

Impact of Transactional Leadership and Transformational Leadership on Employee Performance: A Case of FMCG Industry of Pakistan

Zohra Kalsoom¹ Mukaram Ali Khan^{2*} Syed Sohaib Zubair³

1.University of Sargodha, Lahore

2.Riphah International University, Lahore

3.University of the Punjab, Lahore

Abstract

Leadership is one of the key roles used in any organization. Transactional leadership and Transformational leadership are two key styles who gain immense importance from past few decades. This study is about these two leadership styles having impact on employee's performance in FMCG industry of Pakistan. Data have been collected from 318 employees and has been concluded that though both leadership styles are having positive relation with employee performance but, transactional leadership style has strongly positive correlation with the performance of the employees. Along with Pearson correlation, Linear Regression Analysis has also been used in order to predict the predictor's contribution towards employees' performance. Moreover, it has been recommended that if Pakistan FMCG industry focuses on Transactional Leadership Style through trainings and different manuals, then it can develop such leaders in a better way.

Keywords: Transactional Leadership Style, Transformational Leadership Style, Employee Performance, FMCG, Pakistan.

1. Introduction

Leadership is one of the major study matters in Management (Odumeru & Ifeanyi, 2013; Wehrich, 2008). In today's competitive environment, organizations are striving hard to meet their goals (Paracha, Qamar, Mirza, Hassan & Waqas, 2012). Leaders play significant role in organizations and help employees in achieving their goals and objectives. According to Northouse (2007), leadership is the ability of an individual to motivate a group towards the accomplishment of goals. It is a process in which an individual interacts with the workers of the organization, motivate them and helps them in achieving the target (Chaudhry & Javed, 2012). Leaders are the source that enhance employee's performance and make them contented towards their jobs. Therefore, it has always been a controversial issue from many years (Islam, Aamir, Ahmed & Muhammad, 2012). It is essential for organizations to have a leader despite of all the contradictions about leadership role (Zenger & Folkman, 2002). Leaders primarily affect group's performance and a group performance is dependent on leader. So, if leaders perform efficiently their job, the group will also perform the tasks efficiently (Drucker, 1996).

Numerous researchers have studied the impacts and relationships of leadership style with employee performance (Paracha *et al.*, 2012; Islam *et al.*, 2012; Yiing & Ahmad, 2008). Yiing and Ahmad (2008) conducted a research in Malaysian setting and examined leadership behavior and found its impact on employees' outcomes such as employees' performance and job satisfaction. Their study suggested that effective leadership is significant to employee performance and job satisfaction. Leaders that consider employees an essential asset, involve them in decision-making and identify their needs have significant relation with the employee performance and job satisfaction (Wang & Rode, 2010).

Miner (2006) suggested that leaders adopt their style of managing people and organization according to the situation and need of time. According to Hambley, Neil and Kline (2007) various researchers focus on leadership styles. Among these studies many focus on transformational leadership style and transactional leadership style. Transformational leaders motivate the followers by inculcating confidence in them and encourage the followers to use new ideas and techniques in their tasks. On the contrary, transactional leaders motivate the followers by giving rewards and recognition and punishment to meet the objectives efficiently (Odumeru & Ifeanyi, 2013). In literature, most of the researches focus on transformational leadership, but some studies also focus on transactional leadership style. Lowe, Kroeck and Sivasubramaniam (1996) conducted a meta-analysis in for-profit sectors and their study resulted that both transformational leadership style and transactional leadership styles have significant relationship with performance. A study by Rowold and Roahmann (2009) indicated that there is a positive and significant relationship between both leadership styles (transformational and transactional) with the performance.

Several researchers are of the opinion that transformational leadership style has little impact on performance as compared to transactional leadership style (Masi & Cooke, 2000; Sparks & Schenk, 2001; Deluga, 1992; Medley & Larochelle, 1995; Afolabi, Obude, Okediji & Ezeh, 2008). Many researchers depicted that transformational leadership style has greater impact on employee performance as compared to transactional

leadership style (Egan, Sarros & Santore, 1995). Numerous studies focus on transformational leadership style. In the context of Pakistan, little attention has been given on the leadership styles adopted by managers in the Fast moving consumer goods (FMCG). Most of the researches on the leadership style were done in other sectors. Therefore this is another significant consideration of contemporary study. The aim of this research is to discover effective leadership style in FMCG of Pakistan. As Pakistani culture is made up of high power distance and autocratic decision-making style, low individualism is found in Pakistani culture (Routamaa & Hautala, 2008).

Jaeger (1986) identified that transactional leadership style is more triumphant in several countries outside North America. These countries comprise Nigeria, Japan, India and Pakistan. The reason behind this is because Pakistan is a state where bureaucracy rules and instructions and commands are given by high authority and top management (Ahmed, 1996). Therefore, transactional leadership style can be seen effective in Pakistani culture.

