

# Effective of Transformational Leadership in Human Capital Management for Creating a Sustainable ASEAN Community (AEC)

Sukumarl Koednok

Management Program/ Business Administration Department Vongchavalitkul University, Nakhonratchasima, Thailand  
Email: k\_sukumarl@hotmail.com

**Abstract**—According to the unstable economic world nowadays many regions have gone through transformative changes to establish their free trade area for strengthen and support their growth and development in each region. ASEAN community was established in August 1967 had given way to a highly diffused and multi-polar politics of the day where multilateralism and regionalism are taking stronger roots. The Community Blueprints of ASEAN issues for the three pillars of the ASEAN Community, namely the ASEAN Political and Security Community, the ASEAN Economic Community and the ASEAN Socio-Cultural Community, the challenging is how to adapt leadership management practice to survive with the change in ASEAN community in the future. This article would like to propose and discuss about the role of transformational leadership which will effect to cross cultural management to strengthen the community to achieve ASEAN goal effectively. In this article we illustrate the relationship between transformational leadership and the human capital management. Beside the discussion are not talking about individual leadership but that of collective leadership where everyone has a stake in an issue, responsibility to ensure cooperation and readiness to implement the agreed regional commitments. The more important issues are to how to address transformational leadership as frameworks for the current and future ASEAN leaders at every levels and sectors to ensure the ASEAN policies and engagements. Finally, the discussion would present about the role model of transformational leadership in order to shape the perspective of leadership which will enhance ASEAN as sustainable in regional growth and achieve their commitment by basic factors or characteristics of transformational leadership. The leadership characteristics identified by Lewis by the following key characteristics of transformational leadership, which are vision, Charisma and Inspiration, Intellectual Stimulation and Creativity, Individual Consideration/Interactivity, Honesty and Integrity and Confidence & Optimism. which are the important key characteristics address in human capital management in ASEAN Community for achieving their directional goal of ASEAN Community by examine some case studies in Asia countries which implement transformational leadership in their operation.

**Index Terms**—transformational leadership, human capital management, ASEAN community.

## I. INTRODUCTION

The new glory for ASEAN in this new 21st Century has been its transformation from an “Association” to an ASEAN Community with the coming into effect of the ASEAN Charter in December 2008 as well as the adoption of the Community Blueprints for the three pillars of the ASEAN Community, namely the ASEAN Political and Security Community, the ASEAN Economic Community and the ASEAN Socio-Cultural Community [1]. The Association of Southeast Asian Nations [2] is a geo-political and economic organization of ten countries located in Southeast Asia, which was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand [3]. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam. Its aims include accelerating economic growth, social progress, and cultural development among its members, protection of regional peace and stability, and opportunities for member countries to discuss differences peacefully. ASEAN covers a land area of 4.46 million km<sup>2</sup> which is 3% of the total land area of Earth, and has a population of approximately 600 million people, which is 8.8% of the world's population. The sea area of ASEAN is about three times larger than its land counterpart. In 2010, its combined nominal GDP had grown to US\$1.8 trillion [4]. Therefore the most important role of change is leader who can cope with the transformative economy in ASEAN Country.

## II. TRANSFORMATIONAL LEADERSHIP MODEL

In the developed and market-pricing nations, the focus is on visionary and transformational leadership capable of moving an organization to a new plateau of success [5]. Transformational leadership represents the degree to which the leader is able to effect a change not only in the firm's culture but also in profitability. Podsakoff, MacKenzie, Moorman, and Fetter [6] explored some of the internal mechanisms affected by transformational leadership. They examined how transactional and transformational leadership impacted the trust that followers had in their leaders, as well as how trust influenced organizational citizenship behaviors. Their results provided evidence to support Bass's [7] (1985)

contention that transformational leadership activates higher order needs through the development of trust, leading followers to exhibit extra-role behaviors in addition to in-role behaviors that honor transactional agreements. Transformational or Charismatic leaders have followers who emulate them and perform beyond expectations [8] (Avolio, 1999; Bass, 1985). Their followers may be more open to shifts in their worldview and to accepting new values and changes in thinking and strategy. Burns is attributed with developing the concept of transformational leadership, or what he called transforming leadership. Transformational leadership is a transition from the older views of leader-centered theory to the newer views of process-centered theory discussed earlier in the analysis. Thus, even though transformational leadership provides many new dimensions to the study of leadership theory, it remains leader-focused and is hierarchical in nature. The analysis evaluates the new considerations of transformational leadership within a four dimensional construct that includes idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration [9]-[11].

