GRC AND TRANSFORMATIONAL LEADERSHIP

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GRC and Transformational Leadership

Effective governance, risk, and compliance (GRC) leadership is an emerging area of interest within compliance research, which has been on the rise due to a large number of scandals that have shaken the financial services industry over the last two decades. There has been a paradigm shift in the way scholars lay responsibility for violations of regulations within financial organizations. Namely, researchers increasingly recognize an exponentially larger number of interrelations between the function of GRC leadership and compliance breaches in companies (Kedia, Luo and Rajgopal, 2016; Weinstein and Wild, 2013). The aim of this paper is to explore the influence of transformational leadership on the process of implementing and managing a GRC strategy.

Discussion

*Transformational Leadership and the Human Element*

A close alignment of both formal and informal business processes and compliance controls within a complex organizational environment is not possible without focusing on the human element through the introduction of transformational leadership. The concept of transformational leadership refers to a leadership approach that heightens consciousness of needed change among company's members and propels them to strengthen cooperative bonds by emphasizing collective identities (Garcia-Morales, Jimenez-Barrionuevo and Gutierrez, 2012). Although an understanding of the personal dimension of the concept is still largely speculative, the presence of transformational leaders in a company correlates positively with employees' compliance and performance.

The importance of transformational leadership is highlighted by the fact corrupt organizational cultures with a weak GRC function can be quickly changed with the help of leaders who are driven by the desire to build a sustainable compliance model. Therefore, in order to achieve an optimal performance of a GRC function, it is necessary to eradicate extremities on an ethical continuum within a financial services organization (Grant, 2012; Ibarra, 2015). To this end, a GRC leader's mandate to safeguard a company against regulation breaches has to be informed not only by the fulfillment of a business strategy but also by an emphasis on behavioral management, which cannot be achieved without shaping the human element. It means that It is often argued that the human element is "as much about effective cooperation and collaboration among staff working to meet common goals and objectives as it is in simply manifesting a character of integrity and honesty" (ICT, 2015, p. 14). Therefore, it is a key to establishing a virtuous cycle.

*Multiple Levels of Transformational Leadership*

GRC practitioners have to understand that transformational leadership functions at multiple levels simultaneously. Although, there is no universally accepted level of analysis of the phenomena, most leadership scholars agree that transformational leadership manifests at individual-level, team-level, and cross-level relationships (Braun *et al.*, 2013). Outstanding GRC specialists should be cognizant of the way leadership functions at these levels.

When implementing a GRC strategy at the individual level, it is important to keep in mind that individual perceptions of a leader's abilities and attitudes are related to job satisfaction. Therefore, GRC practitioners who subscribe to the transformational style of

leadership have to recognize and respond to personal perceptions of their followers by adjusting their behavior to specific company outcomes. It is essential for leaders who set a 'tone at the top' to achieve employees' support by manifesting certain character traits. According to Crossan *et al.* (2013), the following attributes of a leader are conducive to the development of a GRC-related culture: humility, empathy, reachability, and honesty. The effectiveness of the leadership approach can be undermined by character traits such as self-righteousness and self-promotion (Crossan *et al.,* 2013). It means that in order to develop and implement a GRC strategy in their organizations, compliance specialists have to manage individual perceptions of their employees by controlling their own behavior.

When it comes to the team-level relationships, it is necessary to acknowledge that a team is a valid entity whose outcomes are determined by interpreting their placement within an organizational hierarchy. In addition, a large body of research points to the fact that "team perceptions of supervisors' transformational leadership are positively related to team performance" (Braun *et al.*, 2013, p. 275). These relationships are mediated by cognition-based trust of workers. Moreover, the presence of a shared mental model inspired by a GRC leader is a key to controlling team performance.

The exploration of cross-level relationships in transformational leadership has recently attracted many prominent scholars of leadership theories. Leaders are capable of influencing the cross-level perception of their individual followers by directing their behaviors on other members of a team (Way, Jimmieson and Bordia, 2016). It follows that effective GRC practitioners who subscribe to the transformational leadership approach should promote team performance by communicating a persuasive vision of

individual performance in the future (Way, Jimmieson and Bordia, 2016). This approach does not only allow altering individual-level behavior, but it also helps to influence the team-level relations between a leader and company's units.

<div align="center">Conclusion</div>

The paper has discussed the influence of the transformational approach to leadership during the implantation stage of an effective governance, risk, and compliance (GRC) project. It has been argued that trust functions as a key mediator in the interactions within an organization. Therefore, effective leadership has to work towards engendering trust and cooperation in individual, team, and cross-level relationships across the organizations.

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