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Transaction and Transformational Leadership Concepts

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TRANSACTIONAL LEADERSHIP

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Transactional leadership is most often explained as a cost-benefit exchange between leaders and their **followers** (Kuhnert & Lewis 1987). The transaction or exchange involves something of value between what the leader possesses or controls and what the follower wants in return for his/her services (Yukl & Van Fleet 1992). Transactional leadership involves leaders clarifying goals and objectives, communicating to organize tasks and activities with the co-operation of their employees to ensure that wider organizational goals are met (Bass 1974: 341). The success of this type of leader-follower relationship depends on the acceptance of hierarchical differences and the ability to work through this mode of exchange. Transactional leadership is based on the assumption that subordinates and systems work better under a clear chain of command. The implicit belief in the leader / follower relationship is that people are motivated by rewards and penalties (Kuhnert 1994). Despite numerous leadership studies

highlighting the limitations of this approach, transactional leadership remains popular among leaders and managers. Along the spectrum leadership versus management, this approach is clearly closer to the management end (MacKenzie, Podsakoff & Rich 2001).

In his seminal work on leadership, James MacGregor Burns (1978) defines transactional leadership as the first form of interaction between leaders and followers. On the opposite side of transforming leadership, transactional leadership occurs when one person takes the initiative in making contact with others for the purpose of an exchange of valued things. The relations of most leaders and followers are transactional-leaders approach followers with an eye to exchanging one thing for another: jobs for votes, or subsidies for campaign contributions (Burns 1978:19). In his historical review of political leadership practices exemplified by numerous case studies, Burns defines this exchange as economic or political or psychological in nature. The relationship leader-follower revolves around the bargaining process and the maintenance of it. This is also the limit of this leadership approach, which does not attempt to push the relation beyond a bargained and contracted and exchanges.

Barnard M. Bass (1985) further elaborated on Burns's conceptualization of transactional-transformational leadership. Bass argued that transactional and **transformational leadership** are not two opposite ends of the spectrum but are two separate concepts. According to Bass, the best leaders are both transformational and transactional. Although his leadership model has undergone various revisions, the most recent version considers four dimensions of transformational leadership, three dimensions of transactional leadership, and a non-leadership dimension, or laissez-faire. Apart from its emphasis on transformational leadership exemplified by **charisma**, or idealized **influence**, inspirational **motivation**, intellectual stimulation and individualized consideration, three important distinctions identify transactional approaches to

leadership. The first dimension, contingent reward, is the degree to which the leader sets up constructive transactions or exchanges with followers. The leader using this dimension clarifies expectations and establishes the rewards for meeting these expectations.

The second and third dimensions of transactional leadership are two types of management-by-exception. Management by-exception occurs when the leader intervenes to make a correction when something goes wrong (Bass 1985). The two types of management-by-exception are active and passive. Howell and Avolio (1993) observe that the difference between the active and passive management by exception—active lies in the timing of the leader's intervention. Active leaders monitor follower behavior, anticipate problems, and take corrective actions before the behavior creates serious difficulties (Northouse 2004: 179). Passive leaders wait until the behavior has created problems before taking action. A substantial difference is that in the active form the leader looks for deviations whereas in the passive form, the leader waits for problems to emerge (Hater and Bass 1988).

The distinction between transactional and transformational is commonly emphasized in leadership studies. In spite of the fact that transformational theories have been a popular topic in leadership literature, transactional leadership constitutes a foundation for it and the two approaches are not necessarily in opposition to one another. (Northouse 2004; Tracey & Hinkin 1998). While transactional leaders motivate followers to comply with the leader's requests and organizational role through an exchange process, transformational leaders motivate followers by encouraging them to transcend their self-interests for the sake of the organization and shared goals. According to Barnard M. Bass, transactional leaders predetermine what their followers should do to realize their personal and organizational aims while transformational leaders motivate and stimulate their followers to surpass their own self-interests and direct themselves

to a higher level of motivation linked to the interests of the team, organization or larger community (Bass and Avolio 1994).

The distinction between transactional leadership and laissez-faire is less clearly defined (Bass 1985; Judge & Piccolo 2004). Laissez-faire leadership is the avoidance or absence of leadership. Laissez-faire leaders are indifferent and have a "hands-off" approach toward the workers and their performance. These leaders, unlike most transactional leadership approaches, ignore the needs of others, do not respond to problems or do not monitor performance. Leaders who score high on laissez-faire leadership avoid making decisions, hesitate in taking action, and are absent when needed. Although laissez-faire leadership bears some resemblance to management by exception—passive leadership, researchers have argued that laissez-faire leadership should be treated separately from the other transactional dimensions because it represents the absence of any leadership (transformational or transactional), (Avolio 1999; Bass 1998).

