

LECTURE 9: TRANSACTIONAL LEADERSHIP THEORY

INTRODUCTION

The concept and definition of leadership and style may differ from one person, or situation, to the other. The word “leadership” has been used in various aspects of human endeavour, such as: politics, businesses, academia, social works, etc. Previous views about leadership show it as one example of the personal ability. Leadership style in an organization is one of the factors that play a significant role in enhancing or retarding the interest and commitment of the individuals in the organization. An individual will support an organization if he/she believes that through it his/her personal objectives and goals could be met; if not, the person’s interest will decline.

Definitions of leadership.

Leadership can be defined in different ways; thus, it is difficult to come up with a single working definition. In spite of all the research and theorizing, the concept of leadership is problematic. It has become apparent that, after years of trying, we have been unable to generate an understanding of leadership that is both intellectually compelling and emotionally satisfying. The concept of leadership remains elusive and enigmatic.

Leadership is a process in which leader is indulged in various activities to achieve any goal. It may be for one's own goals or for the goals of others and these goals may or may not be congruent with organizational goals. Other definitions (out of many) include:

- Leadership is ‘the process of influencing people to enable the achievement of relevant goals’;
- ‘A leader’s singular job is to get results’;
- ‘Leadership is the ability to motivate, influence and enable individuals to contribute to the objectives of organizations of which they are members’;
- ‘Leadership is an influencing process aimed at goal achievement’;
- Leadership is no more than exercising such an influence on others that they tend to act in concert towards the achievement of a goal that they might not have achieved so readily had they been left to their own devices’.

Transactional leaders

The transactional leaders identify the expectations of their followers and respond to them by establishing a close link between effort and reward. Power is given to the leader to evaluate, correct and train subordinates when performance needs to be improved and to reward effectiveness when the required outcomes are achieved.

Steps to measure organizational performance

We will outline steps and methods for identifying outcomes and relevant outputs, developing appropriate performance indicators and strengthening performance reporting – leading to

more effective and efficient programs and strategies. Those steps are structured as six steps (shown in Figure 3).



Figure 2.2. The steps in measuring performance

1. **Plan:** Good planning does not guarantee good performance, but it can assist in developing more robust performance measurement systems and finding a clearer course of action. A useful tool in planning is program logic, which involves aligning top level company outcomes, company priorities, directorate services and costs;
2. **Select performance indicators:** This section provides more information on selecting appropriate and measurable performance indicators. The performance of programs or strategies should be measured at each level of the logic model;
3. **Conduct program:** The project is delivered to effect change and should be implemented in line with the program implementation plan;
4. **Collect data and monitor performance:** Program planning, design and selection of indicators are key components of a performance measurement system. However, these steps are essentially meaningless if data is not collected against each of the indicators. Measuring performance requires the timely and relevant collation and analysis of data. Data must be gathered by set timeframes and must be accurate, comprehensive and comparable;

5. **Analyze and report:** The utility of performance information is limited if it is not communicated effectively and integrated back into the planning cycle;
6. **Evaluate and modify:** Once the data for the performance indicators are collected, analysed and communicated, consider evaluating both the performance indicators selected and the program or strategy being measured. Evaluating the program or strategy can inform leaders' decisions about planning, capability and resource allocation

Link between transactional leadership and performance

Since transactional leadership is based on a system of rewards and penalties, it does not offer much in terms of inspiration, to motivate people to go beyond the basics. Given this fact, the followers of transactional leaders might get complacent and develop a tendency to achieve minimal expectations only that would help them avoid penalties (Bass 1990). Thus, the leader and the follower are in an agreement on what the follower would receive upon achieving the negotiated level of performance. The success of such leadership depends on the level of satisfaction the leader and followers have in following this system of performance-based appraisals. Thus, the expected causal chain where leadership style positively affects employee motivation, which translates into improved employee and organizational performance, does not seem to be applicable to transactional leadership. (Bass 1990) (see Figure 2.3.).