1.1. Objectives of the study

The main objective of contemporary study is to find out which leadership style is beneficial for FMCG in the Pakistani setting. Other objectives of this study are:

- To explore the existence of a relation between transactional leadership style and employee performance.
- To investigate the relationship of transformational leadership style with employee performance.

1.2. Significance of the study

This study is an attempt in finding the relationship of both leadership styles (transactional and transformational) with employee performance. The main significance of the study is that it will help the organizations to adopt such leadership style which will be advantageous and which will provide them higher profitability. This study will assist organizations to recognize the importance of having the right person in the right place. Practically, this study is important for managers of FMCG and other sectors to implement a right leadership style to enhance the performance of employees and productivity of organization.

2. Literature Review

Leadership plays a crucial role in causing changes necessary for effective management (Kim, 2012). It is a common action and is apparent in humans and animals (Bass, 2008). According to Kim (2012), leadership is a process and the ability of individuals to inspire a group of people through their vision towards the accomplishment of their goals. Nahavandi (2002) stated that leadership is one of the managerial qualities of an organization that is effective to influence organizational performance and success.

Various theories explain effectiveness of leadership. Among different types of leadership, transformational leadership and transactional leadership have been seen as strongly related with employee performance (Avolio, Bass, & Jung, 1999; Kirkman, Chen, Farh, Chen, & Lowe, 2009). Burns (1978) articulated the concept of transformational leadership style and afterwards it was developed as a leadership theory in organizations by Bass and Avolio (1990). According to Burns (1978), transformational leaders motivate the followers by providing support to perform beyond expectations. Eeden, Cilliers and Deventer (2008) illustrated in their study that transformational leadership is not solely directive, rather it is related to the development and performance of followers. These leaders make a strong connection between followers and themselves by increasing their motivation and morality (Yukl, 2006). Bodla and Nawaz (2010) stated that transformational leaders manage organizations by inspiring, motivating and empowering their employees that results in organizational success.

According to Robbins (2005), this leadership style includes four main components which are described below:

1) Idealized Influence: This component can be known as Charisma (Bass & Riggio, 2006). Leaders inculcate confidence and motivation in followers in a way that followers admire them and try to emulate them (Northhouse, 2004).

2) Inspirational Motivation: It is the ability of transformational leaders in which a leader inspires the followers by arousing enthusiasm, pointing out positive outcomes and stimulating them (Kelloway, Barling, & Helleur, 2000).

3) Intellectual Stimulation: A characteristic in which leaders try to encourage the followers towards creativity and innovation. Transformational leader has the ability to motivate the followers to use creative and new ideas to rectify the issues (Bass & Riggio, 2006).

4) Individualized Consideration: Transformational leaders act as a coach and mentor and pay attention to their followers' needs and feelings (Van Knippenberg & Sitkin, 2013).

Along with transformational leadership, transactional leadership has also gain importance in past few decades. Researchers argue that transactional leadership is a subset of transformational leadership and both are related to organizational performance (Odumeru & Ifeanyi, 2013). According to Robbins (2005), transactional leadership is a style of leadership in which leaders manage the followers through rewards and punishment. It is a managerial leadership in which leader's prime responsibility is to focus on clarifying roles and tasks

requirements (Dubrin, 2004). Miller (2011) argued that transactional leaders clarify roles and tasks to the followers and tell them what they need to do to reach their objectives. Sadeghi and Pihie (2012) demonstrated that transactional leadership theory is based on the exchange between leaders and followers. Hargis, Wyatt and Piotrowski (2001) stated that transactional leaders emphasize on extrinsic rewards for good work and give punishment for negative outcomes. This leadership approach has four components (Bass & Avolio, 1994).

1) Contingent Reward: According to Odumeru and Ifeanyi (2013), contingent reward can be classified into two types. Contingent positive reinforcement and Contingent negative reinforcement. Contingent positive reinforcement is given when the defined goals are achieved on time or before time. This positive reinforcement is given in form of praise or rewards. Transactional leaders recognize followers' successful performance and reward them for positive output. On the other hand, contingent negative reinforcement is given when the set goals are not met, tasks are not accomplished and performance falls below standard.

2) Management by Exception-Active: Active management by exception means that leader observes followers performance, watches the deviations from the rules and regulations, anticipate problems and issues, take actions according to followers performance and makes corrections to resolve the problems (Odumeru & Ifeanyi, 2013).

3) Management by Exception-Passive: Leaders who follow passive management by exception route do not involve in fixing the issues unless the issue is severe. Leaders keep themselves aside and intervene only if the problem becomes too serious (Odumeru & Ifeanyi, 2013).

