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Leadership of Stability and Leadership of volatility: Transactional and Transformational Leaderships Compared

Since the late 1970s, the literature on leadership has featured a debate and program of research exploring relationships between transactional and transformational leadership. To some degree, this work was given an impetus by both the search for appropriate leadership strategies within the increasingly turbulent, unstable and competitive post-World War 2 economic, geopolitical and social environment (Simic, 1998) and the declining significance of the pre-existing 'social contract' which had implied long-term employment in return for loyalty (Griffin, 2003). With the apparent demise of a transaction fundamental to organizational leadership and an emerging context of organizational volatility came the search to better understand the leaderships of stability and of change; and the leaderships of contract and of values. This short paper reviews current understandings of these approaches to leadership. It distinguishes between transactional leadership (characterised here as the leadership of stability and exchange) and transformational leadership (the leadership of values and volatility), setting out their similarities, key differences, and relationship to one another.

According to Cox (2001), there are two basic categories of leadership: transactional and transformational. The distinction between these forms of leadership was first made by Downton (1973, as cited in Barnett, McCormick & Conners, 2001) but gained little currency until James McGregor Burns' (1978) large-scale work on political leaders – Leadership – was published. Burns distinguished between ordinary (transactional) leaders, who exchanged tangible rewards for the work and loyalty of followers, and extraordinary (transformational), adaptive leaders who engaged with followers and raised consciousness about the significance of specific outcomes and new ways in which those outcomes might be achieved (Barbuto, 2005; Barnett, McCormick & Conners, 2001; Gellis, 2001). Burns contrasted transactional and transformational leadership, believing that they lie at opposite ends of a continuum (Bass, 1990; Yukl, 1989). This view was supported by early empirical studies which suggested that the two leadership approaches could appear independently of one another (Avolio, Bass & Jung, 1999). Burns also claimed that the latter form of leadership is more effective than the former (Brown & Moshavi, 2002, p. 80).

Burns' work attracted a good deal of attention amongst management and leadership researchers who endeavoured to explore the reliability of his claims and to evaluate their applicability in other organizational settings. Perhaps most notable and influential amongst these investigators was Bernard Bass, now Distinguished Professor Emeritus of Organizational Behavior, at the State University of New York (Binghamton). Bass was concerned that Burns set transactional and

transformational leadership as opposites and, in contrast, argued that transformational leadership enhances or augments the effects of transactional leadership and that all leaders display both leadership styles though to different degrees (Bryant, 2003, p. 37; Judge & Piccolo, 2004; Sanders, Hopkins & Geroy, 2003, p. 26; Yukl, 1989, p. 211). So what then are the prevailing and current understandings of transactional and transformational leadership? Clarifying their characteristics is important because writers like Carlson and Perrewe (1995) suggest that transformational leadership is sometimes used interchangeably with transactional leadership. While this may be the case and there are some clear cases of confusion and contradiction within the literature, the interchange is erroneous .

Transactional Leadership

Put succinctly, “Transactional leadership seeks to maintain stability rather than promoting change within an organization through regular economic and social exchanges that achieve specific goals for both the leaders and their followers.” (Lussier & Achua, 2004, p. 358). Transactional leaders aspire to encourage consistent performance from followers that allows them to meet agreed-upon goals (Bryant, 2003). They use rewards and punishments to promote performance, thereby making the leader-follower relationship an economic exchange transaction (Barnett, 2003; Gellis, 2001; Jung & Avolio, 1999). Followers may be rewarded for achieving agreed-upon objectives (known as contingent reward leadership). Leaders might also choose to engage in management by exception (active/passive) where they engage in transactions that, for example, focus on mistakes or delay decisions (Barbuto, 2005; Barnett, McCormick & Conners, 2001). The components of transactional leadership are set out more fully in Table 1.

Table 1. Components of Transactional Leadership.

1. Contingent rewards:
 - exchange of rewards for effort contracted.
 - rewards for achieving goals promised.
 - accomplishments recognized.
 - clear goals and recognition once they are reached is held to result in individuals and groups achieving expected levels of performance.
2. Management by exception (active):
 - standards specified by leader.
 - deviations from rules and standards looked out for.
 - corrective action taken quickly if necessary. May involve follower punishment.
3. Management by exception (passive):
 - leader awaits emergence of problems before acting.
4. Passive-avoidant/Laissez-faire :
 - no agreements specified; no expectations set; goals and standards avoided.

