

Transformational vs. Transactional Leadership Theories: Evidence in Literature

ODUMERU, JAMES A

Lecturer, Department of Banking & Finance, Osun State College of Technology, Nigeria

Email: tujamng@yahoo.com

IFEANYI GEORGE OGBONNA

Department of Business Administration and Management, Yaba College of Technology, Lagos, Nigeria.

Email: ifylondon09052009@gmail.com

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 the difference between transformational and transactionary leadership drawing from evidence in literature. The paper concludes that although they are conceptually different, some elements of transactionary leadership exists in transformational leadership.

Keywords: *Leadership, Transactional Leadership, Transformational leadership, Charismatic Leadership.*

1.0 Introduction

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 organisations and nations. Organisations such as General Electric and Chrysler had been turned around from the brink of bankruptcy to become two of the world's most profitable organisations 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 organisations and nations make things happen. This paper defines leadership as the process of influencing groups to achieve goals, while a leader is someone who can influence others (Cole, 2006; Robbin and Coulter, 2007; Wehrich et al, 2008).

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 author 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).

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.

2.0 Transformational Leadership

A transformational leader is a person who stimulates and inspires (transform) followers to achieve extraordinary outcomes (Robbins and Coulter, 2007). He/she pay attention to the concern and developmental needs of individual followers; they change followers' awareness of issues by helping them to look at old problems in a new way ; and they are able to arouse, excite and inspire followers to put out extra effort to achieve group goals. Transformational leadership theory is all about leadership that creates positive change in the followers whereby they take care of each other's interests and act in the interests of the group as a whole (Warrilow, 2012). The concept of transformational leadership was introduced by James Macgregor Burns in 1978 in his descriptive research on political leaders, but its usage has spread into organisational psychology and management with further modifications by B.M Bass and J.B Avalio (Jung & Sosik, 2002).

Transformational leadership enhances the motivation, morale, and performance of followers through a variety of mechanisms. These include connecting the follower's sense of identity and self to the project and the collective identity of the organization; being a role model for followers that inspires them and makes them interested; challenging followers to take greater ownership for their work, and understanding the strengths and weaknesses of followers, so the leader can align followers with tasks that enhance their performance.

Warrilow (2012) identified four components of transformational leadership style:

- 1) Charisma or idealised influence:** the degree to which the leader behaves in admirable ways and displays convictions and takes stands that cause followers to identify with the leader who has a clear set of values and acts as a role model for the followers.
- (2) Inspirational motivation:** the degree to which the leader articulates a vision that is appeals to and inspires the followers with optimism about future goals, and offers meaning for the current tasks in hand.
- (3) Intellectual stimulation:** the degree to which the leader challenges assumptions, stimulates and encourages creativity in the followers - by providing a framework for followers to see how they connect [to the leader, the organisation, each other, and the goal] they can creatively overcome any obstacles in the way of the mission.
- (4) Personal and individual attention:** the degree to which the leader attends to each individual follower's needs and acts as a mentor or coach and gives respect to and appreciation of the individual's contribution to the team. This fulfils and enhances each individual team members' need for self-fulfilment, and self-worth - and in so doing inspires followers to further achievement and growth

2.1 Weaknesses of Transformational Leadership

Yukl (1999) identified seven major weaknesses of Transformational leadership. First is the ambiguity underlying its influences and processes. The theory fails to explain the interacting variables between transformational leadership and positive work outcomes. The theory would be stronger if the essential influence processes were identified more clearly and used to explain how each type of behaviour affects each type of mediating variable and outcome.

Secondly is the overemphasis of the theory on leadership processes at the dyadic level. The major interest is to explain a leader's direct influence over individual followers, not leader influence on group or organisational processes. Examples of relevant group-level processes include: (1) how well the work is organised to utilise personnel and resources; (2) how well inter-related group activities are coordinated; (3)

the amount of member agreement about objectives and priorities; (4) mutual trust and cooperation among members; (5) the extent of member identification with the group; (6) member confidence in the capacity of the group to attain its objectives; (7) the procurement and efficient use of resources; and (8) external coordination with other parts of the organization and outsiders. How leaders influence these group processes is not explained very well by the transformational leadership theories. Organisational processes also receive insufficient attention in most theories of transformational leadership. Leadership is viewed as a key determinant of organisational effectiveness, but the causal effects of leader behaviour on the organisational processes that ultimately determine effectiveness are seldom described in any detail in most studies on transformational leadership (Yukl, 1999). Transformational leadership theories would benefit from a more detailed description of leader influence on group and organisational processes.

