

THE IMPACT OF LEADERSHIP ON ORGANISATIONAL
PERFORMANCE WITH SPECIFIC REFERENCE TO
MULTINATIONAL COMPANIES IN SRI LANKA

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The study of leadership in organizations has demonstrated the superiority of transformational or charismatic leadership, over other leadership styles, in predicting organizational performance and other outcomes. Several studies have examined the relationship between leadership and organisational performance, however, only a few have attempted to study the linkage specifically between the multidimensional constructs of transformational leadership and multinational companies. Specifically, it is hypothesized that transformational leadership will have a positive relationship with organisational performance, and will also predict positive results demonstrated with statistical significance providing interesting insights although it might not be a catalyst for increased leadership training and development in Sri Lanka's largest public companies.

Keywords: Transformational Leadership, Multinational Companies, Leadership, Organizational Performance

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BACKGROUND OF THE STUDY

An understanding of the interplay between transformational leadership and organizational performance is an important factor for developing effective organizations. Finding ways to optimize the performance of people and hence, the organization has been, and continues to be, a major concern for organizational leaders.

In today's service-based knowledge economy, many companies are beginning to shift away from traditional models of management, originally developed for production-oriented firms, and now require a broader range of leadership skills and styles that are adaptive to diversity and often to discontinuous changes in the work environment. As globalization becomes more evident, the changes may become even more dramatic as firms struggle to meet competition that only a few decades ago did not even exist. Some of the promising paradigms of leadership are including people in them and tend to describe people, which include CEOs, as the organization's most important assets. A summary of some of these is as follows: concern for people (Blake & Mouton, 1964), the value of people (Sashkin, 1984), human concern (Kilman & Saxton, 1991), individualized consideration (Bass, 1985), and people orientation (Cooke & Lafferty, 1994). The importance of motivating people to complete tasks at a high level so that the organization performs well is a key role of CEOs and was one of the main reasons for this study. Transformational leaders motivate followers both to work for transcendental goals and to increase commitment and in doing so, perform beyond the expectations those followers have for themselves.

OBJECTIVE OF THE STUDY

This research project yielded information regarding the importance of transformational leadership style to the Multinational public companies in Sri Lanka. For the organizations performing well, this information presented the opportunity to understand the importance of leader and follower development to continue performing well, and for those not performing to a similar level, the data is cause for reflection and an opportunity for improving development policies or changing leadership styles.

Leaders continue to attract the right people for sustainable performance. Bass and Avolio (1992) have concluded that transformational leadership is important and that leadership training of managers at all levels should become an integral component of organizational education. A final

component of this study is its potential impact on the selection and hiring of CEOs. CEOs typically have an enormous impact on their organizations, constituents, and communities. Therefore, the compounded costs of making a mistake in the selection, hiring, or promotion of CEOs can be financially and operationally staggering. If transformational leadership is the correct style for public companies then the selection teams could begin to narrow the focus and save time, money, and maybe companies by selecting the most effective leaders to lead their companies. In addition, since there is a relationship between the variables, additional predictors of CEO success can now be developed and shared with other organizations, thereby aiding in industry development and expansion and possibly enhancing competitive position.

THEORETICAL BACKGROUND

What is Leadership?

An appropriate saying which comes to mind when analysing 'what is leadership' is:

“Don't walk behind me; I may not lead. Don't walk in front of me; I may not follow. Just walk beside me and be my friend.” Albert Camus, 2003

Modern business schools talk of leadership, but most of the approaches and ideas they talk about are borrowed from old army practices. For example Sun Tzu or Sunzi was a Chinese military general, strategist, and philosopher during the Zhou dynasty's Spring and Autumn Period. He said: “The opportunity to secure ourselves against defeat lies in our own hands, but the opportunity of defeating the enemy is provided by the enemy himself.” where leadership requires motivating the troops to face bullets.

There are many leaders and theories but the leader to be accepted has to match the theory of our minds – thus however we strive to define 'Leadership' it somehow is not complete.

Kouzes and Posner (2007) suggest that “Leadership challenge is about how leaders mobilize others to want to get extraordinary things done in organizations”. Leadership has been a topic of discussion and research for approximately 100 years. Until the 1930's it was primarily the person that was of concern and not what an individual or group of individuals did that mattered (Bass, 1990) Leadership is organizing a group of people to achieve a common goal. But do great leaders truly achieve organizational goals? This is a central issue for organizations looking to thrive or just survive in the years to come. It's also a key issue for companies that are actively

building a leadership pipeline, or for leaders who are expected to accomplish many different things each day. A leadership style is a behavioural trend used by a person in authority.