Adapted from: Barbuto (2005, p. 27); Bass, Avolio, Jung & Berson (2003, p. 208); Judge & Piccolo (2004, pp. 755-756); Naval Reserve Officers Training Corp (undated).

Following Bryant (2003), transactional leaders have three characteristics. First, they work with team members to determine unequivocal goals and make certain workers get promised rewards for achieving those goals. Second, they exchange rewards (and promises of rewards) for worker effort. Third, they respond to the immediate self-interests of followers if those interests can be met while the job is being done. So, transactional leadership involves specified exchanges of effort for reward and a close relationship between goals and rewards. The result, according to Bryant (2003, p. 37), is that workers are not motivated to perform at a level greater than that specified in their contract. It also means that the relationship between leader and follower tends to be transitory because once the transaction is completed, the relationship may end or need to be renegotiated (Lussier & Achua, 2004, p. 359).

Transformational Leadership

Compared with transactional leadership, transformational leadership tends to be associated with a more enduring leader-follower relationship. It is based more on trust and commitment than contractual agreements (Jung & Avolio, 1999) and it centres on organizational change through emphases on new values and alternative visions of the future that surpass the status quo (Gellis, 2001, p. 18). Whereas transactional leaders manage organizations by satisfying followers' self-interest, transformational leaders inspire and stimulate followers to set aside those interests (to some degree), replacing them with the collective or team purpose. By nurturing followers' personal capacities and abilities, transformational leaders are held to have strong positive influences on followers' motivation and their ability to achieve or even surpass goals (Barbuto, 2005; Feinberg, Ostroff & Burke, 2005; Jung & Avolio, 1999; Spreitzer, Perttula & Xin, 2005).

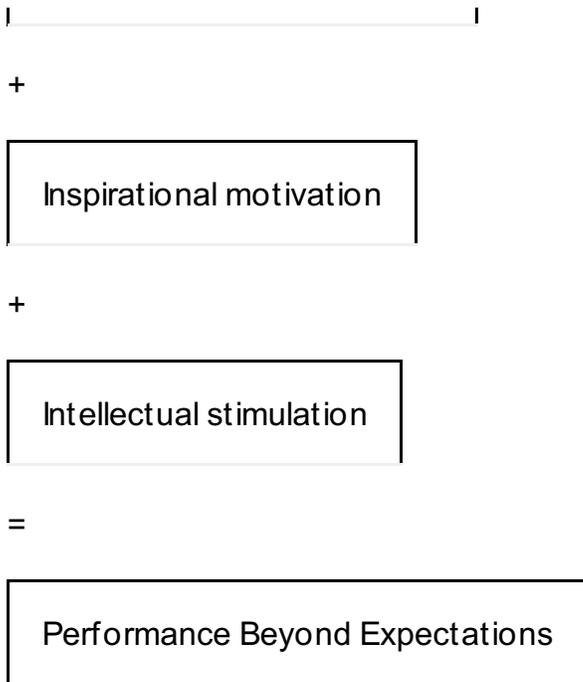
As Figure 1 illustrates, transformational leadership comprises four interdependent components – known commonly as the '4Is' – which, when combined, have an additive effect that yields performance beyond expectations – a key distinction from transactional leadership (Gellis, 2001; Hall, Johnson, Wysocki & Kepner, 2002; Kelly, 2003). Idealized influence (charisma) is based on attributes and behaviours that build confidence and trust and provide a role model that followers seek to emulate (Simic, 1998, p. 52; Stone, Russell & Patterson, 2003, p. 3). Transformational leaders are "admired, respected, and trusted" (Bass, Avolio, Jung & Berson, 2003, p. 208). The focus is the leader in person, rather than her/his contextual authority. Thus, transformational leadership may be demonstrated by anyone in an organization in any type of position.

Figure 1. The additive effect of transformational leadership.

Idealized influence (attributes & behaviors)

+

Individualized consideration



Source: Hall, Johnson, Wysocki and Kepner (2002, p. 2)

Inspirational motivation sees transformational leaders express an appealing conception of the future, offer followers the opportunity to see meaning in their work, and challenge them with high standards. Through motivational speeches and conversations and other public displays of optimism and enthusiasm, highlighting positive outcomes, and stimulating teamwork (Simic, 1998, p. 52) transformational leaders encourage followers to become part of the overall organizational culture and environment (Kelly, 2003; Naval Reserve Officers Training Corps, undated; Stone, Russell & Patterson, 2003, p. 3). Though organizational objectives and individual ambitions are satisfied through transactional leadership, the same sense of mutual pursuit of a common purpose is not characteristic of that form of leadership. Intellectual stimulation involves arousing and changing followers' awareness of problems and their capacity to solve those problems (Kelly, 2003). Transformational leaders empower followers by persuading them to propose new and controversial ideas without fear of punishment or ridicule (Stone, Russell & Patterson, 2003, p. 3). Transactional leadership, by comparison, is typically characterised by work within prevailing and dominant systems.