Transactional leaders exhibit specific leadership skills usually associated with the ability to obtain results, to control through structures and processes, to solve problems, to plan and organize, and work within the structures and boundaries of the organization. As the transactional style revolves around the formulation and maintenance of a contract, negotiation skills are essential for this type of leadership. The exchange will successfully happen only on the basis of clear and effective communication skills. While leaders need to clearly define job descriptions and task assignments, subordinates must be able to show results and fulfill the leader's expectations. Effective transactional leaders are capable of (1) clarifying what is expected of the employees' performance, (2) explaining how to meet such expectations (3) spelling out the criteria of the evaluation of their performance, (4) providing feedback on whether the employee is meeting the objective and (5) allocating rewards that are contingent to their meeting the objectives (Bass 1974: 339).

The transactional and leader-follower exchange theories represent a significant step beyond the "leader oriented" approaches most often focused exclusively on the leader's actions and attitudes. In a general sense, transactional leadership exemplifies the most common dynamic of social exchange between leadership and fellowship (Bass 1974: 319). The question remains as to what is the dynamic in this exchange process that produces satisfactory results for the leaders, followers and organizations involved? Many transactional leadership studies have shown that the nature of the exchange process between leaders and subordinates can highly influence the group performance and morale. Bass considers the leader-follower interactive effects from the perspective of an effective transactional leader who acts as a source of feedback, as communicator, as a model and a source of influence (Bass 1974: 339). He also explores how subordinates use effective tactics to influence and gain feedback and how transactional leadership mutually influences both leaders and followers. Building on Bass's work, George Grean and his associates (1977) studied how a more positive exchange between leader and follower characterized as a true partnership with a large degree of freedom for the subordinate generates higher subordinate satisfaction, reduced turnover and produced greater identification with the organization (Grean et.al. 1977).

The style of a transactional leader is creating clear structures, expectations and rewards. Whereas transformational leadership has more of a 'selling' style, transactional leadership, once the contract is in place, takes a 'telling' style. The Multifactor Leadership Questionnaire (MLQ) developed by Bass is the most commonly used instrument to assess an individual's transformational, transactional and laissez-faire leadership styles (Avolio, Bass and Jung 1999; Bass & Avolio 1990). Although individual leaders exhibit tendencies toward transactional or transformational leadership styles, most leaders show characteristics of both styles. While transformational leadership motivates

subordinates through a shared vision and **responsibility**, transactional leadership motivates followers by appealing to their self-interests. Its principles are to motivate by the exchange process.

The limits of transactional leadership hinge on the behaviorist assumption that a 'rational person' is largely motivated by money and simple rewards, and hence his behavior is predictable. In practice this assumption often ignores complex emotional factors and social values present in work environments and interpersonal relationships. For example, transactional leadership may operate successfully in a work environment where leaders' and workers' personalities are compatible, but it could result in conflict between task-oriented and person-oriented personalities. Transactional leadership works well in a supply-and-demand situation of much employment, coupled with the effects of deeper needs, but it may be insufficient when the demand for a skill outstrips the supply. Transactional leadership behavior is used by one degree or another by most leaders. However, it can be quite limiting if it is the only leadership style used. As the old saying goes, "if the only tool in your workbox is a hammer…you will perceive every problem as a nail". Today, most leaders would agree that material rewards and fear of punishment may not be the best approach to motivate their workers. Because transactional leadership encourages specific exchanges and a close connection between goals and rewards, workers are not motivated to give anything beyond what is clearly specified in their contract.

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TRANSFORMATIONAL LEADERSHIP

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Transformational leadership, one of the most influential leadership concepts, is a development and constructive leadership approach for both individuals and the organization. As part of the "New Leadership" paradigm which emphasizes the charismatic and affective elements of leadership (Bryman 1992), transformational leadership is concerned with the ability to inspire followers to accomplish great things (Northouse 2004). Transformational leadership, emerged and rooted in these initial writings of Burns (1978), Bass (1985), Bennis and Nanus (1985) and Tichy & DeVanna (1986), stimulated the publication of hundreds research projects, doctoral dissertations and books that have highly contributed to the development of actual concepts, distinctions and critiques of transformational leadership.

