

**LEADERSHIP AND HUMAN RESOURCE DEVELOPMENT FACTORS IN
THE SUCCESS OF LIFE INSURANCE AGENCIES**

by

TAN BENG CHOO

**Research report in partial fulfillment of the requirement for the degree of
Master of Business Administration**

UNIVERSITI SAINS MALAYSIA

APRIL 2004

771282

rb
FHG8876

T161
2004

↓

FHG8876

T161
2004

MINORIS

8002

ACKNOWLEDGEMENT

I would like to convey my sincere gratitude and appreciation to my supervisor, Professor Mohamed Sulaiman for guiding me and providing me a lot of his precious advices in completing this study. Besides, I would like to thank all the participants for their cooperation and spending their times in completing the questionnaire of this study. Furthermore, I would like to deliver my sincere gratitude to Miss Koh Bee Li, my colleagues and my fellow course mates who willing to share their experiences and knowledge with me throughout the project. Finally, I wish to express my special gratitude and heartfelt appreciation to my family members especially my parent and sisters for their understanding, tolerance and motivation during accomplishment of the project.

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
ACKNOWLEDGEMENT	ii
TABLE OF CONTENTS	iii
LIST OF TABLES	vi
LIST OF FIGURES	vii
ABSTRAK (MALAY)	viii
ABSTRACT	ix
Chapter 1 INTRODUCTION	
1.0 Introduction	1
1.1 Agency Development towards Successful Agency	2
1.2 Problem Identification	3
1.3 Objectives of the Study	4
1.4 Research Questions	5
1.5 Definition of Key Terms	5
1.5.1 Agency	5
1.5.2 Leadership	5
1.5.3 Human Resource Development (HRD)	6
1.5.4 Performance	6
1.6 Scope of the Study	7
1.7 Significance of the Study	7
1.8 Organization of Remaining Chapters	8
Chapter 2 LITERATURE REVIEW	
2.0 Introduction	9
2.1 Leadership	11
2.1.1 Leadership Style	13
2.1.2 Leadership Practices Inventory (LPI)	15
2.2 Human Resource Development (HRD)	18
2.2.1 Recruitment and Orientation	20

2.2.2 Training and Development	20
2.2.3 Organization Development	22
2.2.4 Career Development	23
2.3 Organization Performance	23
2.4 Leadership and Organization Performance	24
2.5 Human Resource Development vs. Organization Performance	26
2.6 Influence of Gender Difference on Leadership	28
2.7 Theoretical Framework	29
2.8 Hypotheses	30

Chapter 3 METHODOLOGY

3.0 Research Design	32
3.1 Sample	32
3.2 Questionnaire Design	34
3.2.1 Section A – Leadership Practices	35
3.2.2 Section B – Human Resource Development Activities	36
3.2.3 Section C – Agency Performance	36
3.2.4 Section D – Demographic Data	36
3.3 Data Collection	36
3.4 Data Analysis Method	37
3.4.1 Descriptive Analysis	37
3.4.2 Goodness of Measure	38
3.4.3 Inferential Statistics	39

Chapter 4 RESULTS

4.0 Introduction	40
4.1 Profile of the Respondents	40
4.2 Goodness of Data	42
4.2.1 Factor Analysis – Leadership Practices	42
4.2.2 Factor Analysis for Human Resource Development Activities	44
4.2.3 Factor Analysis – Agency Performance	45

4.3 Reliability Analysis	47
4.4 Pearson Correlation Analysis	47
4.5 Restatement of Hypotheses	49
4.6 Hypotheses Testing	49
4.6.1 Testing for Hypothesis 1, 2 and 3	49
4.6.2 Testing for Hypothesis 4, 5 and 6	52
4.7 Multicollinearity Test	53
4.8 Summary of Hypotheses Outcome	54
Chapter 5	DISCUSSION AND CONCLUSION
5.0 Introduction	55
5.1 Recapitulation of the Study Findings	55
5.2 Discussion	55
5.3 Implication	57
5.4 Limitation of the Study	57
5.5 Recommendation for Future Research	58
5.6 Conclusion	58
REFERENCES	60
APPENDIX 1 - QUESTIONNAIRE	65
APPENDIX 2 – SPSS OUTPUTS	71