Individualized consideration involves treating people individually and differently on the basis of their talents and knowledge (Shin & Zhou, 2003, p. 704) and with the intention of allowing them to reach higher levels of achievement than might otherwise have been achieved (Chekwa, 2001, p. 5; Stone, Russell & Patterson, 2003, p. 3). While consideration of individual needs may also be characteristic of transactional leadership, that consideration tends to focus on lower order, material requirements.

Transactional and Transformational Leadership Compared

The detailed, side-by-side comparison set out in Table 2 reveals some of the key points of difference between transformational and transactional leadership described in the extensive extant literature (see Judge & Piccolo, 2004, p. 756 for a discussion). To some degree – and as alluded to earlier – transactional leadership might be characterised as a leadership of the status quo. Leaders draw authority from established power relationships. Transformational leadership by contrast is a leadership of change – change within leaders themselves, within their followers, and within the organization of which they are a part.

Transactional leaders provide followers with something they want in return for something the leader seeks. To be effective, a transactional leader must be able to realize and respond to followers’ changing needs and wants. Kuhnert and Lewis (1987, as cited in Carlson and Perrewe, 1995) suggest that there are two levels of exchange: lower order and higher order. The former is based on the exchange of material goods and privileges, such as performance-based pay bonuses and paid access to airline lounges for business travellers. The latter are less common and maintain follower performance through exchanges of trust, loyalty, and respect.

Table 2. A table comparing and contrasting contemporary understandings of transactional and transformational leadership.

Transactional Leadership	Transformational Leadership
<ul style="list-style-type: none"> Leadership of the status quo. Effective in stable organizations and contexts. More likely to be observed in a well-ordered society. 	<ul style="list-style-type: none"> Leadership of change (within leaders, followers and organizations). Important in times of distress and rapid and destabilizing change.
<ul style="list-style-type: none"> Focuses on social and economic exchanges between leaders and followers, using contingent rewards and administrative actions to reinforce positive and reform negative behaviours. 	<ul style="list-style-type: none"> Focuses on organizational objectives and organizational change by disseminating new values and seeking alternatives to existing arrangements.
<ul style="list-style-type: none"> Leader-follower relationship sees each exchange needs and services to satisfy their independent objectives. 	<ul style="list-style-type: none"> Leader-follower relationship sees purposes of both become fused, leading to unity and shared purpose.
<ul style="list-style-type: none"> Motivates followers by appealing to their own self-interest (for example, pay, promotion). 	<ul style="list-style-type: none"> Attempts to raise follower needs (following Maslow’s hierarchy) to higher levels (for example, self-esteem) and to develop followers into leaders.
<ul style="list-style-type: none"> Based on directive power acts. 	<ul style="list-style-type: none"> Based on interaction and influence.