The idea of transformational leadership first appeared in the 1973 sociological study conducted by Downton, J. V., "Rebel Leadership: Commitment and Charisma in the Revolutionary Process." However, the concept of transformational leadership is attributed to James MacGregor Burns and his 1978 classic book *Leadership* (Burns 1978). In his historical review of political leadership practices exemplified by numerous case studies, Burns defines transformational leadership as an influence process that involves not only followers but also peers, superiors and members of other groups. Jim Burns's distinction between "transactional" and "transforming" leadership still continues to inspire most of today's leadership studies.

In 1985, Barnard M. Bass, distinguished Professor of Management and director of the Center for Leadership Studies at the State University of New York at Binghamton, conducted extensive studies and presented a formal transformational leadership theory (Bass 1985). His Multifactor Leadership Questionnaire (MLQ), developed to identify individuals who exhibit transformational as well as other more traditional leadership behaviors, is completed by subordinates who describe how their superiors act when they are "leading." Bass's findings show that subordinate ratings provide the single most effective tool to identify outstanding leadership qualities.

The research conducted by Bennis and Nanus in 1985 pointed to additional but similar characteristics of transformational leaders in large corporations. Bennis and Nanus (1985) identified four common leadership characteristics strategically used by leaders in transforming organizations. First, all transforming leaders communicate a clear vision of the future state of their organizations. Second, they had the ability to move their organizations in a direction that transformed the organization's values and norms. Third, they created trust in their organizations by being a trustworthy and reliable presence in the midst of uncertainty. Fourth, they emphasized strengths over weaknesses reflecting a feeling of confidence and high expectations in their organizations.

Tichy and DeVanna (1986) highly contributed to the study of transformational leaders. Their observations on the results of face-to-face interviews with some of America's best-known transformational leaders lead them to identify three stages of organizational transformation: recognizing the need for change, creating a vision and institutionalizing change (Tichy & DeVanna, 1986). They also identified seven common traits characterizing and distinguishing these transformational leaders. They all appeared to be change

agents, courageous, strong believers in people, value driven people, dedicated life-long learners, people capable of dealing with ambiguity and uncertainty, and each of these leaders was a visionary.

The distinction between transformational and transactional leadership approaches is clearly defined. Although transformational theories are based on transactional leadership, the transformational leadership approach represents the new and more accepted leadership style in organizations (Northouse 2004; Tichy and DeVanna 1986). While transactional leaders motivate followers to comply with the leader's requests and organizational role through an exchange process, transformational leaders motivate followers by encouraging them to transcend their self-interests for the sake of the organization and shared goals. According to Barnard M. Bass transactional leaders predetermine what their followers should do to realize their personal and organizational aims while transformational leaders motivate and stimulate their followers to surpass their own self-interests and direct themselves to a higher level of motivation linked to the interests of the team, organization or larger community (Bass and Avolio 1994). The relationship leader/follower is a far more complex process in the transformational leadership approach which requires more visionary and inspiring figures (Podsakoff, MacKenzie and Bommer 1996). Through this approach the leader/follower relationship is based on trust, loyalty and respect and can ultimately produce more dedicated people for the organization.

The distinction with charismatic leadership, however, is not so clear. According to Bernard Bass (1985, 1990) a leader may be charismatic without necessarily being transformational. Although debated in leadership studies (Conger & Kanungo 1998 and Avolio & Yammarino 2002), most researchers agree that charismatic leadership is only one component of transformational leadership. Although transformational leadership gives less importance on the personal quality of the leader and focus on the specific behaviors of the leader

and followers, the descriptions of the behaviors resemble those of charismatic leaders (Hunt & Conger 1999).

