

THE IMPACT OF TRANSFORMATIONAL LEADERSHIP ON TALENT RETENTION: WITH SPECIAL REFERENCE TO INFORMATION COMMUNICATION TECHNOLOGY INDUSTRY IN SRI LANKA

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Abstract

This paper employs a systematic and comprehensive review to understand the global problem of talent retention which is also seen as the pivotal problem in knowledge economy. On the other hand, organizations face the challenge of attracting and retaining talented employees and consequently they are dealing with talent scarcity nowadays. Thus, the role of leaders in attracting and retaining talented workers in their organizations has become critical. Nevertheless, the effect of leadership on talent retention needs to be investigated in the context of the Information Communication Technology (ICT) industry in Sri Lanka. Using a survey strategy, this study administrated cross sectional questionnaires to collect data from executive level employees who work in the ICT industry in Sri Lanka. This paper critically examined the impact of transformational leadership on talent retention in the information communication technology industry in Sri Lanka. Further, the results indicate that idealized influence behaviour, inspirational motivation behaviour, intellectual stimulation behaviour and individual consideration behaviour of the supervisor have a strong positive impact on the retention of talented employees in the ICT industry in Sri Lanka. Accordingly, transformational leadership could be used as a strong retention strategy not only in the ICT industry but also in other contexts.

Key words: Information Communication Technology Industry, Sri Lanka, Talent Retention, Transformational Leadership

Introduction

World economy has become a knowledge based economy where knowledge is viewed as the most important contributing factor to organizational success (Yu & Tam, 2016). Thus, it is a well-known fact that knowledge workers are the major source of bringing the competitive advantage in a world where most processes and systems have been standardized across industry participants (Templer & Cawsey, 1999). Talent shortage is a major issue in the Information Communication Technology (ICT) sector since the demand for executives and other critical employees is intense in the rapidly growing ICT industry, leading a high turnover of talented individuals (Robertson 2015; Latukha & Selivanovskikh, 2016). Although many researchers (Arnold, 2005;

Jinadasa & Wickramasinghe, 2005) have undertaken different studies on staff turnover in the ICT industry, there is no evidence of major studies carried out to examine the talent shortage issue in the ICT industry in Sri Lanka. It is evident that employee talent is a fundamental element of success of the information technology organization, not only for developed countries but also for developing countries (Dasanayaka & Kuruppuge, 2015). Thus, there is a need to understand the factors that underpin the retention cognitions of talented employees in Sri Lanka. However, there is a series of lack of consensus about retaining talent in the Sri Lankan context (Wickramasinghe & Silva, 2011; Dasanayaka & Kuruppuge, 2015). This study helps to fill a gap in the current literature by aiming to examine the talent shortage issue in the ICT industry in Sri Lanka.

According to Lundby, Lee and Macey (2016), effective leadership is considered as one of the major factors which enhances the ability to attract, retain, and engage employees in order to deliver on the organization's value proposition. Bass (1998) argues that transformational leadership is the more active form of leadership which helps to build superior performance and responses among followers. This makes sense as transformational leaders achieve superior results by maintaining a strong relationship with their followers. Accordingly, the behaviour of transformational leaders acts as a retention strategy in relation to talented employees. Although the theorists have undertaken many studies to test the impact of transformational leadership on stress, organizational culture, gender, organizational policies, development and training and state differences, there is no evidence of research studies undertaken to discuss the transformational leadership in the talent management context. While the concept of transformational leadership is found universally, much more attention is needed to learn about how they are affected by the context in which the leadership occurs (Bass, 1996). Therefore, this research will advance transformational leadership theory by applying it to the talent management context.

A number of researchers consistently suggest that transformational leadership is at the centre of scholars' influencing subordinates' behaviours (Bass & Avolio, 1994; Bulent & Seigyoung, 2007; Martin, 2016). Dimensions of transformational leadership including idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration impact on followers in different ways (Abeysekara & Jayakodi, 2011). Yet, the joint effects of transformational leadership and retention of key employees in the organization are a noticeable absence in research carried out within this paradigm.

Based on the above arguments, it is evident that there would be a positive relationship between the supervisor's transformational leadership style and the retention of the talented employees in the ICT industry in Sri Lanka. Thus, it is essential to determine whether transformational leadership influences the talent retention. Therefore, the research problem has been identified as the impact of

supervisor's transformational leadership on retaining talents in the information technology industry in Sri Lanka.