LIST OF TABLES

	<u>Page</u>
Table 3.1 Sample Distribution	33
Table 4.1 Respondents' Profile	40
Table 4.2 Leader's Demographic Profile	41
Table 4.3 Rotated Factor and its Loadings of Leadership Practices	43
Table 4.4 Factor Loading of Human Resource Development Activities	45
Table 4.5 Rotated Factor and Factor Loading of Agency Performance	46
Table 4.6 Cronbach's Alpha of the Variables	47
Table 4.7 Pearson Correlation among all the Studied Dimension	48
Table 4.8 Multiple Regression Analysis ~ Leadership Practices and Human Resource Development Activities (Independent Variable) – Agency Performance (Dependent Variable)	50
Table 4.9 Multiple Regression Analysis ~ Leadership Practices and Human Resource Development Activities (Independent Variable) – Agency Morale (Dependent Variable)	53
Table 4.10 Multicollinearity Test: Dependent Variable (Agency Performance & Agency Morale)	54
Table 4.11 Summary of Hypotheses Outcome	54

LIST OF FIGURES

	<u>Page</u>
Figure 2.1 Schematic Diagram of the Research Model	29

ABSTRAK

Kajian ini dilakukan untuk menyiasat pengaruh amalan kepimpinan dan aktiviti-aktiviti pembangunan sumber manusia ke atas pencapaian agensi. Unit analisis ialah agensi insurans hayat di Malaysia. Sebanyak 69 agensi digunakan sebagai sampel dalam kajian ini. Amalan kepimpinan diselidik dengan menggunakan "*Leadership Practices Inventory*" yang dihasilkan oleh Kouzes dan Posner (1990a). Aktiviti-aktiviti pembangunan sumber manusia pula diselidik dengan merujuk kepada frekuensi aktiviti pembangunan yang biasa dijalankan di agensi insurans hayat. Pencapaian agensi dikaji dengan menggunakan ukuran keuntungan dan keberkesanan kepimpinan. Amalan kepimpinan terutamanya "sedia menerima cabaran" mempunyai hubungan positif dengan pencapaian agensi. Hubungan positif ini juga turut muncul dalam perhubungan aktiviti-aktiviti pembangunan sumber manusia ("perekrutan dan orientasi" dan "latihan dan pembangunan") dengan pencapaian agensi. Akan tetapi, kedua-dua amalan kepimpinan dan aktiviti-aktiviti pembangunan sumber manusia didapati tidak mempengaruhi agensi moral. Kajian ini menunjukkan bahawa pengurus agensi perlu menumpukan perhatian dalam amalan kepimpinan dan pembangunan sumber manusia demi meningkatkan tahap pencapaian agensi.

ABSTRACT

This study was conducted to investigate the influence of leadership practices and human resource development activities on agency performance. The unit of analysis was life insurance agencies in Malaysia. A sample of 69 agencies was used in this study. Leadership practice was measured by using Leadership Practices Inventory (LPI) developed by Kouzes and Posner (1990a). Human Resource Development activity was measured based on the frequency of common HRD activities that are implemented in life insurance agencies. Agency performance was measured by agency profitability and leadership effectiveness. The results revealed that leadership practice particularly in “willing to take challenges” has positive correlation with agency performance. This positive impact also emerged in the relationship between human resource development activities (“recruitment and orientation” and “training and development”) and agency performance. However, both leadership practices and human resource development activities found have no influence on agency morale. The results showed that agency managers needed to focus on leadership and HRD practices in order to improve the agency performance.

INTRODUCTION

1.0 Introduction

Presently, there are eighteen life insurance companies operating in Malaysia. The insurance industry seemed to be in the growth trend. Although the insurance industry in the global financial system continued to be presented with a highly challenging environment, it successfully recorded positive performance during year 2002 (Insurance Annual Report, 2002). The total insurance fund has contributed approximately 5% of the total assets of the financial systems in Malaysia. This contribution figure seems to have increased compared to the last few years.

Life insurance is a homogeneous product, which is marketed by a huge number of professional sales forces (Dwyer, Hill & Martin, 2000). These groups of professional sales forces come from different insurance agencies in the country. In the insurance environment, sales performance is critical for the long-term survival of an agency and a company. In the real business world, there is intense and dynamic competition. Consequently, there must be a focus on how to use the available resources to compete effectively in the marketplace.

According to Bowen, Chase, Cummings and Associates (1990), functional integration is vital for effective management of a service organization. Managing human resource activities for instance training, job involvement and job development become a major factor to achieve the agency's effectiveness and superior performance. Beside that, an agency's manager plays a very essential role to effectively lead the whole agency in achieving the superior performance. However, what are the factors that need to be emphasized or focused in order to improve the agency's performance?

1.1 Agency Development towards Successful Agency

If we look at successful agencies, several factors that contribute to their success become evident. Successful agencies focus on what it takes to bring in the business. The focus is not only on the quality of manpower; there is also a focus on the activity of the manpower. In the insurance industry, activity of manpower is important to maintain their performance in sales volume and subsequently contribute towards the agency goal.

