Lastly, the relationship between transformational leadership and risk management is also discussed.

### **Chapter 3: Research Design and Methodology**

This chapter presents the design of the study and methodology used to collect data. The purpose and aim of the study is discussed as well as the philosophical worldview. Chapter Three presents details about the target population and sampling method used for this study and analyses the method used to collect data. The design of the instrument that was used during the data collection process which is a questionnaire is mentioned. Lastly, reliability and validity of the data collection method is discussed as well as ethical considerations.

### **Chapter 4: Data Analysis**

Chapter four focuses on analysing the collected data and provides the response rate of participants to the questionnaires. The cronbach alpha was used to test the reliability of collected data. Chapter four presents a reliability analysis, and the demographic profile of respondents is presented and analysed. The Pearson correlation test was conducted to test the correlation between transformational leadership and risk management.

### **Chapter 5: Discussion of Results**

This chapter focuses on discussing the findings of the study. The results presented in chapter four are interpreted in conjunction with the literature review in chapter two to understand the correlation between variables. The biographical information of the participants was discussed and its influence on the relation between risk management and transformational leadership constructs. Risk management analysis results are interpreted as well as transformational analysis. The correlation between risk management and each transformational leadership style constructs is reported. Lastly, the relationship between risk management and transformational leadership is discussed.

### **Chapter 6: Recommendations and Conclusion**

The main focus of this chapter is to summaries findings. Any study conducted must be able to answer the research questions and meet its objectives. Chapter five presents' findings related to the research questions. Recommendations based on the results of the study are outlined. Additionally, recommendations of future study and limitations of the study are discussed.

## **1.11 Summary**

This chapter focused on the introduction of the research. It covered the background, motivation, and focus of the study, as well as the problem statement. The objectives and key questions of the study were presented. The limitations and significance of the study were discussed. Lastly, the summary of research design and methodology and outline of chapters of the study were presented. The following chapter unpacked the theoretical overview of the study at hand.

## CHAPTER TWO

### THEORETICAL OVERVIEW OF TRANSFORMATIONAL LEADERSHIP AND RISK MANAGEMENT

#### 2.1. Introduction

Leadership plays a critical role in the success and management of risk in any organisation. Cherian and Farouq (2013:105) argue that “risk management and people management are two challenges facing the banking industry”. This study attempts to gain a better understanding of transformational leadership and its relationship to risk management. This chapter aims to first provide a theoretical framework that guides this study and offers an explanation of leadership styles. It covers transformational leadership and its relation to other leadership styles as well as the historical development of leadership. It examines the types of risks and factors underpinning risk management in the retail bank to gain a sense of leaderships’ understanding of the impact of risk on the performance of the organisation. The chapter concludes by looking at the relationship between transformational leadership and risk management.

#### 2.2. Theoretical framework

Grant and Osanloo (2014:12) mention that “the theoretical framework is the blueprint on which to build and support the study and also provide the structure of the study as a whole”. The framework that guides this study is transformational leadership theory. According to Northouse (2015:162), “the term transformational leadership was first coined by Downtown (1973)”. Burns (1978) conceptualized the topic when he contrasted transformational leadership with transactional leadership. Caillier (2014:221) agrees that “transformational and transactional leadership was first initiated by James MacGregor Burns, a political scientist, where he seek to link the responsibilities of leadership and followership”.

They add that transformational leaders move followers on the Maslow (1954) hierarchy of needs to higher-level needs for achievement and self-actualization. Srithongrung (2011) agrees that transformational leaders inspire employees to commit to the collective vision of the organization and appeal to the higher order need, namely, self-actualization. The study done by Trmal, Bustamam and Mohamed (2015) revealed that there are four factors underlying the theory of transformational leadership: idealized influence, inspirational motivation, intellectual stimulation and individualized consideration. Copeland (2016) postulates that transformational leadership is the ability of the leader to influence followers to change their

behaviour to perform beyond expectation. Ibidunni, Osibanjo, Adenji, Salau and Falola (2015) mention that people, intellectual capital, and talent are the key to the success of the organisation. It is important to start by looking at other researchers' opinions about leadership styles before exploring transformational leadership.

### **2.3 Leadership style**

Cherain and Farouq (2013) define leadership style as the behaviour of the leader when dealing with followers. They add that to drive followers towards a company's strategies and influence people to deliver on expected results and desired goals, leaders use their leadership style. Bottomley, Burgess and Fox III (2014) point out that leadership directs the performance of the organization, and that the achievement or failure of organization objectives is credited to the nature of the leadership style. Hoque (2016) agrees that leadership is crucial for the performance of any organization as it is regarded as the determinant of the survival or failure of the organization. Jamaludin, Rahman, Makhbul and Idris (2011) support the notion that leadership style has a strong influence on the performance of the organization. Leadership style shapes the attitudes and behaviour of the follower towards the degree that one allows or prevents risk. When followers are put under pressure for poor performance, they can be tempted to bend the policy in order to escape punishment.

Salter, Harris, McCormack (2014) believe that the full range of leadership models has different styles of leadership, consisting of transactional leadership, transformational leadership, *laissez-faire* leadership and autocratic leadership. Antonakis, Avolio and Sivasubramaniam (2003) argue the full range of Transactional and transformational leadership consists of charisma, inspirational motivation, intellectual stimulation, individualized consideration, contingent reward, and management-by-exception and *laissez-faire* leadership. Parris and Peachey (2013) highlights other categories of leadership styles as spiritual leadership and the servant leadership style. The literature points out that transformational leadership is the most used style to manage change, where the leader acts as a guide, mentor and coach to enhance the vision of the followers. Jamaludin *et al.* (2011) argue that transformational and spiritual leadership styles differ because of the lack of the spiritual component in the moral standing of leaders.

Caillier (2014) put forward that transactional and transformational leadership have the same aim, to motivate employees towards achieving organizational goals. The leaders utilize a different approach, however, differ in the level of employee's needs that are supported. This paper will focus on the full range of transactional leadership and transformational leadership.

### **2.3.1 Transformational leadership**

Caillier (2014) believes that transformational leadership elevate the followers towards the shared and common goal of the organization. This notion was supported by Jones and George (2016) that transformational leadership makes people aware the importance of their jobs and performance to the organisation and of their own needs for personal growth, which motivate subordinates to work for the good of the organization. Bass (1999) put forward that transformational leaders have the ability to drive employees to rise above the principles of moral values, ethics and justice. Bealer and Bhanugopan (2014) feel that transformational leaders clarify the expected outcomes to their employees and display individualized consideration in behaviour to increase the performance of the organization. Pradhan, Panda and Jena (2017) mentioned that transformational leaders influence employees' behaviours and attitudes towards the functioning of the organisation. Transformational leaders show the bigger picture to their followers about the impact of risk to business performance if it not managed properly (Moynihan, Pandey & Wright, 2012). Raj and Srivastava (2016) believe that transformational leadership is recognised as leadership that enhances innovativeness among the followers in the organisation.

Bish & Kabanoff (2014) mention that individuals who imagined their leader to be transformational, felt the need for competence when performing their task as they respect and trust the leader. The study done by Aydin, Sarier and Uysal (2013) produced research findings which showed that when leaders change from transactional leadership to the transformational leadership style, it affects employees' commitment to organizational goals in a positive way. The result confirmed that as the leadership style changes from transactional to transformational, the commitment of followers improved. In the study done by Guay (2013: 56) to determine the relationship between the leader fit and transformational leadership, it was discovered that "the incomplete picture of predictors of transformational leadership makes it difficult for organizations seeking to hire or develop effective leaders to determine whether their prospective candidates are likely to engage in transformational leader behaviour or not". When leaders display more transformational qualities, employees perform better and produce work of high quality with fewer errors. The level of conflict between employees led by a charismatic leader in an organization diminishes. Transformational leaders motivate employees and in return they display high ethical standards (Labby, Lunenburg and Slate, 2012).

Wan Omar and Hussin (2013) outline that transformational leaders do not criticize their followers in public for the mistakes. In contrast, they provide their followers with challenging tasks and encourage them to carry out the tasks on their own to motivate them to see the bright side out of whole scenario and to be careful the next time when dealing with a similar situation. Amos and Klimoski (2014) agree that transformational leaders challenge the way followers think to enable them to be more creative in their problem-solving. Leadership behaviour plays an important role in motivating a positive attitude and greater productivity among employees. Engelen, Schimdt, Strenger and Brettel (2014) discovered that transformational leaders are motivators who have an interest on their employees' well-being; they create a conducive work environment for their staff. Latham (2013) view transformational leadership as the most effective strategic leadership style, which aims at motivating followers to exceed expectations, continuously enriching their capabilities and placing the organization's interests above their own.

Olaka, Lewa and Kiriri (2017) assert that transformational leaders develop and communicate a vision and formulate strategies by continuously encouraging followers to strive for higher levels of achievement. Ritz, Giaouque, Varone, & Anderfuhren-Biget (2014) support Olaka et al. (2017) in their statement that transformational leaders communicate the company's vision clearly to subordinates and influence them to put the interests of the organisation above their self-interest to achieve organizational objectives. Pradhan testified to the same idea, that transformational leaders articulate a clear vision to followers; when followers have clear direction on what needs to be done, they will be motivated to commit more effort to meet and exceed company expectations. Having highlighted the good qualities of transformational leadership, Bass and Steidlmeier (1999: 182) criticized "charismatic leadership of self-serving leaders could result in deception and exploitation of followers but argued that most leaders pursued both personal and organizational goals". Franke & Felfe (2011) support the same idea that transformational leaders can use their charisma to exploit workers to achieve personal interests. Bass, Waldman, Avolio and Bebb (1987) highlighted that businesses should give training to all leaders; however, it is highly recommended that should provide transformational leadership to top management for better strategy.

The study conducted by Singh (2015) within the banking industry in India, points out that transformational leadership is the best suited leadership style for foreign-owned banks, and the transactional leadership style for locally-owned banks, as they create employees who are committed to work towards the goal of the organization. The research done by Cherian and

Farouq (2013) showed evidence that there is a direct impact of leadership style on organization performance. The results display that bank managers/supervisors must adopt a transformational leadership style to improve the performance of their followers. The study conducted by Awamleh, Evans and Mahate (2005), where data was collected from national and international banks in the United Arab Emirates (UAE), recite that higher performance among bank employees and managers must display transformational leadership qualities.

According to the study conducted by Dartey-Baah and Ampofo (2015) in Ghana, managers must adopt transformational leadership qualities in order to reduce stress levels and improve performance of the banking staff. The findings also revealed that change in the banking industry has put strain on the banking staff, which results in increasing their stress levels. The study done by Ahmad (2012) recommended that leaders adopt transformational leadership style to influence and improve the performance of bank staff as it has a more positive effect on subordinates than transactional leadership.

Wang (2011) found that transactional leadership led to expected results whereas transformational leadership has the potential to reach more than expected results. Bass and Avolio (1993) put forward that organizations should assume more transformational qualities while maintaining transactional leadership. Transformational leadership with charisma influences teams to be willing to go beyond their self-interest and rewards to deliver on organizational goals. They further added that followers who worked with highly transformational leaders demonstrated enthusiasm and applauded the positive organizational culture at their organization. In contrast, followers who worked with leaders who displayed transactional qualities were frustrated with the behaviours of their leaders and resulted in negative implications for the organizational culture.

Carless, Wearing & Mann (2000) cited by Copeland (2014:110) define transformational leader as one that:

- i. Communicates a vision
- ii. Develops staff
- iii. Provides support
- iv. Empowers staff
- v. Is innovative

- vi. Leads by example
- vii. Is charismatic

Jauhari, Singh and Kumar (2017:33) identified five elements that transformational leaders promote:

- i. Vision
- ii. Inspirational communication
- iii. Supportive leadership
- iv. Intellectual stimulation
- v. Personal recognition

In the study done by Bottomley, Burgess and Fox III (2014:5), they identified that there are four essential behaviours needed to identify a transformational leaders as effective, as:

- i. A vision-builder
- ii. A standard bearer
- iii. An integrator, and
- iv. A developer

In the study done by Tsolakis (2016) to determine the most effective leadership style applied by the Royal Bank of Scotland (RBS) and Hong Kong Shanghai Banking Corporation (HSBC) in the UK, he concluded that banks must adopt a leadership style that fits the situation and that there is no recommended leadership style. The study done by Avolio, Bass and Jung (1999) to re-examine the components of transformational and transactional leadership using the Multifactor Leadership Questionnaire, pointed out that Bass's (1985) conceptualization of transactional and transformational leadership included seven leadership factors. The transactional leadership components are contingent reward, management-by-exception and *laissez-faire* leadership. Bass (1997) identified the other four components of transformational leadership as idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.

### **2.3.1.1 Idealized influence**

According to Banks, Mccauley, Gardner and Guler (2016), transformational leaders provide a clear picture to followers about the organizational goals that must be achieved, highlighting that the transformational leader empowers and reinforces the vision of the organization to the followers through charisma. Pradhan, Panda and Jena (2017) mention that transformational leaders act as a role model and mentor to followers by providing idealized influence. They further add that transformational leaders sacrifice for the good of the organization; through their actions, followers' respect and trust comes naturally. Raj and Srivastava (2016) believe that transformational leaders have the ability to influence followers' trust and identification with their leader. This is through explaining a clear-cut vision and clarifying simpler and better ways to achieve the vision.

Manaf and Latif's (2014:648) idea is in line with Jain and Duggal (2016), that transformational leaders influence employees to feel they are full human beings who are motivated and determined to achieve great things. They feel that by idealized influence, followers will adopt a citizenship behaviour which will sustain organizational performance. Siegling, Nielsen & Petridis (2014) argue that influential leadership can encourage follower dependency on the leader that will diminish followers' creativity. When followers depend on the leader, their motivation and self-esteem depend on receiving recognition and approval from the leader. Transformational leadership through mentoring, challenging assignments, and problem solving, influences the long-term behaviour of employees. By doing so, it increases the internal motivation of employees compared to extrinsic incentives that only motivate when they are awarded, as noted in a study showing that leaders who practise transformational leadership achieve great success (Caillier, 2014).

### **2.3.1.2 Inspirational motivation**

Bass and Steidlmeier (2006) mention that the inspirational motivation of transformational leadership empowers and motivates followers to engage positively in shared goals. Raj and Srivastava (2016) state that transformational leaders clearly articulate an attractive company's future vision and explain how it will benefit them as employees. Followers get motivated and develop willingness to perform at their best. Phaneuf, Boundrias, Rousseau & Brunelle (2016) agree that transformational leaders have the ability to motivate their followers by sharing the vision and the benefits of achieving organizational goals. The study done by Zareen, Razzaq and Mutjaba (2015) highlighted that when employees feel motivated, they are willing to exceed

their normal performance to meet the company's expectations as they find meaning in their work.

Buda and Ling (2017) argue that transformational leaders instil confidence and positivity in their followers and get inspired. When employees are motivated they always feel good and perform better. Inspirational motivation leaders use motivation to connect the set objectives of the organization to the needs of the employees. They add that transformational leaders through inspirational motivation and support, coach and promote team effectiveness. Deichmann and Stam (2015) agree that transformational leaders have been found responsible for setting organizational goals and motivating the followers to achieve set objectives.

### **2.3.1.3 Intellectual stimulation**

Moriano, Molero, Topa, and Mangin (2014) mention that transformational leaders employ behaviours that encourage followers to be innovative when solving problems, approaching old situations in new ways and performing better. According to Bass and Avolio (1994), transformational leaders encourage followers to find creative ways to achieve extraordinary outcomes. Transformational leadership stimulates and inspires followers to work towards achieving the organizational mission and goals. Wan Omar and Hussin (2013) put forward that transformational leaders focus on intrinsic motivation and personal development of their followers. They add that the leader encourages followers to come up with simpler and better ways of achieving organizational goals while not putting the organization at any form of risk. Pradhan, Panda and Jena (2017:82) argue that "transformational leader encourages self-reflective change in the values and beliefs of their followers".

### **2.3.1.4 Individualized consideration**

Holten and Brenner (2015:5) believe that "transformational leaders engage followers as individuals and recognize performances as individuals". They add that charismatic leaders give recognition and show appreciation to the individual for their contribution to the team's performance. Zareen et al. (2015) point out that transformational leaders focus on the follower as an individual to try to find better ways to improve the employee's performance. By doing that, followers are motivated that the organisation has an interest in their well-being as employees. Charismatic leaders show interest on the employee's personal growth and beliefs and as a result, followers are willing to accomplish more.

Sarwar and Mumtaz (2017) outline that transformational leaders understand followers' strengths and weaknesses; put emphasis where it is needed and align tasks according to their strengths to allow followers to perform to the best their abilities. Transformational leaders inspire followers to tackle given tasks in an innovative way in favour of the organizational goals. Transformational leaders allocate time for one-on-one sessions to provide coaching, mentoring, and to identify growth opportunities and design a personal development plan with that individual employee (Avolio and Bass, 2004; Bass and Avolio, 1993).

Pradhan, Panda and Jena (2017:82) believe that transformational leaders address the personal or work-related challenges of subordinates through active listening, finding possible solutions and providing the necessary feedback to the follower. Yıldız *et al.* (2014) advocate that transformational leaders listen carefully to individual needs and provide individual support to ensure the well-being of that particular individual. They monitor the individual progress and give coaching when needed. This notion is supported by Belias and Koustelious (2014:191), when they state that transformational leadership behaviour includes:

- i. Provision of support
- ii. Encouragement
- iii. Coaching
- iv. Delegation, and
- v. Advice and feedback.

Avolio and Bass (1999) mention that transformational leaders look for simpler and better methods that followers can use to prevent and reduce situations that might be risky to the organisation; as a result, transformational leadership finds better opportunities in the face of risk.

### **2.3.2 Transactional Leadership**

Kuhnert and Lewis (1987) mention that transactional leadership is based on the social exchange principle; they describe transactional leadership as the exchange between the leaders' desired results and the followers' expectations. They further add that transactional leadership is a give and take situation between a leader and follower, where a follower is expected to deliver on a leader's expectations. Bass and Riggio (2006) believe that transactional leadership focuses on

promoting the individual interests of the leaders; the follower is to deliver on the leader's set standards and follow directions given by the leader in order to avoid punishment.

The study done by Paracha, Qamar, Miraq, Hassan and Waqas (2012) revealed that transactional leadership is the best practice for directing followers' behaviour towards the achievement of established goals. Transactional leaders use appraisal to offer rewards, pay salary increases and career growth for good performance. They go on to say that transactional leadership is used as punishment for poor performance. Transactional leadership clearly articulate policies, standards, rules and regulations that need to be observed by the follower. The mandate of followers is to meet the requirements of established objectives. Transactional leadership controls and monitors the results of both parties.

In the study that focused at the basic levels of need satisfaction of Maslow's (1954) hierarchy of needs. The study done by McCleskey (2014) in Pakistan to determine the impact of leadership style on employee performance, showed a significant correlation between transactional leadership and employee performance. Bass argues that transactional leadership could result in mediocre performance, as individuals perform at minimum levels.

Bass (1990), cited by Copeland (2014), mentions that the transactional leader ensures that organizational goals and individual rewards are clear and unambiguous to both parties. To gain compliance from their followers, they use rewards and punishment, seeking to maximize the rewards for additional work completed. Strom, Sears and Kelly (2014) support the notion that transactional leaders clarify followers' responsibilities, the leader's expectations, and benefits for compliance. Transactional leaders monitor, co-ordinate and direct followers' behaviour, depending on the situational conditions.

Eckhaus (2017) confirms that transactional leadership is about issuing rewards or punishment to the followers based on the performance. Transactional leaders inform the followers that successful completion of tasks will result to the receipt of desirable rewards. When subordinates do not achieve the minimum requirements of the leader, they receive negative remarks or punishment. Transactional leadership it is best practised in a stable environment to ensure that the organization is operating smoothly, as the leadership style lacks creativity and innovation. The study done by Avolio, Bass and Jung (1999) to re-examine the components of transformational and transactional leadership using a Multifactor Leadership Questionnaire, pointed out that Bass's (1985) conceptualization of transactional and transformational leadership included seven leadership factors. Odumeru and Ogbonna (2013) believe that

exception and contingent rewards are the two components that define transactional leadership. Dartey-Baah and Ampofo (2015) put forward that transactional leadership elements are contingent reward, management-by-exception and *laissez-faire* leadership. The researcher will discuss these three transactional leadership components next.

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

Bass and Riggio (2006) believe that management by exception gives leaders a large span of control over followers. The transactional leadership style is responsive to the followers' actions that are not in line with the leader's expectations and the leader express his disapproval about the action of the employee. Bass (1999) outlines that transactional leaders provide employees with required resources to perform their task and that they must explain the consequences of not achieving desired result. He adds that transactional leader waits for mistakes to occur, confronts followers with their mistakes and punishes them for the mistakes that have been made. Odumeru and Ogbonna (2013) support the view that the transactional leadership style maintains the *status quo*, intervenes when subordinates do not meet acceptable performance levels, and initiates corrective action to improve performance. Management-by-exception is suitable for a hierarchal structure in an organization.

This statement is line with Labby, Lunenburg & Slate (2012) that transactional leaders are more interested in finding deviations and faults from the followers than in inspiring them to perform better. Management by exception is when a transactional leader waits for the event to happen and responds with punishment or reward. McCleskey (2014) is of the opinion that the transactional leader style works well in the existing culture as it maintains the current organizes situation. He expands that transactional leadership is not a suitable for a changing environment. Transactional leadership involves exchanges between leaders and followers designed to provide benefits to both. When followers meet the leader's expectations, the transactional leader uses extrinsic rewards to motivate them to perform at the best of their abilities.

### **2.3.2.2 Contingent Reward**

Fernández-Muñiz *et al.* (2014) believes that transactional leaders set goals to be met by followers, and focuses on monitoring and controlling the outcome to ensure that results complement the set objectives. They mention that leaders may choose to use incentives to reward those who have done exceptionally well. It is a way of motivating followers to work hard in order to get rewards for their contributions. Transactional leadership helps organisations achieve their current objectives more efficiently. Judge and Piccolo (2004) outline that

contingent rewards improve the employees' work motivation. Bass (1985) talks about the fact that transactional leaders connect individual performance to the incentive. This makes followers feel committed, and energetic enough to improve their individual performance. Although contingent reward lacks the inspiration appeal of transformational leadership, it has a motivational power.

Moriano, Molero, Topa and Mangin (2014) put forward that the use of contingent rewards by transactional leaders indicate to what extent the leader is capable of acknowledging and rewarding work well done. According to Antonakis and House (2014), followers must motivate themselves or use reward as a source of their motivation to achieve objectives. Transactional leaders set objectives to be achieved; when set goals are achieved, the leader rewards the followers. When the objectives are not met, punishment or corrective action set by the leader is taken (Bass and Riggio, 2006).

According to Clarke (2013), transactional leaders outline the process and requirements expected to achieve set objectives and encourage followers to give their best in order to achieve collective goals, or else there are consequences. The views of Matthews (2013) are comparable to the views of Effelsberg, Solga, and Gurt (2014), who discovered that beyond living the organizational vision, followers display organizational citizenship behaviour in anticipation of being recognized and rewarded. Transactional leaders use extrinsic rewards to improve subordinates' performance (Antonakis and House, 2014; Bass and Riggio, 2006).

Dubois, Hanlon, Koch, Nyatunga and Kerr (2015) mention that leaders adopt the transactional style to ensure that followers do their job as expected in order to achieve organizational goals. The followers' morale, motivation and willingness to do the job diminish with time, but the rewards and incentives motivate employees to perform better. In conclusion, it was reported that the transactional leadership style is concerned with end results, performance and profitability of the organisation, through the control of followers through systems and procedures.

There is another leadership style that can be adopted by the leader where followers are given freedom to make their own decisions, named *laissez faire*. Gilbert, Horsman, Kelloway (2016) identified *laissez faire* leadership as a leadership style but considered it subordinate to the transformational and transactional leadership styles.

### 2.3.3 *Laissez faire*

Bass and Avolio (1994) outline that the *laissez-faire* leadership style has a lack of communication between a leader and the followers. He mentioned that there is a less presence of leadership in this leadership style and lack of leadership presence is perceived as leader ineffectiveness. Skogstad, Einarsen, Torsheim, Aasland and Hetland (2007:81) support Bass and Avolio's (1994) statement, that *laissez-faire* leadership is "the avoidance of intervention directed at the leader's lack of commitment of the leader to accommodate followers' needs for development or well-being of the organization". Yammarino and Bass (1990) mention that employees led by someone who practise this leadership style are expected to make their own decisions and depend on their own views to execute their tasks. The banking environment does not promote this style of leadership; however, managers still display it, depending on the situation. *Laissez-faire* leadership has a negative effect on employee performance.

