Chapter 3

Objective

1. To study the impact of organization culture, leadership style and organizational structure on financial performance of Indian Public Sector Banks.

2. To study the impact of leadership style on organization culture.

The variables for the research work would be as follows:

Leadership style, Organization culture, and financial performance

Dependent variable: Financial Performance (profit)

Independent variables: Leadership style, organization culture.

Figure 2:

Research Model
Research Questions

Research questions revolve around the following.

1. Is there positive association between consideration leadership style and financial performance?

2. Is supportive and innovative organization culture positively associated with financial performance?

3. Does supportive and innovative organization culture coupled with consideration leadership have stronger influence on financial performance than when only supportive and innovative organization culture is present?

4. Is there negative association between structured leadership style and consideration leadership style?

Hypotheses have been made to look into the research questions in detail. Hypotheses are recorded in the following page.
Hypothesis

1) There is positive association between consideration leadership style and financial performance.

2) Supportive and innovative organization culture is positively associated with financial performance.

3) Supportive and innovative organization culture coupled with consideration leadership has stronger influence on financial performance than when only supportive and innovative organization culture is present.

4) There is negative association between structured leadership style and consideration leadership style.

Instrumentation

The present study concentrates mainly on two independent variables viz. leadership style and organization culture. As it was decided to make the study in the context of the branches of State Bank of India only the selected questionnaires on leadership style and organization culture were distributed to 300 employees belonging to various grades spread over 32 branches of SBI. 227 questionnaires have been received back from 32 branches.
Definition of Terms and Measurement

Definition of organization culture

“Innovative cultures are exciting and dynamic. They are creative places to work, filled with challenge and risk. The stimulation is often constant” (Wallach, 1983).

“Supportive cultures are warm, ‘fuzzy’ places to work. People are friendly, fair and helpful to each other. They are open, harmonious environments almost like an extended family. They are trusting, safe, equitable, sociable, encouraging, relationship oriented and collaborative” (Wallach, 1983).

Broader definition of supportive and innovative organization culture

The above definition of supportive and innovative organization culture has been broadened further to give a comprehensive definition. Supportive culture is characterized by a friendly and fair environment where people are helpful to each other. There is no restriction on personal freedom; innovation and creativity are supported and risk taking is encouraged. Relationship is valued for the sake of relationship. The organization with such culture stresses on results and displays drive and does not hesitate to take challenge and is viewed as stimulating, safe, sociable, trusting, collaborative, equitable and encouraging.

Measurement:

Culture of the organization would be measured by Wallach’s (1983) organization culture Index (OCI).
The Reliability of the Instrument is found to be as under:

<table>
<thead>
<tr>
<th>Wallach’s (1983) OCI</th>
<th>Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovative</td>
<td>.87</td>
</tr>
<tr>
<td>Supportive</td>
<td>.77</td>
</tr>
</tbody>
</table>

The reliability estimate is .77 and above and found acceptable.

**Definition of Leadership Style:**

“Consideration leaders are concerned about the human needs of their employees. They try to build teamwork, provide psychosocial support and help employees with their problems. Structured, task-oriented leaders on the other hand believe that they get results by keeping constantly busy, ignoring personal issue, and emotions and urging them to produce” (Newstrom and Davis, 2009).

**Expanded definition of consideration leadership**

Consideration leadership is relationship oriented in contrast to structured, task-oriented leadership. Consideration leadership values relationship and shows consideration for feelings of the people working under him. Consideration leader encourages people to greater efforts and takes them into confidence before taking any major action. Consideration leader fosters a frank and friendly environment to encourage people to express themselves freely without any reservation. On his part he shares his action with others, envisions new approaches and appreciates good work done by anybody and projects the right image of the people under him to those in authority. Consideration leader is transparent and easily understood and supportive to people under him in their actions. He treats
everyone under him as his equal, encourages new ideas and translates the
suggestions made by people under him into practice, displays eagerness to
accept and implement suggestions for changes, and stresses the
importance of high morale among those under him. Consideration leader
is friendly and is easily approachable. He criticizes a specific act rather
than a particular individual and ensures that the people are rewarded for a
job well done.

**Expanded definition of structured leadership**

Structured, task oriented leadership is a study in contrast. It ignores
relationship and shows no consideration for the feelings of people under
him. Structured, task oriented leader decides in detail what should be
done, how much to be done, the standard ways to be followed for doing
the job and specifies the time limit. He intends to rule with iron hand, but
gives in when people disagree with him. He insists that people work up to
their limits and criticizes poor work. He is keen on going ahead of
competing workgroups or other units and provokes individuals for
sacrifices. He prods people for greater efforts and asks the groups under
him for more out of their group, assigns people under him to particular
tasks and lays emphasis on the quality of work, encourages those under
him to work in excess of normal hours and likes to monitor the decisions
made by people under him. Structured, task oriented leader does not wait
for people under him to push new ideas and instead tries his own ideas.

**Measurement of leadership style**

Stogdill’s (1974) Leadership Behavior Description Questionnaire
has been chosen for the measurement of leadership style. This instrument
contains forty items relating to two categories of leadership style
measurements, consideration and initiating structure, two dimensions
widely used and well validated by researches.

Reliability estimate:

Consideration .82

Initiating structure .78

Reliability estimate is .78 and above and found acceptable.

**Definition of Organizational Structure**

In today’s world “main aspects of structure are flexible borders and a sharing” (Peachey, 2006). The ideal organizational structure would ensure accessibility to coworkers, free exchange of knowledge, encourage learning and sharing of knowledge even across structural boundaries, and improvement of task efficiency by sharing of knowledge. The structure promotes collective rather than individualistic behavior.

**Expanded definition of organizational structure**

In a modern organization the organizational structure facilitates transfer of new knowledge across structural a boundaries. Co-workers are easily accessible and knowledge can be shared freely between functional specializations and between project teams. The desired organizational structures stimulates enhancement of efficiency through sharing of knowledge and acquisition of knowledge from anywhere.

The influence of organizational structure on financial performance is not being measured separately in this study as organizational structure would mostly be invariant across the branches of the same bank in the same city.
Financial performance

It is indicated by the profits/loss recorded in the yearend profit & loss accounts of 32 branches of State Bank of India during the year ended 31st March 2012.

Measurement of financial performance

The influence of organization culture, and leadership style on financial performance of Indian Public Sector banks would be measured by profits to be gleaned from the annual profit and loss statements of 32 branches of State Bank of India during the latest financial year i.e. 31st March 2012.