Variation in leadership styles can be attributed to the person in authority's personal background, attitudes and behaviour. Leaders in multinationals need to be consistent, fair and passionate about what they do. Equally, they must recognise that mistakes will happen and that learning from them and moving on is critical.

The qualities of a good leader are the same be it a domestic enterprise or a MNC.. However, leadership styles differ and each leader selects a style best suited to one's personality. Thus while one can try to copy the leaders one admires, in the execution it is one's personality that gives the style its uniqueness.

This study puts a core assumption of the recently-emerged concept of transformational leadership (TFL) climate under direct empirical scrutiny; namely, that it is not only the average level (i.e., the mean perceptions among employees), but also the level of homogeneity (i.e., the variance in perceptions) which is important for understanding the effect of TFL climate on organizational outcomes. By developing and testing an interaction hypothesis in a dual-source dataset containing medium-sized and large organizations, extension to previous knowledge in two important ways. To test, first extend the limited empirical evidence on TFL climate by relating it for the first time to organizational performance. Then test the previously assumed, but never investigated, assumption of homogeneity for the TFL climate construct at the organizational level. Results show that it is important to investigate such underlying core assumptions, as the average level of TFL climate was found to relate more strongly to organizational performance with increasing levels of homogeneity in TFL climate.

Therefore, the first goal of this study is to investigate if TFL climate affects organizational performance. However, to adequately address this first gap, it is necessary to address a second, larger gap; namely, that a core assumption of the TFL climate construct has not yet been put under empirical scrutiny. This untested assumption comes from the notion that TFL climate captures the "typical" or "shared" way organization members perceive their work environments, and that it is this similarity, or homogeneity, which underlies the organizational-level effects of TFL climate (Walter & Bruch, 2010)

Hence, another goal is to assess if it is indeed the degree to which leaders throughout the organization are perceived to display TFL behaviours which is important for organizational

outcomes (cf. Walter & Bruch, 2010) Wang et al. observed that previous studies on TFL reported as unexplained wide range of findings.

Transformational Leadership

Transformational Leadership (TFL) climate emerges from the behaviours of individual leaders across the organization and the subsequent perceptions of these behaviours by followers. Walter and Bruch (2010) recently argued that, in line with other characterizations of leadership climate (e.g., Bliese & Halverson, 2002; Gavin & Hofmann, 2002), TFL climate arises as a shared property of the organization if there is sufficient similarity within organizations and differences between them (cf. Bliese, Halverson, & Schriesheim, 2002) Drawing from the theory of social influence (Festinger, Schachter, & Black, 1950) various authors have argued that collective and shared perceptions of leadership reflect the quality of employees’ shared social environment and that it is these shared perceptions of the environment which increase the similarity in behaviour among employees (e.g., Bliese & Halverson, 1998). While these previous studies mainly focused on the individual or team level (Wang et al., 2011), Walter and Bruch (2010) recently described several processes by which individual-level attitudes and behaviours become shared and produced an emergent, collective structure of attitudes, norms, and behaviours at the organizational level of analysis. Since organizations are likely to attract, select, and retain specific types of leaders they tend to socialize these leaders in a comparable manner, while at the same time exposing them to similar experiences and social influences, it can be expected that the behaviours of leaders from the same organization are rather similar to each other, as compared to those of other organizations (Walter & Bruch, 2010).

Transformational Leadership vs Transactional Leadership

Table 1. Transformational Leadership vs Transactional Leadership

Transactional form of Leader	Transformational form of Leader
• Effectively manages assignments	• Builds organizational culture
• Concerned	•Dedicated
• Goals are met utilizing trade-offs	•Spurs others with dreams
• Critically investigates	• Future oriented
• Utilizes of reward	• Analyzes consequences
	• Builds and inspires others
Source: Gerzon (2008)	

The transactional style of leadership was first described by Max Weber in 1947 and then later described by Bernard Bass in 1981. Mainly used by management, transactional leaders focus their leadership on motivating followers through a system of rewards and punishments. There are two factors which form the basis for this system, Contingent Reward and management-by-exception. Contingent Reward provides rewards, materialistic or psychological, for effort and recognizes good performance. Management-by-Exception allows the leader to maintain the status quo. The leader intervenes when subordinates do not meet acceptable performance levels and initiates corrective action to improve performance. Management by exception helps reduce the workload of managers being that they are only called-in when workers deviate from course. This type of leader identifies the needs of their followers and gives rewards to satisfy those needs in exchange of certain level of performance.