Asrar-ul-Haq and Kuchinke (2016) state that *laissez faire* leaders lack commitment when it comes to decision-making; as a result, they deliberately avoid situations that could expose them. Employees do whatever they feel is needed at that particular time, and there is a lack of proper guidance from management and a lack of consistency as there is no cohesiveness. Bealer and Bhanugopan (2014) add that *laissez-faire* managers set unclear and ambiguous objectives on what needs to be accomplished, allowing followers to make their own decisions. This may lead to the drop of the desired output; employees lack confidence and trust in the leader and increase risk, as there is lack of efficiency and productivity.

Smith, Eldridge, and De Joy (2016) mention that a leader who practises a *laissez-faire* leadership style is not proactive in providing feedback to followers. When there is no feedback from the leader, followers are not able to make decisions, resulting in the action not being taken. Employees led by a leader who practises the *laissez-faire* style are most likely to lose motivation, become frustrated and consider quitting their job. There is no support from the leadership perspective for the followers, and as a result, actions are delayed. Diaz-Saenz (2011) notes that transactional leadership often contrasts with transformational leadership. According to Burns (1978), transformational leadership has an impact in the performance of the organization. Transformational leadership has drawn interest; it is one of the topics in the field of leadership that has been most studied over the past four decades since it was introduced.

## **2.4. The Evolution of Leadership**

The definition of leadership has been a concern for most scholars. Landis, Hill and Harvey (2014) put forward that leadership is one of the most important functions of the business as it channels employees in a desired manner towards the vision of the organization. Leadership may choose a style that suits the environment as leadership styles have a major effect on organizational effectiveness or performance.

### **1970s**

Stelwart (2006: 8) cited Burns (1978) and defined leadership as “the process where leaders induce followers to act for certain goals that represent the values, the motivations, the wants and needs, the aspirations and expectations of both leaders and followers”. Burns (1978) is credited for conceptualising leadership as a transformational process. According to Burns (1978) transformational leaders through charisma, influence employees to feel that they are part of the organization. When the organisation experiences successes and failures, they feel as if it is their personal successes and failures. The study conducted by Manaf and Latif (2014) in the South East Asia countries acknowledged the importance of the effectiveness of the organization’s leaders on the success of the organization and view leadership as a key determinant of organizational effectiveness.

Maccoby (1979) defines leadership as the process where leaders give direction of what to achieve and influence the interest of others to be willing to accomplish their given task. He further mentions that for firms to survive and prosper in turbulent environments amid changing government regulations, a higher level of leadership is demanded. When organizations are undergoing the change process, it creates a risk or gap that the organization’s leadership must be adequate to address, to prepare the team to meet the challenge.

### **1980s**

Northhouse (2016) mentions that 1980s was a decade where scholarly and popular works were examining influence from every angle in order to distinguish leadership from management. He further mentioned that leadership-as-excellence movement brought leader traits back to the spotlight. Eckhaus (2017) argues that leaders do not possess same traits or attributes. He highlights that *Machiavellianism*, *narcissism* and *psychopathy* are regarded as the dark traits personality.

Hutchinson and Jackson (2013) note that Bass (1985) extended Burn's (1978) conceptualization further by defining transformational leadership as the ability of leaders to influence and encourage followers to meet and exceed organization goals.

Rost (1991) chose to collect 221 definitions of leadership ranging from 1920 to 1990. He discovered that leadership is about an individual or individuals motivating, driving or influencing followers to do something or to achieve organizational goals. Northouse's (2015:16) definition of leadership is in line with Rost's (1991) findings, where leadership is defined as the 'process whereby an individual influences a group of individuals to achieve a common goal'.

## **2000s**

Bass (2000) argues that a leader can use transactional and transformational leadership, depending on the situation. The leader plays a key role to influence people to do what they do not want to do. McCleskey (2014) argues that the correct definition of leadership depends on the specific aspect of leadership of interest to the individual.

Deichmann and Stam (2015) agree that leadership is the most important aspect of the organization; it points out the direction that needs to be followed towards meeting objectives. Leaders adopt different styles and behaviours to point out direction, and to motivate and influence others to achieve the business goals

According to Northouse (2016) the process of leadership is whereby an individual influences a group of individuals to achieve a common goal. Emerging leadership approaches include authentic leadership, spiritual leadership, servant leadership and adaptive leadership.

Chatterjee and Kulakli (2015) believe that transformational leader raises the follower's level of consciousness about the importance and value of desired outcomes and the methods of reaching those outcomes. It is necessary for this study to look at the nature of banking in order to the importance of change in the industry to gain a broader understanding of the role of the leader.

## **2.5. The nature of retail banking**

According to Belias and Koustelios (2014) banking institutions play an important role as a link between a borrower and the lender. Demirtas and Akdogan (2015) believe that the importance of change in the banking industry due to increasing globalization, the rapid pace of

technological innovation, a growing knowledge workforce, and shifting social and demographic trends, means that the leadership task is highly demanding as it can determine the success or failure of the organization. Uddin, Fan & Das (2017) outline that bank employees face different challenges in the work environment due to these changes. The ultimate goal of the bank is to be financially stable and operate at a profit. They further mention that leaders need to ensure that risk is managed properly at every level of the organisation. When risk is not managed, it can lead to financial instability and ultimately to bankruptcy.

The study done by George & Zakkariya (2015:318) in India reveal that the banking industry has “undergone swift change due to liberalization, privatization, globalisation, policy changes, changes in technology and keen competition”. He further adds that the banking industry is faced with intensive competition, faster technological change and a diverse workforce.

Kwambai and Wandera (2013) point out that risk in the banking industry comes in all forms as a result of changes in environmental factors. They put forward that change affects the whole organization as departments and objectives are interlinked and aligned with the aim to accomplish organizational goal. Amankwaa and Anku-Tsede (2015) mention that while banks are striving for competitiveness, the bank’s competitive advantage will distinguish the bank from its competitors.

The study done by İŞcan, Ersarı, & Naktiyoki (2014) to examine the effect of leadership style on perceived organizational performance and innovation, discovered that in order for the organizations to respond to the demands of the rapidly changing environment and remain competitive, there is a need for total change in the way banks operate. Onorato (2013) mentions that transformational leadership is suitable for changing environments; it does not support the *status quo*. Kovjanic, Schuh and Jonas (2013) agree that industry is faced with a harsh economic environment. Their study proves that the transformational leadership style is very effective to improve organizational performance in an uncertain environment.

Erdinç and Gurov (2016) advocate that the last two decades have marked one of the most dynamic periods of the banking industry; in order to keep up with the developmental pace, leaders must understand risk and the risks they may encounter. Technological disruptions in the banking industry increase the need for knowledgeable employees, unique technology, better work procedures, and complicate the function of the risk management process. Risk management has become a pre-requisite and non-negotiable in financial institutions. Fiordelisi, Soana and Schwizer (2014) find that banks are required to hold sufficient capital for risk, due

to technology changes, policy regulations or any other risk factor. Globalization creates opportunities and threats in the businesses. This proves that there is a major need to have a unified approach when analysing risk. The definition of risk, types of risks affecting banks will be discussed before examining relationship between transformational leadership and risk management.

## **2.6 Risk**

King III (2009:73) defines risk as “uncertain future events that could influence the achievement of a company’s objective”. This definition is similar to the one given by the Institute of Internal Auditors (2018), where risk is defined as the occurrence of an uncertainty event that have an effect on the achievement of company’ goals . Luburic (2016:560) defines risk as a “probability that an event will occur and adversely affect the attainment of objectives”. The Institute of Risk Management (2018) define risk as the probability of an event that have negative impact on the attainment of the objective of the company to occur. There is a need to look into different types of risk facing the financial institution. According to Banks Acts (1990:9), an employee of the bank is “ultimately responsible for the management of one or more of the following types of risk to which the bank is exposed, namely: interest rate risk; liquidity risk; credit risk; technological risk; operational risk; compliance risk; or any other risk regarded as material by that bank”.

Bessis (2002) listed credit risk, market risk, operational risk, interest risk and liquidity risk as the major risks that affect banks. The same risks that Bessis (2002) pointed out, were highlighted by Makhubela (2010) in a study investigating factors that caused bank failure post-democracy in South Africa and added contributor’s capital requirements, bank regulation, inefficient management and external factors. Dionne’s (2013) statement is line with Bessis’ (2002) findings, that every business decision involves an element of risk embedded in it; he identified the following major risks that affect banks as credit, operational and market risks. He estimated that credit risk comprises 80% of total risk, followed by 15% of operational risk, and 5% of market risk. The diagram below shows the types of risks facing banks but the discussion will focus on three major risks pointed out by Dionne (2013).

### 2.6.1 Types of risks facing the banking industry



**Figure 2.1 Main banks risks (Bessis, 2002:12)**

#### **(i) Credit risk**

Fredrick (2013:23) mentions that credit risk is “the potential that a borrower or counterparty will fail to meet its obligation in accordance with the agreed terms”. There is risk involved when a bank extends credit to its customer. Credit risk is the highest contributor to bank risk as its loss can even cause the bank failure. (Babalola and Stouten, 2016; Wu, Kou and Peng, 2016) agree that credit is the main generator of risk in banks; as a result, credit risk analysis has become a core research issue in the field of financial risk management. Acharya, Mehran and Thator (2016) argue that since the 2008 financial crisis, credit risks have become a significant problem for the financial institutions. They continue to mention that in order to

reduce possibility of financial loss, bank must recognize and mitigate credit risk in every way possible. There is a need for credit risk management to become the main focus of bank operations in order to improve bank performance and profitability.

Hull (2012) expresses the same views as Wu, Chen and Olson (2014) that credit risk is the risk that counterparty's in loan transactions and derivatives transactions will default. He further mentions that credit risk is the one for which the most regulatory capital is required. Zakaria and Purhadin (2017) note that loans are the kind of assets that cannot be easily converted to cash. When loans are issued, the Manager or Team Leader needs to monitor the process closely to ensure that the loan granting process is properly followed by subordinates to ensure that the customer is not over exposed. When staff do not adhere to the processes, clients can fall into arrears, specific collection skills are required to recollect funds from the client and it is costly.

Wu, Chen & Olson (2014:3) believe that "the financial industry primary task in risk management is to assess the probability of default." Waemustafa and Sukri (2016) mention that bank collection teams, especially when the process was not followed properly at the branch level, often encounter difficulties when doing follow up on defaulted clients, resulting in hand-overs and the highest percentage of debts written off. This would eventually have a negative impact on the performance of the retail bank. The collapse of the banking industry emerges due to borrowers' default on their loan repayment. This practice can drive the organization to insolvency and even bankruptcy. When credit risk is not properly managed, it can have a negative impact on a bank's existence, including banks in developed countries.

The study done by Abiola and Olausi (2014) to determine the impact of credit risk management on commercial banks performance highlighted that as the banking industry is still recovering the financial crisis, there is need to prevent the situation from repeating itself. Risk management in banks has become more important because of technological disruptions that the industry is experiencing currently.

The Banana Skins (2015) showed that when banks do not manage their credit effectively, it may lead to financial instability of the retail bank. Banks need to manage credit risk effectively as it determines its survival, growth and profitability. Bank and credit managers need to follow a prudent credit policy in order to increase the bank's profitability. Credit risk is not the only risk that affects banks; operational risk is the second biggest contributor. The researcher will look into this risk briefly.

## **(ii) Operational Risk**

The formal definition that is currently widely accepted was initially proposed by the British Bankers Association (2002), where operational risk was defined as “the risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems or from external events.” Moosa (2007:170) mentions that the definition was adopted by the Basel Committee but indirect losses were eliminated and defined as “the risk arising from inadequate or failed internal processes, people and systems or from external events”. He added that operational risk comprises all other risks that do not form part of existing risk categories. Operational risk management aims to reduce risk and ensure the integrity and quality of the bank’s operations using different tools. Hora and Klassen (2013), mention that operational risk consists of all potential losses as a result of what has been captured and company process. Gillet, Hubner and Plunus (2010) note that operational risk is very vast and complex; it goes beyond a negative effect on financial loss and affects the reputation of the financial institutions.

Goodhart (2011:3) mentioned that “The Basel Committee on Banking Supervision published principles for the sound management of Operational risk, providing guidance to the banks on the management of operational risk”. The report points out that most banks are still in the process of implementing these principles. Chernobai, Rachev & Fabozzi, (2008) explain that banks can avoid internal operational failures by implementing internal management processes. Influential leaders can lead personnel efficiently to ensure that they adhere to processes. According to Lam (2014), risk management is a balance between process and people who work in that particular organization.

## **(iii) Liquidity Risk**

The study done by Zakaria and Purhanudin (2017) to determine a positive relationship between liquidity risk and the efficiency of commercial banks, he discovered that better management of liquidity risk would help increase the efficiency of banks. Leaders need to adopt a good leadership style to increase the efficiency in banks. Risk management is aimed at reducing financial failures of the bank. Chen, Shen, Kao and Yeh (2018:3) point out that “Basel Committee on Banking Supervision (1997) mention that liquidity risk arises from the inability of a bank to accommodate decrease in liabilities or to fund increases in assets”. Figure 2.2 below outline four sources and drivers of risk, it shows that it has a financial impact in the performance of the bank. The sources of risk are people, technology failures and processes. All these sources

of risk have a financial impact on the performance of the business. There are external drivers and internal drivers of risk.

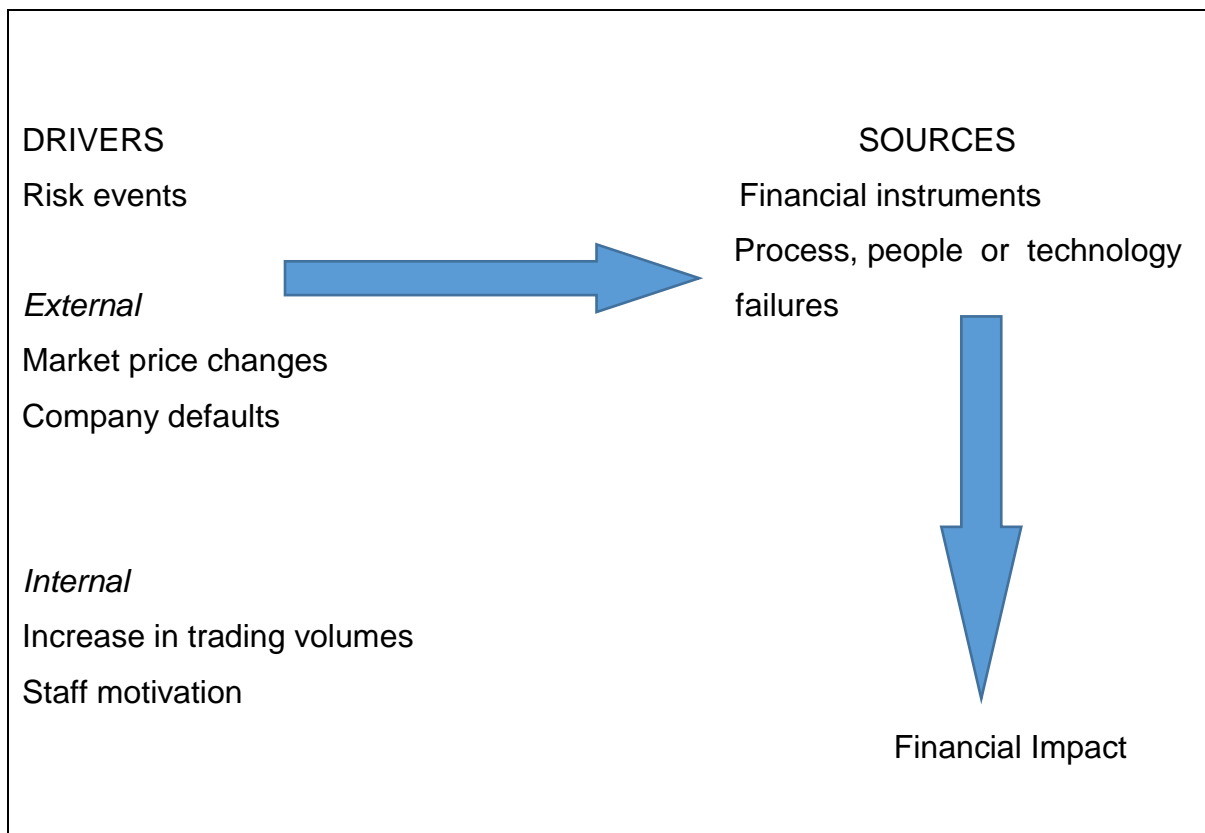


Figure 2.2 Sources and drivers of risk in an organisation (Gorrod, 2004:6).

### 2.6.2 Risk Management

Leaders need to understand the importance of risk management; when risk is managed poorly it may result in financial losses which impose enormous recovery costs, reduce customer goodwill and lead to reputational risk. It is the responsibility of every leader to ensure that followers comply with all applicable laws and regulations in terms of the Banks Act (1990).

Pond and Hloucha (2009) and Hull (2012) point out that banks fall under the category of most heavily regulated organizations in the universe. The 2008 bank liquidity was the biggest concern. Bankruptcy of the well-established banks across the globe forced governments to have a plan to protect citizens. One of the solutions was to regulate banks to protect clients. Regulation in banks protects all stakeholders involved, including the bank itself and its users. Governments around the world have regulated banks to ensure a stable financial sector.

Vyas and Raitani (2014) mention that customers choose banks based on trust; as a result, reputation is a key asset for any bank, and by regulating banks, governments hope stakeholders will have confidence in the country's banking system. Men and Stacks (2013) note that the importance of employees as communication assets should never be over-emphasised, especially in today's new media landscape, because what employees say about the organisation is often perceived as more credible than messages from senior management.

When one bank fails, it may lead to failure in other banks which can cause failure of the whole financial system. The role of the Basel Committee is to ensure that all banks maintain enough capital to cover the various risks and losses they will be incurring, tools and methods of risk management are designed to suit the needs of the particular bank.

Risk management is the “the human activity which integrates recognition of risk, risk assessment, developing strategies to manage it, and mitigation of risk using managerial resources” (Abiola & Alousi, 2014:296).

Chitakornkijasil (2012) define Risk Management as “the strategy to develop business environments that minimize the probability of an event occurring by preparing plans to deal with foreseeable events and guaranteeing that valuable assets are physically secured to get rid of any hazards in the workplace”.

The Institute of Risk Management (2018) mentions that risk management involves understanding; analysing and addressing risk to drive organizations to achieve their objectives when risk is properly managed can reduce the risk vitality but increase the value of the bank. The Centre for the Study of Financial Innovation (2017) reported that there is a great concern from researchers on the quality of risk management processes implemented by banks in ensuring the going concern of both individual banks and the banking system as a whole. Cohen, Krishnamoorthy & Wright (2017) observe that an increase in the level of risk in banks can shake investors' confidence in the effectiveness of risk management of the banking system. They add that ineffective risk management can leave the bank dealing with damage control or even result in bankruptcy, depending on the nature of risk. Operational and credit risk can damage the reputation and brand image of the bank.

According to Noor, Rahman and Ismai (2016), risk management has five stages: process cover risk understanding, risk identification, risk assessment, risk controlling and risk evaluation. This notion is supported by Janssen and Kramer (2015), that risk management has four stages: Risk identification, Risk assessment, Risk evaluation and Risk monitoring. They add that some

risk can be detected by the system and others need staff to make decisions. Bank staff must follow the process to prevent risk or to identify the sources of risk beforehand. There are different instruments used by banks to hedge the risk in banks.

Adequate implementation of a monitoring system is the key to monitor any movement in the system that can pose a threat to the sustainability of the retail bank. Gatekeepers should scan how other banks deal with different losses with the intention to learn, and practise in order to reduce their own firm's operational risk. Many operational failures can be prevented by tightening controls and monitoring any suspicious transactions (Hora and Klassen, 2013).

Directors (2009) indicates that information is a growing source of competitive advantage for the enhancement of the intellectual capital of the organization, but it poses individual risks and opportunities. Banks must ensure there are measures in place to mitigate risk. Jizi and Dixon (2017) acknowledge that risk is present in every aspect of the business; however, it is a responsibility of every employee to ensure that his/her behaviour does not put the bank and its customers at risk.

The Banks Act (1990) state when person concludes a bank business transaction with a customer, it must comply with the Financial Intelligence Centre Act (2001). The branch leader must ensure that personnel perform their functions according to the requirements and conditions prescribed in Regulations relating banks. A person convicted of an offence may be liable for imprisonment of up to 15 years or a fine not exceeding R 10 000 000 (The Financial Intelligence Centre Act , 2001).

Directors (2009) highlighted that risk management is not the responsibility of one individual or department but should be practised by all staff members in their day-to-day activities. The Banking Banana Skins (2015) showed conflicting impressions: while some feel that incentives encourage better decision-making, others saw it as a distraction over important issues and showed concern that to regulate incentives will drive the best talent to less regulated industries. The study pointed out the risk that banks will have difficulty attracting and retaining talent when it continues to regulate incentives. Erdinç and Gurov (2016) mention that banks need to implement advanced risk management techniques to mitigate risk and to comply with the internal ratings-based (IRB) approaches to provide for bad debts.

According to Lam (2014), when the bank has good people and weaker processes, it can overcome challenges; no matter how good the processes can be, when the leaders inside the organization do not have good leadership behaviours, the bank cannot survive. This indicates

that leaders play a vital role in risk management as the company's risk profile is determined by the actions of its employees. Birasnav (2014), outlining the relationship between risk management and performance of the organization, mentions that transformational leaders focus on the implementation of the risk management process to improve organizational performance.

Cherian and Farouq (2013) state that risk management and people management are two challenges facing the banking industry. Efficient risk management depends on skilled and effective human capital. Luburic (2016) notes that organizations are the same as leaders and people who work for it. The organization, to be able to manage risk better, requires its people to manage risk to change for the better of the organization. To ensure success in managing risk, the bank must invest in training of the employees by ensuring that they acquire the knowledge that they require to perform out their tasks. Staff will be able to manage risks effectively. Employees who are not well trained and demotivated teams can cause a risk that may not affect that particular bank only, but can cause a dent to the functioning of banking and financial systems. Bank face a huge risk when they fails to attract, manage develop, and retain employees with the appropriate skills. The bank that fails to retain its staff will always operate with staff with no necessary skills which can lead to reputational or credit risk. These risks will have a negative effect on a bank's competitiveness.

## **2.7. Relationship between transformational leadership and risk management**

Eckhaus (2017: 20) cited Arjoon (2010) that "some academics argue that the latest global financial crisis was caused, in part, by the narcissistic personality disorder of corporate leaders who substituted robust risk management for greed and personal gains by promoting self-service and grandiose aims". Sun and Wang (2017) support the statement, as they believed that the 2008 financial crisis is strong evidence that poor risk management is detrimental to bank performance. Sun and Henderson (2017) regard transformational leaders as visionary and adaptive individuals, who are more effective in identifying the challenges of rapidly changing environments, articulating an appealing vision for the organization and putting appropriate response strategies in place to minimize factors that can cause risk in an organization.

Moynihan, Pandey and Wright (2013) add that transformational leaders maintain quality communication to the followers rooted in professional development, and put forward strategies to reach the bank's visions, ensuring that risk management tools are embedded in internal processes. Appiah-Adu and Amoako (2016) state that performance of the bank on risk management has the leaders' influence, as leaders are able to foresee and avoid the risk before

it happens. The role of the bank manager is crucial, as he/she is responsible for the risk management process. It is the responsibility of the leaders to create strategies that will enhance competitiveness in an organization, and human capital is responsible for implementing those strategies successfully.

The Institute of Risk Management (2018) mentions that effective risk management can facilitate a consistent implementation of both risks and business policies. The study done by Hoque (2016) highlighted that bank leaders who practise transformation leadership policies and practices lead banks towards innovation and maximizing of organizational goals. Uddin et al. (2017) agree that transformational leadership is presumed to be a more active form of leadership to long-term successful initiatives. Effelsberg *et al.* (2014) disagree, as they feel that transformational leaders encourage the commitment of followers, and staff still show selfish desire for recognition and rewards for their efforts and performance. This idea was supported by Molai (2013), that to recognize an employee's performance through rewards and promotion can assist to improve the employee's performance in an organization. Transactional leaders use incentives and compensation to retain staff. There is a significant relationship between leadership behaviour and efficiency of staff and their performance.

Mhatre and Riggio (2014) mention that subordinates perform well under the appropriate leadership behaviours and leader's style. Followers are more likely to show commitment if leaders display behaviours that encourage them to be extra careful when dealing with clients to ensure compliance. Risk management offers valuable advantages to banks. Leaders influence policy directions, as well as the behaviours of others to mitigate risk that can have a negative impact on organizational profitability (Amankwaa and Anku-Tsede, 2015).

Acharya et al. (2016) note that organisational structures are moving from hierarchical to flat structures that change always carries risk, and that it exposes banks to risk. Businesses are putting emphases on ensuring that the workforce is well equipped to deal with these changes. The Basel Report has set principles that banks need to implement in order to reduce exposure to risk. It highlighted that when banks fail to implement these principles, it can have a negative effect on customers and the financial industry, which may lead to financial loss.