The activity has to be managed all the time – consistently and persistently – with the aim of achieving goals that have been set at the beginning of the year. On managing these activities, agents need to be well trained either through seminars or training programs that are organized by the agency. Education and training have the influence on organizational performance (Chien, 2004). Successful life insurance agencies manage their activities and performance through regular meetings, training, and motivation seminars.

Such agencies stress on quality and set the standards, which are rigorously monitored to ensure that standards are met. Plans are made on the premise of achieving those standards and such standards are closely reviewed monthly. These agencies are proactive in their planning. They know what needs to be achieved and the actions that are needed to achieve the goals and standards. Hence, planning could be the key function, which leads to the agency's success.

Establishment of goals is another point that needs to be emphasized. The agency manager plays a key leadership role in planning and establishing an effective monitoring and evaluation system for the established goals. The managers must hold themselves to their committed goals. If the manager fails to lead the whole team members in his/her agency, the entire goal of the agency will be meaningless.

Synergy and collective action must be the driving forces of an agency. If the manager can effectively apply leadership practices in their agency management, and provide training or human resource development that can help the team members in self-improvement, most probably it would increase the members' commitment to agency's goal. Subsequently, there will be a prosperous achievement in the agency.

Besides, stringent monitoring of the activities is also being carried out to allow them to take quick and effective remedial measures. When there is a gap between expected performances with the current situation achievement, then performance gaps will be analyzed. Thus, they quickly take the steps to close the performance gaps. Successful insurance agencies do not wait until the very end to close the gaps. In such circumstances, the gaps may become too big for any meaningful actions to be taken. By planning and working on their plans, successful agencies can be pro-active, and take quick remedial actions. They do not allow performance or sales gaps to grow too large.

Another thing that successful agency leaders do is to create a "success culture" – a high energy, high performance atmosphere that motivates agents to sales success. The above-mentioned practices are needed to exercise by the agency leader in order to enjoy superior performance of the agency. Besides, effective leadership practices need to be applied, so that he could lead the group to high achievement.

1.2 Problem Identification

Today, there are several successful agencies emerging in the country, which achieved outstanding performance. However, there still exists a group of agencies that just achieve average performance or worse. For those achieving average performance, they might just achieve proportional of their committed agency goal, like the targeted

sales volume, which was set at beginning of the year. Besides, they might not enjoy the sales growth as compared to the previous year. Maybe one of the reasons is the failure of agency manager in practicing effective leadership and how to organize the human resource department of the agency. Appropriate training is a powerful tool to enhance team members' skills and knowledge. Furthermore, as the study conducted in western country by Kouzes and Posner (1990a) in leadership practices, it underlines 5 leadership behaviors and the impact of these practices on the outcomes. There was no direct study on the leadership practices and performance of the agency in life insurance industry. Therefore, a concrete relationship needs to be established between leadership, human resource development and agency performance. This research will seek evidence to establish that linkage. In other words, this study will investigate the extent that leadership practice and human resource development have influence on agency performance.

1.3 Objectives of the Study

The purpose of the study is to determine the factors that influence the performance of insurance agencies. In this study, only two factors will be focused. One of them is leadership practices and the other is human resource development activities. The objectives of the study are:

- i. To examine the relationship between leadership practices and the performance of insurance agencies.
- ii. To investigate the relationship between the human resource development activities and agency performance.

1.4 Research Questions

In order to achieve the above research objectives, the following research questions have to be addressed.

- i. To what extent do leadership practices affect the agency's performance?
- ii. Is there any significant relationship between human resource development activities and agency performance?

1.5 Definition of Key Terms

1.5.1 Agency

Agency refers to a representative organization formed by life insurance companies as semi-autonomous units.

1.5.2 Leadership

Generally, leadership is the art of getting others to follow. The term leadership has broadly defined by the researchers based on their individual perspectives and their most interest aspects in this field. Kouzes and Posner (1990a) explained leadership as an observable and learnable set of practices. Thus, they developed leadership practices. As defined by House, Hanges, Ruiz-Quintanillam, Dofman, Javidan and Dickson (1999, p.184), leadership is "the ability of an individual to influence, motivate, and enable others to contribute toward the effectiveness and success of the organization....".

According to Yukl (2002), leadership is the process of influencing others to understand and agree about what needs to be done and how it can be done effectively, and the process of facilitating individual and collective efforts to accomplish the shared objectives. This definition has taken into consideration several things that

determine the success of a collective effort by members of a group or organization to accomplish meaningful tasks. The definition of leadership, which defined by Kouzes and Posner (1990a) and Yukl (2002) have been used in this study.