The primary objective of this study is to investigate the impact of transformational leadership on retaining future leaders in the information technology industry in Sri Lanka. Also, it is aimed to examine the impact of idealized influence, inspirational motivation, intellectual stimulation and individual consideration on the talent retention in the ICT industry in Sri Lanka.

Literature Review

Talent Retention

Talent refers to the employees in critical jobs who are important to the success of the organization. Strategic management researchers (Wright, Dunford & Snell, 2001; Ulrich, 2000) define talent as something valuable, rare and inimitable which always brings competitive advantages to the organization. According to Dries and Pepermans (2007) and Dries (2013), talented employees are defined as those who are recognized by the senior management as persons with the potential to fulfil an executive function within the company. This idea is supported by Elegbe's (2010) argument which states that talent is about 15 % of the total workforce in an organization and they are considered as some superior groups, which include the senior leadership, and mid-level employees with leadership potentials. In particular, researchers state that talent is any unique capability that helps an individual to display extraordinary performances.

Retention can be defined as the effort by an employer to keep desirable workers in order to meet business objectives (Frank, Finnegan & Taylor, 2004). According to Brannick (2001), talent retention is all about keeping the best employees in the organization. With respect to above definitions, researchers define talent retention as keeping the future leaders within the organization. Especially the companies functioning within this knowledge economy need to reduce turnover in favour of retaining talented employees. Retaining the best employees holds the key to innovation, the source of productivity improvements, and the basis for customer satisfaction (Brannick, 2001). To address this issue, Johnson (2000) introduces a concept called retention management which is defined as the ability to hold onto those employees you want to keep for a longer period than their competitors. According to the findings of empirical studies (O'Donohue et al., 2007; D'Amato & Herzfeldt, 2008; Govaerts, Kyndt & Baert, 2011), learning climate, career advancements, opportunity for creativity, work commitment and leadership skills have a positive relationship with the talent retention.

Talent Retention in Information Communication Industry

Information and communication technology provides a platform for businesses to flourish by enhancing increased competitiveness and ICT leaders are their first step towards improving the performance of their companies. On the other hand, in the information communication technology sector, talent shortage can be considered as a common phenomenon (Robertson, 2015). Luftman and Kempaiah (2007) mention that organizations based in the U.S.A. are already facing difficulties in finding ICT professionals with the appropriate job skills.

Further, in Australia the most in-demand ICT roles are network engineers and project managers, business analysts and developers (Schneider, 2018). Osman-Gani and Paik (2016) carried out a study on factors contributing to the retention of international IT talent in Singapore and their findings reveal that attraction and retention of IT talent has been an issue in Asia. In the context of the South Asia, India is the world's largest sourcing destination for the information technology industry (Srivastava, Verma, & Tripathi, 2017) and the Indian IT professionals are in demand all over the world (Sanyal, 2017). As a result, employees have more opportunities to change their jobs frequently creating a talent shortage in the Indian ICT industry. The above facts prove that there is a talent scarcity in the global ICT industry.

Moreover, in the Sri Lankan context, most ICT related employees leave the country for attractive salary packages offered by the US, Europe and Gulf countries (Siva, Udawatta & Nanayakkara, 2011). In a dynamic environment, a high employee turnover is visible in the ICT industry in Sri Lanka (Dasanayaka & Kuruppuge, 2015). They also mention that the ICT industry thrives on knowledge workers as recruiting qualified and experienced staff has been a critical element in the development of the IT industry in Sri Lanka. Thus, it is evident that there is a talent scarcity in the ICT industry in Sri Lanka.

Transformational Leadership

The theoretical framework for this study is based on Bernard Bass's theory of Transformational Leadership (TL) (1985). The purpose of this study is to point out the extent to which a leader is transformational, and how it is measured in terms of his/her influence on the retention of followers. Bass (1999) explains transformational leadership as a form of leadership which moves the follower beyond immediate self-interests through influence and inspiration that elevates the follower's maturity. Similarly, Avolio, Bass and Jung (1999) define transformational leaders as being charismatic in their ability to influence employees to go above and beyond what is expected of them, for a greater benefit of the organization.