The study conducted by Holten, Bollingtoft and Wilms (2015) in two Danish organisations to identify factors contributing to followers' reaction to change, showed that transformational leadership had a positive contribution to change and negative contribution to transactional leadership. He added that transformation leadership has a positive impact on followers'

reactions to organizational objectives. According to Avolio and Bass (1999), transformational leaders look for simpler and better methods that followers can use to foresee and prevent risk in the organization. The findings of the study conducted by Dekoulou and Trivellas (2014), revealed that the learning organisation is a crucial predictor of individual performance.

Buda and Ling (2017) believe that organizations employing transformational leadership have higher chances of being more effective and increasing the level of motivation among employees to improve innovation, satisfaction and willing employees who work well in teams. Odumeru and Ogbonna (2013) put forward that transactional leaders lack innovation as they work with existing processes; creativity is limited given that they do not think outside the box when leading their followers.

Babalola and Stouten (2016) stress that leaders behave differently: there are leaders who care more about processes while others are more interested in the outcomes. Transformational leadership has been proven to influence team effectiveness and innovation that results in the desired performance and expected result. Epure and Lafuente (2015) indicate that transformational leader skills motivate employees to meet and exceed organizational goals and drive their organization success. Zhu, Newman, Mia and Hooke (2013) state that the transformation leadership style has a correlation with staff performance; staff need to be motivated and informed to see the bigger picture. Jain and Duggal (2018) assert that the charismatic element in transformation leaders contributes positively to organizational performance.

Cohen, Krishnamoorthy and Wright (2013) feel that when the bank has a high staff turnover, always hiring and training new employees, this has to be managed properly as constantly losing an experienced workforce can be risky. They add that ineffective risk management reduces the value of the firm. The study done by Matthews (2013) to determine the relationship between risk management and managerial efficiency in Chinese banks discovered that incentives, compensation, staffing, training, and retention are used as tools to manage risk in bank operations. The study also revealed the danger of recruiting unskilled bank personnel as it may pose a risk to the bank.

Kanchu and Kumar (2013)) add that effective management of teams should not be neglected; it is the most valuable asset of the organization. The company should put measures in place to ensure that human capital is managed effectively and retained. It is important to develop human

capital on an on-going basis to reduce risk, as banks are always faced with the risk resulting from human error, financial fraud, and natural disasters, to mention a few.

Epure and Lafuente (2012) believe that bank performance paints a clear picture about leaders' unobserved ability to manage risk. Bank managers must possess excellent skills that will improve credit risk monitoring and profits. Although Yahaya and Ebrahim (2016) suggest that transformational leaders motivate followers to strive for the good of the organization, the response of Sun and Wang (2017) was that employees tend to follow transformational leaders without exercising their rights to question the actions of the leaders because of the trust element in the relationship.

Luburic (2016) indicates that risk is likelihood of an event to happen, it can be estimated only. Tyssen, Wald and Heidenreich (2013) believe that the transformational leadership style is effective in times of uncertainty and change, as transformational leaders display exceptional forms of influence that encourage subordinates to feel passionate about the success of an organization and accomplish more than expected. Holten and Brenner (2013) add that when people are empowered they always think of better approaches to tackle issues that are a threat to the organization's profitability. They add that this behaviour encourages followers' awareness of risk and motivates followers to act ethically. Demirtas and Akdogan (2015) are of the same view that when people are afraid that they will get punished for not meeting the leaders' expectations, they will not voice concerns about ethical problems or risks facing the organization. Chatterji, Delecourt, Hasan and Koning (2017) mention that good leadership style can generate more revenue for the organization as people understand the importance of preventing risk before it takes place.

Demirtas and Akdogan (2015) mention that not all risk can be detected by the system in the organization. Birasnav (2014) explains that people are the source of risk and very good in handling it when they are well managed. One of the responsibilities of the human resource department is to appoint individuals with suitable leadership style to manage terms and mitigate risk in the organization. Identification of suitable leadership style is essential in this turbulent environment since researchers have reported that different leadership styles have varying impacts on managing risk in the organization. According Ibidunni, Osibanjo, Adenji, Salau and Falola (2015) the human factor plays a fundamental role in risk management.

Sun and Wang (2014) believe that maintaining a productive workforce and successful terms are important tasks of a financial institution. They go on to say that leadership qualities and

style are the key indicators of successful terms. Banks require staff who deliver work of high quality at all times, as risk is a major concern in the industry. Oberfield (2012) found that transformational leadership increases the chances of positive change in any organisation and is a strong predictor of work of high quality. The study done by Bellé (2013) found that a positive impact of transformational leadership on job performance. Research conducted by ( Paarlberg, Lavigna, 2010; Trottier, Van Wart and Wang, 2008) linked transformational leadership to employees motivation and perceived leadership effectiveness, respectively.

Lam and Quinn (2014) believes that employee decisions and actions have a great influence on the company's risk profile. Companies that are good at managing risk also manage operations well. According to King IV (2016), risk management is the direct responsibility of senior management to ensure that the company achieves its objectives and is not exposed to excessive risks. The success or failure of the bank depends on the calibre of management (Abiola and Olausi, 2014).

The study conducted by Davies (2014)) revealed that right control system and processes, audit and effective risk management process are useful monitoring tools. However, it is vitally important to have employees who are motivated by the risk culture to achieve the organizational goals. Prottas (2013)claims that leadership style has an influence on the followers' perception of risk management and the leaders' approach to address the staff in ensuring compliance believe that when employees have a leader who promotes their well-being, they tend to feel more comfortable in discussing sensitive issues with their leader. They go on to say that followers will be committed and willing to report ethical issues when they feel that the leader will agree with or understand their concerns and respond to them in a professional manner. This will prevent or reduce negative consequences, such as damage to the organization's reputation, costly lawsuits, and loss of public trust. Hassan and Wright (2014) add that transformational leaders will influence subordinates to avoid unethical actions and to report unethical issues and problems before they escalate.

Sun & Wang (2014) tend to think that banks are responsible for safeguarding deposits in order to maintain consistency and uniformity; processes must be in place and be followed constantly. When bank staff do not adhere to processes that can impose risk to the bank, it is very rare that the true root of risk is based on system design and process management. Makhubela (2010) cites Hooks (1994), that in many cases where there was a financial loss or bank failure, it was a result of management failure to ensure that employees comply with laid policies and

processes. Broken processes and poorly trained staff can pose a major risk in the organization. Some organizations bleed money as a result of staff non-adherence to company policies.

Pradhan and Pradhan (2015) mention that transformational leaders motivate their follower and bring in awareness on the impact of risk on the performance of the company. The importance and value of complying with policies and regulations is one of the priorities in the banking sector. Transformational leadership influences followers to see the value of managing risk effectively. Transactional leaders use reward as a tool to motivate followers to deliver on organizational objectives. Izard-Carroll (2016) believes that contingent rewards can also be transformational when the incentive is psychological in nature instead of material.

McCleskey (2014) mentions that leaders motivate followers through contractual agreement to perform in exchange for rewards for better performance and excellent achievements. These exchanges allow leaders to accomplish their performance objective, avoid unnecessary risks, and focus on improve organizational efficiency. Little risk taking can lead to no innovation, but higher risk taking to financial innovation and more profit. The effective management of risk will result in financial stability and profitability of the organization. When risk management is not managed effectively, it may result in a collapse and financial loss which will have a negative impact on that particular bank and the banking industry as a whole.

Dabke (2016) believes that transformational leadership has an important role in the effective performance of people in groups. Followers stay engaged and committed to transformational leaders because they perceive them to be trustworthy and selfless. Eckhaus (2017) mentions that most of transformational leaders are successful and they can become hubris. When a leader manifests transformational traits in an extreme way, that can pose a risk to the organization as they tend to engage themselves in more risk-taking business trying to maximize their profitability (Kaur, 2013; Visser, Pozzebon and Reina-Tamayo, 2014).

## **2.9. Conclusion**

Leadership style has an impact on performance of the organization. The best leadership practices can elevate the standard to international heights. Risk management is one of the major challenges facing the banking industry. This chapter outlined leadership styles and the components of each style, their sources and the drivers of risk. Lastly, the chapter covered the relationship between transformational leadership and risk management. The research methodology and design need to be outlined to draw a blueprint for the study and the approach that the study will follow. The next chapter focused on the research design of the study.

## CHAPTER THREE

### RESEARCH DESIGN AND METHODOLOGY

#### 3.1 Introduction

In the previous chapter, an in-depth literature was conducted on leadership, leadership styles and risk management. This chapter discusses the procedures undertaken in carrying out the study. Chapter Three reveals the research methods utilized and the justification associated with the use of these research methods. The research design process is an important component of any research process as it outlines various techniques to be utilized in the research project. This chapter is devoted to a comprehensive description of the research design and methodology that was employed in this study in terms of data collection strategy, population, sampling techniques, validity and reliability of research, ethical considerations and data analysis. In this study, the association between transformational leadership and risk management has to be measured in the most precise way to reveal if there is any relationship between the two variables.

A Multifactor Leadership Questionnaire (MLQ) was used to measure the leadership style and the questions were designed to effectively measure the leadership understanding of the impact of risk in the bank if it is not managed properly. Hutchinson and Jackson (2013:12) mention that the “Multifactor Leadership Questionnaire taps various components of transformational, transactional and *laissez faire* characteristics”. According to Avolio, Bass and Jung (1999:441), “the conceptual basis for the original factor structure for the multi factor questionnaire began with Burns (1978) seeking to give description of transformational leadership”. Multifactor Leadership Questionnaire was used to determine how managers perceive themselves in terms of leadership styles. It is important to examine leadership understanding on the impact of risk on business performance and the relationship between transformational leadership and risk management. The instrument was used to provide accurate, reliable and valid answers to the data findings and interpretation to follow.

#### 3.2 Aim of the study

The aim of the study is to determine the relationship between transformational leadership and risk management in the organization. The purpose is to establish if there is any relationship between the two variables. The study gathered information from Branch Managers and Regional Managers to identify the leadership style that they prefer and relate it to risk

management. The focus of this study is on transformational leadership. The researcher will analyse the result in order to establish the association between the leadership style and the management of risk in the retail bank; the focus area is Durban, KZN province, in South Africa. There are three objectives that were derived from the aim of the study.

### **3.3 Research Design**

Research Methodology focuses on the actual methods used to sample, collect and analyse data. Mark, Philip and Adrian (2012:17) define research design as “the master plan of how the researcher will answer the research questions”. They emphasize that research design objectives must be clear and unambiguous. Research design must be derived from the research questions. It must specify the following: the sources from which data will be collected data, the proposed method to be used to collect data, details on how data will be analysed, and the ethical issues and the limitations encountered. Durrheim and Terre Blanche (1999) mention that research design must meet Validity and Coherence requirements.

According to Creswell (2017), research design is the type of inquiry within qualitative, quantitative and mixed methods paradigms that guide the direction for procedures in the research study. Creswell (2014:4) defines qualitative research as a “means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem.” The data is collected from participants with the aid of group discussions or interviews. Data is collected in the respondent’s setting. Data analysis inductively builds from the response given by participants to general themes and the researcher makes interpretations of the meaning of the data. The diagram on the next page shows the flow from research Paradigms to Research Studies. It clearly displays how research design is linked to research studies.

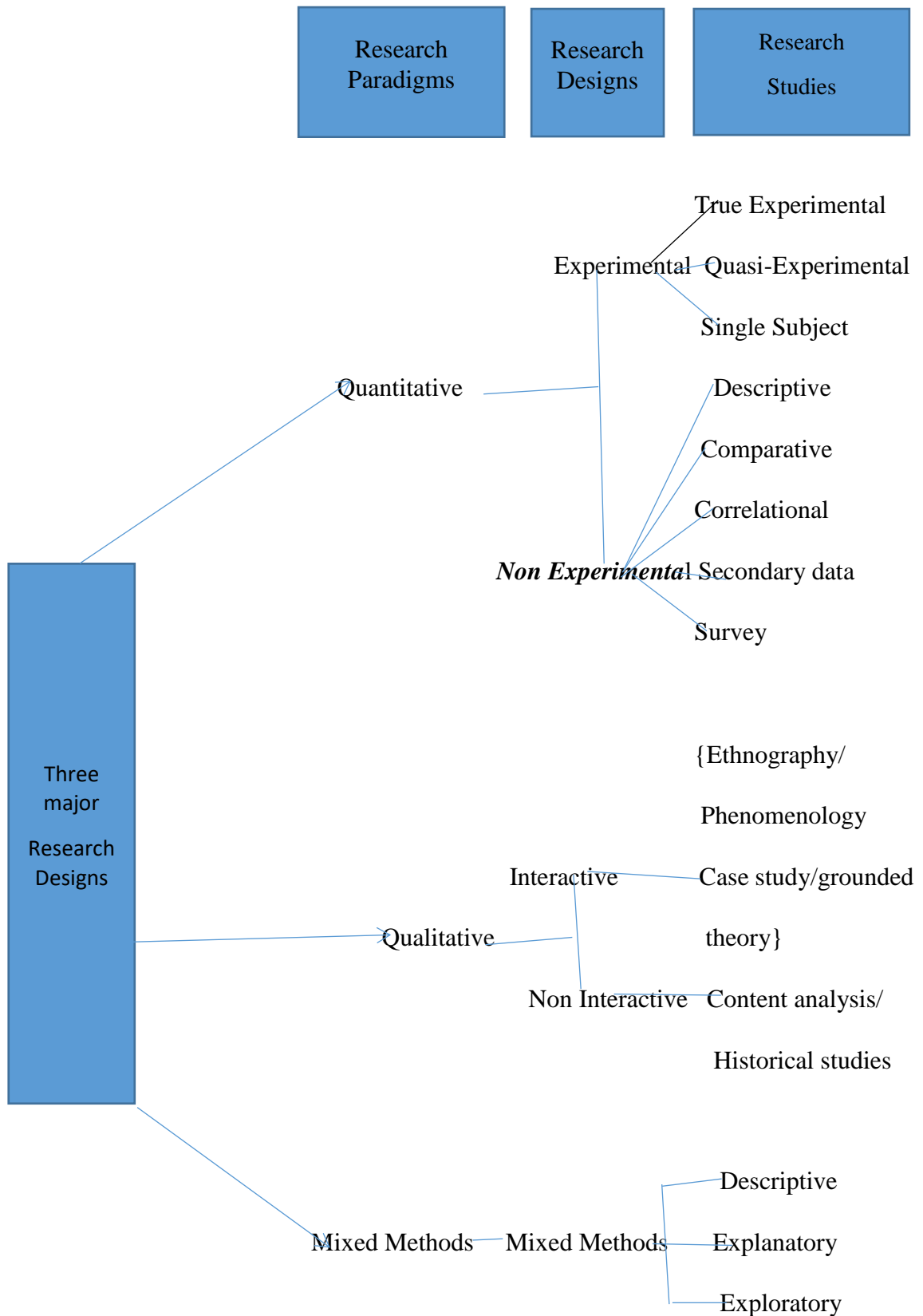


Figure 3.1: Research design (Khaldi, 2017)

### 3.3.1 Quantitative Approach

This study takes a positivist philosophical worldview to understand the relationship between transformational leadership and risk management. The researcher selected a mono- quantitative approach as the methodological choice. The researcher chose a deductive method as most researchers who have done similar studies used the quantitative method; it is more suitable for this study as it seeks to determine an association between two variables. According to Quantitative research is “generally associated with positivism, especially when used with predetermined and highly structured data collection techniques” (Saunders *et al*, 2013:162).

Kumar (2011) mentions that quantitative researchers gather data using instruments that can easily be converted to numbers. They interpret results using statistical methods and present findings as numbers or quantities. In a quantitative study, statistical analysis is used as a tool to confirm or contradict the magnitude of an association between variables. Kumar’s (2011) statement motivated this study to employ the quantitative method, as the researcher sought to understand the association between two variables.

The study investigated the relationship between transformational leadership and risk management. It will reflect the appropriate leadership style that mitigates risk better than other leadership styles. The study will identify the leadership style that is commonly displayed by the leaders and compare it with theory to relate it to the findings of the previous studies.

According to O’Dwyer and Bernauer (2014), there are two primary approaches to conduct research in the quantitative tradition, namely, non-experimental research and experimental research. Punch (2014) mentions that the experimental research design is applicable when the goal of the research is to examine the effect of a treatment or intervention on some attributes or phenomenon.

Quantitative research design is divided into four major designs: Cross-sectional, Longitudinal, Observational and Experimental. According to Srivastava and Rego (2011), cross-sectional study determines prevalence by taking a cross-section of the population. Cross-sectional study requires the researcher to identify the population of the study and select a sample from the population. The results will be applicable to the population. Cross-sectional designs display a status of the problem at that particular time. According to Khaldi (2017), there are different types of study, namely, Descriptive, Comparative, Secondary data and Correlational studies.

### **3.3.2. Research Study**

The research questions and aim will direct the type of research to be applied. According to Kumar (2011), the study that aims to discover the existence of relationship between variables is called a correlational study. Researchers use the correlation statistical test to describe and measure the degree of relationship (association) between two or more variables. The main goal in a correlational study is to establish the existence of a relationship or association between two or more variables of a situation. The researcher used the correlation statistical test to determine the association between transformational leadership and risk management.

### **3.3.3 The location of the study**

The study was conducted at the branches in Durban, KZN, South Africa. The study focussed on all branches that fall under eThekweni municipality. Currently, there are 52 branches based in this location. The reason for the selected location is that branches operate in different areas. The chosen location consists of city branches, mall branches and semi-city branches. The study consists of participants based in the above-mentioned areas.

The business operating hours of branches are between 8h00 and 17h00, with branches in malls and shopping open till 18h00 on Weekdays. On Saturday, branches open between 8h00 and 13h00. Branches that are situated in malls stay open till 15h00 and on Sunday between 09h00 and 13h00. This played an important role with regard to time, where data was collected. Due to budget and time constraints, the Durban area was selected as the location for this study. The investigator selected the choice of location which made it possible to collect data between branches as it was convenient and affordable.

### **3.3.4 Target Population**

According to Sekaran and Bougie (2016) define population as the full set of cases from which the researcher aim to investigate and a sample is chosen from. The targeted population for this research include Regional Managers (RM) and Branch Managers (BM) or Assistant Branch Managers (ABM). ABM is responsible for leading a team of service consultants to achieve the bank's objectives and ensure that branch run smoothly. Branch Managers report directly to Regional Managers. The Branch Managers running big or medium size branch are supported by Assistant Branch Managers. For this study, in the case where the Branch Manager was not available, the Assistant Branch Manager had to complete the survey form and indicate their job title as Assistant Branch Manager on the questionnaire. Regional Managers are responsible to

drive business by ensuring that they cascade information down to their followers to ensure compliance and proper alignment of organizational goals to the company vision.

The targeted population is primarily based in the Durban area falling under eThekweni Municipality. The location of study is divided into 8 regions led by 8 Regional Managers; each region consists of 7 to 8 branches. Some regions have other branches outside eThekweni Municipality. All those branches that do not fall under eThekweni were excluded, and did not form part of this study. There are 52 branches under eThekweni Municipality. The assumption was that each branch has one Manager and one Assistant Branch Manager. In a branch where the Branch Manager was not available the Assistant Manager was available to complete the survey.

### **3.3.5 Sampling**

According to Kumar (2011), quantitative researchers select a sample, from which they aim to generalize to a larger group; they base their findings on the sample. With all probability samples, it is important that sample size is large enough to provide the necessary confidence in the collected data. “The margin of error must be within acceptable limits. The researcher must ensure that is able to undertake analysis at the level of detail required” (Saunders et al., 2016:269).

Quantitative researchers are able to work with large samples because objective questionnaires usually are easy to administer to large number of participants within a short space of time. They ask targeted questions with the aim of generalizing the result from the sample to some larger population, which may not be all people but may be a defined sub-group of people. Statistics is a tool that is commonly used to analyse and interpret data (Patten and Newhart 2017).

Fowler (2008) cited by Creswell (2014), mentions that survey research provides quantitative or numeric descriptions, attitudes or opinion of a population by studying a sample of that population. Hence this research will employ the survey research strategy in the form of questionnaires to collect data. The reason for the strategy choice is convenience and affordability.

The population consists of fifty two Branch Managers/Assistant Branch Managers and eight Regional Managers. Census survey was employed for this study in order to improve reliability and it was possible to include each individual of an entire population. Patten and Newhart (2017) acknowledge that quantitative studies often strive to select large samples to use as

participants. Census survey gave good representation of the population as these branches report to different Business Managers and Regional Managers.

### **3.3.6 Data Collection**

The best possible way to answer the research questions for this study is through the use of questionnaires. Patten and Newhart (2017: 22) feel that “quantitative research seeks to generalize and approach methods with goals of objectivity and standardization. The instrument used to collect data for this study is a questionnaire. The format of the questionnaire is standardized, which means all participants will receive the same set of questions and questions will be asked in the same way. The advantage of this research strategy is that data is comparable and it can be analysed quantitatively, hence the study is quantitative.

#### **3.3.6.1 Questionnaire Administration**

RMs and BMs were expected to complete the same questionnaires, with the same questions. The targeted population of this study are managers who have access to email. The researcher emailed the questionnaire to BMs and RMs who were part of the sample. The time frame for data collection was one month. The due date was stipulated on the email. Participants had a choice to email the completed survey forms back or to inform the researcher to collect the documents from the branch.

Eight BMs completed the questionnaires and sent them back via email. Most participants preferred to print the document and complete it in their own time and bring back once completed. This gave them opportunity to read and understand what it entailed, and were able to complete the survey at their own pace. The researcher had to visit branches to collect the completed survey form. Before the investigator visited the branch, the Branch Manager or Assistant Branch Manager had to confirm whether they were the willing to complete the questionnaire or not. Those who were willing and agreed to complete the survey were then contacted so that the researcher could make an appointment, and confirm date and time with that particular leader to collect the forms. The researcher had to do the travelling between branches to collect data.

#### **3.3.6.2 Questionnaire Design**

The research instrument had three sections; participants were expected to respond to all three sections and answer all questions.

(i) Section A

Section A had six questions, numbered 1 – 7. Respondents were presented with biographical data and required to select the number that was best applicable to them. Participants had to choose their respective gender, age category, race classification, highest academic qualification, and number of years with the company, number of years on the current position and job title.

(ii) Section B

Bass and Avolio (1993) developed the multi-factor leadership (MLQ) theory to attempt to identify the behaviours underlying leadership styles. MLQ has been generalized across a wide variety of organizations, cultures and hierarchal levels of management. As a result, the researcher used MLQ on this study to measure transformational leadership style. Bass and Avolio 1990 cited by Copeland (2014), and Avolio et al. (1995) cited by Belias and Koustrelious (2014) mention that the mostly widely used tool to measure transformational leadership is the Multifactor Leadership Questionnaire (MLQ). The questionnaire consist of 21 scales, based on four dimensions of Transformational Leadership, two dimensions of transactional Leadership and one scale of Non-Leadership.

Transformational leadership theory distinguishes between three leadership styles: transformational, transactional and *laissez faire* using the Multifactor Leadership Questionnaire and the Likert five point scale (Avolio, Bass, 2002; Moriano , Molero, 2014). Bernard (2017) mentions that Rensis Likert (1932) introduced the ever-popular five point scale. Likert was more interested in measuring the internal states of people (attitudes, emotions, orientations) and he realized that most internal states are multidimensional. The study used the Likert scale, where participants were presented with 21 statements on a scale ranging from 1 – 5 where 1 was strongly disagree, 2 = disagree, 3 = neither disagree nor agree, 4 = agree and 5 = strongly agree.

(iii) Section C

Participants were presented with 10 statements on a Likert scale ranging from 1 to 5. The researcher focused on relating leadership style to risk management with the aim of establishing if is there a relationship between these two variables to measure the relationship between leadership style and risk management. When leaders understand the impact of risk on organization performance, it will assist them to grasp the importance of risk management in

the retail bank .The researcher used secondary findings identified in the literature review to construct items that were used in the questionnaire.

### **3.3.7 Validity and Reliability**

Quantitative research consists of two measures of quality which are Reliability and Validity. Kumar (2011) put forward that large sample size improves validity and reliability of findings. He highlighted the importance of drawing conclusions and inferences that can be generalized to the population.

#### **3.3.7.1 Validity**

Hartas (2015) believed that the validity of a study is a criterion used to test the meaningfulness of the findings, and to test the overall value of the research. This is supported by Barry, Chaney, Piazza-Gardner & Chavarria (2014), who testified that validity is concerned with the trustworthiness of the research result. The instrument must measure exactly what is supposed to measure based on the objectives of the study. For the scores to be valid, the tool must measure what it says is measuring. Validity is related to the purpose of the test. Validity is the degree to which variable is actually consistent with what it is intended to measure (Hartas, 2015).

LoBiondo-Wood and Haber (2014:290) put forward that validity proves the accuracy of the data by ensuring that a measuring instrument has measured what it was intended to measure. “Validity is the extent to which an instrument measures the attributes of a concept accurately” Barry *et al.* (2014:13) mention that Validity encompasses the following three characteristics: Content Validity, Construct and Criterion Validity.