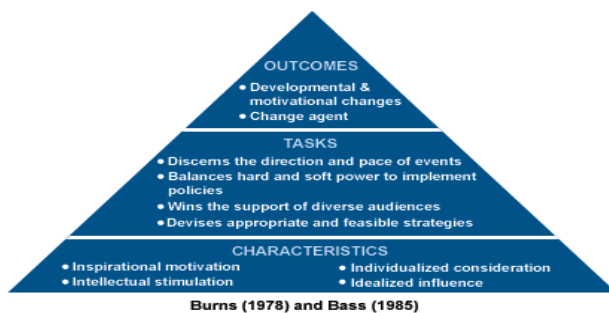


Figure 1. Transformational leadership Model[9]

Friedman [12] appears to agree with most of the same leadership characteristics identified by Lewis [13] as demonstrated by the following key characteristics:

- **Vision:** Transformational leaders must look beyond the present to develop a vision for the future. The leader must subscribe fully to the vision and be able to sell it to followers.
- **Charisma and Inspiration:** Transformational leaders must have the ability to influence others with their inspirational qualities.
- **Intellectual Stimulation and Creativity:** Since transformational leaders are agents of change, they must have the knowledge base to help motivate people to come up with innovative solutions and new ideas. They take risks after careful analysis.
- **Individual Consideration/Interactivity:** Transformational leaders attempt to know each person's talents, and assign them responsibilities accordingly. They respect everybody.
- **Honesty and Integrity.** : Honesty and integrity are essential elements for sustained effectiveness. People who don't trust their leader do not follow them effectively.

- **Confidence and Optimism.** : A transformational leader must not shoot the messenger. He must project confidence and optimism because people follow better if they are convinced that their leader believes in the vision set forth before them.

Those characteristics of transformational leadership are very important to support task in the organization to cope with change management and cross cultural management in ASEAN economic community.

Human capital is defined by the OECD as "the knowledge, skills, competency and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being." Human capital is an economic term used to describe the skill and knowledge that individuals draw upon to generate outputs of value, such as innovation and productivity in job performance. The aim of the human capital strategy is to transform human resource into a more tangible asset, and to plan and to match up the personnel in the organization to the firm's strategic need [14]. Many researchers recognize that the modern concept of the wealth of nations embodies in people – human capital- mattered [15].

### III. RELATIONSHIP OF TRANSFORMATIONAL LEADERSHIP AND HUMAN CAPITAL MANAGEMENT FOR SUSTAIN IN ASEAN ECONOMIC COMMUNITY (AEC)

The organization's culture develops in large part from its leadership while the culture of an organization can also affect the development of its leadership. Transformational leaders change their culture by first understanding it and then realigning the organization's culture with a new vision and a revision of its shared assumptions, values, and norms [12]. Transformational leadership has an important relationship with creating a culture of organization which in turn is associated with the adoption of culture initiatives, and ultimately with positive improvements in productivity outcomes. Therefore, this is a suggestion model, which will assist for applying transformational leadership strategy and creating a sustainable economy in AEC which are composed of 4 main partners concerning to achieve goal which are government sector, business sector, education sector and Science & technology [16].

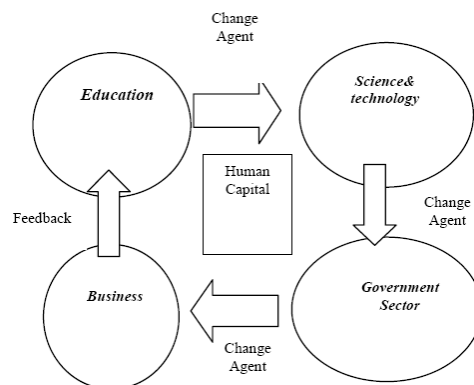


Figure 2. Human capital strategy and 4 main sectors

First step of the most important transformational leadership factor is leadership strategy for Vision: ASEAN Country to direct their people toward their mission to the future perspective economy. The key areas of the strategy process: empowerment and creation of leadership culture on their people to be innovative in the education sector, business sector, science & technology sector and government sector by focusing on their vision, strategies and values. The operation management of business section will follow the right direction to achieve the valuable outcome. For example there is a case study of Singapore's policy that effect to the development of Economy from year 1960 – 2000.