Proving Bass's idea, Northouse (2013) outlines TL as a process concerned with emotions, values, ethics, standards, and long term goals. Further, Bass (1985) states that transformational leadership concept is effective for both in terms of increasing followers' performance expectations and transforming their personal values and self-concept into higher levels of needs and aspirations. Further, these studies (Bass, 1985; Bass & Riggo, 2006) attempt to associate transformational leadership with important outcome variables, such as subordinates' work engagement, job satisfaction, innovation, self-efficacy, commitment and intention to stay in the organization. Thus, a transformational leader can be defined as the one who demonstrates the four attributes of idealized influence, inspirational motivation, intellectual stimulation and individualized consideration in encouraging and motivating his or her followers to achieve outcomes beyond their expectations while developing their own leadership capacity at the same time (Bass & Riggio, 2006).

Transformational Leadership and Talent Retention

According to Latukha and Selivanovskikh (2016), major reasons for talent turnover are less challenging job tasks, lack of personal development and lack of proper training and development opportunities. However, the goal of transformational leadership is to align followers' identity, values and aspirations with the missions and values of the organizations. According to the transformational leadership theory (Bass, 1985), transformational leaders are those who inspire and stimulate followers both to achieve extraordinary performance and to develop their own leadership competencies. It is evident that transformational leaders provide interesting and challenging job opportunities which help talented employees develop their competencies. Thus, it is clear that transformational leaders act as a retention strategy in organizations.

Bass (1985) explains transformational leadership pursues organizational goals by focusing on followers' motivations and by reinforcing the competencies and skills that keep the organization competitive. Alternatively, talented individuals are strategic resources to the organization who bring competitive advantage to the organization (Barney, 1995). So the above statements show that transformational leaders focus on talented employees and motivate strategic talents to be in the organization.

Stress is also found to influence employees' intention to leave in the study by Jung, Yoon, & Kim. (2012). Research findings of Salem (2015) reveal that there is a negative relationship between transformational leadership and stress levels of employees which supports the relationship between the transformational leadership and the talent retention. Bass (1999) demonstrates that followers model their own leadership style after working for a few years with their immediate supervisors. Further, he states if immediate superiors are more charismatic, their subordinates will also be more charismatic in their leadership. Karatepe (2013) argues that ways to

empower employees to manage their own career will assist in retaining talented employees. It can be concluded that transformational leaders empower followers by allowing them to work autonomously, trusting that the followers' goals are aligned with the organization's goals. It is evident that transformational leaders empower their followers which directly leads to high talent retention.

One of the major outcomes of transformational leadership is encouraging followers towards the innovation and creativity (Çekmecelioglu & Özbağ, 2016). According to the research findings of Baer (2012) and (Shalley, Gilson, & Blum, 2000), employees desire to improve the workplace through creative implementation. Therefore, it increases organizational commitment and often leads to increased employee retention. Thus, from this also it is proven the relationship between the transformational leadership and the talent retention. Hence, the transformational leaders' style affects employees' intention to stay in the organization by providing charismatic influence, individualized consideration, inspirational motivation, and intellectual stimulation. Evidently, transformational leaders focus on building talents within the organization and influence developed talents to stay within the organization. This presents a natural theoretical link between the transformational leadership and the retention of talented employees in the organizations.

Conceptual Framework

As this study aimed to examine the impact of the transformational leadership on the retention of talented employees in the ICT industry in Sri Lanka, the following conceptual framework was developed.

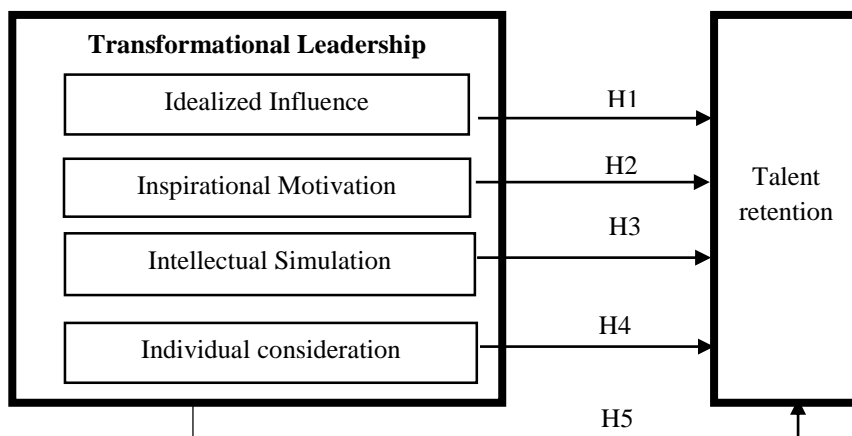


Figure 1: Conceptual Model

Table 1: Operationalization of study variables

Variable	Dimension	Measurement
Transformational Leadership	Idealized influence Inspirational motivation Intellectual simulation Individual consideration	The Multifactor Leadership Questionnaire Form 5X of Avolio, Bass & Jung (1999)
Talent retention	-	Govaerts et al., (2011)