*Content Validity.* The research needs to cover all desired content areas it should, with regard to the construct is designed to measure. Content validity evaluates whether the tool used covers all the content that it expected to cover (Heale and Twycross, 2015).

*Construct Validity.* The results of the study must ensure that instrument accurately scale the studied variable. Construct Validity measures whether the study results are related to the study being conducted (Heale and Twycross, 2015). They add that there are three types of evidence to prove that the instrument has met construct validity: Homogeneity, Convergence and Theory of evidence.

*Criterion-Related Validity* is the comparison of scores on the developed instrument and the scores from another relevant and reputable scale. White and Burney (2012:142) believe that “it measures the degree to which the test scores measuring one test criterion is consistent with other criterion being measured”.

An instrument has high criterion validity if there is a close fit between the measures it produces and the measures produced by the other instrument that is assumed to be valid (Bernard, 2017). In this study, Pearson Correlation Coefficient was used among different constructs to test the validity of the claim about the population.

### 3.3.7.2 Reliability

LoBiondo-Wood & Haber (2014:290) define reliability as “the ability of an instrument to measure the attributes of a variable or construct consistently”. Reliability refers to consistency and stability of a measurement to measure whether the findings of a study are repeatable. Repeatable can be achieved by offering adequate details on the definitions of constructs/variables and the procedures employed to collect and analyse data. Figure 3.2 illustrates measures that will be implemented to ensure design test reliability. The consistency of a measurement is examined in terms of stability, equivalence and internal consistency (Hartas, 2015:73).

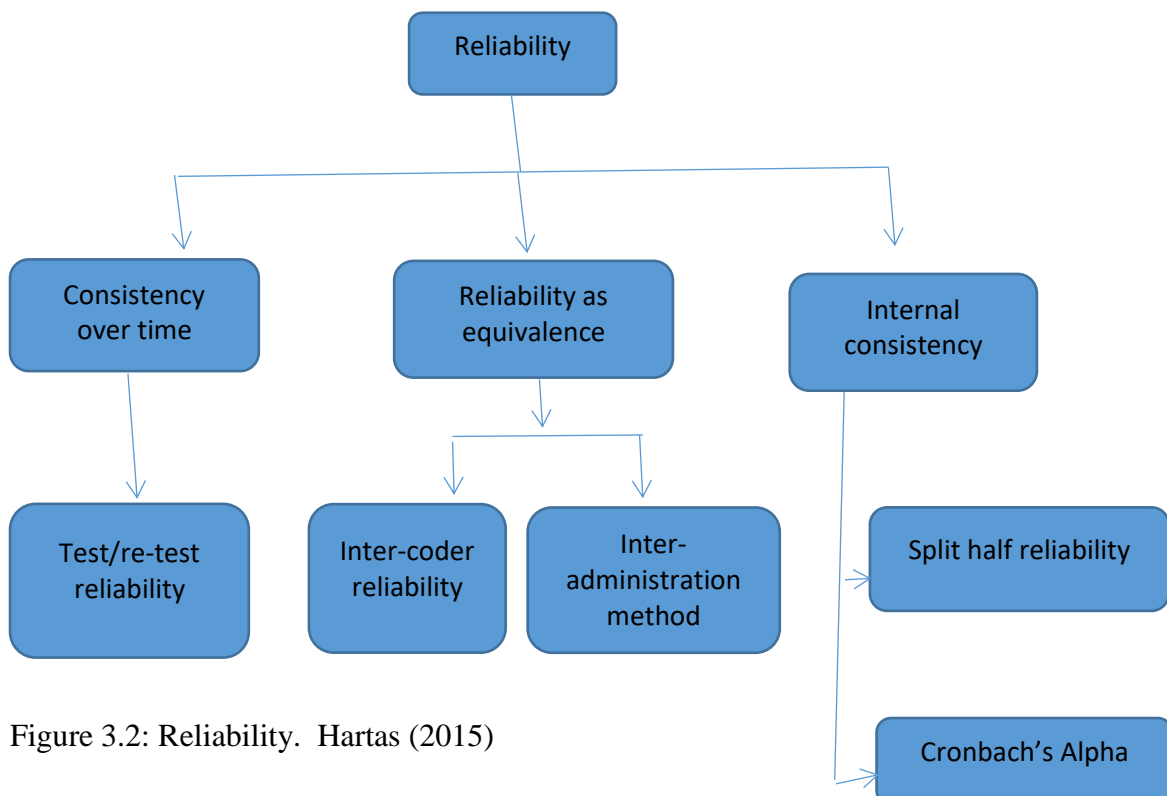


Figure 3.2: Reliability. Hartas (2015)

Reliability measures the degree which two values are consistent with each other when measurements are recorded repeatedly. Consistency is measured through test–retest reliability (Hama, Kanazawa, Minakuchi, Uchida and Sasak, 2014). Cronbach’s Alpha was used to test the reliability for this study. Peters (2014) mentioned that Cronbach’s Alpha is regarded as a tool to test reliability and internal consistency.

### **3.4 Ethical Considerations**

Hartas (2015:10) believes that “ethical consideration is an important element in the research practice parallel with technical questions, validity and reliability of results and interpretation.” According to Saunders et al. (2015), the researcher is required to take ethical issues into consideration when conducting a study. It is important to observe ethical issues throughout the research. Creswell (2014) argues that ethical considerations need to be reflected throughout the research process. He highlights five stages of the research process.

(i) Prior conducting the study

The researcher had to present a research proposal to academics to defend the topic at the university. The researcher was granted permission to conduct a study.

(ii) Beginning the study

The Researcher contacted the organization to inform them about the intended study after the approval letter was received from the supervisor. The Researcher applied for permission from the organization. The Gatekeeper had an opportunity to assess any risk that the study might cause to the organization. To ensure that there is no conflict of interest, the gatekeeper asked a number of questions to ensure that the study will cause no harm to the organization and its employees. The gatekeeper’s letter was issued giving permission for the study to be conducted at the organization and specifying certain conditions. The university requires all students/staff who want to conduct research to abide by the Research Ethical Policy. To adhere to the university ethical policy, the researcher had to ensure that the participants are aware of the following:

- The fact that participation is voluntary, and participants are not obliged to be part of the survey.
- The researcher had to inform the participants that responses will be treated in a confidential manner: That anonymity will be ensured where appropriate. The data collected

from participants must be available to people who are directly involved in the study only.

- The researcher must disclose the fact that participants are free to withdraw from the research at any time, without any negative or undesirable consequences to themselves
- The nature and limits of any benefits participants may receive as a result of their participation in the research were explained. The respondents must be aware that no monetary value will be gained through participation in the study
- Avoidance of harm: It is the responsibility of the researcher to ensure that the study does not expose participants to any form of harm.

The ethical clearance form together with the gatekeeper's letter and the instrument used to conduct the study, were sent to the ethical clearance committee at UKZN. The ethical clearance letter refer to Appendix 1 was obtained; thereafter the instrument was sent to branches.

### (iii) Research Instrument

Creswell and Creswell (2017) highlight that the researcher is required to collect data from people, and they have a responsibility to protect participants against any misconduct and impropriety that might reflect on their organizations or institutions. Silverman (2015:201) emphasizes that researchers should remember that when collecting data from people, they are entering participants' private space. As a result, there is a need to cultivate trust with their respondents and promote integrity. The questionnaire was accompanied with the letter specifying that the respondents' participation is voluntary, and they may refuse to participate or withdraw from the project at any time with no negative consequence. The researcher had to declare that no monetary value will be gained for participating in the survey. Participants had to know that confidentiality and anonymity will be maintained.

The questionnaire was used to collect data for this study. The questions that were asked in the questionnaires were the same for all participants. The identity of the bank and respondents who participated in the survey were protected throughout the process.

### (iv) Analysing data.

The researcher had to ensure that when analysing data, he/she does not influence the results by driving the findings to the positive or negative side. The researcher remained neutral to avoid siding with the participants and use fictitious names to support his/her own interest, to ensure

that the findings are analysed and interpreted correctly. Cronbach's Alpha value was used to test the reliability of data. The Pearson correlation test was conducted to test the validity of results.

(v) Reporting, Sharing and Storing data

The researcher reported honestly and disclose all information that need to be disclosed. He/she must ensure that the information collected is securely stored at the Graduate School of Business and Leadership for a period of 5 years; it will be then disposed of in accordance with instruction from Ethical Clearance Committee. Data was collected and loaded on the spreadsheet and analysed using SPSS.

### **3.5 Summary**

Research design and methodology are very important as they point the direction that the study will follow. In this chapter, the master blue print of the study was outlined. It covered the population and sampling method as this plays a critical role when analysing data, as the reliability and validity of the results need to be tested. The aim and objectives of the study were discussed. The only effective way of analysing the results depends on the design and the methods used in the study. The next chapter focused on data analysis.

## CHAPTER FOUR

### PRESENTATION OF DATA

#### 4.1 Introduction

This chapter provide an outline and analysis of the data collected using questionnaires. The collection instrument had seven questions on biographical details of the respondents, and twenty-one Multi Leadership Questions (MLQ). MLQ aim to understand how managers perceive themselves in terms of the transformational leadership style. It identified the leadership behaviour that is most commonly displayed by leaders based on four transformational leadership constructs, two transactional leadership constructs and one non-leadership style. There are ten questions related to risk management. The purpose is to determine leadership understanding of the impact of risk in the retail banking sector, with the assumption that if leaders know the impact they will be able to communicate it clearly to others. Lastly, the relationship between transformational leadership and risk management was analysed.

#### 4.2 Response Rate

Sixty questionnaires were sent out. A total of forty two bank managers completed the questionnaire. The response rate was good as it was 70%, considering the fact that people do not always respond positively to surveys Mncwango (2015).

#### 4.3 Reliability Analysis

The reliability analysis showed that data was reliable as the Cronbach's Alpha value was 0.864 (Table 4.1). Researchers using questionnaires rely on Cronbach for reliability statistics. Cronbach's Alpha is regarded as a tool to test reliability and internal consistency (Peters, 2014).

Table 4.1: Reliability Analysis

Cronbach's Alpha	N of Items
.864	28

#### 4.4 Demographic profile of respondents

This section analyses the demographics of the respondents. Section A of the questionnaire had seven questions that focused on the demographic profile of respondents.

##### 4.4.1 Gender Distribution

Figure 4.1 indicated that there is a high dominance of females who occupy middle management positions in the bank. Females comprise more than two thirds (71%) of the sample.

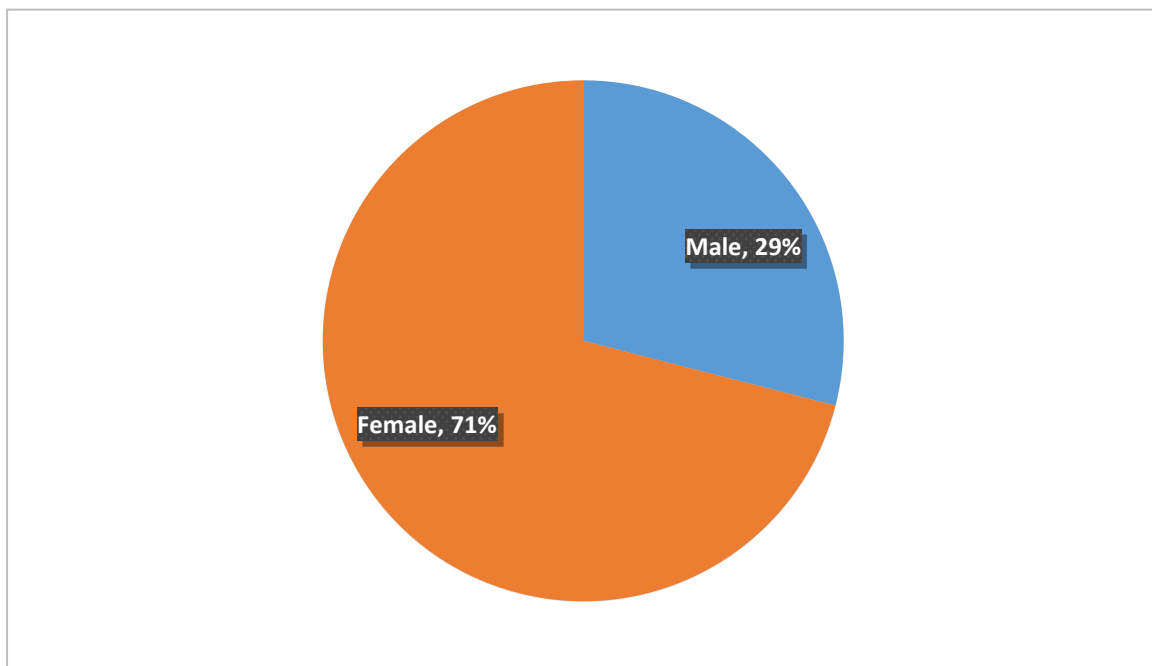


Figure 4.1: Gender Distribution

##### 4.4.2 Age Distribution

It is evident from Figure 4.2 that the majority of the participants (71%) were between 26-35 years of age, 24% respondents were between 36-45 and 5% were between 20 and 25 years of age.

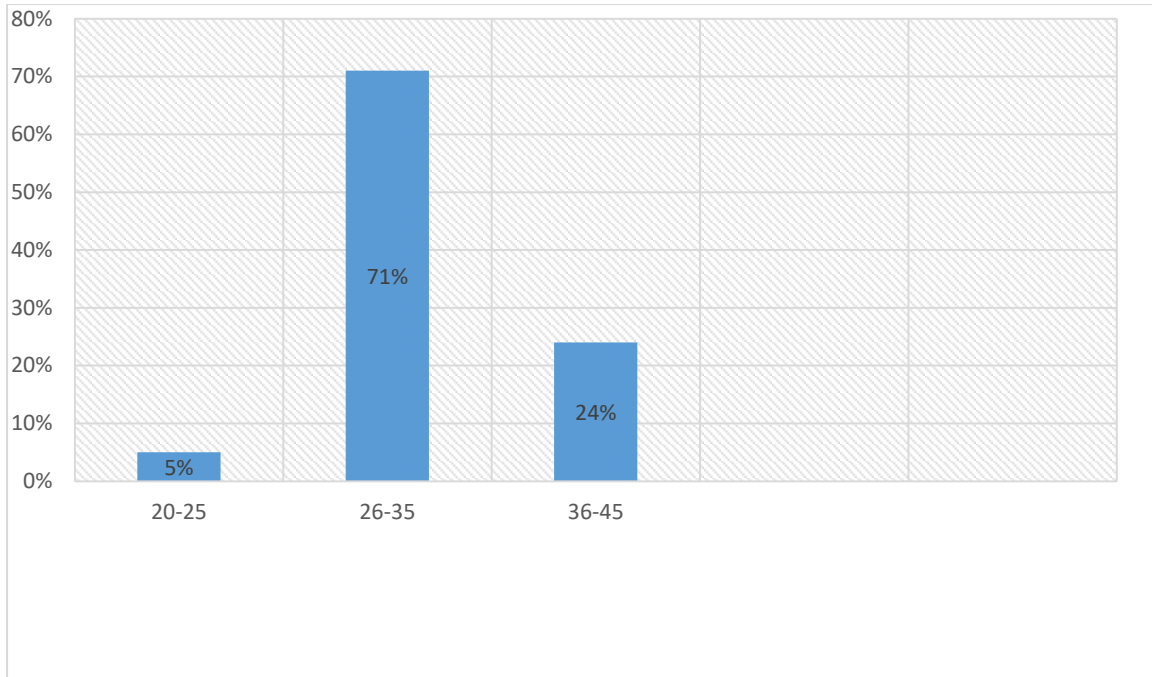


Figure 4.2: Age distribution

#### 4.4.3 Distribution of Race

The findings revealed that the majority of participants were Africans and Indians. Africans respondents accounted for 45%, Indians were second highest at 36%, and Coloureds at 12% followed by whites at 5% and other at 2%.

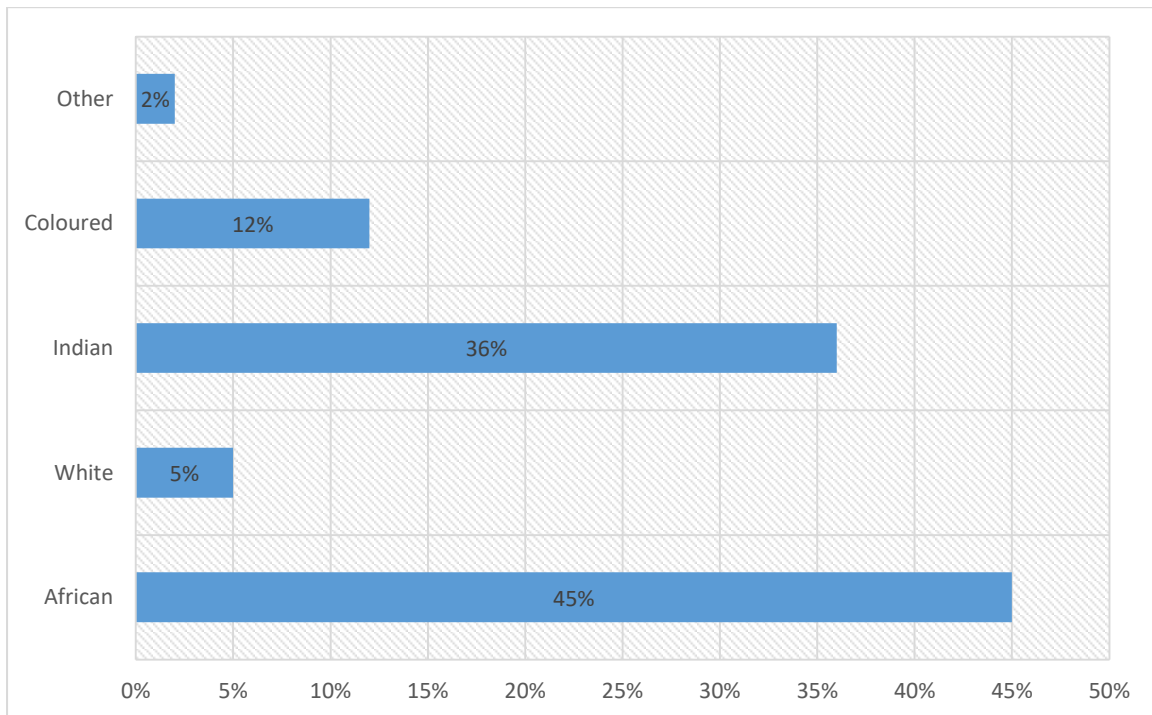


Figure 4.3: Distribution of Race

#### 4.4.4 Education Level of participants

Figure 4.4 revealed that 40% of participants have secondary qualifications, one third of respondents have a National Diploma, 21% a Bachelor's degree and 5% possess a postgraduate qualification.

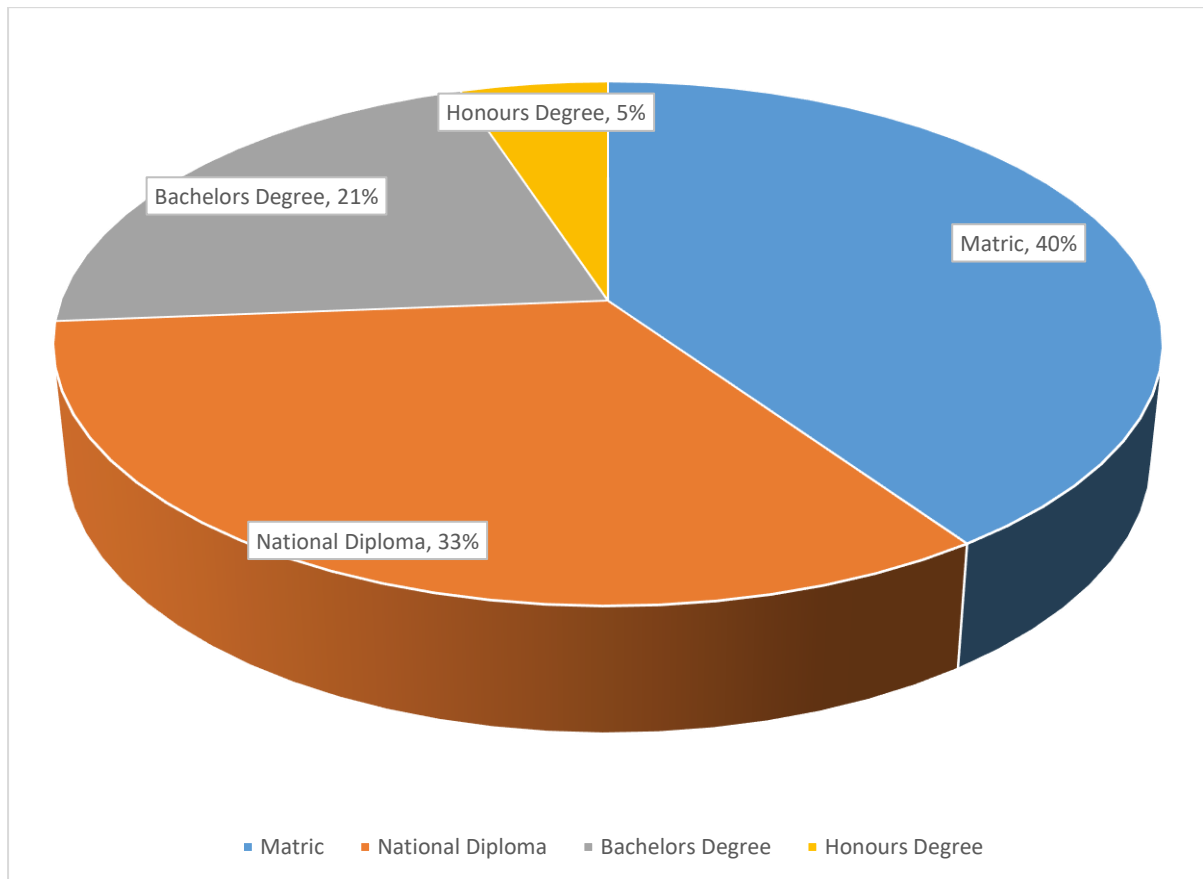


Figure 4.4: Education Level of respondents

#### 4.4.5 Number of years with the company

Figure 4.5 displayed that 31% of respondents have been with the company between 5 and 7 years. The results showed that 21% of participants have been with the employer for 2 to 4 years and 8 to 10 years. There are participants who have been with the company for 14 to 16 years but they accounted for 2% only. Lastly, participants who have been with the company for a year or less and between 17 and 19 years, accounted for 5% each.

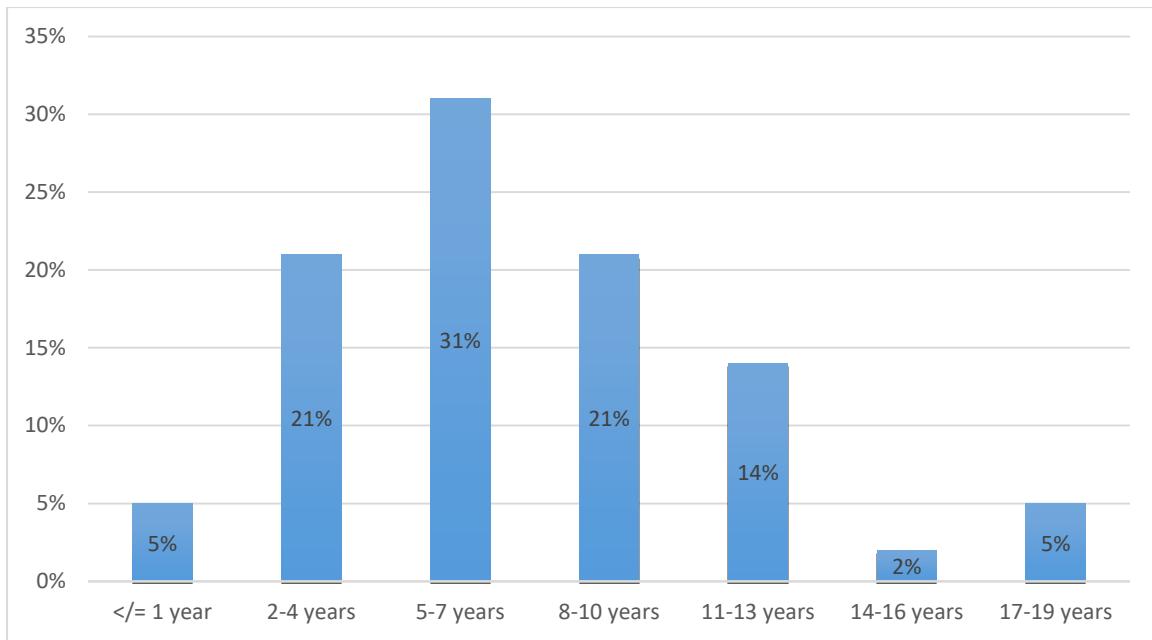


Figure 4.5: Number of years with the bank

#### 4.4.6 Number of years in position

Almost one third of participants have been in their position for less than a year and only 2% occupied their current position for more than 10 years.