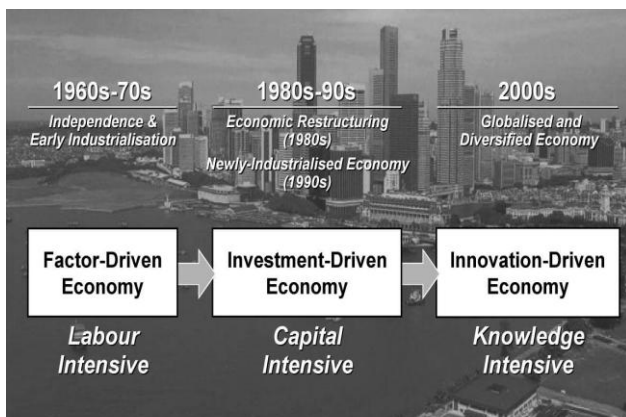


Figure 3. Phases of Singapore's economic development

Singapore transform their country for the 30 decade from labor intensive in 1968 from one of import substitution to one of rapid industrialization by attracting foreign investment for export-oriented and labor-intensive manufacturing shifted to continue invest on a major restructuring of the economy towards higher value-added, high technology and more capital-intensive industries, finally Singapore found that innovation-Driven is the most important factor to survival in the environmental change in this century that why they continue to build knowledge intensive in their country [17]. This case study of the development phase of Singapore shows that how important considering how to transform their country turning with right vision of transformational leadership for overall development sector to create, and direct their country to achieve their strategy direction.

Second step, for transformational leadership should consider is how to implement the Charisma and Inspiration to every sector. There are some of case studies found that leaders in automobile companies in Malaysia should deeply develop their leadership by inspirational motivation, intellectual stimulation and building trust and confidence etc. to improve operational competitiveness. Agile operations strategy should be utilized towards automobile enterprises in Malaysia in order to be competitive under dynamic and tightrope business situations [18]. Therefore leader in every section must have the ability to influence others with their inspirational qualities to lead their sub-ordinate to achieve their vision as mention in the first step.

Third step is mention about Intellectual Stimulation and Creativity. According to the human capital model, there is a study on creativity, for perspective of capital: each composing concept in the creativity index is illustrated with different dimensions so as to reflect the status and dynamic changes of the respective form of capital as well as the outcomes of creativity. Taking the creative outcomes for example, we measure the manifestation of a creative society in terms of economic contribution, inventiveness and other outputs of creative activities. As for the development of human capital, the commitment of the private and public sectors are in R&D, educational attainment of knowledge workers as well as the mobility of human capital would be measured [19]. The role of transformational leadership mostly in every sector is how to empower their people to the innovation driven by increasing their competency and creativity.

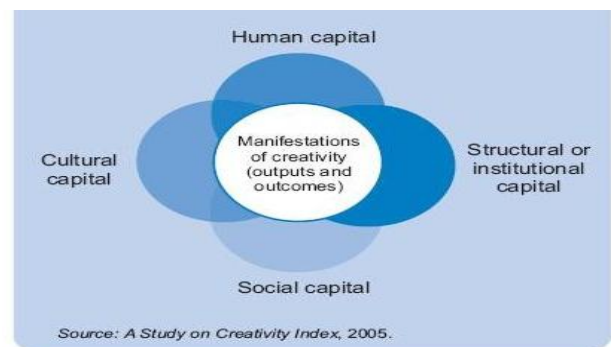


Figure 4. Interplay of the 5Cs: Outcomes of creativity + 4 Capitals: A Study on Creativity Index, 2005. home affairs bureau, the Hongkong Special Administrative region government.

Finally the personal characteristics of the leader in ASEAN Countries of transformational leadership should address the individual Consideration/Interactivity in all level of leader to turn their people into a human capital asset. Transformational leaders attempt to know each person's talents, and assign them responsibilities suit with capabilities. The most important characteristics of transformational leader are honesty and integrity. This kind of personal characteristics should built trust and confidence of follower in order to run the strategy in each sector to be competitive under dynamic and unstable business situation in ASEAN community. Moreover, the last characteristics that transformational leadership should built confidence and optimism among people in their countries to create strong corporation to build their wealth of the nation and to be sustainably in unpredictable business environment.

#### IV. CONCLUSIONS

The most important part to drive economic growth in AEC is discussed that how transformation leadership would provide the best outcome in human capital management. Moreover, there are many research try to address the important characteristics of transformational leadership that would give the significant effect to enhance or improve productivity.

For this article suggest the key characteristics of transformational leader which are Vision, Charisma and Inspiration, Intellectual Stimulation and Creativity, Individual Consideration/Interactivity, Honesty and Integrity and Confidence and Optimism. There are some research studies insist that how important to address those kind of characteristics in the human capital asset into 4 main sectors which are business sector, government sector, science & technology sector and education sector to survive and create the sustainable economy in AEC communities.

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**Sukumarl Koednok**, Nakhonratchasima Province, Thailand. Educational Background: Highest education: 2001 Master of Management, Major in General Management, College of Management, Mahidol University Bangkok, Thailand. Work Experiences: 2007-Present: Head of Management Department, Vongchavalitkul University Nakhonratchasima Province Thailand. Research Interests: Leadership, Human Resource Management, Human Capital management.