Hypotheses

Relationship between Idealized Influence and Talent Retention

Quintana, Park and Cabrera (2014) state that the transformational leader's idealized influence has a positive effect on employees' job performance which encourages employees to work for the organization. Similarly, Sosik and Godshalk (2000) assume that transformational leaders and mentors are alike, because each encourages their subordinates to learn and develop, thereby allowing their followers to develop confidence, self-identity and well-being. A transformational leader assumes that subordinates will follow a person who inspires them and that to inspire, the leader must be a person with vision and passion. Furthermore, researchers (Martin, 2016; Kyoo et al., 2017) argue that the leaders achieve this by being visible, in constant communication with their teams, and by infusing their actions and communications with enthusiasm and energy. This indicates that many transformational leaders delegate work freely and may rely upon the talent and expertise of members of their team to achieve results. Thus, this confirms that transformational leadership makes employees want to be in the organization to achieve the organizational goals making retention of talents high within such contexts. Therefore, it is hypothesized that:

H₁: Idealized influence has a significant impact on talent retention in the ICT industry.

Relationship between Inspirational Motivation and Talent Retention

According to Paarlberg and Lavigna (2010), inspirational motivation entails articulating a clear and inspiring organizational vision and challenging workers to improve performance and attain organizational goals. The study conducted by Hausdan and MacLean (2001) discloses that employees who work in synchronicity with leaders to see the bigger picture of the organization are more likely to embrace their role and better understand the larger impact of their contributions. Thus in line with the above observation, it can be assumed that the likelihood of retaining the knowledge worker in the ICT industry would be expected to improve when the leaders acted in a transformational way by outlining the mission, values and vision of the company, which would make them feel team cohesion and be accountable for the collective dedication in achieving the overall mission of the organization. On the

contrary, talents can be identified as employees who are in pivotal talent positions in the organization and also whose contribution significantly affects the competitive advantage of a company (Collings & Mellahi 2009). Hence, the accountability for the overall success of the company would lead followers to stay in the company. From that, the following hypothesis is developed:

H₂: Inspirational motivation has a significant impact on talent retention in the ICT industry.

Relationship between Intellectual Stimulation and Talent Retention

Intellectual stimulation opines that by allowing followers to seek intellectual ways to solve problems, analyse situations, critically question long held beliefs/assumptions/values, transformational leaders are actually developing their followers to seek innovative and creative ways to solve traditional problems (Çekmecelioğlu & Özbağ, 2016). With respect to Collins (2010), talented employees are high potential and high-performing employees who always add value to the organization through the idea generation. Developing and maintaining quality software is paramount in the information-intensive society (Parzinger & Nath, 2001). This study reveals that the transformational leadership style of the manager has a significant positive relationship with the quality of the software developed. Based on the previous studies (Cheung, 2011; Zhang et al., 2015) the place for generating new ideas and innovation is the key strategy for the survival in a changing context. Further, Dassanayake and Kuruppuge (2015) portray the information technology industry as a competitive industry where an organization's ability to enhance employee knowledge and create new knowledge within the organization indicates the strength of the organization not only in relation to surviving the competition, but also to thrive in the field. Besides findings of this research point out that practising relevant leadership behaviours is an alternative way of enhancing creation. By supporting this view, many scholars have researched on the impact of TL on followers' creativity. The results indicate that the most transformational leaders are creative as well, which shows that they are in a good position to lead innovators. Thus, the above findings can be used in concluding that the ability to manage change and creativity is one of the key elements of transformational leadership which influences retaining the talented employees within the organization. Thus, the following hypothesis is established:

H₃: Intellectual simulation has a significant impact on talent retention in the ICT industry.

Relationship between Individual Consideration and Talent Retention

Individualized Consideration takes place when leaders pay attention to individual followers' needs and successfully develop them to higher levels (Bass,

1996). Similarly, Howell and Avolio (1993) explain that a transformational leader understands individual concern about development and therefore, the individuals are treated in a unique way to help them develop to their maximum potential. Talented employees constantly look for individual growth (Collins, 2010). Luftman and Kempaiah's (2007) research further proves that ICT executives are beginning to see the need to prepare themselves and their staff with new skills necessary to succeed in the emerging ICT marketplace. Some similarities can be seen in transformational leaders who focus on individual development by assigning tasks on individual basis (Avolio, & Bass, 2004). Based on this analysis, the researcher can conclude that a transformational leader helps individual development through individual consideration which leads to retain talents in the organization. From that the following hypothesis is developed:

H₄: Individual consideration has a significant impact on talent retention in the ICT industry.