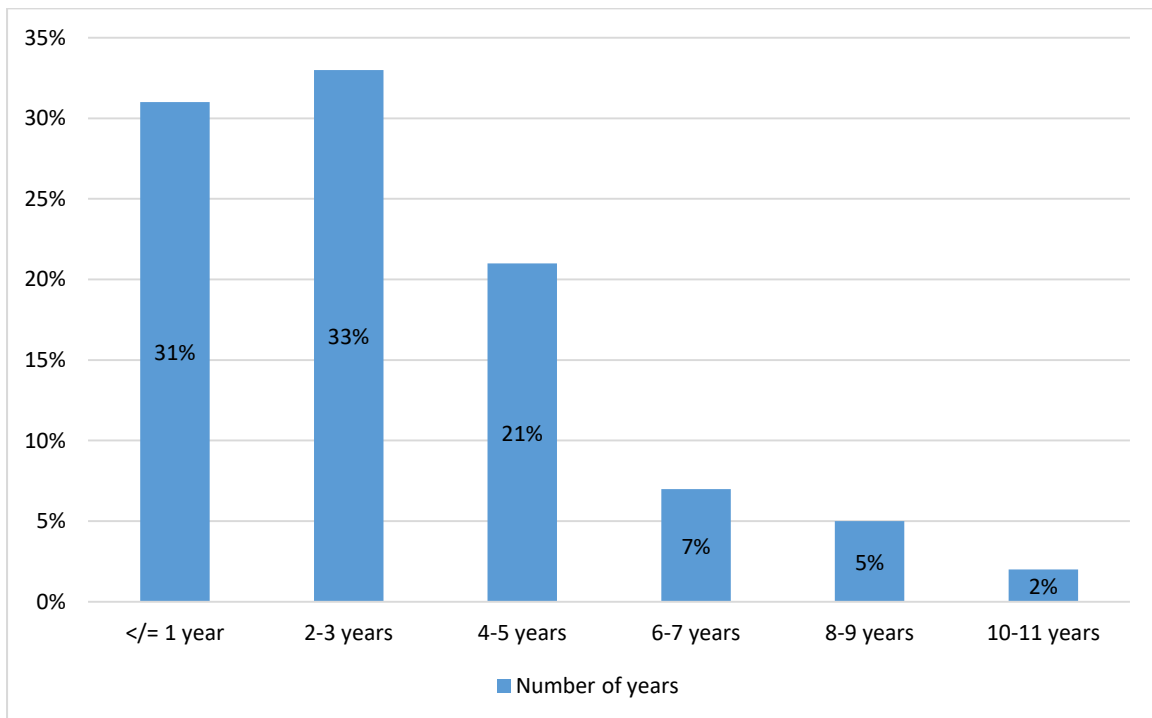


Figure 4.6: Number of years in current position

#### 4.4.7 Level of current employment

Figure 4.7 revealed that 98% of the participants occupied Branch Manager and Assistant Branch Manager Positions. Half of respondents were Branch Managers, 48% Assistant Branch Managers and 2% Regional Managers.

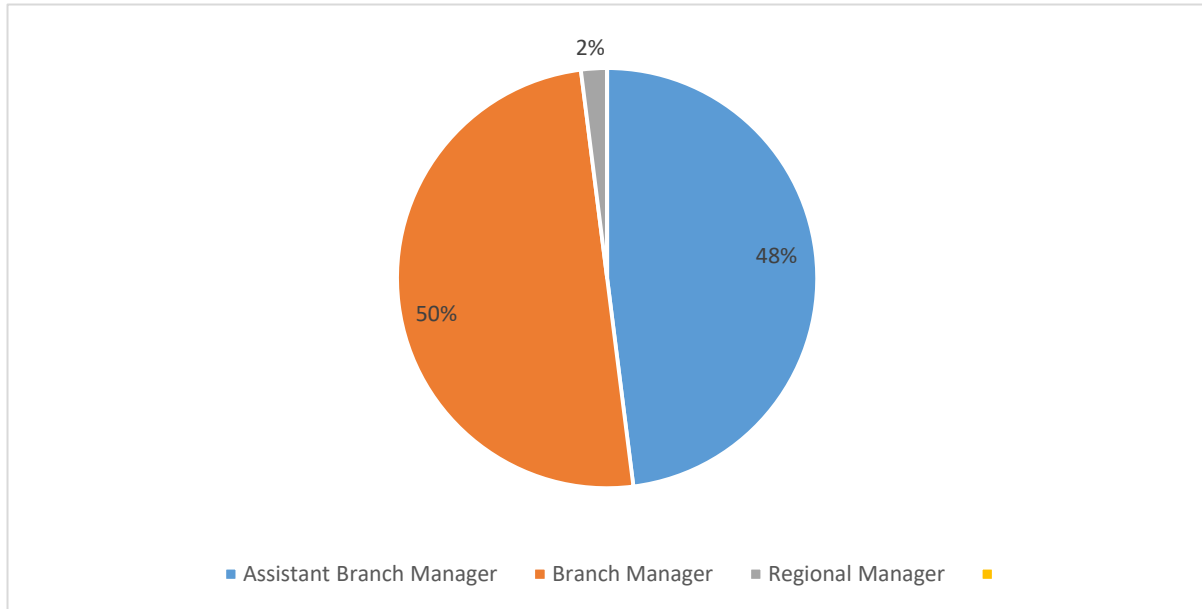


Figure 4.7: Level of employment

#### 4.5. Objective One: To measure how managers perceive themselves with regards to transformational leadership style

The results in Table 4.2 indicated how managers perceived themselves in terms of the transformational leadership style. Transformational leadership and its four constructs were analysed, and thereafter transactional leadership was analysed. Non-Leadership style was also analysed to meet the objective.

##### 4.5.1 Transformational Leadership

Table 4.2: Transformational leadership

Statement	Strongly Agree	Agree	Neither Agree nor Agree	Disagree	Strongly Disagree

1. I make others feel good to be around me (Idealised influence)	30%	60%	10%	0%	0%
8. Others have complete faith in me (Idealised influence)	17%	45%	38%	0%	0%
15. Others are proud to be associated with me (Idealised influence)	19%	45%	36%	0%	0%
<b>Idealised Influence</b>	<b>22%</b>	<b>50%</b>	<b>28%</b>	<b>0,00%</b>	<b>0,00%</b>
2. I express with a few simple words what we could and should do (Inspirational motivation)	21%	45%	19%	10%	5%
9. I provide appealing images about what we can do (Inspirational Motivation)	31%	55%	14%	0%	0%
16. I help others find meaning in their work .(Inspirational Motivation)	26%	64%	10%	0%	0%
<b>Inspirational Motivation</b>	<b>26%</b>	<b>55%</b>	<b>14%</b>	<b>3%</b>	<b>2%</b>
3. I enable others to think about old problems in new ways (intellectual stimulation)	24%	48%	19%	10%	0%
10. I provide others with new ways of looking at puzzling things (Intellectual Stimulation)	26%	60%	14%	0%	0%

17. I get others to rethink ideas that they had never questioned before (Intellectual Stimulation)	21%	60%	19%	0%	0%
<b>Intellectual Stimulation</b>	<b>24%</b>	<b>56%</b>	<b>17%</b>	<b>3%</b>	<b>0%</b>
4. I help others develop themselves (Individual consideration)	40%	55%	5%	0%	0%
11. I let others know how I think they are doing (Individual consideration)	36%	40%	17%	7%	0%
18. I give personal attention to others who seem rejected (Individual consideration)	19%	69%	12%	0%	0%
<b>Individual Consideration</b>	<b>32%</b>	<b>55%</b>	<b>11%</b>	<b>2%</b>	<b>0%</b>

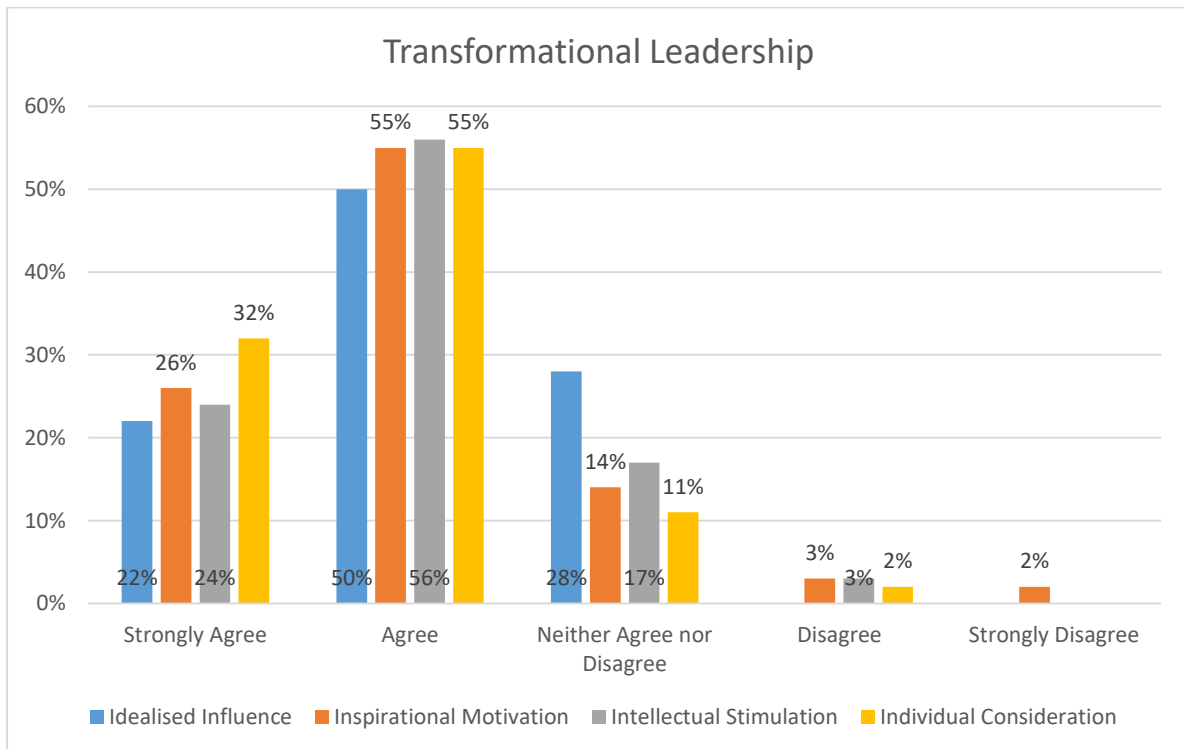


Figure 4.8 Transformational leadership

When respondents were asked how they perceive themselves in terms of idealised influence when dealing with subordinates, Figure 4.8 display that most participants responded positively; 50% agreed, while 22% strongly agreed that their followers have complete faith in them, feel good to be around them and are proud to be associated with respondents. The results in Figure 4.8 reveal that none of the participants opposed the idealised influence statement and 28% were unsure about the statements as they neither disagreed nor agreed.

It is clear that 55% respondents agreed that they motivate their followers by helping them to find meaning in their work, as indicated in Figure 4.8. Inspirational motivation is one of the components of transformational leadership. The findings in Figure 4.8 revealed that 3% participants felt that they do not normally express what should be done in few words. They also do not think that motivated employees always feel good and perform better. The results indicated that 2% of respondents strongly disagreed that they provide appealing images about what can be done. The results reported that 14% were unsure whether they motivated their followers or not. Transformational leaders use motivation to connect the set objectives of the organization with the needs of the employees.

Figure 4.8 showed that 24% participants strongly believed that they encouraged their followers to think of problems in new way. The study showed that 17% neither agreed nor disagreed that they provide ways for their followers to come up with innovative ways at looking at puzzling things. The results showed that 55% agreed that they get others to rethink ideas that they had never questioned before. Transformational leadership stimulates and inspires followers to work towards achieving the organizational mission and goals. 2% of participants disagreed that they do not allow their followers to think of old ways in a new way.

When asked how they perceived themselves in terms of interacting with each employee as an individual, the results in Figure 4.8 revealed that 32% of participants strongly agreed that they helped others to develop themselves. The results showed that 55% participants agreed that they gave attention to those individual or subordinates who seem rejected and 11% of participants neither agreed nor disagreed that they gave individual consideration to their subordinates.

The findings displayed that the majority of respondents adopt transformational leadership behaviour when dealing with their followers. 54% are in favour of transformational leadership. Figure 4.8 indicated that most participants at the retail bank believed in transformational leadership. The results showed that 80% of participants displayed the transformational leadership style.

### **4.5.2 Transactional Leadership**

Table 4.3: Transactional Leadership

Statement	Strongly Agree	Agree	Undecided	Disagree	Strongly disagree
6. I am satisfied when others meet agreed-upon standards.	57%	41%	2%	0%	0%
13. As long as things are working, I do not try to change anything.	12%	33%	38%	12%	5%
20. I tell others the standards they have to know to carry out their work.	50,00%	43%	2%	5%	0,00%
<b>Management by exception</b>	<b>40%</b>	<b>39%</b>	<b>14%</b>	<b>6%</b>	<b>2%</b>
5. I tell others what to do if they want to be rewarded at work.	31%	48%	19%	2%	0%
12. I provide recognition/rewards when others reach their goals.	31%	55%	14%	0%	0%
19. I call attention to what others can get for what they accomplish.	29%	45%	26%	0%	0%
<b>Contingent Reward</b>	<b>30%</b>	<b>49%</b>	<b>20%</b>	<b>1%</b>	<b>0%</b>

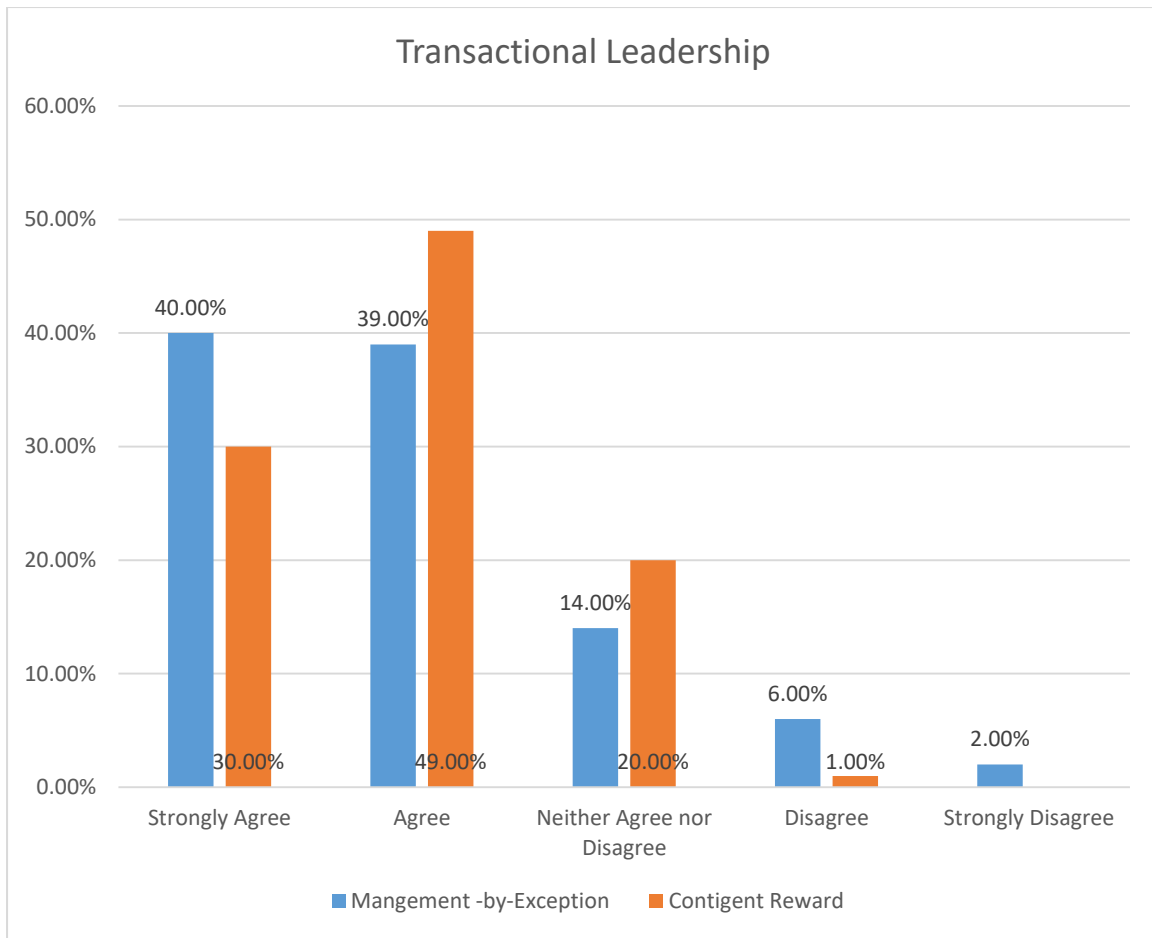


Figure 4.9 Transactional Leadership

Table 4.3 displayed that 30% of participants strongly agreed that they give clear instructions on what needed to be achieved. They explain to followers the reward, when the goal is accomplished and provide recognition/rewards for the followers' achievement.

Responses in Figure 4.9 proved that 39% of participants agreed and 40% strongly agreed that they used contingent reward as a tool to ensure that organisational goals are achieved. Participants were asked whether they called attention to what others could get for meeting organisational goals, findings in Table 4.3 showed that 20% were unsure. The study showed that 2% do not tell others what to do if they wanted to be rewarded.

The findings showed that 57% respondents strongly agreed and 40% agreed that they were satisfied when followers met the agreed upon standards. The results of this study show that 12% strongly agreed and 33% agreed that as long as things were working, they do not change or improve anything. The results showed that 50% strongly agreed that they tell others

standards they had to know to carry out their task and 57% strongly agreed that they were satisfied when others met agreed-upon standards. The results showed that 79% of participants displayed management by exception leadership style and 14% neither agreed nor disagreed.

The overall results for transactional leadership showed that 44% respondents agreed and 35% strongly agreed that they adopt the transactional leadership style when dealing with their followers. 17% were undecided and 3% did not believe in the transactional leadership style.

### **4.5.3 Laissez faire**

Table 4.4: *Laissez faire* Leadership

Statement	Strongly Agree	Agree	Undecided	Disagree	Strongly disagree
17. I am content to let others continue working in the same way always ( <i>Laissez faire</i> )	5%	7%	31%	43%	14%
14. Whatever others want to do is OK with me ( <i>Laissez faire</i> )	2%	10%	29%	43%	17%
21. I ask no more from others than what is absolutely essential ( <i>Laissez faire</i> leadership)	12%	24%	29%	31%	5%
	<b>6%</b>	<b>14%</b>	<b>29%</b>	<b>39%</b>	<b>12%</b>

The results in Table 4.4 show that 14% respondents agreed and 6% strongly agree that they allowed others to do whatever they wanted to do and allowed followers to continue working in the same way always. The findings revealed that 39% of respondents strongly disagree that they asked no more than what was absolutely essential from the followers. When people work in the same way always, they can become bored and do not get inspired. The findings reported that 29% were undecided whether they encouraged their subordinates to find new ways of solving problems as they were content to let others work in the same way as always. Table 4.4 indicated that 12% strongly disagree that they allow others to do whatever they want to do.

#### **4.6 Objective Two: To determine the leadership understanding of risk management in the retail bank**

Table 4.5 revealed that 38% of respondents strongly agreed that they understand the importance of risk management. The findings displayed that 76% strongly agree that ensure that staff adhere to company policies and processes to mitigate credit risk. The respondents were asked whether they assist followers to understand the importance of compliance and impact of risk when it is not managed properly, 59% strongly agreed. However, 2% strongly agreed that they allow others to do whatever they want when issuing loans to client. Participants (19%) strongly agreed that followers need to be trusted that fraud check will be done correctly when issuing credit to clients.

The findings showed that 38% strongly agreed that followers need to understand that compliance is the responsibility of every staff member in the retail bank. Respondents (21%) strongly believed that staff deserve to be rewarded for capturing client information correctly. Table 4.5 displayed that 38% of participants strongly agreed that to show interest on others self-development will motivate them to perform better. The results revealed that 33% of respondents give personal attention to those who struggle to do risk assessment correctly and 43% motivate and inspire followers to pay attention when assisting clients. The findings indicated that more than half (52%) respondents strongly believed that leadership style has an influence to staff adherence to company policies and processes.

The results in Table 4.5 displayed that 52% respondents agreed that they trust others for doing fraud check correctly before granting loans and gave personal attention to those who struggle to do risk assessment correctly. The findings show 43% respondents agreed that they motivate and inspire followers to pay attention when assisting clients and understand that it is the responsibility of every staff member to adhere to company processes. There is 2% of respondents who agreed that allowed others to do whatever they want when issuing loans and 21% agreed that they ensure that followers adhere to company policies to reduce risk in the retail bank. Table 4.5 showed that 38% participants agreed that they assisted followers to understand the impact of risk on the performance of the organisation, 26% respondents rewarded others for capturing client information correctly. The findings proved that 36% participants agreed that they have an understanding the importance of risk management in the retail bank.

The results displayed that 13% respondents neither agreed nor disagreed, 6% strongly and another 6% strongly disagree that they understand the impact of risk management to the performance of the organisation.

Table 4.5 Risk Management

Risk Management	Strongly Agree	Agree	Undecided	Disagree	Strongly disagree
1. I assist others to understand the impact of risk on organisation performance when they do not comply with the company policy.	60%	38%	2%	0%	0%
2. It is the staff responsibility to ensure that they adhere to company policy and procedures.	38%	43%	12%	2%	5%
3. I reward others for capturing client information correctly.	21%	26%	38%	12%	2%
4. I trust others that they will do fraud check correctly before granting credit to client.	19%	52%	21%	5%	2%
5. To show interest on others self-development will motivate them to perform better.	38%	48%	10%	2%	2%
6. I give personal attention to those who struggle to do risk assessment correctly.	33%	52%	14%	0%	0%

7. I motivate and inspire followers to pay attention when assisting clients.	43%	43%	14%	0%	0%
8. I allow others to do whatever they want to do when issuing loans to clients.	2%	2%	5%	38%	52%
9. The leadership style has an impact on the staff adherence to company policy.	52%	36%	7%	5%	0%
10. I ensure that staff adhere to company policies to reduce credit risk.	76%	21%	2%	0%	0%
	<b>38%</b>	<b>36%</b>	<b>13%</b>	<b>6%</b>	<b>6%</b>

#### **4.7 Objective Three: To determine association between transformational leadership and risk management.**

The overall mean scores for each constructs were compared with socio-demographic variables.

##### **4.7.1 Relationship of gender to transformational leadership and risk management constructs**

When comparing female with each constructs, Table 4.6 revealed that they had a highest mean for risk management (39, 10). It indicated that female understand the importance of risk management in the bank. It appeared that individual consideration and management by exception had the highest mean (12, 30) compared to other leadership constructs. Male had the highest mean score for inspirational motivation (13, 08) and risk management (40, 08). Both males and females had an equal mean score (7, 83) for Laissez faire. The descriptive statistics showed that female had lower mean.

Table 4.6 Relationship between gender and transformational leadership and risk management constructs.

Constructs	1. Gender.	N	Mean	Std. Deviation
Idealised	Male	12	12.25	2.006+
	Female	30	11.57	1.547
Inspirational	Male	12	13.08	1.782
	Female	30	11.57	1.331
Intellectual	Male	12	12.92	2.575
	Female	30	11.73	1.202
Individual	Male	12	12.75	2.006
	Female	30	12.30	1.466
Contingent	Male	12	12.92	1.443
	Female	30	12.00	1.619
Management	Male	12	12.25	1.422
	Female	30	12.30	1.622
LAISSEZ FAIRE2	Male	12	7.83	2.209
	Female	30	7.83	2.214
Risk Management	Male	12	40.08	3.679
	Female	30	39.10	4.342

#### 4.7.2 Independent Samples Test

When comparing mean scores of the same variable for male and female to measure the size of the mean difference. The findings on Table 4.7 revealed that Idealised Influence, Intellectual Stimulation, Inspirational Motivation t-test is between 1 and 3.023. Contingent reward,

Individual consideration, management by exception and risk management showed that test results are less than 1. The results showed the student's t-test found no significant mean difference between male and female except for Laissez Faire.

Table 4.7 Independent Sample Test

	t-test for Equality of Means		
	T	df	Sig. (2-tailed)
Idealised	1.187	40	.242
Inspirational	3.023	40	.004
Intellectual	2.045	40	.047
Individual	.807	40	.424
Contingent	1.707	40	.096
Management	-.093	40	.926
Laissez Faire	.000	40	1.000
Risk management	.690	40	.494

#### 4.7.3 Relationship of participant's age group to transformational leadership and risk management constructs

The descriptive statistics show the mean distribution of different leadership constructs and risk management among the different age groups. To determine participants leadership behaviour, each leadership constructs was compared with other constructs. It is evident from Table 4.8 that younger participants had the highest mean for Individual consideration (13.50) followed by management by exception (12.50) compared to other leadership constructs and risk management (40.50). Younger participants had the lowest mean score for laissez faire (8.00).

