



## THE IMPACT OF TRANSFORMATIONAL AND TRANSACTIONAL LEADERSHIP ON ORGANIZATIONAL PERFORMANCE- REFERENCES IN LITERATURE

R S.Ramesh

Prof.

Mrs.Mamta Hegde

Research Scholar, PGDMS,JSSATE,Bangalore.

**ABSTRACT** Transactional and Transformational leadership styles have attracted the interest of many researchers in recent time. While some believe that they are the same, others believe they are different. This paper gives an introductory perspective into the difference between transformational and transactional leadership drawing from evidence in literature. The paper concludes that although they are conceptually different, some elements of transactional leadership exists in transformational leadership.

### KEYWORDS

Leadership, Transactional Leadership, Transformational leadership

### INTRODUCTION

Leaders direct and guide followers in the organization, recognizing both roles as critical to the success of the organization.

Leadership can be described as transactional or transformational. Transactional leaders focus on the role of supervision, organization, and group performance. They are concerned about the status quo and day-to-day progress toward goals. Transformational leaders work to enhance the motivation and engagement of followers by directing their behavior toward a shared vision. While transactional leadership operates within existing boundaries of processes, structures, and goals, transformational leadership challenges the current state and is change-oriented.

Transactional leaders focus on the role of supervision, organization, and group performance. They are concerned about the status quo and day-to-day progress toward goals. Transactional leadership works within set established goals and organizational boundaries, while a transformational approach challenges the status quo and is more future-oriented.

Transactional leadership emphasizes organization, performance evaluation and rewards, and is task- and outcome-oriented.

Transformational leaders work to enhance the motivation and engagement of followers by directing their behaviour toward a shared vision.

Transformational leadership focuses on motivating and engaging followers with a vision of the future.

Transactional leadership works within set established goals and organizational boundaries, while a transformational approach challenges the status quo and is more future-oriented. Transactional leadership emphasizes organization, performance evaluation and rewards, and is task- and outcome-oriented.

It is seemingly so simple that the words transaction and transformation are so similar yet differ because of the intensity, purpose and process involved when defining them.

The objective of this paper is to use evidence in literature to give a comparative analysis of the two leadership styles. The paper will also outline and explain inherent weaknesses of the two styles and proffer areas where modifications are necessary.

### Leadership:

Leadership is perhaps one of the most important aspects of management (Wehrich, et al, 2008). This is because leadership is a major factor which contributes immensely to the general wellbeing of organizations and nations. Organizations such as General Electric and Chrysler had been turned around from the

brink of bankruptcy to become two of the world's most profitable organizations through the effective leadership of Jack Welch and Lee Iacocca (Robbins & Coulter, 2007). Great nations like the United State of America, Britain, France and India are some of the most prominent nations in the world today on the wings of effective leadership (Wehrich et al, 2008). This is because leaders in organizations and nations make things happen. Several theories have and are being put forward to explain leadership effectiveness. Two of the most prominent leadership theories are Transformational and Transactional leadership theories. Since the late 1980s, theories of transformational and charismatic leadership have been ascendant. Versions of transformational leadership have been proposed by several theorists, including Bass (1985, 1996).

Although most authors agree that Transactional and transformational leadership are different in concept and in practice, many authors believe that transformational leadership significantly augments transactional leadership, resulting in higher levels of individual, group, and organizational performance (Bass & Avolio, 1994; Howell & Avolio, 1993; Lowe et al, 1996). Others believe that Transactional leadership is a subset of transformational leadership (Wehrich et al, 2008).

### Transactional Leadership

Transactional Leadership also known as managerial leadership, focuses on the role of supervision, organization, and group performance; transactional leadership is a style of leadership in which the leader promotes compliance of his followers through both rewards and punishments. Unlike Transformational leadership, leaders using the transactional approach are not looking to change the future, they are looking to merely keep things the same. These leaders pay attention to followers' work in order to find faults and deviations. This type of leadership is effective in crisis and emergency situations, as well as when projects need to be carried out in a specific fashion.

Within the context of Maslow's hierarchy of needs, transactional leadership works at the basic levels of need satisfaction, where transactional leaders focus on the lower levels of the hierarchy. Transactional leaders use an exchange model, with rewards being given for good work or positive outcomes. Conversely, people with this leadership style also can punish poor work or negative outcomes, until the problem is corrected. One way that transactional leadership focuses on lower level needs is by stressing specific task performance (Hargis et al, 2001). Transactional leaders are effective in getting specific tasks completed by managing each portion individually.