1.5.3 Human Resource Development (HRD)

As discussed by Swanson, and Holton (2001), Human Resource Development is a process for developing and unleashing human expertise through organization development and personnel training and development for the purpose of improving performance. As a summary, human resource development as independent variable in this study relates to the activities like sales training, development of the sales skills and orientation program for the new agents that are undertaken by the agency to improve skills, intellectual and physical achievement of the agency forces.

1.5.4 Performance

Swanson and Holton (2001) defined performance as “accomplishing units of mission-related outcomes or outputs”. There are two measures of performance. One is objective measure like rate of profits, and revenue growth. The other is subjective measure, which consists leadership effectiveness (Yukl, 2002). As suggested by Swanson and Holton (2001), performance outcome can be measured through effectiveness or efficiency relative to core outputs of the system, subsystem, process or individual. In this study, agency performance refers to the growth in sales, achievement in higher agency goal compare to previous years, and how effective the agency leader leads the team/group and motivates the agency forces as discussed in leadership effectiveness by Yukl (2002).

1.6 Scope of the Study

This study focuses on investigating the linkage between leadership practices of life insurance agency's leader and agency performance. Furthermore, this study attempts to explore the influence of agency's human resource development activities on the agency performance. This research was conducted in life insurance agencies mainly in Penang state, and some selected cities in Kedah, Perak, Kuala Lumpur, Malacca, Johor, Pahang, and Negeri Sembilan.

1.7 Significance of the Study

Currently, there is still little research conducted in life insurance industry, especially regarding the impact of leadership and human resource development activities on agency performance. This study will help the insurance industry to further understand the role of leadership in influencing the agency performance. Hence, they can set a yardstick of leadership training to improve the capabilities of the leaders.

Besides that, if there is a direct relationship between human resource development and performance, then it will lead the management team to enhance the quality of their human resource policy in order to sustain its competitiveness in the marketplace. Therefore, it will results in a more efficient human resource development activities like recruitment, training and development, and reward systems. The effort will be enriching the knowledge and skills, and also motivating the agency forces, which could lead them to improve their sales performance. In addition, it will serve as a basis for future research on insurance industry in Malaysia.

1.8 Organization of Remaining Chapters

Chapter 2 highlights some literature on leadership, human resource development and organization performance. Previous studies on the relationship between leadership and organization performance; human resource development and organization performance will be presented in this chapter. Theoretical framework and together with the hypotheses would be proposed. In Chapter 3, the methodology that will be used in this study will be discussed. This will be followed by Chapter 4, which focuses on reporting results from the statistical analysis. The last chapter is Chapter 5, which will comprise discussions of the findings, limitations and recommendations for future study.

LITERATURE REVIEW

2.0 Introduction

In the early 20th century, insurance industry seems to emerge in the marketplace in Malaya. After a long period of operations, there are several insurance companies operating in Malaysia today. All the insurance companies in Malaysia are supervised by the Central Bank of Malaysia (Bank Negara).

In the past few years, insurance industry in the global financial system continued to be presented with a highly challenging environment. In this complex and challenging environment, Malaysian insurance industry recorded a positive performance during fiscal year 2002 (Insurance Annual Report, 2002). In other words, the peoples' acceptance of insurance protection has been increased in this new millennium compared to the early times. Furthermore, consumer protection being improved through enhancement in product transparency, promotion greater accountability in sales practices and also expanding avenues for consumers to seek redress (Insurance Annual Report 2002).

According to Governor of Central Bank Malaysia, Zeti Akhtar Aziz (Insurance Annual Report, 2002), a significant challenge for the insurance industry was to provide effective strategic leadership and maintaining high professional standards in the rapidly evolving business environment. In order to facilitate this, International Centre for Leadership in Finance was established to coordinate an approach to human resource development for senior management in the financial sector. As a result, it enables insurance industry to accelerate their development of intellectual capital and managerial capabilities in the financial sector.

Besides, the ASEAN Insurance Training and Research Institute (AITRI) was established in December 2002 by the ASEAN insurance regulators to enhance the development of human resources in the region (Insurance Annual Report 2002).

Since life insurance agencies are playing the role of insurance company's representative, they need to deliver the insurance information to the public efficiently and ethically. Insurance companies have a close relationship with their agencies. The company provides the products and services to the customers. In the meantime, it depends on the agency forces to recommend their products to the public and thus provide the service to them. As a result, we can conclude that the performance of an agency will influence the performance and growth of the company. Subsequently, the quality and development of the agency forces need to be enhanced in order to enjoy higher performance.