Older participants mean score was also compared with each constructs, it was discovered that the highest mean score for Leadership constructs was for Individual consideration (12.44) and Risk Management (39.44). The result showed that they had the lowest mean score for Non

Leadership style (8.56) and it was the highest mean when compared with the laissez faire mean score for younger participants.

Participants who are between 26 and 35 age group had their mean score compared to each constructs, the results show that Individual consideration had the highest mean score. They had a lowest mean score for Laissez faire. All age groups show the highest mean for Individualised consideration and Risk Management. They all had the lowest mean score for Laissez faire.

Table 4.8 Relationship of participant’s age group to transformational leadership and risk management constructs

Age Group		N	Mean	Std. Deviation
Idealised	20-25 years	2	11.00	1.414
	26-35 years	31	11.68	1.681
	36-45 years	9	12.22	1.856
	Total	42	11.76	1.694
Inspirational	20-25 years	2	12.00	.000
	26-35 years	31	12.06	1.548
	36-45 years	9	11.78	2.048
	Total	42	12.00	1.608
Intellectual	20-25 years	2	11.00	1.414
	26-35 years	31	12.06	1.750
	36-45 years	9	12.33	1.936
	Total	42	12.07	1.759
Individual	20-25 years	2	13.50	.707
	26-35 years	31	12.35	1.380
	36-45 years	9	12.44	2.455

	Total	42	12.43	1.625
Contingent	20-25 years	2	12.00	1.414
	26-35 years	31	12.29	1.532
	36-45 years	9	12.22	2.048
	Total	42	12.26	1.609
Management	20-25 years	2	12.50	.707
	26-35 years	31	12.29	1.575
	36-45 years	9	12.22	1.716
	Total	42	12.29	1.551
Laissez Faire	20-25 years	2	8.00	1.414
	26-35 years	31	7.61	2.060
	36-45 years	9	8.56	2.744
	Total	42	7.83	2.186
Risk management	20-25 years	2	40.50	3.536
	26-35 years	31	39.29	3.690
	36-45 years	9	39.44	5.918
	Total	42	39.38	4.143

#### 4.7.4 Analysis of Variance – Age group

Analysis of variance test for Idealised Influence reveal that sum of squares between groups did not find significant different of means as the result show (3.289) but there was a significant different of means within the groups as the sum of squares equals to (114.330). Table 4.9 show that the sum of squares for Inspirational Motivation were far apart from each other as it show (105.427) between the group and (106.000) within groups. Intellectual Stimulation show (2.915) between groups and (123.871) within groups. Individual consideration, Management by exception and contingent rewards their sum of squares within and between groups did not

show different of the means. ANOVA test show that F value for all constructs were less than one revealing that the predictor did not affect the residual variance. ANOVA test did not find the significant different of the means ( $p>0.05$ ).

Table 4.9 Analysis of variance among different age group

		Sum of Squares	df	Mean Square	F	p-value
Idealised	Between Groups	3.289	2	1.645	.561	.575
	Within Groups	114.330	39	2.932		
	Total	117.619	41			
Inspirational	Between Groups	.573	2	.287	.106	.900
	Within Groups	105.427	39	2.703		
	Total	106.000	41			
Intellectual	Between Groups	2.915	2	1.457	.459	.635
	Within Groups	123.871	39	3.176		
	Total	126.786	41			
Individual	Between Groups	2.467	2	1.233	.455	.638
	Within Groups	105.819	39	2.713		
	Total	108.286	41			

Contingent	Between Groups	.176	2	.088	.032	.968
	Within Groups	105.943	39	2.716		
	Total	106.119	41			
Management	Between Groups	.129	2	.064	.026	.975
	Within Groups	98.443	39	2.524		
	Total	98.571	41			
Laissez Faire	Between Groups	6.256	2	3.128	.644	.531
	Within Groups	189.577	39	4.861		
	Total	195.833	41			
Risk management	Between Groups	2.795	2	1.398	.078	.925
	Within Groups	701.109	39	17.977		
	Total	703.905	41			

#### 4.7.5 Relationship of race group to transformational leadership and risk management constructs

The mean scores of each race was compared to leadership constructs and risk management .When comparing mean scores for Africans , the result showed the highest mean score for risk management (38.95) and for leadership constructs , management by exception (12.53) followed by Individual consideration (12.26) had the highest means compared to other constructs. Whites had the highest mean for most of the constructs but when comparing mean

score among constructs it showed the highest mean for risk management (38.00) and for leadership constructs management by exception (13.50) had the highest mean score and *laissez faire* had the lowest mean score (8.00)

It is clear that Indians had the highest mean for contingent rewards (12.31) and Laissez faire had the lowest mean score (7.56). When comparing coloureds to leadership constructs, management by exception and individual consideration had the highest mean score1 (12.50). It appeared that coloureds had a mean score of (40.25) for risk management. Coloureds had the lowest mean score (6.75) for *laissez faire*.

Table 4.10 illustrated that other for Intellectual construct had the highest mean score (15.00) for Inspirational Motivation, Intellectual Stimulation and Contingent rewards. Risk management mean score was (44.0). Laissez faire had the lowest mean score of ( 9.00).To compare the mean scores among the different race of the participants, descriptive analysis showed that the other category had the highest mean for most of the constructs followed by the white participants.

**Table 4.10 Relationship of different race group to transformational leadership and risk management constructs.**

		N	Mean	Std. Deviation
Idealised	African	19	11.37	1.606
	White	2	13.00	2.828
	Indian	16	12.13	1.893
	Coloured	4	11.75	.500
	Other	1	11.00	.
	Total	42	11.76	1.694
Inspirational	African	19	11.68	1.529
	White	2	13.00	1.414
	Indian	16	12.13	1.784

	Coloured	4	11.75	.500
	Other	1	15.00	.
	Total	42	12.00	1.608
Intellectual	African	19	12.00	1.155
	White	2	12.00	.000
	Indian	16	12.06	2.489
	Coloured	4	11.75	.500
	Other	1	15.00	.
	Total	42	12.07	1.759
Individual	African	19	12.26	1.327
	White	2	13.00	2.828
	Indian	16	12.44	2.065
	Coloured	4	12.50	.577
	Other	1	14.00	.
	Total	42	12.43	1.625
Contingent	African	19	11.95	1.471
	White	2	13.50	2.121
	Indian	16	12.31	1.740
	Coloured	4	12.25	1.258
	Other	1	15.00	.
	Total	42	12.26	1.609
Management	African	19	12.53	1.926
	White	2	11.50	2.121

	Indian	16	12.00	1.155
	Coloured	4	12.50	1.000
	Other	1	13.00	.
	Total	42	12.29	1.551
Laissez Faire	African	19	8.21	2.616
	White	2	8.00	.000
	Indian	16	7.56	1.999
	Coloured	4	6.75	.957
	Other	1	9.00	.
	Total	42	7.83	2.186
Risk manageme nt	African	19	38.95	4.600
	White	2	38.00	2.828
	Indian	16	39.56	3.999
	Coloured	4	40.25	3.775
	Other	1	44.00	.
	Total	42	39.38	4.143

#### 4.7.6 Analysis of Variance - Race

When looking at the Idealised influence the findings revealed that ANOVA did not find a significant different of means as sum of square between groups was (8.698) and within groups was a significant different of (108.921). F value was (.739) which is less than one. P value is (.572) > 0.05

Inspirational Motivation - ANOVA test find a significant different within groups (92.605) and between groups did not find any significant different. F Value the result show (3.289) but there was a significant different of means within the groups as the sum of squares equals to (114.330).ANOVA test did not find any significant different of the means among the different race groups ( $p>0.05$ ).

**Table 4.11 ANOVA test - Race**

ANOVA						
		Sum of Squares	do	Mean Square	F	P-value
Idealised	Between Groups	8.698	4	2.174	.739	.572
	Within Groups	108.921	37	2.944		
	Total	117.619	41			
Inspirational	Between Groups	13.395	4	3.349	1.338	.274
	Within Groups	92.605	37	2.503		
	Total	106.000	41			
Intellectual	Between Groups	9.098	4	2.275	.715	.587
	Within Groups	117.687	37	3.181		
	Total	126.786	41			
Individual	Between Groups	3.664	4	.916	.324	.860
	Within Groups	104.622	37	2.828		
	Total	108.286	41			

Contingent	Between Groups	12.484	4	3.121	1.233	.314
	Within Groups	93.635	37	2.531		
	Total	106.119	41			
Management	Between Groups	4.335	4	1.084	.425	.789
	Within Groups	94.237	37	2.547		
	Total	98.571	41			
LAISSEZ FAIRE2	Between Groups	9.988	4	2.497	.497	.738
	Within Groups	185.845	37	5.023		
	Total	195.833	41			
Risk management	Between Groups	32.270	4	8.067	.444	.776
	Within Groups	671.635	37	18.152		
	Total	703.905	41			

#### 4.7.7 Comparison of participant's education level to transformational leadership and risk management constructs

When comparing different education level to each leadership constructs and risk management. The results show that participants who have matric had the highest mean (12.76) for Individual consideration and risk management (39.59). It appeared that they had the lowest mean for Laissez faire (8.12). Participants who have National Diploma had the highest mean for management by exception (12.43) and risk management (38.07). They also showed the lowest mean for *laissez faire* (7.43).

Respondents who possess Bachelor's degree had the highest mean for management by exception and Individual consideration (12.78) respectively. Table 4.6 revealed that

participants who have the bachelor's degree had the mean score (41.33) on risk management. It is the highest mean score when compared to participants who have other qualifications. Laissez faire show the lowest mean score (8.22). Participants who possess Postgraduate qualification had the highest mean for Intellectual Stimulation (12.00) and Risk management (38.00). *Laissez faire* had the lowest mean score of (6.50).

Table 4.12 Relationship of participant's education level to transformational leadership and risk management constructs.

		N	Mean	Std. Deviation
Idealised	Matric	17	11.71	1.611
	National Diploma	14	11.57	1.604
	Bachelor Degree	9	12.33	2.121
	Post graduate qualification	2	11.00	1.414
	Total	42	11.76	1.694
Inspirational	Matric	17	12.29	1.532
	National Diploma	14	11.57	1.555
	Bachelor Degree	9	12.44	1.810
	Post graduate qualification	2	10.50	.707
	Total	42	12.00	1.608
Intellectual	Matric	17	12.06	1.749
	National Diploma	14	11.86	1.994
	Bachelor Degree	9	12.44	1.740
	Post graduate qualification	2	12.00	.000
	Total	42	12.07	1.759
Individual	Matric	17	12.76	1.678

	National Diploma	14	11.93	1.685
	Bachelor Degree	9	12.78	1.302
	Post graduate qualification	2	11.50	2.121
	Total	42	12.43	1.625
Contingent	Matric	17	12.71	1.649
	National Diploma	14	11.71	1.204
	Bachelor Degree	9	12.44	2.068
	Post graduate qualification	2	11.50	.707
	Total	42	12.26	1.609
Management	Matric	17	12.06	1.391
	National Diploma	14	12.43	1.399
	Bachelor Degree	9	12.78	2.048
	Post graduate qualification	2	11.00	1.414
	Total	42	12.29	1.551
Laissez Faire	Matric	17	8.12	2.315
	National Diploma	14	7.43	1.453
	Bachelor Degree	9	8.22	3.032
	Post graduate qualification	2	6.50	.707
	Total	42	7.83	2.186
Risk management	Matric	17	39.59	4.078
	National Diploma	14	38.07	3.951
	Bachelor Degree	9	41.33	4.528
	Post graduate qualification	2	38.00	2.828

	Total	42	39.38	4.143
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#### 4.7.8 Analysis of variance – Education level

ANOVA test did not find any significant different of the means among the different race groups ( $p>0.05$ ).

Table 4.13 Analysis of Variance – Education level

ANOVA						
		Sum of Squares	df	Mean Square	F	p-value
Idealised	Between Groups	4.661	3	1.554	.523	.669
	Within Groups	112.958	38	2.973		
	Total	117.619	41			
Inspirational	Between Groups	10.320	3	3.440	1.366	.268
	Within Groups	95.680	38	2.518		
	Total	106.000	41			
Intellectual	Between Groups	1.908	3	.636	.194	.900
	Within Groups	124.878	38	3.286		
	Total	126.786	41			
Individual	Between Groups	8.243	3	2.748	1.044	.384
	Within Groups	100.043	38	2.633		
	Total	108.286	41			

Contingent	Between Groups	9.010	3	3.003	1.175	.332
	Within Groups	97.109	38	2.555		
	Total	106.119	41			
Management	Between Groups	6.646	3	2.215	.916	.442
	Within Groups	91.925	38	2.419		
	Total	98.571	41			
Laissez Faire	Between Groups	8.585	3	2.862	.581	.631
	Within Groups	187.249	38	4.928		
	Total	195.833	41			
Risk management	Between Groups	62.859	3	20.953	1.242	.308
	Within Groups	641.046	38	16.870		
	Total	703.905	41			

#### 4.7.9 Analysis of Variance (ANOVA) – Position at work

With regards to participants position at work, regional managers had the highest mean scores for most of the constructs. Assistant Branch Managers (ABM) had the highest mean for management by exception (12.30) and risk management (39.32). They had the lowest mean score for *laissez faire* (8.42). Branch managers had the highest mean for Individual consideration (12.59) and risk management (39.27). Regional Managers had the highest mean for management by exception (14.00). ANOVA test did not find any significant different of the means among the different race groups ( $p > 0.05$ ).

**Table 4.14 Relationship of participant’s job level to transformational leadership and risk management constructs.**

		N	Mean	Std. Deviation
Idealised	Assistant branch manager	19	11.42	1.644
	Branch manager	22	12.05	1.759
	Regional manager	1	12.00	.
	Total	42	11.76	1.694
Inspirational	Assistant branch manager	19	12.21	1.437
	Branch manager	22	11.82	1.790
	Regional manager	1	12.00	.
	Total	42	12.00	1.608
Intellectual	Assistant branch manager	19	11.95	1.471
	Branch manager	22	12.18	2.039
	Regional manager	1	12.00	.
	Total	42	12.07	1.759
Individual	Assistant branch manager	19	12.21	1.619
	Branch manager	22	12.59	1.681
	Regional manager	1	13.00	.

	Total	42	12.43	1.625
Contingent	Assistant branch manager	19	12.05	1.393
	Branch manager	22	12.45	1.819
	Regional manager	1	12.00	.
	Total	42	12.26	1.609
Management	Assistant branch manager	19	12.32	1.827
	Branch manager	22	12.18	1.296
	Regional manager	1	14.00	.
	Total	42	12.29	1.551
Laissez Faire	Assistant branch manager	19	8.42	2.434
	Branch manager	22	7.32	1.912
	Regional manager	1	8.00	.
	Total	42	7.83	2.186
Risk management	Assistant branch manager	19	39.32	4.843
	Branch manager	22	39.27	3.575
	Regional manager	1	43.00	.
	Total	42	39.38	4.143

#### **4.7.10 Relationship between transformational leadership and risk management constructs.**

To test relationship between transformational leadership and risk management, the test was performed using Pearson Correlation coefficient. The Pearson correlation test was conducted among different constructs to test the validity of the claim about the population. P Value was used to determine the significance of the result. P value on (Table 4.15) indicated a strong evidence against the null hypothesis.

Relationship between Idealised influence and other constructs was tested, the result showed that correlation was significant as  $p < 0.001$  except for Laissez faire and Management by exception. It was also tested against transformational leadership and risk management, the result show that  $p = 0.000$  and it is less than  $0.001$ . The Pearson correlation was conducted to test correlation of each constructs against each other and against transformational leadership and risk management the results were  $p < 0.001$ . It is clear that the result proved that there is a significant correlation between transformational leadership and risk management.

The correlation coefficient ( $r$ ) was used to measure the strength and direction of linear relationship between leadership constructs, transformational leadership and risk management. When the strength of relationship between transformational leadership and risk management was measured the findings showed that there is a strong positive relationship between variables as ( $r > 0$ ) except for Laissez faire. The strength of the relationship between idealised Influence and laissez faire was measured, the results was  $r = (-.70)$ . Table 4.15 displayed that findings show that the leadership constructs were significantly positively correlated with each other as well as with the risk management ( $p < 0.05$ ).

**Table 4.15 Correlations between transformational leadership and risk management constructs**

Correlations										
		Idea	Insp	Inte	Indi	Cont	Mana	LAIS	Risk	Tran
Idea	r value	1	.439*	.587*	.525*	.444*	.138	-.070	.531**	.552**
	P value		.004	.000	.000	.003	.384	.658	.000	.000
Insp	r value	.439*	1	.569*	.663*	.603*	.372*	.132	.582**	.821**
	P value			.000	.000	.000	.000	.000	.000	.000

	P value	.004		.000	.000	.000	.015	.405	.000	.000
Inte	r value	.587*	.569*	1	.680*	.605*	.118	.054	.585**	.774**
	P value	.000	.000		.000	.000	.458	.734	.000	.000
Indi	r value	.525*	.663*	.680*	1	.665*	.512*	.014	.678**	.902**
	P value	.000	.000	.000		.000	.001	.931	.000	.000
Con t	r value	.444*	.603*	.605*	.665*	1	.331*	.047	.647**	.822**
	P value	.003	.000	.000	.000		.032	.766	.000	.000
Man a	r value	.138	.372*	.118	.512*	.331*	1	.158	.522**	.583**
	P value	.384	.015	.458	.001	.032		.317	.000	.000
LAI S	r value	-.070	.132	.054	.014	.047	.158	1	.252	.102
	P value	.658	.405	.734	.931	.766	.317		.107	.520
Risk	r value	.531*	.582*	.585*	.678*	.647*	.522*	.252	1	.771**
	P value	.000	.000	.000	.000	.000	.000	.107		.000
Tra n	r value	.552*	.821*	.774*	.902*	.822*	.583*	.102	.771**	1
	P value	.000	.000	.000	.000	.000	.000	.520	.000	
**. Correlation is significant at the 0.01 level (2-tailed).										
*. Correlation is significant at the 0.05 level (2-tailed).										

#### 4.7.11 Correlation between transformational leadership and risk management

The overall scores for risk management and transformational leaderships were found to have significant correlation ( $p < 0.05$ ). It is crystal clear that there is positive, significant correlation between risk management and transformational leadership. The table below show that ( $r = 0.771, N=42, p= 0.000$ )

Table 4.16 Correlation between transformational leadership and risk management

<b>Correlations</b>			
		Risk management	Transformational
Risk management	Pearson Correlation	1	.771**
	Sig. (2-tailed)		.000
	N	42	42
Transformational	Pearson Correlation	.771**	1
	Sig. (2-tailed)	.000	
	N	42	42
**. Correlation is significant at the 0.01 level (2-tailed)			

#### 4.8 Conclusion

In this chapter, the data collected using questionnaire was analysed. Relationship between constructs and socio-demographics variables was also analysed. The relationship of leadership constructs and risk management to demographics was investigated. Statistical test of each objective was conducted and findings were analysed and presented accordingly. The results proved that there is strong, positive, correlation between transformational leadership and risk management. The next chapter includes the discussion of the findings presented in this chapter.

# **CHAPTER FIVE**

## **DISCUSSION OF RESULTS**

### **5.1 Introduction**

The chapter focuses on discussing the findings of the study. The results presented in Chapter Four were interpreted in conjunction with the literature review in Chapter Two to understand correlations between variables. The biographical information of the participants was discussed as well as its influence on the relationship between risk management and transformational leadership. The risk management analysis results were interpreted along with transformational analysis. The correlation between risk management and each transformational construct was discussed. This served as a yardstick to draw conclusions about the relationship between risk management and transformational leadership.

The results of the study reported the association between transformational leadership and risk management in the retail bank sector. To have the ability to lead teams in an environment that is changing at high speed is and heavily regulated, requires a leader to display certain behaviour to keep employees motivated to deliver on expected performance without putting the bank at risk of any form. Transformational leadership is seen as the style that is most suitable to mitigate risk in a changing environment; however, it was found that respondents strongly believe in transactional leadership as a leadership style to mitigate risk. It was evident from the study conducted by Cherian and Farouq (2013) that efficient risk management depends on the leadership style.

### **5.2. Demographics of participants**

The findings of this research are similar to the study done by Hoque (2016) at Nedbank in South Africa, where it was discovered that more than half of the bank managerial employees were females. The research done by Howe (2011) at Bidvest reported that 63% of participants were females. Molai's (2013) study revealed similar results, as 73% participants were also females. These results show the transformation within the industry, that females are now given opportunities to lead the teams; there is now a dominance of females within the industry. The South African banking industry promotes gender equality. In contrast, the study conducted by Wandera (2014) in Kenya revealed that more males (72%) were in managerial position.

In terms of ethnicity, the majority of respondents were Africans and Indians. Ethnic groups that were less represented were coloureds and whites. The reason might be that the majority of the

population in Durban consists of Africans and Indians. Population is well represented in the retail bank. In contradiction of the study done by Molai (2013) at Standard Bank, which revealed that the majority of participants were Indians (67%) followed by Whites (20%) and Blacks at (14%), this study indicated more diversity in the bank.

The study demonstrated that the majority of participants did not have tertiary qualification. The results are similar to the study conducted by Howe (2011) at Bidvest bank that revealed that 38.8% of respondents had a matriculation certificate (matric) only. The study done by Bell and Mjoli (2014) in Alice to determine the effectiveness of participative leadership across big five banks concluded that 50% of participants had matric as their highest qualification. The majority of operational management staff in South African banks had matric as the highest qualification.

The study reported that the majority of participants are between twenty-six and thirty-five years of age. The study done by Wandera (2014) in Kenya showed that more than one third of participants are over 40 years of age. The retail bank recruits young individuals and trains them to fit the bank culture.

It is evident that one third of the sample was in their current position for one or less than a year. This shows that they are new in their position, and they still need development. The current study indicated that 85% of participants were in their position for less than 5 years. The study done by Hoque (2016) at Nedbank found that 60% were in their position for less than 5 years.

The study proved that participants who have been with the company between 5 and 7 years, made up the majority of the sample. This showed that more than half of respondents have been with the company for less than 7 years. The study done in by Wandera (2014) in Kenya showed that 48% of respondents were with the bank for more than 11 years.

It was found that half of the participants who completed the questionnaire were Branch Managers and 48% Assistant Branch Managers. The findings showed that the majority of Regional Managers did not complete the survey. The reason might be that the consent letter indicated that it was not compulsory and they have a right to refuse to participate or withdraw from the study with no consequences.

### **5.3 Objective 1: To measure how managers perceive themselves in terms of transformational leadership**

**5.3.1 Idealized Influence** The results showed that the majority of participants claimed that the charisma of the leader had an influence on the performance of the followers. Jain and Duggal (2016) found that charismatic leaders influence employees' commitment to achieve great things, as the leader makes them feel they are full human beings. Bish & Kabanoff (2014) mentioned that individuals who perceived their leader to be transformational, felt the need for competence when performing their task, as they respected and trusted the decision making of their leader. When employees trust the skills and knowledge of their leader, they normally believe that the leader understands the vision of the company and strive for higher levels of achievement.

Two thirds of the sample believed that they made others feel good to be associated with them. Buda and Ling (2017) found that transformational leaders instil confidence and positivity in their followers to get them inspired. When employees have complete faith in their leader, they are willing to go the extra mile. Olaka, Lewa and Kiriri (2017) put forward that transformational leaders develop and communicate a vision and formulate strategies by continuously encouraging followers to strive for higher levels of achievement.

The study reported that more than one third of participants were unsure whether their followers trusted them or not. The study showed that the majority of participants were less than 35 years of age and out of those, one third were in their current position for less than a year. The reason for the results might be that they are still new in their position. They are not confident enough to have gained trust from their followers.

The study conducted by Guay (2013) to determine the relationship between the leader fit and transformational leadership, discovered that leaders who display more transformational abilities motivate followers to deliver good results and increase staff performance. He added that when employees feel good to be around their leader, that builds trust and they are always willing to produce work of high quality with fewer errors. The level of conflict between employees lead by a charismatic leader in an organization diminishes. Transformational leaders lead by example; as a result, subordinates gain faith and feel good to be around their leader.

Zareen et al. (2015) add that charismatic leaders influence the behaviours and attitudes of the followers, and act as a role model; as a result, followers act in an ethical manner for the benefit of the organization by doing the right thing. They further note that transformational leaders

sacrifice for the good of the organization, and through their actions, followers' respect and trust comes naturally. Tyssen, Wald and Heidenreich (2013) believe that the transformational leadership style is effective in times of uncertainty and change as transformational leaders display exceptional forms of influence that encourage subordinates to feel passionate about the success of the organization and accomplish more than expected. None of the participants disagreed or strongly disagreed with the idealised influence statements. The result showed that 27% were undecided.