<ul style="list-style-type: none"> • Follower response based on compliance. Supervision likely to be important. 	<ul style="list-style-type: none"> • Follower response based on commitment. Supervision may be minimal.
<ul style="list-style-type: none"> • Leadership 'act' takes place but leaders and followers not bound together in mutual pursuit of higher purpose. 	<ul style="list-style-type: none"> • Leaders and followers raise one another to higher levels of motivation and morality.
<ul style="list-style-type: none"> • Founded on people's need to make a living by completing tasks. 	<ul style="list-style-type: none"> • Founded on people's need for meaning.
<ul style="list-style-type: none"> • Focuses on situational authority, politics and perks. Involves values, but typically those required for successful exchange relationships (for example, reciprocity, integrity). 	<ul style="list-style-type: none"> • Focuses on personal power, values, morals and ethics. May be demonstrated by anyone in an organization in any type of position.
<ul style="list-style-type: none"> • Emphasis on day-to-day affairs, business needs, short-term goals and quantitative information. 	<ul style="list-style-type: none"> • Transcends daily affairs, concentrating on long-term issues.
<ul style="list-style-type: none"> • Leader-follower relationship may be established quickly. A relatively impersonal relationship maintained only as long as benefits outweigh costs. 	<ul style="list-style-type: none"> • May take time for leader-follower bonds to develop. A personal relationship that may persist when costs outweigh benefits.
<ul style="list-style-type: none"> • Tends to be transitory. Once a transaction is completed, relationship may need to be redefined. 	<ul style="list-style-type: none"> • Tends to be enduring.
<ul style="list-style-type: none"> • Emphasizes tactical issues. 	<ul style="list-style-type: none"> • Emphasizes missions and strategies for achieving them.
<ul style="list-style-type: none"> • Typically involves working within current systems. 	<ul style="list-style-type: none"> • May involve redesigning of jobs to make them more meaningful and challenging. Emphasises realisation of human potential.
<ul style="list-style-type: none"> • Supports structures and systems that emphasise outcomes. 	<ul style="list-style-type: none"> • Aligns structures and systems to overarching values and goals.
<ul style="list-style-type: none"> • Follower counselling focuses on evaluation. 	<ul style="list-style-type: none"> • Follower counselling focuses on personal development.
<ul style="list-style-type: none"> • Atomistic worldview and moral altruistic 	<ul style="list-style-type: none"> • Organic worldview and moral

motives based on teleological perspective (that is to say, based on consequences).

altruistic motives based on deontological perspective (that is to say, based on promises).

Sources: Barnett (2003); Bass, Avolio, Jung & Berson (2003); Brown & Moshavi (2002); Cox (2001); Crawford, Gould & Scott (2003); Feinberg, Ostroff & Burke (2005); Gellis (2001); Kanungo, (2001); Lussier & Achua (2004); Naval Reserve Officers Training Corps (undated); Sanders, Hopkins & Geroy (2003); Spreitzer, Perttula & Xin (2005); Stone, Russell & Patterson (2003); Yukl (1989).

Transformational leadership draws from deeply held personal value systems. Transformational leaders bring followers together to pursue collective ambitions by expressing and disseminating their personal standards. While transactional leadership can most certainly bring about constructive outcomes within an organization, transformational leadership is held to promote performance beyond expectations by drawing from charisma, consideration, motivation and stimulation (Carlson & Perrewe, 1995).

In their provocative 2003 work on transcendental leadership, Sanders, Hopkins and Geroy, compare transformational and transactional leadership in terms of locus of control, effectiveness and spirituality. They observe that transactional theory is associated with an external rather than an internal locus of control. Transactional leaders tend to be less than confident about their ability to control elements of their external environment whereas transformational leaders have a strong internal locus of control and have faith in their ability to change organizational directions (p. 25). In terms of leadership effectiveness, transactional leadership is held to be somewhat less successful than transformational leadership because of the simple and impersonal nature of the leader-follower link and the lack of leader effect on the follower. Moreover, the relationship endures only so long as the benefits outweigh the costs (Sanders, Hopkins & Geroy, 2003, p. 25). The effectiveness of transformational leadership is held to lie in the fact that it goes beyond 'bartering' to inspire followers to surpass their self-interests for the collective good. Finally, in the matter of spirituality, strong conviction in the moral righteousness of the leader's beliefs distinguishes transactional from transformational leadership (Sanders, Hopkins & Geroy, 2003, p. 25).

Both transactional and transformational approaches have moral foundations although the judgements as to whether leader behaviours are ethical are founded in fundamentally different ethical perspectives. Transactional leadership motives are justified in teleological terms (that is to say, behaviours justified on the basis of their consequences) whereas transformational leadership draws from deontological (that is to say, behaviours based on duty and obligation) perspectives for moral validation (Kanungo, 2001).

Brown & Moshavi (2002) have appraised studies reviewing the effects of transformational and transactional leadership and suggest some clear outcomes. Transformational leadership is commonly associated with sought-after organizational outcomes such as effectiveness, follower

willingness to 'go the extra mile', and satisfaction. Bass, Avolio, Jung and Berson (2003, p. 207) also point to the wide range of studies that have, for instance, shown positive correlations between transformational leadership and: supervisors' evaluations of managerial performance; recommendations for promotion; research and development innovations; and achievement of financial goals within business units. Transactional leadership – and particularly contingent reward approaches – have been shown to be effective and positively related to follower performance and work attitudes, though typically at lesser levels than those emerging from transformational leadership strategies. One meta-analysis (Lowe, Kroeck & Sivasubramanian, 1996, as cited in Brown & Moshavi, 2002) revealed that transformational leadership is typically more effective in public organizations than in private and that it is more commonly practised at lower organizational levels than high. However, some other recent work, is a little more equivocal. For instance, in their study of leadership in face-to-face and virtual settings, Hoyt and Blascovich (2003) found that while transformational leadership was associated with increases in qualitative performance, leadership satisfaction and group cohesiveness, it was also linked to quantitative decreases in small-group performance.