4) Laissez-Faire: Laissez-Faire leadership is the characteristic of leaders in which they avoid making decisions and avoid taking responsibilities (Robbins, 2007). Leaders consider subordinates completely responsible for any decision and give subordinates complete freedom and power to make decisions about the work (Chaudhry & Javed, 2012).

Kinicki and Kreitner (2007) describe that employee performance is the capacity of an individual to efficiently accomplish independent goals. According to Luthans and Peterson (2002) employees who are immensely engaged in their organization and show high level of commitment towards the organization generate great profits and give maximum performance for the benefit of their organizations. Employees who are happy and satisfied with the management show high level of motivation and thus perform well to achieve organizational objectives (Kinicki & Kreitner, 2007). Motowidlo and vanScotter (1994) described two dimensions of employee performance; Task performance and Contextual performance.

1) Task Performance: This dimension is also called technical job performance. In task performance, employees perform activities that are associated with servicing and development of organization's technical core. These activities include providing services to perform organizational technical tasks and procedures (Yiing & Ahmad, 2009).

2) Contextual Performance: This dimension is not directly linked with job tasks but it strongly effects the organizations. It is also known as interpersonal job performance. Contextual performance consists of one's interpersonal skills and knowledge that assists the wider social environment (Yiing & Ahmad, 2009).

Yousef (2000) stated that numerous studies have shown the relationship between leadership behavior and employee performance. According to Seibert, Wang and Courtright (2011) leaders play an important role in increasing employees' performance and motivation. Empirical research shows that transformational leadership is positively associated with employee performance and job attitudes of employees (Liao & Chuang, 2007; Avolio, Gardner, Luthans, May, and Walumbwa, 2004). Numerous researchers in their researches depict that leaders with transformational leadership style have been associated in enhancing satisfaction, performance and organizational productivity (Bennett, 2009; Spinelli, 2006; Berson & Linton, 2005).

Li and Huang (2009) found in their study of 570 elementary school teachers that through leader-member relationships, employee performance is positively associated with transformational leadership style. Biswas (2009) performed a study in India and collected data from 357 participants from 9 Indian companies, he found that transformational leadership has a positive impact and strongly related to employee performance ($r=0.44$, $p<0.01$). Vecchio, Justin and Pearce (2008) studied 342 head teachers and 223 principals from high schools in California and found that transformational leadership is positively linked with performance ($p<0.05$). Successful transformational leaders are able to motivate followers and encourage them to high job performance (Walumbwa, Avolio & Zhu, 2008).

Through literature search (from 1887 to 2003), Judge and Piccolo (2004) found a mix relationship between transactional leadership and employee motivation. Contingent reward was found to be positively related with follower motivation, while management by exception and laissez-faire leadership was negatively associated with follower motivation. Chaudhry and Javed (2012) conducted a study in banking sector of Pakistan and they found that employees under transactional leaders are more motivated than transformational leaders. Motivational level of employees is high under transactional leadership behavior and hence employees perform well for organizational productivity. Rejas, Ponce, Almonte and Ponce (2006) investigated small firms in Chile and they found that transformational leadership is positively associated with performance while transactional leadership

had negative association with performance in their study.

Obiwuru, Okwu, Akpa and Nwankere (2011) surveyed small- scale enterprises in Nigeria. Their investigation resulted that transactional leadership style had a significant positive relation with employee performance and they found positive but insignificant effect of transformational leadership with employee performance. Mutera (2012) conducted a study in United States of America, the results of his study revealed that both transactional and transformational leadership styles were significantly related to employee performance. Pradeep and Prabhu (2011) carried out a study in India and results of their study showed a positive association of both transactional and transformational leadership styles with employee performance. Paracha *et al.*, (2012) carried out a research to discover the performance of employees. They selected some private schools of Pakistan for this purpose. They found out that both transactional and transformational leadership styles are positively linked with employee performance. However they also found that transactional leadership style had more significant relationship with employee performance than transformational leadership style.

2.1. Hypotheses

Following hypotheses have been produced in order to respond research objectives in the light of literature.

H₁: Increase in Transactional Leadership results in higher Employee performance in FMCG industry of Pakistan.

H₂: Increase in Transformational Leadership results in higher Employee performance in FMCG industry of Pakistan.

3. Research Methodology

The research design used in this study is causal in nature as researchers want to find out the cause and effect of dependent and independent variables. Independent variables used in this study are transformational leadership and transactional leadership whereas dependent variable is employee performance.

The researchers have opted Quantitative strategy for their study as inferential statistics have been used to test the hypotheses. The sampling site is Fast Moving Consumer Goods (FMCG) from Pakistan. Researchers have taken employees from managerial level and non-managerial level from seven different FMCG companies with sample of 350 employees using a random sampling technique. Out of 350 rotated questionnaires, 32 were either not responded fully or partially makes response rate of 90.8%. Moreover, unit of Analysis for current study is 'individuals' belonged to FMCG companies.