Transactional leaders focus on increasing the efficiency of established routines and procedures. They are more concerned with following existing rules than with making changes to the organization. A transactional leader establishes and standardizes practices that will help the organization reach:

- Maturity
- Goal-setting
- Efficiency of operation
- Increasing productivity.

HYPOTHESES

On the basis of the preceding literature review on transformational leadership and organizational performance, the following hypotheses were tested:

Hypothesis 1: There will be a positive significant relationship between transformational leadership score and organisation's performance. The higher the score on the MLQ as rated by the leader's followers, the higher the firm's performance.

Hypothesis 2: The transformational leadership subscales idealized influence, inspirational motivation, intellectual stimulation and individualized consideration will significantly predict the criterion variable, organizational performance as measured by revenue increase.

Hypothesis 2a: There will be a positive significant relationship between the TL construct idealized influence and organizational performance such that the higher the score on this attribute, the higher the firm's revenue.

Hypothesis 2b. There will be a positive significant relationship between the TL construct inspirational motivation and organizational performance such that the higher the score on this attribute, the higher the firm's financial position.

Hypothesis 2c. There will be a positive significant relationship between the TL construct intellectual stimulation and organizational performance such that the higher the score on this attribute, the higher the firm's improvement in financial results.

Hypothesis 2d. There will be a relationship between the TL construct individualised consideration and organizational performance but not necessarily such that the higher the score the higher the company growth.

The following conceptual framework has been developed for the purpose of this study:



METHODOLOGY

Sample and Data Collection

This study was based both on secondary and primary data. The secondary data were gathered through referred websites, magazines, newspapers, journal articles, and text books on leadership, organizational performance and management. Multi-factor Leadership Questionnaires were sent to senior management personnel including Chief Executive Officers (CEOs). In the questionnaire, qualitative five point Likert scales variables were used, for each variable measured.

Average level of Transformational Leadership (TFL)

The average level in TFL climate was captured in the employee survey by using the Likert scale which consisted of 20 items assessing four dimensions of TFL, namely idealising influence, inspiring motivation, providing intellectual stimulation and offering individualised support. The psychometric qualities of this scale have been demonstrated in earlier studies (the recent studies of Walter & Bruch, 2000). The questionnaire asked employees to what extent the leaders of their organization demonstrated TFL behaviours. The 5-point scale ranged from 1 (strongly positive) to 5 (strongly negative).

The first part of the questionnaire consisted of 20 questions relating to Transformational Leadership: 8 questions on Idealised Influence, 4 questions on Inspirational Motivation, 4 questions on Intellectual Stimulation and 4 questions on Individualised Consideration. The next section of the questionnaire focussed on Organisation Performance and had 4 questions. The final section was on personal data consisting of 4 questions.- Gender, Type of Organisation, Tenure in Organisation and Education. Analysis was done to identify the composition of participants according to those variables.