There is some research using insurance industry as their bases. For example, research on the relationship between ethical behavior and customer oriented behavior on agent performance (Lim, 1996). Besides, there is also a study on the influence of demographic characteristics on attitude towards life insurance by Mohd. Azmi (1997). Some of the previous researches in leadership and human resource management or development are in the service industry like hospital, and hotel, and also in manufacturing sector. Some of their findings are related to the influence of leadership on organizational commitment and performance (Parry, 2002; Humphreys, Weyent & Sprague, 2003; Sosik, Potosky & Jung, 2002; Humphreys, 2002; Parry & Procter-Thompson, 2003) and impact of human resource management or development on organizational outcomes (Becker, Brian, Gerhart, & Barry, 1996; Huselid, 1995; Goldstein, 2003).

As discussed in the previous chapter, leadership practices and human resource development have played an important role in achieving superior organizational performance. Effective leadership is required to steer the management team to prosperity. The dynamic and effective leadership shown by an organization's management is the dominating element in determining the eventual success of the organization (Hines, 1992). In order to further understand this topic, various literatures have been reviewed as below.

2.1 Leadership

Daft (2002) states that leadership is an influence relationship among leaders and followers who intend real changes and outcomes, which reflect their share purposes. In other perspective, leadership is about creating a vision for the future, designing social architecture that shapes cultural and values, inspiring and motivating followers, developing personal qualities, and creating change, often dramatic change, to improve organization effectiveness (Daft, 2002).

Leadership is also defined as "the ability to influence and inspire others to do something that needs to be done" (Ahmad, 2001). In other words, it means that a person can influence others to act in a certain way. For example, the employee influence his work group and provide a vision of what the organization as a whole or the specific task on hand requires, which mentioned in leadership definition by Chien (2004).

In the previous studies, there is no single definition for leadership. Yukl (2002) treated leadership as both a specialized role and social influence process. As contended by him, there is no single correct definition for leadership; it is only a view

of how useful the definition is for increasing our understanding of leadership. Leadership consisted two essential aspects, which are rational and emotional process.

In the study of Bryant (2003), leaders play a role in managing organizational knowledge and provide vision, motivation, systems and structures at all levels of the organization that facilitate the conversion of knowledge into competitive advantages. Leaders who practice self-management leadership do not try to control employee behavior, but coach employees to think critically about their own performance and judge how well they are accomplishing tasks and achieving goals (Daft, 2002).

If the leader acts as democratic leader, he/she would consult the members in agency on questions of interest to them and to which they can contribute. In such a circumstance, communications flow freely and suggestions would be rise in both parties. Furthermore, praise and criticism would be practiced in the agency. Beside that, participation of agents in goal setting and problem solving is encouraged to enable them to be committed to the final decision (Hines, 1992). This is essential since goal setting is a central element in the guidance of organizational achievement as mentioned by Watson (1992).

Along the process, the democratic leader creates situation by which individuals can learn, enables people to check their own performance, allow subordinates/agents to set challenging goals, provides opportunities for improved work methods and job growth and recognizes achievements and helps employees learn the errors (Hines, 1992).

Yessian (1988) postulates successful managers at team level demonstrate that leadership, flexibility, action orientation, and a focus on results in all kind of human service organizations. As discussed by Griswell (1990), an effective manager would well manage the time, recruit, train, maximize productivity, promote service, develop

markets, build morale, conduct meetings and lead. Leaders need to stimulate vision among their followers and then translated it into specific goals, which linked it to the strategic action. It is very important for an organizational achievement as described by an old English churchyard: “Life without vision is drudgery. Vision without action is but an empty dream. Action guided by vision is joy and the hope of earth” (Daft, 2002, p.494).

Chien (2004) concludes that organization effectiveness skills are the building block for leadership. Without them, leadership can be misplaced or even be counterproductive. For instance, when the leader fails to trigger his followers’ spirit to continue struggle for their goals, then they will feel like lack of personal growth in future, no promotion, no appreciation of contributions, absent of safety feeling, loss of work challenge and also no more feeling of ownership and disappointed with the management team in organization. Finally, they will leave the organization (Palmer, Walls, Burgess, & Stough, 2001).

2.1.1 Leadership Style

Bass (1997) have identified two types of leadership styles in their study. One is transformational leadership and the other is transactional leadership. As described by Bass (1997), transformational leadership is consisted four key components as below:

1. Idealized Attributes/Idealized Influence Behavior

Leaders, who act as role models for their followers, are willing to take risks and able to generate satisfaction, loyalty, confidence, and alignment around a shared purpose. Furthermore, they can be trusted, admired, respected and capable to demonstrate high ethical standards.

2. Inspirational Motivation

Leaders articulate an appealing vision for the future, arousing team spirit, and provide encouragement and motivation to his/her followers. Besides, they showed optimism and also enthusiasm in inspiring and challenging their followers (Bass, 1997).