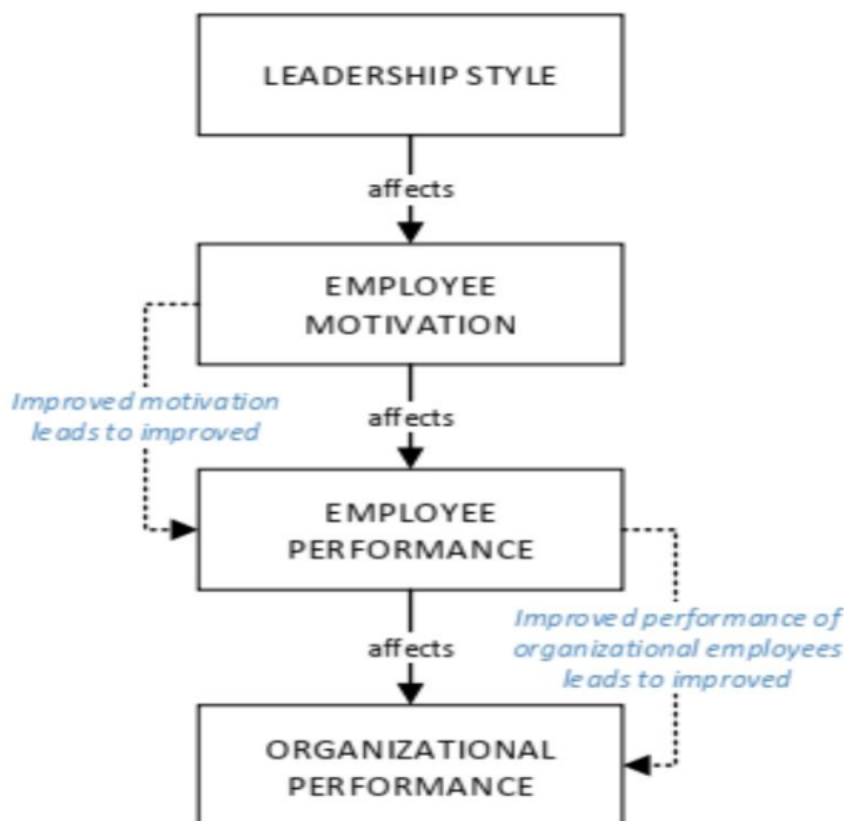


Figure 2.3.

As a matter of fact, a study conducted by Howell & Avolio (1993) confirms that contingent reward leadership has a negative impact on the followers' performance. Contingent reward is viewed as "an active and positive exchange between leaders and followers whereby followers are awarded for accomplishing agreed upon objective". If managers do not effectively follow-up on the contingent reward promises, thereby displaying behavioural inconsistency, they are viewed as ineffective leaders. Furthermore, Howell & Avolio (1993) suggest that the level of contingent reward leadership is dependent on organizational context and settings. For example, an organization undergoing change might suffer from a transactional leadership style.

The penalties, awarded in such a system of managing by exception, have a negative impact on performance and satisfaction. This stems from the fact the leader passively awaits problems before taking any action. By following this strategy, the leader ensures that corrective action is taken when required and in doing so he reinforces the roles and expectations for the followers. Hence, this behaviour represents an important aspect of transactional leadership (Bass 1990). Jayasingam, Ansari & Jantan (2009) discussed that the coercive power has been linked with ineffective leadership. Transactional leaders make use of reward and coercive power. Coercive power is based on "the target's perception that the agent has the ability to inflict various organizational punishments" and it appears that transactional leaders are more likely to adopt coercive power. Working in fear of losing one's job, or fear of demotion, only makes an employee ineffective and unproductive because the employee spends most of his/her time worrying about the consequences if the expectations of the leaders are not met. As it can be observed, a transactional leader relies heavily on power and authority to lead his members. Power play and the use of a "reward and penalty" system thus play an integral role in such a leadership style. As discussed through various researches, transactional leadership measures are not so effective and, in most cases, can de-motivate employees. There are suggestions that effects of leadership styles on employee performance are dependent on the organizational context and settings. If, as Howell & Avolio (1993) argued, an organization undergoing change might suffer from a transactional leadership style, could the opposite be true? Specifically, if an organization has a long history and operates under a more or less unchanged business model over a long period of time, could transactional leadership actually improve the organization's performance?

The categories to measure performance

Firstly, we need to solve this question, why do we measure performance? We may say, to evaluate how well (i.e., how effectively, efficiently, and profitability) organizations are doing in achieving their goals in their mission statements. Secondly, by which techniques or approaches can we measure performance? Many researchers argue that the characteristics for performance measurement would be different, depending on the different purposes of measuring performance.

Accounting measures

Accounting measures represent the most common and readily available means of measuring organizational performance; the validity of their use is found in the extensive evidence showing that accounting and economic returns are related. A summary of accounting measures is shown as follows:

- Cash flow from operations;
- Earnings before interest and taxes;
- Earnings before interest, taxes, depreciation, and amortization;
- Market share;
- Net operating profits (also known as earnings);
- Net operating profit after tax [NOPAT];
- Profit margin;
- Return on assets (ROA);
- Return on book-valued assets;
- Return on capital employed (ROCE);

- Return on equity (ROE);
- Return on investment (ROI);
- Return on invested capital (ROIC);
- Variance in accounting profitability;
- Sales and Sales growth. (Carton & Hoffer 2006).