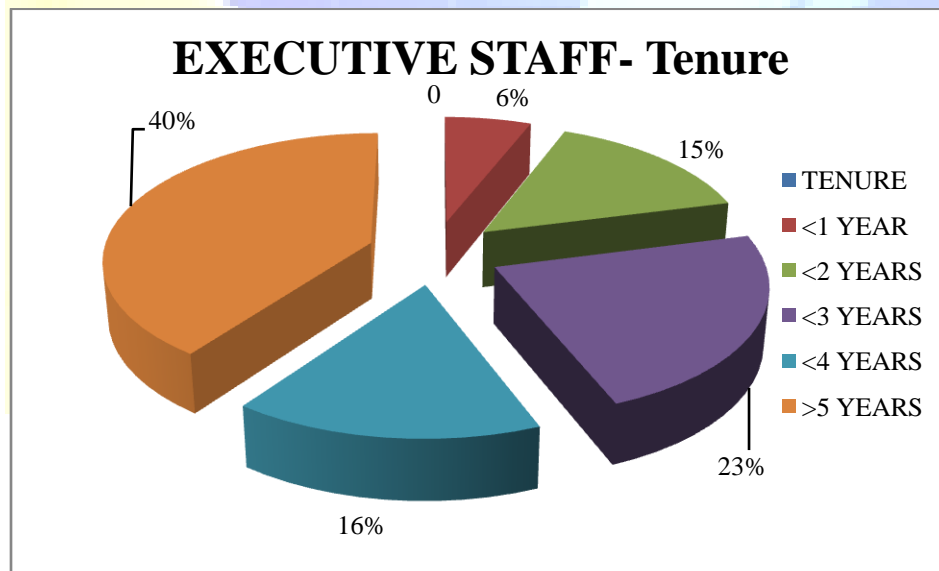
ANALYSIS AND FINDINGS

Composition of the Sample

The total number of questionnaires distributed to the respondents of 10 Public quoted MNCs in Sri Lanka were 60 out of which 53 were returned. From each company the Chief Executive Officer was sent a questionnaire along with approximately 4 to 5 senior executives. The percentage received was 88%.

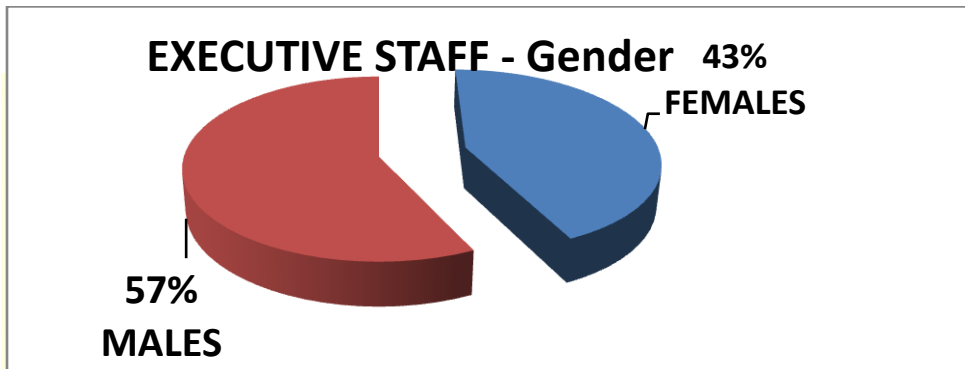
The average tenure of the CEOs was over 5 years whilst the average length of tenure for the follower rates was 3 years with the organization. With respect to seniority with the organization, 36% of the executives surveyed had > 5 years and 28% had less than 1 year.

Figure – showing a pie-chart of the percentages of tenure of Executives



The gender of the CEOs that responded was 100% male whereas in the executive staff there were 57% males and 43% females. Figure 3 below shows the gender distribution of Executive staff in MNCs chosen.

Gender of Executive Staff



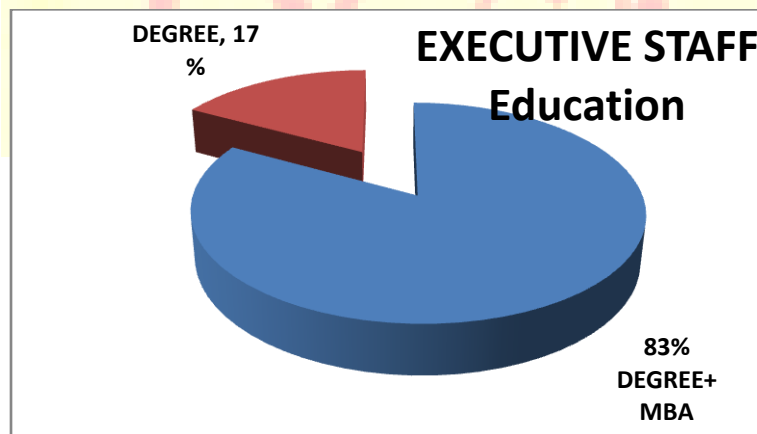
Type of organization

All 10 MNCs chosen were public quoted on the Colombo Stock Exchange to get easy accessibility to information. Accordingly all respondents were 100% public.