3. Intellectual Stimulation

This component encourages leaders to be innovative and think creatively. In addition, it also intellectually stimulates and encourages the leaders to question assumptions and look at the old problem in a new perspective (Bass, 1997).

4. Individual Consideration

Leaders will pay attention on their followers' individual needs, abilities and aspirations. They listen attentively and develop the opportunities for their followers. Moreover, they act as mentor to coach their followers (Bass, 1997). Osterman (1994) found that through emphasizing and concerning the employees' well being, it would lead to innovation of an organization and also incur the improvement within organization.

While transactional leadership has three attributes. It is exemplify by contingent reward, management-by-exception, and laissez-faire (Bass, 1997).

1. Contingent reward – reward for recognizing achievement, like good performance, and good effort that contributed in the project. It seems to be an exchange for the contribution of followers on completing the assigning tasks.
2. Management-by-exception – there have two kinds of exceptions, which are active and passive. If it is active, leaders will monitor and correct followers' mistakes whose performance differ from standard to ensure the efficiency of

work progress. The other is passive, which is only used when a failure occurs. It is the reverse of the active situation, which waits for mistakes to occur before remedial action is taking. Therefore, contingent punishment and remedial action would be applied to modify it to the normal acceptable performance standards (Bass, 1997).

3. Laissez-faire – this kind of leader would avoid decision-making and also give up the responsibilities to others (Bass, 1997).

2.1.2 Leadership Practices Inventory (LPI)

According to Kouzes and Posner (1990a), leadership is an observable, learnable set of practices. It is not represented by a particular position in an organization. It is an attitude and responsibility, which involved skills and abilities that are useful whether one is in the executive suite or on the front line. In order to accomplish extraordinary things, a leader should emphasize in taking initiative, having a vision of greatness, empowering others, practicing what one preaches, and giving and sharing credit (Kouzes & Posner, 1990a).

One of the instruments that widely applied in measuring leadership practice was constructed by Kouzes and Posner (1990a) and called as Leadership Practices Inventory (LPI) – a 30-item scale. LPI is both a reliable and valid measure to identify an effective leader. The validation test is conducted with a sample size of 2776. Each scale in LPI is internally reliable, which means that the items are highly correlated within each scale. This LPI is developed to measure the five fundamental practices or behaviors of transformational leadership. These 5 dimensions incorporated challenging the process, inspiring a shared vision, enabling others to act, modeling the way and lastly encouraging the heart (Kouzes & Posner, 1990a).

Leaders who demonstrated the behavior of challenging the process are innovative and dare to take risks in searching the better ways for the purpose of improvement. As perceived by Kouzes and Posner (1990b), "leadership is an active, not a passive process. Leaders are learner, they learn from their mistake as well as their successes since they perceived that leaders are learners. By challenging the process, leaders enhance the perception that they are dynamic".

The second leadership behavior is leaders inspire a share vision. They influence others towards their dreams and enable them to see the future possibilities by showing a common purpose. Leaders will fail to inspire their followers if they themselves unable to express enthusiasm for compelling group's vision. Thus, they need to constantly show their belief and enthusiasm for the vision to motivate the whole group members for instance, an old Texas saying that "you can't light a fire with a wet match" (Kouzes & Posner, 1990b).

Leaders cannot only depend themselves as a single unit to achieve success. They need to support and encourage collaboration, teamwork building and emphasized empowerment among their subordinates, which mean that they enable others to act. This practice will enhance capabilities, and enable followers feel strong and committed. In addition, this practice seems to be the most significant among all the five practices (Kouzes & Posner, 1990b).

According to Kouzes and Posner (1990b), the leader must able to model the way. After having the vision, they need to have detailed plans. Besides, they must be first clear and consistent about their business beliefs. If they fail to do so, it will cause them to lose their reputation and have lower image in the sight of people. Hence, the people do not respect them and feel unconfident to them. As a result, leaders have to consistent with their beliefs, persistent in pursuing their visions, and sensitive about

the little things, which can result a big difference. If the leaders consistently practiced espoused value, it indicates their honesty and also trustworthiness because their action and words match (Kouzes & Posner, 1990b).

The last leadership practice is encouraging the heart of their followers to carry on. On the way to attain superior achievement, it needs a group of people to strive together towards the setting goal. If the people never received any encouragement, they will become exhausted, frustrated, and disenchanted and potentially tempted to give up. However, when there is recognition for the individual contribution and group celebration, it will probably lead them to continue striving for success (Kouzes & Posner, 1990b).