Transactional leaders are concerned with processes rather than forward-thinking ideas. These types of leaders focus on contingent reward (also known as contingent positive reinforcement) or contingent penalization (also known as contingent negative

reinforcement). Contingent rewards (such as praise) are given when the set goals are accomplished on-time, ahead of time, or to keep subordinates working at a good pace at different times throughout completion. Contingent punishments (such as suspensions) are given when performance quality or quantity falls below production standards or goals and tasks are not met at all. Often, contingent punishments are handed down on a management-by-exception basis, in which the exception is something going wrong. Within management-by-exception, there are active and passive routes. Active management-by-exception means that the leader continually looks at each subordinate's performance and makes changes to the subordinate's work to make corrections throughout the process. Passive management-by-exception leaders wait for issues to come up before fixing the problems. With transactional leadership being applied to the lower-level needs and being more managerial in style, it is a foundation for transformational leadership which applies to higher-level needs.

Transactional leadership promotes compliance with existing organizational goals and performance expectations through supervision and the use of rewards and punishments. Transactional leaders are task- and outcome-oriented. Especially effective under strict time and resource constraints and in highly-specified projects, this approach adheres to the status quo and employs a form of management that pays close attention to how employees perform their tasks.

#### Qualities of Transactional Leadership

Transactional leaders use reward and punishments to gain compliance from their followers. They are extrinsic motivators that bring minimal compliance from followers. They accept goals, structure, and the culture of the existing organization. Transactional leaders tend to be directive and action-oriented.

Transactional leaders are willing to work within existing systems and negotiate to attain goals of the organization. They tend to think inside the box when solving problems

Transactional leadership is primarily passive. The behaviours most associated with this type of leadership are establishing the criteria for rewarding followers and maintaining the status quo.

Within transactional leadership, there are two factors, contingent reward and management-by-exception. Contingent reward provides rewards for effort and recognizes good performance. Management-by-exception maintains the status quo, intervenes when subordinates do not meet acceptable performance levels, and initiates corrective action to improve performance.

#### Transformational leadership

Transformational leadership focuses on increasing employee motivation and engagement and attempts to link employees' sense of self with organizational values. This leadership style emphasizes leading by example, so followers can identify with the leader's vision and values. A transformational approach focuses on individual strengths and weaknesses of employees and on enhancing their capabilities and their commitment to organizational goals, often by seeking their buy-in for decisions.

Transformational leaders motivate followers to achieve high levels of performance by converting vision into reality and inspiring followers to perform above and beyond the call of duty. Transformational leaders rely on their personal attributes rather than their position in motivating their followers.

Transformational Leadership can be defined as a way of leadership that aims performance beyond the subordinates' expectations by transforming their emotions, thoughts, beliefs and values (Raferty and Griffin, 2004:334). The concept was first used in the middle of 1970's when the terms management and leadership were started to be treated as different concepts (Arslantaş, 2007:82). The early studies about Transformational Leadership started with Burns (1978), it went on with Bass (1985) who made it measurable and

understandable

There have been several studies that have investigated transformational leadership across organizational levels (Alimo-Metcalfe and Alban-Metcalfe, 2003; Bass, Waldman, Avolio, and Bebb, 1987; Bruch and Walter, 2007; Densten, 2003; Lowe, Kroeck, and Sivasubramaniam, 1996; Oshagbemi and Gill, 2004; Stordeur, Vandenberghe, and D'hoore, 2000; Yammarino and Bass, 1990; Yokochi, 1989).

#### Qualities of Transformational Leadership:

Transformational leaders have a vision of what they want to achieve and the ability to clearly communicate this vision so that everyone in the organization understands what is needed to achieve this vision.

Today, more than ever, we need courageous leaders who empower others to reach heights they never thought possible. We need our leaders to expand their capabilities and move outside of the transactional space and into a transformational space that focuses on long term solutions rather than short term gains.

Transformational leadership – means growing beyond transactional leadership.

Developing leadership capacity is moving beyond focusing on the day to day operations and expanding your decision-making process to focus on long term strategies that can sustain business over time.

Leaders need to focus on developing a transformational leadership style that creates positive change and growth. This begins with the goals and vision that are set by leaders and their ability to clearly communicate them to their team in a way that inspires them to buy in.

7 Must Have Transformational Leadership Qualities was posted on February 4, 2016 by Bill Hogg.

To get your team to buy in and be part of your vision for the organization, there are certain qualities you must possess to be a transformational leader:

#### A clear vision:

Transformational leaders have a vision of what they want to achieve and the ability to clearly communicate this vision so that everyone in the organization understands what is needed to achieve this vision.