The qualities distinguishing transformational leaders are generally known as the "Four I's" and include: idealized influence, inspirational motivation, intellectual stimulation, individualized consideration. The first quality, *idealized influence (or Charisma)*, refers to the degree to which the leader behaves in admirable ways that cause followers to identify with the leader's vision and mission (Bass, 1990). Attaining charisma and influence in the eyes of followers is a critical step in becoming a transformational leader (Conger & Kanungo 1988; Howell & Avolio 1992). Followers consistently demonstrate confidence and trust in charismatic leaders who are able to provide a clear vision and a sense of shared mission (Avolio & Yammarino 2002). The second quality, *inspirational motivation,* refers to the degree to which the transformational leader articulates a vision that is appealing and inspiring to followers. Leaders can inspire and motivate followers to higher standards only through a strong sense of purpose. Purpose and meaning, often communicated through symbolic actions and personal examples, provide the energy that drive individuals and groups forward. Inspiration of followers depends on the leader's ability to form a synergy between individual consideration and intellectual stimulation (Yammarino 1993). The third quality, *intellectual stimulation,* refers to the leaders' ability to encourage creativity and careful problem solving in their followers. A transformational leader challenges assumption, perceptions of problems and even attitudes and values to solicit followers' ideas and contributions (Avolio, Waldman, & Yammarino, 1991). Intellectually stimulating leaders develop followers who see difficulties as problems to be solved (Bass, 1990). The fourth quality, *Individualized consideration (or Individualized attention)* refers to a leader's attention and understanding of the follower's concerns and needs. Transformational leaders often act as mentors and coaches, concerned about

removing obstacles that might inhibit individuals' performance and development. As needs change over time, transformational leaders maintain a high level of listening and accurately diagnose the needs of individual followers in order to optimize their potential (Avolio & Gibson 1988).

Ethics is clearly connected to the practice of transformational leadership. While Burns (1978) argues that transformational leadership is morally uplifting in itself, Bass (1985) argues that leaders could act as *pseudo-transformational*, wearing the black hats of villains or the white hats of heroes depending on their values. Howell and Avolio (1992) distinguish between a self-oriented, and therefore unethical, transformational leadership, versus a socially oriented, or ethical, transformational leadership. Authentic transformational leader-follower relationship is oriented by a strong sense of responsibility for the growth and development of followers. The goal of transformational leadership, based on trust and mutual confidence, is to transform a dependent "transactional" relationship into an interdependent relationship, where people are "responsible to" each other. The ultimate goal of ethical transactional leadership is to bring followers to a level where they can succeed in their tasks without direct leader intervention. Unfortunately, power, control and ego often contribute to entrap leaders into a sterile relationship between "indispensable" leaders and "disempowered" followers (Kark, Chen and Shamir, 2003).

Transformational leadership approach has several strengths and benefits values. First, numerous studies indicate how transformational leader behavior can generate substantial organizational rewards (Bass, 1990; Podsakoff, MacKenzie and Bommer, 1996). The innovative transformational relations between leaders/followers produce visible effects on performance, effort, moral and satisfaction within the organization (Bass & Avolio, 1994; Bass, 1985). Second, transformational leadership emphasizes the relationship between leader and followers. It reminds us that leadership is about orienting our work for the

needs of others, as it is in servant leadership. Third, it focuses on the values that motivate both leaders and followers, rather than the exchange of rewards for accomplished goals. Finally, transformational leadership considers leadership more as process with all the complex relations between leaders, followers, organizations and contexts (Northouse 2004:183-185).

Transformational leadership also has several weaknesses that have been the subject of numerous critiques to the transformational theory (Yukl, 1999). The Four I's, for example, appear to overlap with one another, while other characteristics seems to be shared by charismatic and other similar conceptualizations of leadership (Tracey & Hinkin 1998). These overlapping and unclear distinctions obviously reinforce other criticisms on how transformational leadership is measured through the Multifactor Leadership Questionnaire (MLQ), even in the improved version (Northouse 2004, 186). Brayman (1992) suggests that transformational leadership appears to be more a set of personality trait rather than a series of behaviors that leaders can learn and develop. Although transformational leadership has enjoyed exceptional empirical support, many question the practical application of Bass's construct for everyday, frontline leaders and managers (Tracey & Hinkin, 1998; Yukl, 1999). The application of transformational leadership across organizations and cultures has led some scholars to view this approach as an unbounded, "universal" theory (Bass, 1997) while other have suggested the need to examine it within a situational context (Podsakoff & MacKenzie, 1994).

The application of transformational leadership, unlike other leadership approaches, requires leaders to make a conscious effort to understand how their own behavior relate to followers and the challenging dynamics of their organizations. Rather than providing a model that tells leaders what to do, transformational leadership offers a general way of thinking about leadership practices through vision, inspiration, innovation and individual concern.

Becoming an effective transformational leader is therefore a leadership development process often beginning with an assessment (MLQ or other similar instruments) of the leader's transformational strengths and weaknesses (Bass & Avolio, 1990). Applied trainings and leadership development program focusing on transformational leadership is particularly beneficial for building a vision and other important leadership attributes.

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