Based on the study of Kouzes and Posner (1990b), Leadership Practices Inventory (LPI) scores are positively correlated with measures of the leader's credibility, effectiveness with upper management, team-building skills, work-group norms, and actual levels of output. If the items identified in Leadership Practices Inventory is practiced as much as possible by the leaders, the more likely he or she will be an effective leader (Kouzes & Posner, 1990b).

In Beh's (2003) study, he used LPI as a measure of effective leadership practices while discussing the relationship between emotional intelligence and leadership effectiveness of managers in manufacturing firms. He proved that LPI scale could be a useful tool to identify and measure effective leadership in Malaysia context. Besides, he found the existence of positive relationships between emotional intelligence and leadership effectiveness and effective leadership practices.

2.2 Human Resource Development (HRD)

HRD is a process of improving an organization's performance through the capabilities of its personnel. HRD includes activities dealing with work design, aptitude, expertise, and motivation. This definition is focused into the organizational performance (Swanson & Holton, 2001).

According to Desimone, Werner and Harris (2002), human resource development can be a stand-alone function, or it can be one of the primary functions within the human resource management department. There are 3 primary human resource development functions identified in human resource wheel (HR wheel):

1. Training and development – focus on changing or improving the knowledge, skills, and attitude of individuals (Desimone et al., 2002).
2. Organization development – process of enhancing the effectiveness of an organization and the well being of its members (Desimone et al., 2002).
3. Career development – an ongoing process by which individuals' progress through a series of stages, each of which is characterized by a relatively unique set of issues, theme, and tasks (Desimone et al., 2002).

Human Resource Development can affect individual performance towards organizational outcome through the influence over employees' skills, motivation, and improvement in job performed (Huselid, 1995). As discussed by Gilley and Maycunich (2000), one of the methods in enhancing effectiveness of the organization was through the effective HRD practices.

An organization comprises a group of personnel to carry out activities of the unit. The role of personnel or manpower in the organization is extremely vital to improve the organization's performance as described in the quotations below:

“ You can take away anything from IBM. You can take away our technology. You can take away our plans. You can take away our labs. You can take away our facility. You can take away our headquarters, but leave our people, and this business will recreate itself overnight.”

Thomas J. Watson Jr., former Chairman of IBM

(Omar, 2001)

“Take away our 20 best people, and I will tell you that Microsoft would become an unimportant company.”

Bill Gates, Chief Executive Officer of Microsoft

(Omar, 2001)

From these quotes, it is very clear that human resource/personnel is very important for the operation and success of an organization. Human resources are the organizations most important assets. In the context of life insurance agency, manpower or agents seem to be the main resources of the agency. Without them, the servicing task would be discontinuous. Hence, the agency would fall into trouble.

In order to achieve eminent performance in an organization, efforts towards personnel development cannot be ignored since they are the people who help to achieve the organization's goals. The quality of this group of people needs to be improved, updated and developed. The employees' ability to achieve the organization's aims and objectives is a function of the effectiveness of human resource management in that organization (Omar, 2001). Human resource development is seen to be a function, which provides opportunity for an individual worker to improve current and future job performance. Furthermore, best utilizing human capital simultaneously in order to improve the efficiency of the organization itself (Byrne, 1999, p.19).

As mentioned by Hughes (2002), effective human resource policies and practices would lead to employee satisfaction and retention, as well as a high and consistent level of service quality. According to Byrne (1999), a well developed and well-implemented human resource development systems are integral to a company's strategic plan and benefit both the employee and the company. Researchers have identified an organization's human resource development programs as the key to a firm's productivity improvement.

2.2.1 Recruitment and Orientation

Recruitment is one of the activities that is essential in life insurance agencies. If the agency desires to enjoy rapid growth, it needs to recruit the individual with potential as part of agency's forces to strive together in improving the overall performance of the agency. Bennett (1993) observed that to become successful in recruiting process, the manager should hold a strong belief in the value of his career. He must be able to select the right person for the job to enhance their commitment. In other words, he must know what the job requires and what characteristics of personnel would suit the job. Orientation is the process of welcoming new employees, bringing them into the organization, and familiarizing them with its operations and culture (Anthony, Kacmar & Perrewe, 2002).

2.2.2 Training and Development

One of the human resource developments activities that need to be emphasized is training and development. Training and development are an integral part in human resource development especially in life insurance industry. By improving the individual's knowledge, skills and capabilities through training and development, it

will assist him to successfully handle his daily tasks or responsibilities and also lead to the future growth. According to Megginson, Joy-Matthews, and Banfield (1993), the greater the proportion of learning, which is work related, the more a person's capability is increased as it might be a fundamental objective of any organization's training and development policy.