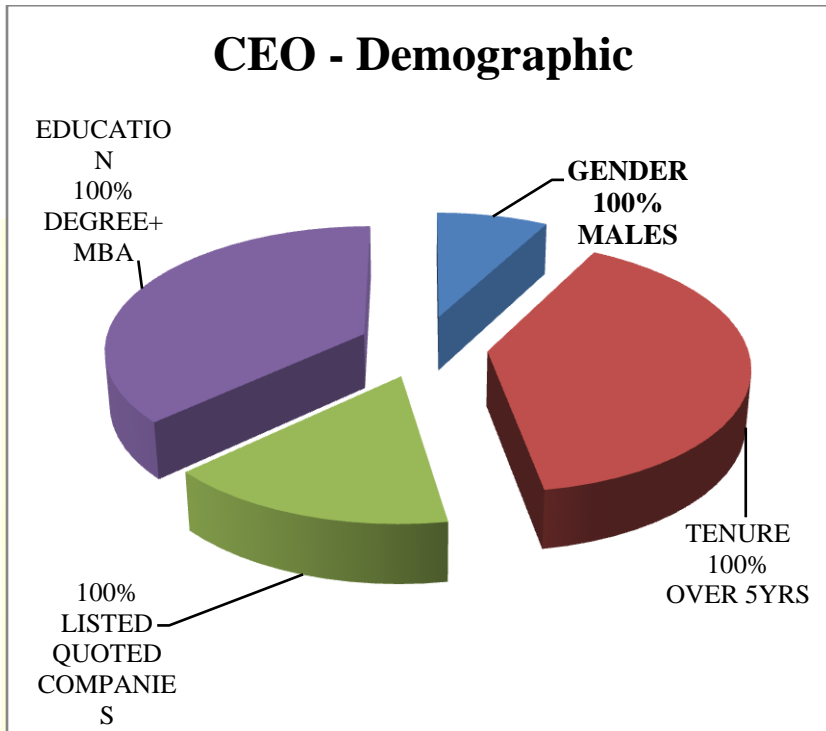
Qualification

CEOs over 23% had a Master's qualification and a professional qualification whilst from the Executive Staff 40% had a degree and a professional qualification.

A Pie chart showing the distribution of Education of respondents



CEO Demographics



Reliability Analysis

The reliability of the leadership instrument was measured using Cronbach’s alpha reliability coefficients. In past studies using this instrument, Bass and Avolio (1995; 1997) reported scores of 0.89 for alpha and .81 to .96, respectively. The reliability coefficients for the MLQ Form 5X were computed using 53 cases. An analysis of these studies and the resulting MLQ used confirms that they included the following populations: it was confined to CEOs and their executive teams; therefore, it was at a higher leadership level than most other studies completed on the subject of transformational leadership and organizational performance. In this study the alpha coefficient was .8 for (CEO = 6) and .9 or (executives = 47). Table below shows the Cronbach analysis conducted.

CONSISTENCY OF LEADERSHIP

		Cronbach's Alpha (if item deleted)
IDEALISED INFLUENCE	i1	.802
	i2	
	i3	
	i4	
	i5	
	i6	
	i7	
	i8	
INSPIRATIONAL MOTIVATION	im9	.803
	im10	
	im11	
	im12	
INTELLECTUAL STIMULATION	Is 13	.805
	Is 14	
	Is 15	
	Is 16	
INDIVIDUALISED CONSIDERATION	Ic 17	.806
	ic 18	
	Ic 19	
	Ic 20	

Aggregation and reliability statistics supported the creation of a measure of average TFL climate at organizational level. $f < .05$, $p < .05$; $t = 1.472$, $R = 0.935$ of their organization demonstrated TFL behaviours.

Similar to previous studies (e.g., Ambrose & Schminke, Ambrose, & Cropanzano, 2000; Walter & Bruch, 2010) the organisations represented diverse industries, demographic compositions, and sizes, increasing the likelihood of finding results for the main variables of interest. Data was collected from various sources to alleviate concerns about common method bias (Podsakoff et al 2003) General information was gleaned from Annual Reports and also acquaintances of a few selected companies. TFL climate and control variables were collected by an employee survey, while organizational performance was rated from available reports. All respondents were assured anonymity.

The organisations chosen for this study were the some of the most active public quoted companies in Sri Lanka. These companies earn significant revenues in the range of tens of billions of Sri Lankan rupees, employ large number of workers in the range of hundreds of thousands and sell a portfolio of products. The common thread that runs through is that all these companies were publicly traded on the Colombo Stock Exchange (CSE) and they have been trading for over a period of ten years. Additionally, these organisations were chosen for the easy accessibility of information which had been filed with the regulators and for comparison purposes it facilitated benchmarking statistics readily available, making analysis meaningful and supportive.