On from Burns

In 1985, Bass set out the significant components of leadership in a Multifactor Leadership Questionnaire (MLQ), a psychometric instrument designed to measure both transactional and transformational leadership (Brown & Moshavi, 2002, p. 81). In this form he proposed that leadership comprised those factors – charisma, inspirational motivation, intellectual stimulation, individualized consideration, contingent reward, management-by exception, and passive-avoidant/laissez-faire leadership – discussed in this paper. Over the past two decades the MLQ has been tested and revised extensively (for a discussion, see Brown & Moshavi, 2002) and on the bases of studies deploying and interrogating the instrument, Bass' views that transformational leadership augments transactional leadership have tended to be supported (Avolio, Bass & Jung, 1999). The same leader may use both types of leadership in different contexts. The styles are complementary, with transactional leadership sometimes seen as a first stage (Sergiovanni, 1990), critical to getting day-to-day routines completed and transformational leadership critical to managing change (ERIC, 1992). For example, Bass' claims have been upheld by the early work of Waldman, Bass and Einstein (1985) investigating leadership effort and performance amongst US army officers and industrial managers (as cited in Bass 1990). Their work showed that transformational leadership had highly significant effects beyond the outcomes of transactional leadership alone. Subsequent work by Bass, first with Seltzer (Seltzer & Bass, 1987, as cited in Bass, 1990) involving part-time MBA students describing their employer-superiors and then with Waldman (Waldman & Bass, 1989, as cited in Bass, 1990), with US Navy officers, yielded results supportive of Bass' initial claims. Gellis' (2001) study of social workers in US hospitals showed that transformational leadership yields levels of effort and performance over and above that which would be expected of transactional leadership. It had significant "add-on effects to transactional

leadership in the prediction of perceived effectiveness and satisfaction with the leader” (p. 23). The work of other leadership researchers including Howell and Avolio (1993) and Bass, Avolio, Jung & Berson (2003) has given support to Bass’ view of the transformational-transactional leadership augmentation phenomenon.

In terms of future directions, and on the basis of a study of leadership within the US military, Bass Avolio, Jung and Berson (2003) suggest that transactional leadership that deals with intrinsic motivators and personal recognition may overlap with transformational leadership, providing a link between the two forms of leadership, particularly when recognition is individualized. They suggest that future work needs to explore the distinctions between higher and lower order contingent rewards leadership and their connections to motivation and performance (p. 215) – an outcome supported by the comprehensive work of Judge and Piccolo (2004).

Conclusion

To conclude, there appears to be emerging a growing orthodoxy – built upon Bass’ early notion – that positions transactional and transformational leadership as complementary and highly related styles (Judge & Piccolo, 2004, p. 765), deployed by all leaders to different degrees in different situations. Following Avolio, Bass and Jung (1999), transactional leadership is insufficient to develop the trust and full potential of an organization’s members. However, if coupled with individualised consideration, it may provide a foundation for higher levels of transformational leadership that positively affect follower motivation and performance. In current organizational contexts, characterised by heightened levels of interdependence and integration, there is a need for leadership that goes beyond the simple transactional approach to styles characterised by on inspiration, stimulation, motivation and charisma (Feinberg, Ostroff & Burke, 2005). This should result in heightened levels of commitment, cohesion, trust and performance (Avolio, Bass and Jung, 1999), despite environmental instability and turbulence.

But having said this, as Yukl (1989, p. 212) pointed out so wisely over 15 years ago, “the distinction between the two types of leadership [transactional and transformational] is not as clear as some theorists would have us believe.” For instance, the bartering which is characteristic of transactional leadership need not be confined to material rewards (or disincentives). It may also include benefits that satisfy followers’ higher order needs. Moreover, the vision set out by transformational leaders may often include tangible rewards for followers as well as ideological incentives. As Barnett, McCormick and Conners (2001) remind us, the nature of, and relationships between, transformational and transactional leadership bear still further scrutiny.

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