According to Hashim (2001), training refers to a planned and systematic effort to modify or develop knowledge, skill and attitude through learning experience, in order to achieve effective performance in an activity or activities. Besides that, training enabled an individual to acquire abilities to perform adequately for a given task. While development involves learning that looks beyond today's job and is more to the long-term focus (Hashim, 2001).

In Chien's (2004) study, education and training are the important factors for organization performance. Refer to Anthony, Kacmar and Perrewe (2002), training is defined as the development of skills that can be applied immediately on the job through the coaching that is provided. In human resource development, the knowledge that is learned may be used now or in the future. In other words, training and development refer to the total structure of on-the-job and off-the-job programs used by organizations in developing employee skills and knowledge necessary for proficient job performance and career advancement (Anthony, Kacmar & Perrewe, 2002).

With reference to the composite definition of training and development reported in Investors in People United Kingdom (IIP UK)(1996), it consists of "...any activity that develops skills, knowledge, and behavior. The activities may include formal training courses, formal job training by supervisor, shadowing, coaching, and mentoring" (Hill & Steward, 2000).

There exist to be a positive linkage between training and development with business success (Lane, 1994; Hill & Steward, 2000). Huang (2001) conducted a survey on 600 small and medium size enterprises (SMEs) in Taiwan, he recommended that organizations should encourage employee development and emphasize worker training and education. Beside that, performance appraisal to evaluate the achievement of individual can be used to emphasize teamwork and long-term orientation. Furthermore, job security seems important in enhancing organizational performance. He also suggested that sophisticated training systems and strong management support for training are most successful to maximize effectiveness of the training program.

The three components of training initiatives, employee motivation and corporate reward strategies must be practiced together to improve organizational performance. Moreover, human resource and training leaders must take into consideration of employees' capabilities development as to enhance organizational competitiveness (Jackson & Schuler, 1990).

2.2.3 Organization Development

As defined by Cummings and Worley (1993), organization development is “a system wide application of behavioral science knowledge to the planned development and reinforcement of organizational strategies, structures, and processes for improving an organization’s effectiveness”. The purpose of the organization development is to improve the existing achievement and organizational performance (Lynham, 2000; Swanson & Holton, 2001).

2.2.4 Career Development

As defined by Desimone, Werner and Harris (2002), career development as one of the three areas of HRD practice. However, Swanson and Holton (2001) found that it has had declining influence in HRD, while personnel training and development, and organization development has moved towards the primary fields of practice. Moreover, they perceived that career development functions as an extension of the development component of training and development.

2.3 Organization Performance

Performance can be described as a function of the interaction of ability, motivation and opportunity. If one of this interaction factors is inadequate, it will negatively affected its performance. According to Yukl (2002, p.8), there are two measures of performance. One is objective measure that includes profit margin, sales increase, return on investment, production yield and cost per unit of output. While subjective measure is effectiveness rating from leader's superiors, peers or subordinates. Followers' attitude is another common indicator of leader effectiveness. Furthermore, for the subjective measure, the leadership effectiveness can be measured through the success of an organization performing a task and also attain the committed goals (Tirmizi, 2002).

Besides, the group cohesiveness and teamwork are paramount especially in service industry like insurance agency. Beh (2003) used the key indicators of leadership effectiveness discussed by Yukl (2002) as performance measures for research on leadership effectiveness. In order to achieve superior performance, goal setting is one of the steps that need to be focused (Chien, 2004). By clearly defining realistic and specific goals and objectives, the whole organization members will strive

towards these preset milestones. Similarly, setting a goal for the entire agency like life insurance agency is a first step in managing sales performance. Clear targets must be established in order to achieve the agency's goal. Chien (2004) indicated that there are several factors affecting organizational performance. Among the factors are motivation, incentive, leadership styles, organizational culture and environment, job design and human resource policies.

2.4 Leadership and Organization Performance

Some researchers have conducted surveys, which integrate parts of the transformational theory and transactional theory. Some of the findings in the studies conclude that transactional leadership augments laissez-faire leadership in improving sales representative job satisfaction, organization commitment, and performance.

From their empirical research, Lowe, Kroeck and Sivasubramaniam (1996) found the existence of a strong positive relationship between all components of transformational leadership and performance measure either objective or subjective. For instance, in a study carried out in a large Canadian financial institution, it showed that the transformational leadership behaviors of the departmental supervisor play an essential role in strengthening its departmental performance after one year period (Howell & Avolio, 1993).

According to Bass (1997), the active leadership style is more preferable to increase follower sales and marketing performance. If the leader practices passive sales leadership style, it is clearly to be an ineffective leadership style. Consequently, the transformational leadership behaviors, like individualized consideration should be incorporated to the future sales leader training and development (Bass, 1997).