Chief Executive Officers (CEOs) of multinational companies (MNCs) were sent letters explaining the study and requesting permission to contact senior managers for participation. Once permission was granted, the questionnaire along with a standardised e-mail explaining the purpose of study and a statement of informed consent were electronically delivered to potential participants. In order to maintain participant confidentiality, the questionnaires were automatically and electronically returned. Multi-factor Leadership Questionnaires were sent to 60 senior management personnel including 10 CEOs. The population of the entire groups of 10 MNCs has been facilitated. The number of CEOs who responded was 6. The response rate was calculated by dividing the number of completed and returned questionnaires by the total sent out during the survey. The responses received were from 57% males and 43 % females. The average

tenure of the survey takers were in the range of >1 year. The share prices were ranging from LKR 8.00 to LKR 1600.00 in 2012.

The target CEOs were initially contacted first by telephone then by email sent directly by the researcher. The letter urged the CEOs to focus on the questionnaire and actively participate in the study. The researcher further stressed that participation in the study was very much appreciated and anonymity and confidentiality were assured. With the initial email that each CEO received, a questionnaire email was followed up. The CEO MLQ questionnaire and four follower MLQ questionnaires were sent to be emailed back to the researcher's email. In this study, data was collected from two perspectives to allow for a more objective evaluation of the results regarding transformational leadership and organizational performance. CEOs provided information also about their personal attributes. The senior direct reports in the management team provided information about their CEOs' transformational leadership behaviours. Finally, objective organizational performance measures data were collected from company AGM reports.

Testing Hypotheses by using Regression Analysis

A regression analysis was undertaken to test the hypotheses. The table below presents, the result of the regression analysis of the hypotheses.

Table - Outcome of the Regression Analysis

Hypotheses	Variable	Coefficient β	T	F	Adjusted R
Hypothesis 2a	Organizational Performance Dependent-Relationship	0.865	15	232*	0.812
Hypothesis 2b	Idealized Influence Inspirational Motivation Dependent-Relationship	0.846	13.7 88	176*	0.922
	Organizational Performance				
Hypothesis 2c	Intellectual Stimulation Dependent-Relationship Organizational Performance	0.750	12	106.*	0.532
	Individualized Consideration				
Hypothesis 2d	Dependent Organizational Performance	0.735	12	120*	0.535

* $p < 0.01$ Two-tailed test

Source: From statistics prepared after respondents answered MLQs

Hypotheses Development

AAAs depicted in 2a of Table 9 above, the adjusted R of equation one is 0.812. It indicates that 81.2% of the total variance in organizational performance is explained by idealized influence. F-test (232) is statistically significant at 1% level of significance. This means that model is statistically significant. Regression Coefficient (β) is 0.865 which is significant at 1% level of significance. Thus these findings support hypothesis one that “The higher the idealized influence of the follower, the higher will be the organizational performance with that follower”

According to the hypothesis 2b in Table 9, adjusted R is 0.922 reasonably higher for the regression indicating a strong relationship between idealized influence behavior of the CEO and follower. It reveals 92.2% of the variation in organizational performance is explained by the idealized influence of the follower. The regression coefficient is 0.846 which is significant at 1% level of significance. F value is 176 (Significant at 1% level of significance). Hence the hypothesis 2b that “The higher the idealized influence behavior of the follower, the higher will be the organizational performance of the follower” can be accepted.

As depicts in 2c in Table 9, the adjusted R of equation three is 0.532. It indicates that 53.2% of the total variance in relationship organizational performance is explained by inspirational motivation behavior of the follower. The regression coefficient is 0.750 and is statistically significant at 1% level of significance. Hence it can be admitted that the relationship commitment and inspirational motivation behavior of the salesperson is significant. Thus at 99% confidence level, it can be accepted that inspirational motivation behavior of the follower positively influences the organizational performance. Thus these findings support hypothesis 2c that “The higher the inspirational motivation behavior of the follower, the higher will be the organizational performance with that follower”.

According to the hypothesis 2d in Table above, adjusted R is 0.535 reasonably higher for the regression indicating a strong relationship between individualized considerate behavior of the follower and organizational performance. It reveals 53.5% of the variation in organizational performance is explained by the individualized considerate behavior of the follower. F-test (141) is statistically significant at 1% level of significance. Regression model overall predicts organizational performance with individualized considerate behavior. Therefore fourth

hypothesis that “The higher the individualized considerate behavior of the follower, the higher will be the organizational performance with that follower” can be accepted.