Finally from the above hypotheses, the following hypothesis is developed:

H₅: Transformational leadership has a significant impact on talent retention in the ICT industry.

Research Methodology

Electronic questionnaires were distributed to respondents as a primary data collection tool to obtain necessary information. The survey questionnaire was developed based on the research hypotheses. This questionnaire was divided into two parts; the first part contains questions related to variables dealing with transformational leadership and talent retention while the second part contains questions related to socio-demographic information. Procedural remedies were taken to control the common method variance when designing the questionnaire (Podsakoff et al., 2003). Thus, a psychological separation was created by using a cover story to make it appear that the measurement of the predictor variable is not connected with or related to the measurement of the criterion variable. Secondly, respondents were allowed to provide answers anonymously by not asking the respondents' names or contact information. In the cover letter, the researcher assured that there were no right or wrong answers in order to get an honest feedback.

The researcher confined the sample by distributing questionnaires only among the executive level ICT employees in the industry, because the purpose of this study was to address the issue of turnover of talented employees in the ICT sector in Sri Lanka. Thus, the researcher selected nine ICT companies in Sri Lanka based on the survey results of the "Great Place to Work - 2017". Convenience sampling was used since the sampling frame of the executive level employees were not recorded in the ICT industry within Sri Lanka. The sample size of the study was 300 executive level employees in the ICT industry in Sri Lanka. After evaluating the accuracy and completeness of the collected questionnaires, 272 questionnaires were used for the

final analysis. This study conducted the data analysis and hypotheses testing using several statistical tools including the SPSS software for descriptive statistics and for inferential statistics. Regression was used to test the relationship among variables and to test the hypotheses.

Data Analysis and Discussion

When moving to the respondents' profiles, majority of the respondents were males. And more specifically, 75.9% respondents have a bachelor's degree and the majority of the respondents (83.3%) have a service period of more than one year and less than six years.

Reliability Analysis

Parametric tests were undertaken to ensure the preliminary assumptions of the data set. Further, the reliability of scales was tested using Cronbach's Alpha Value. The calculated Cronbach's Alpha for all the variables was above 0.60 indicating high internal consistency (Sekaran & Bougie, 2014). As displayed in the Table 2, all the Cronbach's Alpha for all the variables was above 0.60 (Field: 2009), thus, making it acceptable.

Table 2: Cronbach's Alpha Values

	Cronbach's Alpha	No of items
Idealized Influence (II)	.828	08
Inspirational Motivation (IM)	.762	04
Intellectual Simulation (IS)	.716	04
Individual Consideration (IC)	.654	04
Transformational Leadership (TL)	.928	20
Talent Retention (TR)	.601	10

Pearson's Correlation Coefficient is a measurement of the linear correlation between two variables where it has a value between +1 and -1 (Hair et al., 2010). According to the Table 3, there is a positive association among all the variables. Further, the values among independent variables show that there is no multi-collinearity among the independent variables since all the values are lower than .85 (Hair et al., 2010).

Table 3: Correlations amongst the variables

	II	IM	IS	IC	TR
II	1	.768**	.765**	.791**	.268**
IM		1	.728**	.701**	.215**
IS			1	.750**	.255**
IC				1	.235**
TR					1

** . Correlation is significant at the 0.01 level (2-tailed).

Testing Hypotheses by using Regression Analysis

Regression is the appropriate method of analysing when the research problem involves a single metric dependent variable presumed to be related to one or more metric independent variables (Hair et al., 2010). Thus, to test the hypotheses, regression analysis was applied.

Table 4: Results of the hypotheses testing

Hypothesis	Coefficient β	Adjusted R squared	p-value
Hypothesis 1	.949	.901	0.000**
Hypothesis 2	.875	.765	0.000**
Hypothesis 3	.884	.781	0.000**
Hypothesis 4	.887	.787	0.000**
Hypothesis 5	.771	.532	0.000**

**₁. $P < 0.01$ level (2-tailed)

The first hypothesis states that supervisor's characteristic of idealized influence directly influences the retention of talented employees. Table 4 shows that idealized influence is strongly significantly related to talent retention ($\beta = .949$, $p < 0.1$). Therefore, the results confirm the hypothesis 1. It means that when the supervisors behave as role models to followers, and lead through the demonstration of deeply held values and beliefs, it will lead to retain the talented employees in the organization.