Thirdly, the theoretical rationale for differentiating among the behaviours is not clearly explained. The partially overlapping content and the high inter-correlation found among the transformational behaviours raise doubts about their construct validity. For example, intellectual stimulation is operationally defined as causing a subordinate to question traditional beliefs, to look at problems in a different way, and to find innovative solutions for problems. The content is diverse and ambiguous. There is not a clear description of what the leader actually says or does to influence the cognitive processes or behaviour of subordinates.

Fourthly, Yukl (1999) identified omission of several transformational behaviour from the original transformational leadership theory which empirical evidence has shown to be relevant. Some of them include inspiring (infusing the work with meaning), developing (enhancing follower skills and self-confidence), and empowering (providing significant voice and discretion to followers).

Fifth is the insufficient specification of situational variables in Transformational leadership. A fundamental assumption of transformational leadership theory is that the underlying leadership processes and outcomes are essentially the same in all situations. Bass (1998) had suggested that transformational leadership is beneficial to both followers and organisations regardless of the situation. Studies have shown that situational factors can influence the effects of transformational leadership on followers and work outcomes. Yukl (1999) suggested the following situational variables as moderators between transformational leadership and followership: stability of environment, organic structure (rather than a mechanistic bureaucracy), an entrepreneurial culture, and dominance of boundary-spanning units over the technical core.

Sixthly, the theory does not explicitly identify any situation where transformational leadership is detrimental. Several studies have shown that transformational leadership can have detrimental effects on both followers and the organisation. Stevens et al (1995) believes that transformational leadership is biased in favour of top managements, owners and managers. Followers can be transformed to such a high level of emotional involvement in the work over time that they become stressed and burned out. Individual leaders can exploit followers (even without realising it) by creating a high level of emotional involvement when it is not necessary (Yukl, 1999). If members of an organisation are influenced by different leaders with competing visions, the result will be increased role ambiguity and role conflict. Leaders who build strong identification with their subunit and its objectives can improve member motivation, but excessive competition may arise among different subunits of the organisation. When inter unit cooperation is necessary to achieve organisational objectives, the result can be a decline in organisational effectiveness. The possibility that transformational leadership has negative outcomes needs to be investigated with research methods designed to detect such effects.

Lastly, like most leadership theories, transformational leadership theory assumes the heroic leadership stereotype. Effective performance by an individual, group, or organization is assumed to depend on leadership by an individual with the skills to find the right path and motivate others to take it. In most versions of transformational leadership theory, it is a basic postulate that an effective leader will influence followers to make self-sacrifices and exert exceptional effort. Influence is unidirectional, and it flows from the leader to the follower. When a correlation is found between transformational leadership and subordinate

commitment or performance, the results are interpreted as showing that the leader influenced subordinates to perform better. There is little interest in describing reciprocal influence processes or shared leadership. Researchers study how leaders motivate followers or overcome their resistance, not how leaders encourage followers to challenge the leader's vision or develop a better one.

In spite of the numerous criticisms of transformational leadership, its popularity has grown in recent time (Yukl, 1999). For instance, studies have shown that managers in different settings, including the military and business found that transformational leaders were evaluated as more effective, higher performers, more promotable than their transactional counterparts, and more interpersonally sensitive (Rubin et al, 2005; Judge and Bono, 2000). Empirical evidence also shows that transformational leadership is strongly correlated with employee work outcomes such as: lower turnover rates, higher level of productivity, employee satisfaction, creativity, goal attainment and follower well-being (Eisenbeiß and Boerner, 2013; Garcí'a-Morales et al, 2008; Piccolo and Colquitt, 2006; Keller, 1992).

3.0 Transactional Leadership

Transactional Leadership, also known as managerial leadership, focuses on the role of supervision, organisation, 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.

3.1 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.