A structural questionnaire is used in this study consisting of transformational leadership variable, transactional leadership variable and employee performance variable. The leadership style is measured using Multifactor Leadership Questionnaire (MLQ) developed by Bass and Avolio (1997). This instrument consists of transformational leadership style and transactional leadership style. Several researchers have used this instrument in their study (Bass, Avolio, Jung & Benson, 2003; Alsayed, Motaghi & Osman, 2012, Paracha *et al.*, 2012). The framework of questionnaire is based on 21 questions out of which 12 questions measure transformational leadership style, 9 questions measure transactional leadership style. Respondents were asked to measure the leadership style using a five point likert scale ranging from "Strongly Disagree" valued as "1" to Strongly Agree" valued as "5". The questionnaire on employee performance is self-administered. Apart from these questions, there are some questions regarding demographics as well.

Collected data have been analyzed using Statistical Package for Social Sciences (SPSS) version 22.0.

4. Data Analysis

4.1. Tests of Normality

To check normality of the data, Shapiro-Wilk test has been used by researchers. As per Table 1, looking at the results of significance values, it can be inferred that data is normally distributed and is ready to be analyzed with parametric tests.

4.2. Hypotheses Testing

4.2.1. Correlation Analysis

Pearson Correlation test has been used in order to check the relationship between independent and dependent variables.

As per table no.2, result shows that there exists a highly positive correlation between Transactional Leadership and Employee Performance at significance value of 0.05 with P-value of 0.000 that is less than significance value within FMCG industry of Pakistan. As per table no.3, result shows that there exists a weak positive correlation between Transformational Leadership and Employee Performance at significance value of 0.05 with P-value of 0.022 that is less than significance value within FMCG industry of Pakistan.

4.2.2. Regression Analysis

According to aforementioned correlational analysis results, it has been developed that there exists a relation between both leadership styles and employee performance. Now, researchers need to identify the factor that is

intended to contribute more towards employee performance. For this matter, Linear Regression Analysis model has been used.

As per table no.4, it can be implied that predictors are predicting employee performance up to 66.4% due to R^2 value of the model is 0.664. Therefore, equation of full model is as;

$$\text{Full Model: } Y = 72.48 + 51.33 X_1 + 44.57 X_2$$

5. Conclusion

Transactional leadership style and transformational leadership style both have been widely used in the organizations. Pakistan FMCG industry is also inhibited with both leadership styles. It has been seen in the study as well that this industry is having these two leadership styles in relation with employee performance. Results show that Transactional leadership style is affecting more to employee performance in a positive manner instead of Transformation Leadership Style, though Transformational Leadership style also affects positively to employee performance. Moreover, the regression model suggests that independent variables are predicting employee performance up to 66.4%. Looking at the results, this study can contribute to FMCG industry in Pakistan that having Transactional Leadership style may play positive role in increasing the performance of the employees.

6. Recommendations and Limitations

Following are the recommendations have been suggested by the researchers in light of this study;

- Leader role is important in shaping up the performance of the employee; therefore, leaders should possess qualities of transactional and transformational roles.
- Paying attention to such leadership styles eventually increases organizational effectiveness and efficiency as well.
- Proper training programs should be developed within Pakistan specifically in FMCG industry for improvement of such leaders.
- Drawing results on the basis of 7 companies can be little less generalized concept; therefore, the number should be increased for more comprehensive results for future.
- Increase in sample size can give better insights for future researches.

7. References

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Table No. 1 Shapiro-Wilk Test of Normality

Variable	Statistic	Df	Sig.
Transactional Leadership	0.911	318	0.058
Transformational Leadership	0.927	318	0.067
Employee Performance	0.941	318	0.089

Table No. 2 Employee Performance and Transactional Leadership

			Employee Performance	Transactional Leadership
Pearson Correlation	Employee Performance	Correlation Coefficient	1.000	0.727
		Sig. (1-tailed)	.	0.000
		N	318	318
	Transactional Leadership	Correlation Coefficient	0.727	1.000
		Sig. (1-tailed)	0.000	.
		N	318	318

Table No. 3 Employee Performance and Transformational Leadership

			Employee Performance	Transformational Leadership
Pearson Correlation	Employee Performance	Correlation Coefficient	1.000	0.235
		Sig. (1-tailed)	.	0.022
		N	318	318
	Transformational Leadership	Correlation Coefficient	0.235	1.000
		Sig. (1-tailed)	0.022	.
		N	318	318

Table No. 4 Linear Regression Analysis

Predictors	Criterion Variable: Employee Performance (Y)		
	R ²	B	P-Value
Constant (B ₀)	0.664	72.48	
Transactional Leadership (X ₁)		51.33	0.001
Transformational Leadership (X ₂)		44.57	0.042