### **5.3.2 Inspirational Motivation**

The results showed that more than half of participants provide appealing images about what can be done. Wan Omar and Hussin (2013) believe that the transformational leader motivates followers to come up with simpler and better ways of achieving organizational goals. Leadership behaviour plays an important role in encouraging employees to work towards achieving organisational objectives. Motivated employees always show positive attitude towards others.

Transactional leadership sets clear instructions to followers that successful completion of tasks results in the receipt of desirable rewards or punishment. When employees do not achieve the expected results, transformational leaders make negative remarks. Omar and Hussin (2015) mention that transformational leaders avoid disciplining their followers in public. Instead, transformational leaders provide their followers with challenging tasks to build their confidence. Followers are encouraged to carry out the tasks on their own to stimulate their thinking.

The study reported that 70% participants agreed that they motivated their followers by helping them to find meaning in their work. The results are in line with Deichmann & Stam's (2015) findings that the majority of respondents helped their followers find meaning in their work. The respondents promoted intrinsic motivation and personal development of their followers. The study done by Zareen et al., (2015) highlighted that when employees feel motivated, they are willing to exceed their normal performance to meet the company's expectations as they find meaning in their work.

Results of this study indicate that 2.38 % of participants disagreed that when employees are motivated they always feel good and perform better. The results are not in line with Epure and Lafuente's (2015) findings that transformational leadership behaviour motivates employees to meet and exceed organizational goals and drive their organization's success. Zhu, Newman,

Mia and Hooke (2013) state that the transformation leadership style has a correlation with the staff performance; staff need to be motivated and informed to perform better.

Although Yahaya & Ebrahin (2016) suggested that transformational leaders motivate followers to strive for the good of the organization. Wang et al. (2016) felt that employees tend to follow transformational leaders without exercising their rights to question the actions of the leaders because of the trust element in the relationship. The current study showed that participants used motivation to connect the set objectives of the organization to the needs of the employees.

### **5.3.3 Intellectual Stimulation**

The findings reported that more than half of participants enabled the followers to think of problems in new ways. This statement is supported by Moriano and Molero (2014), who found that transformational leaders' behaviours encouraged followers to be innovative when solving problems, and tackling old situations in an innovative way in order obtain improved results. When followers are struggling to deliver on expected results, the transformational leader does not punish them. Transformational leaders challenge the way followers think in order to encourage them to be more innovative when solving problems or struggling to deliver expected results (Amos & Klimoski, 2014). Employees who are led by a transformational leader always come up with creative ways to deal with challenges, and as a result, productivity among employee's increases.

Eckhaus (2017) reported that transactional leadership rewards or punishes the followers based on the performance. Unlike transactional leadership, Deichmann & Stam (2015) found transformational leaders are responsible for setting organizational goals and motivating the followers to achieve those set objectives. The study reported that 17% of participants neither agreed nor disagreed that they provided ways for their followers to come up with innovative ways at looking at puzzling things. These results are contradictory to Bass & Avolio's (1994) findings that transformational leaders stimulate followers' thinking to find creative ways to achieve extraordinary outcomes. Transformational leadership stimulates and inspire followers to work towards achieving organizational mission and goals.

The results showed that 55% of participants get others to rethink ideas that they had never questioned before. The study found that 10% of the sample disagrees with the statement, meaning they did not motivate their followers to be innovative. Omar and Hussin (2013) believe that leaders should encourage followers to rethink ideas and come up with simpler and better ways of achieving organizational goals. Uddin et al. (2017) add that transformational

leadership is viewed as the more appropriate leadership behaviour to promote employees' drive to be innovative.

The findings revealed that more than half of the participants helped others find meaning in their work. Mhatre and Riggio (2014) mention that when leaders display appropriate leadership behaviours and leadership style, employees perform better. Followers are more likely to show commitment when the leader displays behaviours that encourage them to find meaning in their work.

### **5.3.4 Individual Consideration**

This study revealed that about a third of participants believed that they helped others to develop themselves. Bass, Avolio, Jung, & Berson (2003) mention that transformational leader understands the strength and weaknesses of the subordinates and as a result, are able to identify growth opportunities and design a personal development plans to suit the needs of that particular individual. The subordinates can suggest to the leader areas that need development as they feel comfortable that their leader has an interest in their growth as individuals.

The current study reported that the majority of participants give others feedback on their performance and how the leader thinks of their performance. Transformational leaders allocate time for one-on-one sessions with individual employees to provide feedback on individual performance and give coaching and mentoring when needed. Yildiz, Basturk, & Boza (2014) note that a transformational leader listens carefully to individual needs of followers and provides individual support to ensure the well-being of that particular individual. The study conducted by Holten and Brenner (2015:5) showed that "transformational leaders engage followers as individuals and recognize performances as individuals as well".

The findings showed that the majority of participants in the retail bank agreed that they gave attention to those individuals or subordinates who seem rejected. Bealer and Bhanugopan (2014) believe that transformational leaders display individualized consideration behaviour to the followers to increase the performance of the organization. Sarwar and Mumtaz (2017) outline that transformational leaders understand followers' strengths and weaknesses, put emphasis where it is needed and align tasks according to their strengths to allow followers to perform to the best of their abilities. Osisogun (2017:7) outlines that a transformational leader "motivates followers to perform beyond the normal performance tendencies by surpassing individual beliefs for the benefit of the organization".

The findings reported that 11% of participants were unsure whether they focused on the follower as an individual. When the leaders do not give individual support to their followers, others might feel neglected and this can have an impact on their performance and team's productivity. Zareen *et al.* (2015) point out that transformational leaders focus on the follower as an individual to try to find better ways to improve the employee's performance. By doing that, followers are motivated that the organization has an interest in their well-being as employees.

Charismatic leaders show interest in the employee's personal growth and beliefs; as a result, followers are willing to accomplish more than expected. The study conducted by Holten and Brenner (2015) to identify processes which have a positive influence on subordinates, revealed that charismatic leaders give recognition and show appreciation to the individual for their contribution to the team's performance. The behaviour boosts their confidence and increases individual performance. The study done by Belias and Koustelious (2014) to determine the relationship between transformational leadership and the levels of job satisfaction among bank staff, stated that transformational leaders provide support to the followers. Subordinates are always encouraged and coached to accomplish and exceed organisational goals, and thereafter, transformational leaders provide the necessary feedback to address the personal and professional problems of each follower (Pradhan, Panda and Jena, 2017).

### **5.3.5 Contingent rewards**

The results of the current study showed that 30% of participants gave clear instructions to the followers on what to do when they want to be rewarded. The findings of the current study are similar to the results found by Paracha *et al.* (2012), that transactional leadership clearly articulates policies, standards, rules and regulations that need to be observed by the followers. The mandate of followers is to ensure that they meet the requirements of established objectives. Transactional leadership controls and monitors the results of both parties. Fernández-Muñiz *et al.* (2014) note that the transactional leader sets goals to be met by followers, and focuses on monitoring and controlling the outcome to ensure that results complement the set objectives. Copeland (2014), mentions that the transactional leader ensures that organizational goals and individual rewards are clear and unambiguous to both parties. Strom, Sears and Kelly (2014) support the notion that transactional leaders clarify followers' responsibilities, the leader's

expectations, and benefits for compliance. Transactional leaders monitor, co-ordinate and direct followers' behaviour, depending on the situational conditions.

The study revealed that the majority of respondents provided recognition/rewards when others reached their goals. Kuhnert and Lewis (1987) believe that transactional leadership is a give and take situation between a leader and follower, where a follower is expected to deliver on a leader's expectations. Transactional leaders set objectives to be achieved, inform the followers and give details about the reward; when set goals are reached, the leader provides recognition/reward for the followers' achievement. Antonakis and House (2014) mention that followers must motivate themselves or regard their reward as a source of their motivation to achieve objectives. Transactional leaders use appraisal to offer rewards, pay salary increases and ensure career growth for good performance. They go on to say that transactional leadership is used as punishment for poor performance. Paracha *et al.* (2012). Copeland (2014) believes that to gain compliance from their followers they use rewards and punishment, seeking to maximize the rewards for additional work completed. The statement is line with Labby, Lunenburg & Slate's (2012) view that transactional leaders are more interested in finding deviations and faults in the followers than in inspiring them to perform better. According to Clarke (2013), transactional leaders outline the process and expected standards to achieve set objectives.

Eckhaus (2017) confirms that transactional leadership is about issuing rewards or punishment to the followers based on their performance. Transactional leaders inform the followers that successful completion of tasks will result in the receipt of desirable rewards. When subordinates do not achieve the minimum requirements of the leader, they receive negative remarks or punishment. Transactional leadership is best practised in a stable environment to ensure that the organization is operating smoothly, as this leadership style lacks creativity and innovation. The followers' morale motivation and willingness to do the job diminishes with time but the rewards and incentives motivate employees to perform better. In conclusion, it was reported that the transactional leadership style is concerned with end results, performance and profitability of the organisation by control of followers through systems and procedures.

This study showed that nearly half of participants in the retail bank used contingent reward as tool to motivate staff to achieve the organisational goals. Bass (1985) believes that contingent reward connects individual performance to the incentive. This motivates followers to feel committed and energetic to improve their individual performance. He highlights that although

contingent reward lacks the inspirational appeal of transformational leadership, it has motivational power. The leader may choose to use incentive to reward those who have done exceptionally well. It is a way of motivating followers to work hard in order to get rewards for their contribution. By doing that, transactional leadership helps organizations achieve their current objectives more efficiently. Bass & Roggio (2006) add that when the objectives are not met, punishments or corrective action set by the leader are effected.

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

The findings of the current study showed that one third of participants believed that as long as things were working, they did not try to change anything. McCleskey (2014) is of the opinion that management by exception works well in the existing culture, as it maintains the current organizational situation. Odumeru and Ogbonna (2013) agreed that the transactional leadership style maintains the *status quo*, intervenes when subordinates do not meet acceptable performance levels, and initiates corrective action to improve performance. He explains that it is not suitable for a changing environment.

The majority of participants strongly agreed that they were satisfied when others met agreed - upon standards. Transactional leadership promotes exchange between leaders and followers to provide benefits to both. Half of the participants strongly agreed that they told others of the standards they have to meet when they carry out their task. When followers meet the leader's expectations, transactional leader use extrinsic rewards to motivate them to perform to the best of their abilities.

The current study revealed that 79% participants believed that management by exception motivated followers to perform better. The results show that 8% did not support the statement. Management by exception is suitable for hierarchal structure organization. Dubois, Hanlon, Koch, Nyatunga and Kerr (2015) state that leaders adopt the transactional style to ensure that followers do their job as expected in order to achieve organizational goals.

### **5.3.7 Laissez faire Leadership**

The research found that 19% of participants (Table 4.4) agreed that whatever others wanted to do was acceptable. Yammarino and Bass (1990) mention that employees led by someone who practises this leadership style are expected to make their own decisions and depend on their own views to execute their tasks. Gilbert, Horsman, Kelloway (2016) support Yammarino and Bass's (1990) views that followers under *laissez faire* leadership are given freedom to make

their own decisions. Laissez-faire leadership is regarded as the style that may produce negative results on a bank's performance as the leader is actively involved in risk management. The leadership style might have a negative impact on the banking environment. Banking culture does not promote such a leadership style; however, managers still display it, depending on the situation.

The results show that more than one fifth (Table 4.4) of the participants asked no more others than what was absolutely essential. The behaviour of a leader in asking what is absolutely essential can be displayed as a lack of communication between the follower and the leader. Bass and Avolio (1994) outline that the laissez-faire leadership style has a lack of communication between a leader and the followers. Managers who practise this leadership style ask no more than what is absolutely essential from their followers. Laissez faire behaviour encourages leaders to avoid their leadership responsibility which is to give direction to the followers. According to Deichmann and Stam (2015), leadership is the most important aspect of the organization; it points out the direction that needs to be followed towards attaining company objectives. Asrar-ul-Haq and Kuchinke (2016) state that laissez faire leaders lack commitment when it comes to decision-making and as a result, they deliberately avoid situations that require them to make decisions. Bealer and Bhanugopan (2014) mention that goals set by laissez-faire leaders are unclear and ambiguous on what needs to be achieved; hence it becomes a challenge as followers are expected to make their own decisions.

Results of this study revealed that 31% (Table 4.4) of participants were unsure whether they let others continue working in the same way always or not. The results showed a lack of inspirational motivation. They do not inspire their followers to find new ways of solving problems as they are content to let others do whatever they want. They do not encourage their followers to come with new ways of solving problems. Smith, Eldridge and DeJoy (2016) stress that laissez-faire leaders are not proactive in providing feedback to followers. When there is no feedback from the leader, followers will not be able to make decisions, resulting in the action not being taken. Skogstad, Einarsen, Torsheim, Aasland and Hetland (2007) mention that employees led by a leader who practises the laissez-faire style are most likely to lose motivation, become frustrated and consider quitting the organization.

#### **5.4 Objective 2: To determine the leadership understanding of risk management in the retail bank**

The findings (Table 4.5) showed that almost every participant supported their subordinates in realising the impact of risk on the performance of the retail bank. The assumption is that when the followers understand the financial loss that non-compliance can cause to the business, they will manage it better. King IV (2016) states that companies should ensure that the importance and benefits of compliance are well understood by all bank personnel as a source of protection.

The respondents were asked whether it was staff responsibility to ensure adherence to policy and procedures. The results showed that 7% disagreed with the statement and 11% were undecided. The results were unexpected from the managers leading teams in the retail bank as the Banks Act (1990) requires all bank staff to be responsible for the management of any risk regarded as material by the retail bank. The assumption is that every employee who works at the bank knows the Act that governs the bank very well as it serves as their guide. Table 4.5 showed that the majority of staff have a matriculation certificate (matric) as the highest qualification and never had an opportunity to learn about banking. The retail bank must ensure that all bank personnel clearly understand that it is everyone's responsibility to adhere to the policy.

There are a number of reasons why everyone must adhere to policies. According to Sun & Wang (2014), banks are responsible for safeguarding of clients' deposits, and in order to maintain consistency and uniformity, processes must be in place and be followed constantly. When bank staff do not adhere to process that can impose risk to the bank, though it is a very rare case where the true root of risk is based on system design and process management. However, the majority of respondents felt that this applied to certain individuals.

The respondents were asked whether the leadership style had an impact on staff adherence to policies. The majority of participants felt that leadership behaviour had an impact on staff adherence to policy. Policies are created to ensure consistency and to mitigate risk in the retail bank. The results are in line with the study done by Appiah-Adu and Amaoko (2016), where performance of the bank on risk management is influenced by the leadership, as leaders are able to foresee and avoid the risk before it happens.

The bank managers' role is crucial as they are responsible to ensure that staff adhere to bank policies and comply with the bank regulation. Human capital is responsible for carrying out tasks, and managers should ensure that while staff are performing their daily duties, they adhere

to the policies. It was found that 4% felt that leadership behaviour has no influence on the staff adherence to company policy and regulations. The study done by Luburic (2016) revealed that an organization is the product of its leaders and people. The organization, to be able to manage risk better, requires those who manage risk to change for the better of the organization.

According to Lam (2014), mention when the bank has good people and weaker process it can overcome challenges, no matter how good the processes can be. When the leaders inside the organization do not have good management skills, the bank cannot survive. This shows that leaders play a vital role in risk management, as the company's risk profile is determined by the actions of its employees.

Luburic (2016) adds that to ensure success in managing risk, the bank must invest in the development of its employees by ensuring that they acquire knowledge that is required to perform their tasks. Staff will be able to manage risks effectively. Employees who are not well trained and demotivated teams can cause a risk that may not affect that particular bank only but can cause a dent in the banking environment.

According to Aslam, Ghaffar, Talha, Mushtaq (2015) human capital is an asset to the organisation as some functions of the business demand the human factor to be able to function. Sometimes human capital can be the root cause of risk. The current study found that 76% of respondents strongly agreed that it was their responsibility to manage compliance in the branch and ensure that their staff adhere to company policies to reduce credit risk. Cherian and Farouq (2013) highlight that efficient risk management depends on skilled and effective human capital. Table 4.5 shows that 2% of participants were undecided, and that it is a concern, as The Banking Banana Skins (2015) stressed. The importance of banks to manage credit effectively, suggested that staff non-adherence may result in the bank getting indebted and leaving it in a financially unstable position.

Results of this study showed that 2 % of respondents allowed their followers to do whatever they wanted when issuing loans to clients. Zakaria and Purhanudin (2017) mention that loans are the kind of assets that cannot be easily converted to cash. When loans are issued, the Manager or Team Leader needs to monitor the process closely to ensure that the loan granting process is well understood by the subordinates and that the customers are not over-exposed to risk. When the staff decide not to adhere to the processes, clients can fall into arrears; then specific collection skills are required to recollect funds from the client and this is costly. When the manager allows them to do as they wish, that might be a risk to the business.

Waemustafa and Sukri (2016) mention collection teams encounter challenges when doing follow up on defaulting clients, especially when they don't have the correct client's details. They believe that credit management is one of the core function of banking. This practice can drive the organization to insolvency and even bankruptcy that can lead to a banking crisis. The collapse of the banking industry can emerge due to borrowers defaulting on their loan repayment. The Banking Banana Skins (2015) revealed that credit risk is one of the major risks that affect the profitability of the banking sector.

Makhubela (2010) mentions that in many cases where there was a financial loss or bank failure, it was as a result of management failure to ensure that employees comply with laid down policies and processes. Broken processes and poorly trained staff can pose a major risk in the organization. Some organizations bleed money as a result of staff non-adherence to company policies.

## **5.5 Objective Three: Determining relationship between transformational leadership and risk management**

### **5.5.1 Relationship between Idealised Influence and Risk management**

The results showed that there is positive relationship between risk management and idealised influence. İşcana, Ersarıb, Naktiyokc (2014) found that when the organisation strategy is to respond according to the demands of a rapidly changing environment, the process requires change in the way banks operate. Onorato (2013) agrees that transformational leadership is suitable for changing environments. Teams must keep up with organizational change. When teams are left behind the wave of change, that normally opens up a risk gap in the organization. The results showed that  $r = .552$  (Table 4.15), meaning that there is a strong positive relationship between risk management and idealised influence. Appiah-Adu and Amaoko (2016) mention that leaders are able to foresee and avoid the risk before it happens; this give them an advantage to influence the performance of the bank on risk management. Bank managers need to act as role models when it comes to risk management processes, as their behaviour will influence the followers' behaviour towards compliance. It is the responsibility of the leaders to create strategies that will enhance competitiveness in an organization; human capital is responsible for implementing those strategies successfully. Chernobai, Rachev & Fabozzi, (2007) explain that banks can avoid internal operational failures by implementing internal risk management processes. Transformational leaders paint a clear picture to influence followers to realise the importance following business processes. Bateh and Heyliger (2014)

mention that transformational leadership and charisma cultivate trust, respect and admiration from the subordinates.

### **5.5.2. Relationship between Inspirational Motivation and Risk Management**

The present study found that participants motivated and inspired their followers to pay attention when assisting clients. Phaneuf et al. (2016) agree that transformational leaders have the ability to motivate their followers by sharing the vision and the benefits of achieving the organizational goals. Inspirational motivation leaders use motivation to connect the set objectives of the organization to the needs of the employees.

The results demonstrated that  $p=0.00$ ; there is a significant correlation between inspirational motivation and risk management. Holten and Brenner (2013) add that motivated employees always think of better approaches to tackle issues that are a threat to the organization's profitability. They add that this behaviour encourages followers' awareness of risk and motivates them to act in an ethical way. Pradhan, Panda and Jeana (2015:83) mention that "through inspirational motivation, the transformational leader inspires and motivates the followers towards the new ideas or goals that the organisation confronts with changing business requirements.

### **5.5.3. Relationship between Intellectual Stimulation and Risk Management**

Participants' responses showed that there is a positive relationship between Intellectual Stimulation and risk management, as  $r$  value = .585. Abiola & Alousi (2014) put forward that risk management is a human activity which integrates the processes from identifying risk to the stage of risk mitigation. The process requires leaders to encourage followers to be innovative when solving problems. Moriano, Molero, Topa, and Mangin (2014) mention that a transformational leader displays behaviours that encourages followers to be come up with innovative ways when solving problems, by approaching old situations in new ways, resulting in better performance. Eckhaus (2017) believe that the behaviour of corporate leaders who ignored robust risk management led to the global financial crisis. Bass & Avolio (1994) found that transformational leaders encourage followers to find creative ways to achieve extraordinary outcomes. The Pearson correlation test results showed that  $p$  value = 0.000, hence there is significant correlation between Intellectual Simulation and risk management. Jizi and Dixon (2017) mention that almost every aspect of the business carries risk; however, it is a

responsibility of every employee to ensure that their behaviour does not put the bank or its customers at risk. Zacher and Rosing (2015:55) mention that innovation contributes positively to a company's growth and performance as it is the generation of new and potentially useful ideas.

#### **5.5.4. Relationship between Individualised Consideration and Risk Management**

The present study found that respondents believed that to show interest in others' self-development, is to find better ways to improve the employee's performance. The findings are similar to the study done by Zareen *et al.* (2015), which pointed out that transformational leaders focus on the follower as an individual to motivate him/her to perform better. By doing that, followers are willing to do well, for the organization has an interest in their well-being as employees. Jones and George (2016) state that transformational leadership makes people aware of their own needs for personal growth and that motivates subordinates to work for the good of the organization. Charismatic leaders show interest in the employees' personal growth and beliefs; as a result, followers are motivated to do everything within their control to manage risk effectively. It is reported that  $R = .678$ , showing that there is a positive relationship between individualised and risk management.

The findings revealed that more than two thirds of the participants gave personal attention to those who struggled to do risk assessment correctly. They monitor the individual progress and give coaching when needed. There is a significant correlation between risk management and Individualised consideration, as  $p = 0.000$ . Sawar and Mumtaz (2017) outline that transformational leaders understand followers' strengths and weaknesses; they provide development when is needed and align tasks according to their strengths to allow followers to improve performance. Luburic (2016) stresses the importance of the role played by leaders in risk management: in order for the organization to be able to manage risk better, it requires its people to manage risk to change for the better.

#### **5.5.5 Relationship between Contingent Rewards and Risk Management**

Managers believed that rewarding followers for capturing correct information on the system can contribute positively to the management of risk in the retail bank. Participants felt that employees must be rewarded for managing risk effectively. It is very crucial in a banking environment to have the client's correct details. When the details are captured incorrectly, it can be very difficult to contact the client when the need arises. The present study (Figure 4.5) displayed that 47% participants viewed contingent rewards as a tool to improve performance.

There is a strong, positive relationship between contingent rewards and risk management, as  $R = .647$ . The results are in line with the study done by Paracha *et al.* (2012), that transactional leadership is the best practice for directing followers' behaviour towards the achievement of established goals. Effelsberg *et al.* (2014) disagree as they feel that transformational leaders encourage the commitment of followers, but staff still show a selfish desire for recognition and reward for their efforts and performance. This idea was supported by Molai (2013) to recognize employee performance through rewards and promotion can assist to improve employee performance in an organization. Transactional leaders use incentive and compensation to retain staff.

Not all respondents supported contingent rewards: 14 % believed that staff must do what they have to do without being rewarded. The findings are contradictory to the study done by McCleskey (2014) in Pakistan. The aim of his study was to determine the impact of leadership style on employee performance. The findings of his study revealed a significant correlation between transactional leadership and employee performance. McCleskey (2014) mentions that a leader motivates followers through contractual agreements to perform in exchange of pay or rewards for better performance and excellent achievements. These exchanges allow leaders to accomplish their performance objective, avoid unnecessary risks, and focus on improved organizational efficiency. The results of the current study demonstrated that there is a significant correlation between contingent rewards and risk management ( $p=0.000$ ).

#### **5.5.6. Relationship between Management by exception and Risk Management**

The results showed that 92% (Table 4.3) of participants told others of the standards they need to maintain to carry out tasks. There is a strong relationship between management by exception and risk management, as  $r$  value = .583. Molai (2013) found that to recognize employees' performance through rewards and promotion can assist to improve employees' performance.

#### **Relationship between *Laissez faire* and Risk Management**

Pond (2009) points out that banks fall under the category of most heavily regulated organizations in the universe. When banks fail to comply with the regulations, they must be prepared to pay heavy fines. The findings showed that 12% of participants allowed their followers to do whatever they wanted to do. When managers provide no guidance to their followers, it may lead to the drop of the desired output. This behaviour can increase risk of non-compliance as there is no overseer in the retail bank. The leadership style shapes the attitudes and behaviours of the followers towards the degree of allowing or preventing risk.

Salter *et al.* (2014) mention that the leader plays a key role in influencing people to do what they do not want to do.

The results showed that half of participants felt content to let others continue working in the same ways always. When followers have a clear direction on what needs to be done, they feel motivated to put more effort to meet and exceed company expectations. Holten and Brenner (2013) believe that people should be empowered and motivated to think of better approaches to tackle issues that have an impact on the performance of the organisation. Amankwaa and Anku-Tsede (2015:19) mention that “People must be managed in ways which seek to elicit favourable behavioural responses targeted at creating customer satisfaction and consequent business efficacy”.