#### Courage:

An effective leader needs courage; a willingness to take on new challenges, take calculated risks, make tough decisions, and be willing to go out on a limb for something they believe in. Transformational leaders have the courage to create a vision and make the difficult decision necessary to achieve their vision.

#### Self-motivation:

Leaders need to fuel their passion from within. Transformational leaders have passion and motivation that people can sense and feed off it.

#### Inspiration:

Transformational leaders, based on their personal passion, can inspire others and get them to buy into their vision and execute it on all levels of the organization.

#### Know the people in the team:

Personal interaction is important. The impact of a simple "hello" in the hallway or conversation in the lobby goes a long way into getting people to feel important and want to be part of the vision a leader has created for the organization.

#### Set an organization standard:

Transformational leaders model an organization standard they

expect everyone to follow. They clearly communicate their vision, expectations, and how this standard is to be carried out throughout the organization.

#### Follow through:

While it is a bit cliché, actions do speak louder than words -- and when leaders live as per the standard they set, people take notice. Leaders often promise a lot, but it is the follow through that has a true impact on a leader's ability to evoke change and get buy in. Leaders need to focus on developing a transformational leadership style that creates positive change. Leaders cannot just decide to become a transformational leader. However, they can work on developing transformational leadership by implementing these tips:

1. Craft your vision and make it the focal point of the organization
2. Solicit input from your senior team to ensure your vision can be spread throughout the organization
3. Have a process in place that allows your frontline workers to ask questions and get clarification
4. Be clear and communicate the importance that each person plays in the execution of your vision for the organization
5. Create actionable steps that align with your vision that can be easily executed by everyone in the organization
6. Understand what is needed to motivate and inspire people to buy in and become part of your vision

When leaders openly accept a transformational style, they move beyond day to day functions and operate at a higher level that is focused on creating change in people and culture that will lead to innovation and growth.

#### Comparison Between Transformational and Transactional Leadership

James Macgregor Burns distinguished between transactional leaders and transformational by explaining that: transactional leader are leaders who exchange tangible rewards for the work and loyalty of followers. Transformational leaders are leaders who engage with followers, focus on higher order intrinsic needs, and raise consciousness about the significance of specific outcomes and new ways in which those outcomes might be achieved (Hay, 2012). Transactional leaders tend to be more passive as transformational leaders demonstrate active behaviors that include providing a sense of mission.

#### Comparing Leadership Types

Transactional and transformational leadership exhibit five key differences:

1. Transactional leadership reacts to problems as they arise, whereas transformational leadership is more likely to address issues before they become problematic.
2. Transactional leaders work within existing an organizational culture, while transformational leaders emphasize new ideas and thereby "transform" organizational culture.
3. Transactional leaders reward and punish in traditional ways as per organizational standards; transformational leaders attempt to achieve positive results from employees by keeping them invested in projects, leading to an internal, high-order reward system.
4. Transactional leaders appeal to the self-interest of employees who seek out rewards for themselves, in contrast to transformational leaders, who appeal to group interests and notions of organizational success.
5. Transactional leadership is more akin to the common notions of management, whereas transformational leadership adheres more closely to what is colloquially referred to as leadership.

Douglas McGregor's Theory Y and Theory X can also be compared with these two leadership styles. Theory X can be compared with Transactional Leadership where managers need to rule by fear and consequences. In this style and theory, negative behaviour is punished and employees are motivated through incentives.

Theory Y and Transformational Leadership are found to be similar, because the theory and style supports the idea that managers work to encourage their workers. Leaders assume the best of their

employees. They believe them to be trusting, respectful, and self-motivated. The leaders help to supply the followers with tool they need to excel.

#### Conclusion and Recommendation

Transformational and Transactional leadership theories represent bold attempts by researchers to explain the nature and effect of leadership. Both theories have their various strengths and weaknesses' However, the influence of situational variables on leadership outcomes within the context of both styles of leadership should not be ignored. From the analyses of strengths and weaknesses of these two leadership models, more empirical work still needs to be done to gain clearer understanding of these two concepts.

In the light of fast paced technology driven era, new age leaders are emerging at a younger age and across various areas of management. Online references apart from references as we traditionally resort to needs to be done. The sources are many and we can still see there is a vacuum in what we know and what is happening in the leadership parameters across the globe.

#### References:

1. Source: Boundless. "Transactional Versus Transformational Leaders." Boundless Management Boundless, 26 May. 2016. Retrieved 26 Feb. 2017 from <https://www.boundless.com/management/textbooks/boundless-management-textbook/leadership-9/types-of-leaders-72/transactional-versus-transformational-leaders-355-3466/>