Figure 8 - showing the Correlation of CEO with Organizational Performance

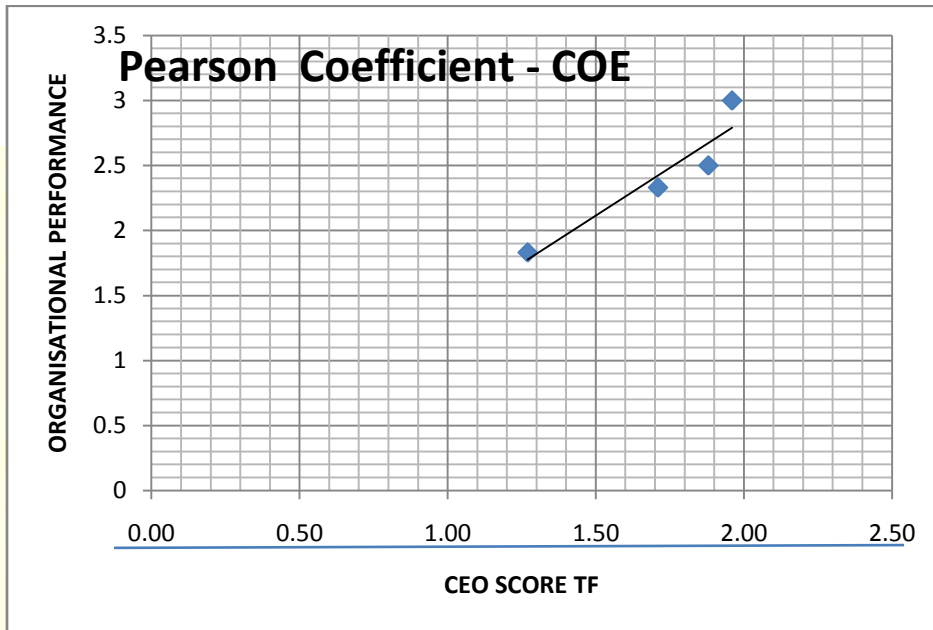
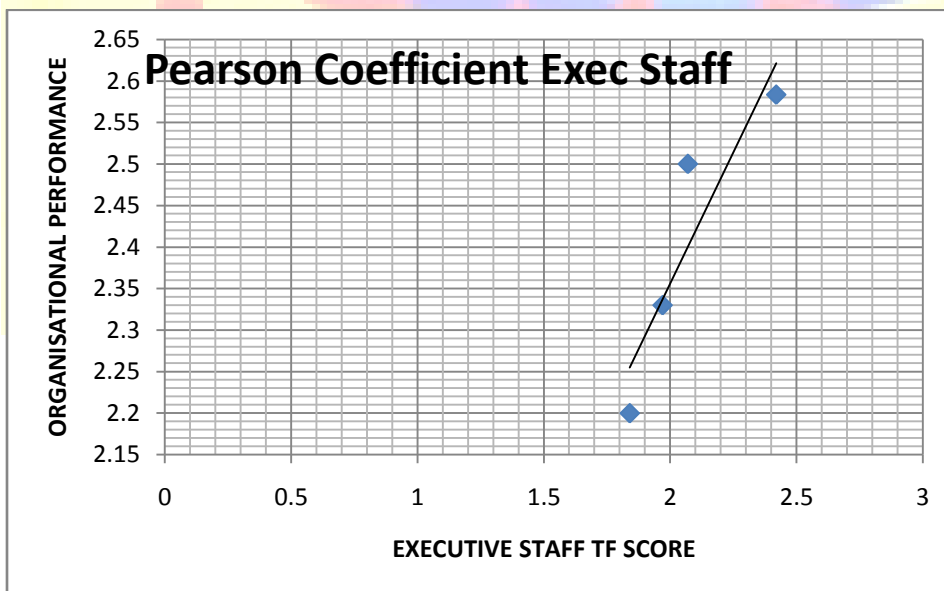


Figure - showing the Correlation of Executive Staff with Organizational Performance



The tests were run using the entire data set for both CEOs and subordinates ($n = 53$) highlights the reported relationship between transformational leadership and organizational performance or the visual relationship between the CEOs total transformational leadership scores and how these scores relate to company performance. It is apparent from this scatter diagram that there is a significant relationship between the two variables. If plotted, the best-fit line through the points would be relatively flat and hence the lack of significance of any relationship.