4.0 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 behaviours that include providing a sense of mission.

Transactional

Leadership is responsive

Works within the organisational culture

Employees achieve objectives through rewards and punishments set by leader

Motivates followers by appealing to their own self interest

Management-by-exception: maintain the status quo; stress correct actions to improve performance.

VS. Transformational

Leadership is proactive

Works to change the organisational culture by implementing new ideas

Employees achieve objectives through higher ideals and moral values

Motivates followers by encouraging them to put group interests first

Individualised consideration: Each behaviour is directed to each individual to express consideration and support.

Intellectual stimulation: Promote creative and innovative ideas to solve problems.

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.

5.0 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, it is clear that more empirical work still needs to be done to gain clearer understanding of these two concepts.

References

- Bass, B. M. (1996). *A new paradigm of leadership: An inquiry into transformational leadership*. Alexandria, VA: U. S. Army Research Institute for the Behavioral and Social Sciences.
- Bass, B. M. (1985). *Leadership and performance beyond expectations*. New York: Free Press.
- Bass, B. M., & Avolio, B. J. (1994). *Improving organizational effectiveness through transformational leadership*. Thousand Oaks, CA: Sage.
- Cole, G.A. (2006) *Management Theory and Practice*. (6th Ed.) London: Book Power
- Eisenbeiß, S. A. and Boerner, S. (2013) A Double-edged Sword: Transformational Leadership and Individual Creativity. *British Journal of Management*. 24(1): 54–68.
- Garcia-Morales, V.J., Llorens-Montes, F.J. and Verdu Jover, A.J. (2008) The Effects of Transformational Leadership on Organizational Performance through Knowledge and Innovation. *British Journal of Management*. 19(4): 299–319
- Hargis, M. B., Wyatt, J.D., Piotrowski, C. (2001). Developing Leaders: Examining the Role of Transactional and Transformational Leadership across Contexts Business. *Organization Development Journal* 29 (3): 51–66
- Hay, I (2012) *Transformational Leadership Characteristics and Criticisms*. Retrieved 17th March, 2013. <http://www.leadingtoday.org/weleadinlearning/transformationalleadership.htm>
- Howell, J. M., & Avolio, B. J. (1993). Transformational leadership, transactional leadership, locus of control and support for innovation: Key predictors of consolidated-business unit performance. *Journal of Applied Psychology*, 78, 891-902.
- Judge, T. A. and Bono, J. E. (2000) Five-Factor Model of Transformational Leadership. *Journal of Applied Psychology*. Pp 751 – 765
- Jung, D.D., and Sosik, J.J. (2002). Transformational Leadership in Work Groups: The Role of Empowerment, Cohesiveness, and Collective-Efficacy on Perceived Group Performance. *Small Group Research*. 33, 313 – 336
- Keller, R.T (1992) Transformational leadership and the Development of Research and Development Project Groups. *Journal of Management*. 489 – 501
- Lowe, K. B., Kroeck, K. G., & Sivasubramaniam, N. (1996). Effectiveness correlates of transformational and transactional leadership: A meta-analytic review. *Leadership Quarterly*, 7, 385-425.
- Piccolo, R.F, and Colquitt, J.A. (2006) Transformational Leadership and Job Behavior: The Mediating Role of Core Job Characteristics. *Academy of Management Journal*. Pp 327 – 340
- Robbins, S. P. and Coulter, M. (2007) *Management (9th ed.)*. London: Prentice- Hall
- Rubin, R.S., Munz, D.D and Bommer, W.H. (2005) Leading from Within: effects of Emotional Recognition and Personality on transformational Leadership Behavior. *Academy of Management Journal*. Pp 845 – 858

Warrilow, S. (2012) Transformational Leadership Theory - The 4 Key Components in Leading Change & Managing Change. [Retrieved 15/03/2013]. http://EzineArticles.com/?expert=Stephen_Warrilow

Wehrich, H., Cannice, M.V. and Koontz, H. (2008) *Management (12th ed.)*. New Delhi: Mc Graw Hill.

Yukl, G. (1999) An Evaluation of the Conceptual Weaknesses in Transformational and Charismatic Leadership Theories. *Leadership Quarterly*. 10(2), 285–305.