### **5.5.8 Relationship between Transformational Leadership and Risk Management**

Respondents believed that the leadership style had an impact on the staff adherence to the company policy. The results found that there is a positive and significant correlation between risk management and transformational leadership. A similar study was conducted at Jordaan banks by Dartey-Baah & Ampofo (2015) to investigate the effects of both transformational and transactional leadership styles on employees’ performance. The findings revealed that in order to increase level of performance and satisfaction, bank managers should demonstrate transformational and transactional attributes depending on the situation.

According to Moynihan, Pandey, & Wright (2012), the transformational leader’s idealised influence paints a clear picture to the followers about the impact of risk on the business performance if it is not managed properly. The human element is very important in any organisation. Nanjundeswaraswamy and Swamy (2014:58) believe that “transformational leadership happens when leader blend employees to appear beyond their own self -interest for the good of the group.”

Babalola & Stouten (2016) highlight that leaders behave differently; there are leaders who care more about processes while others are more interested in the outcomes. Transformational leadership has been proven to influence team effectiveness and innovation that results in the desired performance and expected result. When the desired performance in an organisation is to mitigate risk, leaders can behave differently and care more about processes and team outcomes. Zacher and Rosing (2015:55) mention that transformational leadership involves leaders motivating their followers to perform above and beyond expectations by encouraging independent and creative thinking, and being caring and nurturing. Schimdt *et al* (2014)

support the notion that transformational leadership believes in influencing employees positively and always showing interest in the employees' well-being. Transformational leaders strive to create a conducive work environment for their staff. Demirtas and Akdogan (2015) put forward that subordinates who have a leader who shows interest in their well-being, tend to feel more trusting and willing to discuss even sensitive issues with their leader. They go on to say that followers will be committed and willing to report unethical issues when they feel that the leader will agree with or understand their concerns and respond to them in a professional manner. The study done by Bottomley, Burgess and Fox III (2014) reported that leadership directs the performance of the organization.

Abiola and Olausi (2014) add that achievement or failure of organizational objectives is due to the nature of the leadership style. It showed the importance of bank managers' adopting the relevant leadership style when dealing with their followers. Jones and George (2016) argue that transformational leadership makes people aware of the importance of their jobs and performance to the organisation and of their own needs for personal growth, that motivates subordinates to work for the good of the organization.

## **5.6 Conclusion**

It is concluded that transformational leadership is the most preferred leadership behaviour to improve risk management by banks in Africa and globally. Bank performance on risk management gives a complete picture about managers' ability to manage risk. Transformational leaders have the ability to influence employee behaviour to act in an ethical manner and in the best interests of the organisation. Transformational leadership makes people aware of the importance of their jobs and performance to the organization. The next chapter will present further discussions, contribution of the study, recommendations and conclusions.

## CHAPTER 6

### CONCLUSIONS AND RECOMMENDATIONS

#### 6.1 Introduction

The global competition forced organizations to improve their process continuously in order to out-perform their competitors. Demirtas and Akdogan (2015) mention that the importance of change in the banking industry due to increasing globalization, the rapid pace of technological innovation, a growing knowledge workforce, and shifting social and demographic trends, means that the leadership task is highly demanding as it can determine the success or failure of the organization. Manaf and Latif (2014) believe that leadership can assist the firm to survive and prosper in a turbulent environment. When organizations are undergoing a change process, this creates a risk gap that the organization's leadership must be adequately prepared for, along with its teams.

Researchers have mentioned that different leadership styles have varying influences on risk management. Birasnav (2014) believed that to identify a suitable leadership style to mitigate risk in this turbulent environment can improve employee performance. Rapid advancement of technology presented major opportunities and challenges for managers. Cherian and Farouq (2013) stressed that people management and risk management are some of the issues that are facing the banking industry. The study sought to find a deeper understanding of the relationship between transformational leadership and risk management. The aim was to understand the most effective leadership style that can be adopted by the retail bank managerial employees to ensure that followers are motivated to embrace change, adhere to company policies, rules, regulations, and perform in the best interests of the retail bank.

Hora and Klassen (2013) mentioned that when risk management in the bank is not properly managed, it can result in poor customer service, damage of customer goodwill, reputational risk and large liabilities. The main focus of this chapter is to summaries findings with regard to the research questions, and to discuss recommendations based on the results of the study. Additionally, the benefits of the study, limitations of the research and recommendations for future study will be discussed.

## **6.2 Has data answered the research questions?**

The data presented has answered the research questions. The findings were in line with literature. What emerged from the study is that the majority of participants displayed a transformational leadership style as the preferable style when dealing with their followers. Most researchers (Aydin, Sarier and Uysal, 2013; Labby, Lunenburg and Slate, 2012 and Amos & Klimoski, 2014) believed that in order to improve organisational performance, the leader must adopt a transformational leadership style. The study exhibited that the majority of respondents deal with the follower as an individual. This behaviour assists teams to be at the same level of understanding on what needs to be achieved. The results showed that respondents provide appealing images about the expected objectives. The transformational leadership style promotes innovation; as a result, followers deal with old problems in new ways which is beneficial to the organisation. Dekoulou and Trivellas (2014) believed that dramatic changes in technology require organisations to focus on the constant learning advancement of their employees. The retail bank as the learning organisation demands managers who display transformational behaviour to do so for the bank to remain competitive.

Changing is good for the growth of any organisation but carries risk. Luburic (2016) mentioned that risk is uncertain. The competition in the industry is very harsh and has no mercy, so organisation take risks to break new grounds to remain competitive. Rapid change in the banking sector created tough competition between banks, especially when they are not willing to embrace change that technology brings. The organisation that survives is the one that build its processes to suit the needs of its customers. Banks are shifting from traditional banking to building business around the needs of the clients, as it is customer centric. Change comes with risk as it is new and unknown. There are no established trends and proven methods that business can adopt or refer to as a point of reference.

In order for banks to be successful in this harsh environment, banks need to manage risk efficiently to improve performance; however, all depend on their people. It is crucial that bank managerial employees understand the impact of risk on business performance. It is easier for leaders to communicate the importance of risk when they feel they are a part of the bank. When the relationship between the leader and the followers is transactional, they deliver on result to avoid punishment and to get the reward only. Sun and Henderson (2017) recommends transformational leadership for a changing environment. The results reported that the majority of respondents assist others to understand the impact of risk in the organisation. It shows that

managers have a clear understanding that when risk is not managed, it can affect the profitability of the organisation. The results revealed that there is a significant relationship between risk management and transformational leadership in the retail bank.

### **6.3 Recommendations based on the results of the study**

#### **6.3.1 Objective One: To measure how branch managers perceive themselves with regard to transformational leadership style**

Employees are regarded as a valuable asset in the organisation (Aslam, Ghaffar, Talha, Mushtaq, 2015). People are able to perform to the best of their abilities and efficiently when they have a leader who demonstrates good leadership behaviour. Leadership style influences the performance of employees. The banking industry is changing at rapid speed. Digital transformation in banking requires managers to embrace change and influence their followers to do the same. Employee resilience to change may pose a risk to the retail bank and requires leaders to display a relevant leadership style.

Zareen et al., (2015) emphasized the importance of the manager as charismatic. Charismatic leaders sacrifice for the good of the organization, and their actions earn followers' respect and trust naturally. The study showed that more than one third of respondents are unsure whether their followers have trust in them or not. It is important to understand the root cause of these results. Respondents as leaders are expected to play a key role to influence followers to do what they do not want to do. It is important that followers have faith in their leader in order to show them respect and follow given instructions.

Saeed, Almas, Anis-ul-Haq and Niazi (2014) believed that transformational leaders, through their charisma, influence employees to feel that they are part of the successes and failures of the organization. The findings revealed that more than a third of respondents were unsure whether others felt proud to be associated with them or not. It becomes difficult to the leader to convince followers to commit to the vision of the organisation when they do not feel proud to be associated with their leader. It can hinder service delivery and achieving the goals of the organisation. When followers feel good to be around their leader, they tend to believe and support the vision. They also act in an ethical manner for the benefit of the organization by doing the right thing. The study showed that 14% of respondents failed to communicate what needs to be done in few simple words. Bass and Steidlmeier (1999) believed that transformational leaders clearly articulate an attractive company's future vision and explain how it will benefit them as employees. However, the majority of respondents help others find

meaning in the work; as a result, followers get motivated and develop willingness to perform at their best.

All races had the highest mean score for management-by-exception, except for coloureds, as they had the highest mean score for contingent rewards. Participants strongly believed in transactional leadership as a tool to improve staff performance. These leaders give clear instructions on what needs to be achieved by their followers. When the required standards are not met, leaders take corrective action against their followers. Respondents believed that followers must be rewarded for achieving their goals. It motivates staff to strive more to reach set targets in order receive their reward. Transactional leaders inform staff in advance about the set targets. Followers understand what need to be done in order to accomplish and receive a reward. This study reported that the majority of participants perceived themselves to be transformational leaders. However, they strongly believed in contingent rewards and management-by- exception.

### **Recommendations**

The transformational leadership style is recommended for an organisation that is undergoing change (Kovjanic, Schuh and Jonas, 2013; Onorato, 2013). Due to radical changes in the banking environment, bank managers are expected to deliver great results within a short space of time. It is recommended that leaders act as role models to their followers and display charismatic behaviour .By this behaviour, transformational leaders influence the attitudes and behaviour of employees. Followers trust their leaders. Staff are willing to meet and exceed organisational goals within short periods of time as they have complete faith in their leader.

It is recommended that bank managerial employees motivate and encourage branch staff to embrace change and build up information that the bank can use as reference in future. Leaders cannot rely on yesterday's strategy that delivered great results. It is recommended that managers encourage employees to deal with old problems in an innovative way. By doing that, followers will find meaning in their work, and will feel proud to be associated with their leaders and the organisation.

It is advisable that bank managers assist followers to develop themselves; in return, branch staff gain complete faith in their leader. Furthermore, managers' actions instil confidence and encourage employees to deliver on company's expectations. When employees feel that their managers have an interest in their own personal growth, they trust the leader and organisation,

and perform better. The success or failure of the bank depends on the calibre of management (Abiola and Olausi, 2014; Bottomley, Burgess and Fox III 2014).

### **6.3.2 Objective 2: To determine leadership understanding of the impact of risk on the performance of the organization**

Risk is present in every aspect of the business. Risk management is the responsibility of all bank employees in different levels of hierarchy in the organisation. All bank staff are expected to know that risk has a negative impact on the performance of the organisation. The results reported that all respondents assisted others to understand the impact of risk on business performance. One impact of risk revealed by The Banana Skins (2015), is that when banks do not manage their credit effectively, that can leave the retail bank highly indebted and in a financially unstable position.

The study revealed that the majority of respondents believe that leadership style has an impact on risk. Bank personnel must be committed and adhere to all bank policies. Respondents believe that leadership has an influence on staff adherence; as a result, it is very important to ensure that leaders understand the importance of risk management.

#### **Recommendations**

The study conducted by Abiola and Alousi (2014) in Nigeria emphasised the importance of risk management in banks resulting from technological disruptions that the industry is experiencing currently. Technological disruptions complicate the function of risk management in banks. It is recommended that retail banks have knowledgeable employees, unique technology, and better work procedures. It is recommended that the retail bank recruits and retains sustainable talent to manage risk better. Efficient risk management depends on skilled and effective human capital. The study done by Lam (2014) found that when the bank has good people and weaker processes, it can overcome challenges, no matter how good the processes are, but when the organization does not have good leaders, the bank cannot survive. It is recommended that banks ensure that they put people who are knowledgeable and have the required skills in positions to lead teams. Leaders play a vital role in risk management as the company's risk profile is determined by the actions of its employees.

### **Objective 3. Determining relationship between transformational leadership and risk management**

Birasnav (2014), outlining the relationship between risk management and performance of the organization, mentioned that transformational leaders focus on the implementation of risk management processes to improve organizational performance. When leaders well understand the damage non-compliance and negligence can cause to the bank, they will ensure that staff adhere to the policies. The findings reported that the majority participants assisted followers to understand the impact of risk when not adhering to company policy bank. However, it is the responsibility of every employee to ensure that their behaviour does not put the bank and its customers at risk. The findings revealed that males had the highest mean score for leadership and risk management constructs except for *laissez faire* leadership.

### **Recommendation**

Most researchers believed that the 2008 financial crisis was due to poor management. The study reported that leadership style plays a critical role in the management of risk. Employees who feel that they will be punished for not meeting set standards are a risk to the company. They are willing to take any risk even if it costs the company money if it is going to protect and keep them away from punishment. Jones and George (2016) believe that transformational leaders act as a coach to assist those who are struggling and help them to find new ways of dealing with the problem.

### **6.4 Recommendation for future Study**

Future studies can conduct study on other sectors, such as government as this was focusing in retail bank. This study aim to find how managers perceive themselves in respect of the transformational leadership style. A similar study can be conducted in the same area but with a focus on how employees perceive their managers in terms of leadership style. The results can be compared to find out whether the managers and employees had the same results or not. Future studies can include other provinces, as results will be more generalizable. The study can take a longitudinal approach and used mixed methods. The future of banking shows that all banks are moving from traditional banking to digital banking. A study can be conducted to determine the readiness of South African banks to deal with the possible risk facing the bank

of the future. The implications of involving employees in the decision-making processes of the organisation with the aim to determine whether it will influence the firm's performance or not, need to be determined.

## **6.5 Contribution of the study**

### **6.5.1 Management team**

Regional Managers, Branch Managers and Assistant Branch Managers are faced with a laborious task to manage and lead teams in an environment that is constantly changing. The study done by Bhengu (2015) revealed that Branch Managers decide on what needs to be done, and ensure that whatever gets done in branches produces the results that drive the business towards its goal. Most studies recommended transformational leadership as the best leadership style to mitigate risk and improve banks' performance (McCleskey, 2014; Amos & Klimoski 2014). This study reported that there is a correlation between transformational leadership and risk management. Transformational leaders are able to influence staff positively, making them do things they do not want to do. In order to be able to accomplish these results, managers need to adopt leadership behaviour that is suitable at that particular time.

The study pointed out there are respondents who allow their staff do whatever they want to do. Hull (2012) put forward that banking is one of the most heavily regulated industries. It is not appropriate to allow employees to do whatever they want to do in the banking industry. The leader can show the employees the benefits of following process and of compliance. They need to give clear explanations on how risk management can benefit the employees and the bank at large. The findings showed that there are leaders in the bank who do not give clear instructions to their followers. When there is lack of communication between a leader and the followers, employees feel demotivated and might consider leaving the organisation. When the bank loses good, talented employees, it is a risk to the bank as it loses intellectual capital when staff take knowledge with them. The company also loses money as it has to appoint new persons who still need training and mentoring. It is a waste of valuable resources, which could have been used elsewhere to grow the business; rather, it is used on something that could have been avoided. The organisation that will survive this turbulent environment is a learning organisation. Banks need to ensure that their leaders are well equipped to tackle the future and manage risk efficiently. Men and Stacks (2012:173) mentioned that the leadership style used by management to drive followers towards organisational goals, paints a picture about the organisation's reputation as perceived by stakeholders. They added that this in turn

demonstrates that good reputation can fuel employee loyalty, motivation and engagement to generate superior work performance and contribute to organisational effectiveness.

People are not the same; as a result, they excel in different fields. Bank managers can identify potential risk areas that they are struggling with, enquire from the experts and learn from each other. Chatterji, Delecourt, Hasan, Koning (2017) mentioned that “managers can learn new and more productive management styles and practises.” They added that knowledge sharing between the managers of different branches is instrumental for various types of knowledge transfer within the organisation.

#### 6.5.2 Human Resource Management (HRM)

Having highlighted the demanding task of managers, the findings proved that the majority of branch managers have a matric only. Cherian and Farouq (2013) mentioned that leadership style is one of the components of Human Resource practice. Mankin (2009) noted that Human Resource Development (HRD) can encourage leaders to learn and develop themselves. HRM can provide support when needed. It can assist employees who want to move from one department to another, and can introduce leadership development programmes at all levels to ensure that there is a pool of individuals with leadership skills (Hora and Klassen, 2013).

The role played by HRM has shifted from traditional to strategic approaches (Mankin, 2009). Most researchers pointed out that there is an urgent need for organisations to integrate HRM to the business strategy. The study conducted by Olausi (2015) pointed out that the failure or success of the organisation depends on the calibre of management: as the Chinese proverb goes “The Fish rots from the head”. Human resources need to ensure that talent with excellent people management skills, is appointed. According to Ibidunni, Osibanjo, Adenji, Salau and Falola (2015: 1) “the talent the organisation possesses in the form of its employees skills and competencies, determine its capability to success in this highly competitive environment”. Birasnav (2014) believed that people are the source risk and very good at handling it when they are well managed. One of the responsibilities of the human resource department is to appoint individuals with suitable leadership style to manage terms and mitigate risk in the organization.

Conducting skills audit can assist the HR team to understand the pool of skills in the organisation. The bank will gain an understanding of the scarce skills needed and the over-supply of certain skills. This will prevent a situation where at the bank keeps on recruiting people with certain skills but losing those who have been trained. Sun & Wang (2014) believe that maintaining a productive workforce and successful terms are important tasks of a financial

institution. They go on to say that leadership qualities and style are the key indicators of successful teams. HRM must be able to provide updated information on the skills in the organisation. They must have a breakdown of skills per department. This exercise will give a clear picture of the underlying factors that result in other branches performing better. It will assist the business to distribute and allocate skills accordingly. These findings will be able to tell a story that will result in an improvement in the company's performance.

HRM must have programmes to develop people who want to move from one department to another, as long as attain skills or qualification that qualify them to be in that particular department. It will assist the organisation to gain the best from that employee who is a resource to the company rather than underutilised. There are bigger chances that the company might lose that employee. HRM must consider an employee as an individual (Zareen et al., 2015).

The study conducted by Dlamuka (2010) highlighted that Human Resource Development (HRD) should create a learning environment to improve performance within the organisation. The retail bank should promote learning within their teams. Employees can learn together as a team, as this will promote teamwork. Followers must be at liberty to learn as individuals and HR should create a platform for those individuals to make a meaningful contribution to the organisation (Phaneuf et al., 2016). Leaders need to encourage employees to be part of business decision-making. Employees who form part of the decision-making of the firm, perform better, as they regard themselves as part of the organisation. People can only do what they know, they cannot deliver more than what they know and believe in. The critical role that leaders play, requires them to know all the leadership styles and understand when to apply certain skills. The environment is uncertain, unfriendly and unknown. There is a high demand for knowledgeable leaders who understand the vision of the organisation and are able to link it to objectives. When an organisation instils a learning culture in business, employees will become more knowledgeable. Knowledgeable employees will foresee things that can have a negative impact and try to avoid those.

According to Meyer (2012), e-Learning is a tool that is used by most organisations to develop its employees. HRD can use the tool to develop managers. When HR understands clearly and has records of each manager's highest qualification and skills they have acquired, it can categorise according to the level of their expertise and offer training that is tailor-made to suit that group of individuals. The environment is forcing HR to design training that will suit the needs of the individual. One size does not always fit all. HRD can develop an instrument to

measure the effectiveness of e-learning. The instruments can measure whether e-learning yields the expected results or not. It is very important to measure outcome as it enables control. When HR cannot measure the impact of training on staff performance, it becomes difficult to control something that cannot be measured. When results are not of the required standards, HRM need to identify the root cause, develop possible solutions and implement the best solution that will benefit the organisation.

The results show that all races believed in management-by-exception, except for coloureds. Managers set the agreed standards that employees must meet. When standards are not met, managers punish their staff without motivating them. Transformational leaders believe that support motivates employees. Labby, Lunenburg & Slate (2012) believed that managers must adopt a leadership style that can motivate and coach employees when agreed standards are not met. Management-by-exception behaviour can make other employees feel rejected and lack commitment to the organisational goals. Employees who lack commitment are not willing to go the extra mile. Followers can develop a tendency to hide their faults. When something goes wrong, they will try to hide it, whereas transformational leaders treat each employee as an individual. When they are struggling with something, they coach them and motivate them to perform even better.

The findings show that some of the managers believe in *laissez faire* and allow followers to do whatever they want, which can be a risk in the bank. HR needs to ensure that branch managers are on the same level of knowledge; as a result, it becomes important for HR to be part of strategic planning. Meyer (2012) mentioned that human resources plays a crucial role in risk management. People are the source of risk. Branch staff plays a key role in risk management as the executors of service to clients. They need to work hand-in-hand with their leaders to handle risk in the retail bank. Banks have sophisticated systems to detect and prevent risk, but they still need a human element to make a choice and carry out a decision. Branch staff need to be well trained about the importance of risk management as well as the impact risks have on the organisation.

### 6.5.3 Clients

The transformational leader is influential; employees who are led by a transformational leader have less stress levels compared to those who are led by a transactional leader. Belias and Koustelios (2014) cite John Smith, former CEO of Marriott Corporation that “You can’t have happy customers served by unhappy employees”. Less stressful employees perform better.

Branch staff are the mirror of the organisation. A workforce that has faith in their leader offers excellent service to clients. Satisfied clients lead to less complaints and more profit and increase the client base. When leaders do not possess good management skills, stress level increases, staff tend to be unhappy, and the quality of work drops. When staff do not adhere to the processes as they do not act in the best interests of the client, the customer can fall into arrears. Elizabeth and Zakkariya (2015) mentioned that the service quality of stressful employees produces poor results. It becomes very difficult to convince the client to trust the bank again. The bank will lose the client and the loan amount written off. It is recommended that leaders support their staff and keep them motivated; as result, they will be able to go the extra mile to meet and exceed clients' needs. Chatterji, Delecourt, Hasan, Koning (2017) mentioned that good leadership style can generate more revenue for the organization as people understand the importance of preventing risk before it takes place.

#### 6.5.4 Governing Body

According to King Report IV (2016:61), a “governing body should delegate to management the responsibility to manage and execute effective risk management.” The governing body receives periodic independent assurance on the effectiveness of risk management. Effective risk management is a balance between people and internal processes. According to Lam (2014), risk management is the direct responsibility of its management as it remains management's job to ensure that the company achieves its objectives and is not exposed to excessive risks. The success or failure of the bank depends on the calibre of management. Abiola and Olausi (2014) believed that organisations that have poor internal processes and good people can survive but the organisation that has great internal systems can fail if it does not have a good management team.

When management shows interest in the employee's personal growth, employees feel motivated to perform to the best of their abilities to meet and exceed the company's objectives. Transformational leaders use charisma to influence employees and manage risk effectively. All employees need to understand that it is their responsibility to manage risk through their behaviour when acting on behalf of the bank. Staff need to understand how risk management benefits the employees. When employees understand that risk management increases the company's performance, it means that their job is secured. The benefit to the governing body is that the objective is achieved. This increases the performance of employees, and when the performance increases it delivers positive results. When the organisation is operating at a

profit, the shareholders will be happy. When shareholders are happy, the governing body will also be impressed. It has emerged that there is a correlation between transformational leadership and risk management. Hora and Klassen (2013) believed that “senior managers need to develop organizational systems and training to expand the screening by risk managers to enhance knowledge acquisition”.

## **6.6 Conclusion**

Transformational leaders are more effective in identifying the challenges of rapidly changing environments and technological disruption. They paint a bigger, clearer picture about the vision of the organisation to the followers. They craft strategies that link the vision of the organisation to the departmental objectives. They ensure that created strategies minimize factors that can cause risk in an organisation. Transformational leadership focuses on influencing employees to feel as if they are part of the bank. Staff feel the successes and failures of the bank as their own personal successes and failures. Staff perform well under the transformational leadership style. This leadership style shapes the attitudes and behaviours of the followers towards the degree of allowing or preventing risk. The findings thus exhibited a correlation between transformational leadership and risk management.

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# Appendix 1: Ethical Clearance Approval letter



14 February 2018

Mrs Sithembile Millicent Ntsele (9702345)  
Graduate School of Business and Leadership  
Westville Campus

Dear Mrs Ntsele,

**Protocol reference number: HSS/2141/017M**

**New project title:** Determining the relationship between transformational leadership and risk management in the retail bank

### Approval Notification – Amendment Application

This letter serves to notify you that your application and request for an amendment received on 12 February 2018 has now been approved as follows:

- Change in Title

Any alterations to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form; Title of the Project, Location of the Study must be reviewed and approved through an amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

**PLEASE NOTE:** Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for period of 3 years from the date of original issue. Thereafter Recertification must be applied for on an annual basis.

Best wishes for the successful completion of your research protocol.

Yours faithfully



.....  
Dr Shamila Naidoo (Deputy Chair)

/ms

cc Supervisor: Dr Muhammed Hoque  
cc. Academic Leader Research: Dr Emmanuel Mutambara  
cc. School Administrator: Ms Zarina Bullyraj

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