As indicated above, for the CEO respondents ($n = 6$) there is no statistical significance found between any of the subscales of transformational leadership and organizational performance as measured by the 5-year stock change from 2008-2012. In order to ensure that the appropriate tests were conducted, the same data were analysed for rank correlation. The subscales of transformational leadership were positive and in the direction that the hypotheses predicted.

FURTHER DISCUSSIONS

This study focuses on the link between transformational leadership of executives in 10 leading multinational companies (MNCs) of publicly traded organisations in Sri Lanka. The purpose was to observe the relationship between transformational leadership and change as a measure of organizational performance.

The results of the analyses of a dataset containing 10 MNCs supported and showed that higher average levels of TFL climate were significantly and positively related to organizational performance when levels of homogeneity in TFL climate were high. The results also showed that, as expected, there was no relationship when homogeneity in TFL climate was low. Although a recent team-level study (Cole, Bedeian, & Bruch, 2011) showed an indirect effect of the interaction between average levels of TFL and homogeneity in TFL on the aggregated self-rated performance of individual team members, no study to date has shown a direct effect on organizational performance following a more methodologically stringent dual-source approach.

one reason for the considerable variation in findings regarding leadership behaviours and organizational performance (cf. Wang et al., 2011, p. 250) might be because prior organizational-level studies overlooked the core assumption of homogeneity

Strengths and limitations

The first limitation is that the dataset was cross-sectional, and it was thus impossible to investigate causality but the dataset also had several strengths, as it drew from different sources CEOs and top management team members.

The second limitation was that top management team members were asked to rate their company's performance in comparison and as such had to rely on their assessment instead of on more "objective" performance data. As already discussed in measurement section it was impossible to use stock market data, given that the companies in the sample were predominantly of different industry sectors and other "objective" measures, such as return on investment (ROI), could also not be used as there are significant differences between different sectors in such

A third limitation might be that the dataset contained mainly very large companies from Sri Lanka and puts some limits on the generalization of findings but clearly it is also a strength, as it limits the possibility of distorting influences due to unobserved differences between organizations.

Further analysis

Inspirational motivation is a key component of transformational leadership, and tenured CEOs need to continue to inspire and motivate their followers to improve organizational performance. These findings suggest that tenure plays a key role, and given the fact that leadership can be learned, leaders who focus on intellectual stimulation and inspirational motivation during their leadership development activities and through their tenure with the organization will be able to more positively impact organizational performance as measured by stock price change. The pivotal research question in this study was to determine the relationship between transformational leadership and organizational performance measured by improved performance change.

The study had mixed results with significant relationship found between the total CEO transformational leadership score and organizational performance. There were substantial relationships found between two of the individual subscales of transformational leadership (inspirational motivation and intellectual stimulation) and organizational performance measured by change when tenure was the control variable. CEO tenure greater than or equal to five years

plays a role in organizational performance based on the findings of this study. Current literature on transformational leadership is emphasised as follows:

Transformational Leadership and Organizational Performance (Hypothesis 1)

Transformational leadership scores and organizational performance measured by change in revenue were assumed to be positively and significantly correlated.

The analysis did not focus any statistically major relationship between the total transformational leadership score as reported by the leaders and their subordinates and organizational performance. The co-relationships, were positive and in the direction predicted but not high to be significant.

The endogenous variables such as organizational size, tenure of executives, tenure of the executive team and the education levels were real issues. The reasons for large organizations to be better for managers' transformational leadership behaviours was that in smaller MNCs since fewer employees would be more decentralized structures than their larger counterparts.

Whilst these results are not conclusive, they provide insights to future research projects on the subject of transformational leadership.

Exogenous variables that may have obstructed performance include the continuing impact of Tsunami of 2005, change of government and its policies, and also costs of petrol, competition, interest rates, and foreign government policy.

Before year 2009 due to terrorist attacks many businesses suffered significant losses and had stock prices impacted because people generally did not travel, purchase products or services, and take as many business risks as they did in previous years because of the total uncertainty surrounding security and the concomitant terror and fear of bombs. In fact, companies had to spend millions of rupees in many cases to try to protect their assets from being attacked (employees, computers and software systems in banks and insurance companies).

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