The second hypothesis states that supervisor's inspirational motivation has a significant influence on talent retention. It indicates that when the supervisors inspire and energize followers to go beyond minimally accepted standards by providing them with a compelling vision of the future, there will be a high retention rate. The results show that inspirational motivation has a significant and positive relationship with talent retention ($\beta = .875$, $p < 0.1$) which accepts H2.

Third hypothesis was, the higher the supervisor's intellectual stimulation ability, the higher will be the retention rate of talented employees in the organization. According to the table 4, the transformational leader's ability of bringing out intellectual stimulation which has a strong significant impact on talent retention is proven ($\beta = .884$, $p < 0.1$). It can be elaborated that when supervisors encourage followers to look at the problems in new and creative ways facilitating innovation and foster participation, the retention of talented employees will tend to be increased.

The fourth hypothesis was that supervisor's characteristic of individual consideration has a significant impact on talent retention. The adjusted R squared is 0.787, indicating a strong relationship between the individual consideration behaviour of the supervisor and the retention of talented employees. Moreover, the Coefficient Beta value for the individual consideration is 0.884, which is significant at 1% level ($\beta = .887$, $p < 0.1$) indicating the same strong positive relationship. The findings reveal that when leaders diagnosing the needs and capabilities of their followers and helping them grow, will assure high retention rates of the talents.

The last hypothesis was that the transformational leadership has a significant impact on retention of future leaders in the organization. According to the table 4, it is proven ($\beta=.771$, $p<0.1$) that the transformational leadership behaviour of the supervisor will increase the retention of talented employees. Thus, it can be concluded that talented employees' decision on staying in the organization highly depends on the leadership style and the attributions of the leader.

Findings and Conclusion

It is evident that retaining talent has become one of the critical problems in the ICT industry in Sri Lanka. Based on the previous theories and literature, it is proven that an impact is made by transformational leadership on talent retention. Thus, five hypotheses were developed focusing two research objectives. Correspondingly, empirical evidences support that transformational leadership has a significant impact on retention of the talented employees. Further, it is proven that idealized influence, inspirational motivation, intellectual stimulation and individual consideration significantly influence the talent retention. Interestingly, all empirical results and theoretical explanations were aligned with the Sri Lankan context.

Theoretical and Practical Implications

Recently, researchers have begun to look into the relationship between transformational leadership and different employee behaviours and yet, no study has focused on how transformational leadership affects talent retention. Thus, the theoretical framework which is developed through this research can be applied to assess the impact in different industries as well as in different countries. Furthermore, research findings add to a growing body of literature regarding how retention of talented employee functions in terms of employer and employee relationship and leadership style. By knowing that transformational leadership plays an important role in talent retention, organizations can develop and execute strategies to build transformational leaders. Further, the findings indicate that the ICT industry managers who engage in transformational leadership influence different aspects of the employees such as creating a strong employer-employee relationship and increasing the future leaders' willingness to stay in the organization. More significantly, there is a growing interest in understanding the retention strategies of a talented workforce as low retention of talented employees has become a critical problem irrespective of the industry and the country (Latukha & Selivanovskikh, 2016). Thus, transformational leadership could be used as a strong retention strategy not only in the ICT industry but also in other contexts. Further, findings of the study provide clear guidelines to practitioners on what leaders can do and how the nature of their leadership style may lead to retain the best employees within the organization. In this regard, the ICT industry can focus on the recruitment and selection process in order to hire managerial employees who have the potential to be transformational leaders (Chen & Wu, 2017).

Furthermore, training and development have a significant effect on changing leadership behaviours, especially the transformational leadership behaviour (Bass, 1990). Further, Bass (1996) highlights that transformational leadership at all levels in a firm should be encouraged as it can make a big difference in the firm's performance

at any level and not just in the top leadership positions. The study also reveals that a leader or manager should increase employees' willingness to stay in the organization through idealized influence, inspirational motivation, intellectual stimulation and individual consideration. As a result, organizations can achieve sustainable competitive advantages since transformational leadership is one of the dominant characteristics in developing competitive advantages (Bulent, Seigyoung & EricShih, 2007). Accordingly, the results of this research can be enhanced further by conducting research in broader research areas.

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