Financial market measures

A summary of financial market measures is shown as follows:

- Beta coefficient;
- Earnings-per-share (EPS);
- Jensen's alpha;
- Market value (or market capitalization) (numbers of shares x price per share);
- Price-to-earnings ratio (P/E ratio);
- Return on market-valued assets;
- Stock price;
- Total shareholders return (TSR) and Tracking stocks.

Mixed accounting / financial market measure.

An advantage of those measures is that they are better able to balance risk (largely ignored by accounting measures) against operational performance issues that are sometimes lost in

market measures. According to Carton & Hoffer (2006) more recent studies have produced equivocal results, with accounting measures retaining incremental explanatory power. A summary of those measures is shown as follows:

- Balanced scorecard, Cash flow per share;
- Cash flow return on investment (CFROI),

Cash value added (CVA);

- Discounted cash flows (DCF), Economic value added (EVA);
- Internal rate of return (IRR), Market-to-book value;
- Market value added (MVA), Net present value (NPV);
- Shareholder value analysis (SVA), Tobin's q,
- Total business return (TBR), Warranted equity value (WEV);
- Weighted average cost of capital (WACC) and Z-score (Pierre et al 2009).

Survival.

Survival is a common dependent variable in management research, particularly in organizational sociology and entrepreneurship where increasing attention is given to ecological explanations of firm performance (DTI, n.d.) (Pierre et al 2009).

Profitability.

Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. In addition, profitability is measured with income and expenses and it can be defined as either accounting profits or economic profits (Hofstrand 2009). The reasons for computing profitability are: firstly, to check the state of organization; secondly, increasing profitability is one of the most important tasks of the business managers, so managers constantly look for ways to change the business to improve profits. We can calculate productivity as outputs divided by inputs, which can be quoted as:

Expected productivity = [(expected output) / (resources expected to be consumed)] or

Actual productivity = [(actual output) / (resources actually consumed)],

(Pierre et al 2009).

Efficiency.

Efficiency is the measure of how well or how productively resources are used to achieve a goal. Efficiency can also be quoted as: Efficiency = [(Resource actually used x 100%) / (Resources planned to be used)] (Jones & George 2009).

Effectiveness.

Effectiveness is the measure of appropriateness of the goals that managers have selected for the organization to pursue and of the degree to which the organization achieves those goals Effectiveness can also be quoted as: Effectiveness = [(actual output x 100%) / (Expected output)], (Jones & George 2009), (Pierre et al 2009).

The focus of this lecture has been to present how transactional and transformational leadership styles affect individual conduct. A review of the literal works of others in relation to the practical application of these leadership styles as observed in the management of projects and central administration leadership and has been the inspiration to the conclusions made. From almost every empirical qualitative study conducted on individuals, transactional leadership is all about personnel providing

services, receiving payment (rewards) and or sanctions from the leadership. Results indicates that subordinates are either praised for hard work or sanctioned for failure to provide results or to meet up expectations as attested. However, a bigger percentage from the observation indicates that transactional leadership through remuneration will facilitate goal attainment but general observation from the organization from full time employees, indicates that it will demotivate staff and slow down work.

Interviews with some technical staff on the type of leadership style practiced by the department on project sites proved that transactional leadership has a negative impact on personnel conduct and can likely lead to the non-completion of projects. On the other hand, following the qualitative assessment, observation from the practice of transformational leadership style by the central administration top leadership proves that the leadership style is primordial if leadership want to continue attend the goals of the organization and should be continue to be practiced. Most people would feel comfortable with the transformational leadership style of the top leadership style of every organization.

REFERENCES

Bass, B.M. (1990). *Bass & Stogdill's Handbook of Leadership: Theory, research, and managerial applications*. (3rd Ed.). New York: The Free Press

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

Influencing knowledge workers: the power of top management by Sharmila Jayasingam, Mahfooz A. Ansari, Muhamad Jantan

Carton, R.B. and Hofer, C.W. (2006). *Measuring Organizational Performance*.

Pierre, J. et al. (2009). *Measuring Organizational Performance: Towards Methodological Best Practice*, *Journal of Management*.

Hofstrand, D. (2009); *Understanding Profitability*, Iowa State University.

Jones, G.R. and George, J.M. (2009). *Contemporary Management*. 6th.Ed. New York: McGraw-Hill Irwin.