# Impact of Transactional and Transformational Leadership Styles on Organisational Performance: Empirical Evidence from Nigeria

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#### Abstract

The study investigates the impact of transactional transformational leadership styles organisational performance in the Nigerian work context. The survey method was adopted to carry out the research. A structured Multifactor Leadership Questionnaire (MLQ) was used for data collection. Organisational performance was assessed based on three measures of performance namely effort, satisfaction and effectiveness. Regression and Correlation statistical techniques were used to analyse the data elicited from one hundred eighty four (184) randomly selected respondents. It was revealed from the study that while transformational leadership style had a strong positive impact on organisational performance; transactional leadership style had a weak positive impact on organisational performance. It was also revealed from the study that both transactional and transformational leadership styles have significant and positive relationship with organisational performance. The conclusion reached was that mixed style of leadership (combining transformational and transactional leadership styles) depending on the situation will be the most appropriate style to adopt. It was therefore recommended that the mix of both transformational and transactional leadership styles should be implemented but with due consideration to the situation and nature of task assigned to employees/followers.

**Key Words:** Leadership style, Transactional Leadership, Transformational Leadership, Organisational Performance.

#### **INTRODUCTION**

Organisations are set up to achieve some set goals. In order to achieve these goals and objectives, the human factor is of utmost importance. Top on the human factor list is the leader. A leader influences organisational members to contribute efforts willingly towards the accomplishment of pre-determined goals and objectives. Thus, leadership is first and foremost the ability to influence people to perform tasks over a period of time using principally motivational techniques (Kotter, 1996; Yammarino & Dubinsky, 1994).

The importance of leadership in achieving optimum organisational performance can hardly be overstated. Earlier leadership studies (examples include Lewin, Lippit, & White, 1939; Blake & Mouton, 1964) tried to identify effective leadership styles and to relate them with various aspects of organisational outcomes. Recent researches have focused mainly on the leader-follower perspective and proposed two main facets of leadership styles: transactional and transformational (Bass & Avolio, 1990; Meyer & Botha, 2000). These two concepts were first introduced by Burns (1978) and developed by Bass & Avolio (1990) to encompass the "full range model of leadership" (Bass, 1985; Avolio & Bass 1991; Bass & Avolio, 1993). This notion of leadership considers that there are two basic levels of influence evident in the interaction between the leader and the led: One influence comes from the understanding that the leader creates a cost-benefit interaction in his/her constituency. Burns (1978) called this influence transactional leadership - meaning that the employees will function in accordance with the leader's wishes because they believe they will benefit by such actions. Transactional leaders are said to enhance the subordinate's readiness to perform at expected levels by offering rewards for acceptable performance, thus resulting in the desired outcomes defined by the leader (Bass & Avolio, 1990, Meyer & Botha, 2000). The second influence of the leader pertains to emotional excitement, which Burns

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called transformational or charismatic leadership. This style is based on a relationship between the leader and his/her subordinates that is inspirational and breaks the cycle of subordinate's basic expectations. Consequently, a leader is said to be transformational when he or she inspires his or her subordinates to adopt organisational vision as their own, while attempting to heighten their values, concerns and developmental needs (Cacioppe, 1997).

There is, however, controversy pertaining to the respective impacts of transactional transformational leadership styles on organisational performance. Certain studies (for example Rejas, Ponce, Almonte & Ponce 2006) had indicated that transformational leadership had a positive impact on performance while transactional leadership had negative impact on performance. Other studies (such as the investigation carried out in Nigeria by Obiwuru, Okwu, Akpa & Nwankere, 2011) established that while transactional leadership had significant positive effect on performance, transformational leadership style had positive but insignificant effect on performance. Hence this present study seeks to specifically reinvestigate the actual impact of transactional and transformational leadership styles on organisational performance in the Nigerian work context.

# LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

#### Leadership and Organisational Performance

Leadership has been defined in so many ways that it is hard to come up with a single working definition. Leadership has been defined as a body of people who lead and direct the activities of a group towards a shared goal. It refers to the ability to lead, direct and organise a group (Ogbeidi, 2012). Certo (2002:325) defined leadership as "the process of directing the behaviour others towards of accomplishments of some objective". Cole (2002) sees leadership as a dynamic process at work in a group whereby one individual over a particular period of time, and in a particular organisational context, influences the other group members to commit themselves freely to the achievement of group tasks or goals.

Although the importance of organisational performance is widely recognised, there has been considerable debate about both issues of terminology and conceptual bases for performance measurement (Ford & Schellenberg, 1982). No single measure of performance may fully explicate all aspects of term (Snow & Hrebiniak, Organisational performance refers to organisation's ability to attain its goals by using resources in an efficient and effective manner (Daft, 2000). Consequently, it is an evidence of the output of members of an organisation measured in terms of revenue, profit, growth, development and expansion of the organisation. Organisational performance suffers from the conceptual problem of distinguishing between performance and productivity (Hefferman & Flood, 2000). While productivity has to do with the ratio depicting the volume of work completed in a given amount of time, performance is a broader indicator that could include productivity as well as quality, consistency and other factors (Ricardo and Wade, 2001).

A number of variables are used to measure organisational performance. These variables include profitability, gross profit, return on asset (ROA), return on investment (ROI), return on equity (ROE), return on sale (ROS), revenue growth, market share, stock price, sales growth, export growth, liquidity and operational efficiency (Snow & Hrebiniak, 1983; Segev, 1987; Smith, Guthrie & Chen, 1989; Parnell & Wright, 1993; Thomas & Ramaswamy, 1996; Gimenez, 2000).

# Transformational and transactional leadership styles

This study applies the "full-range leadership model" as conceptualised by Bass (1985) and developed by Avolio & Bass (1997). The said model differentiates between three major leadership styles: transformational, transactional and laissez-faire leadership. But this research focuses principally on the transformational and transactional leadership styles. This is because among the various studies relating to organisational performance, perhaps the most influential is the transformational-transactional

theory of leadership. As explained in Saowalux & Peng (2007), Burns (1978) conceptualises two factors to differentiate "ordinary" "extraordinary" leadership: transformational and transactional leadership. Chelladurai (2001) defines transformational leadership as the process of influencing major changes in attitudes and assumptions of organisational members and building commitment for the organisation's mission and objectives. transformational (extraordinary) leader raise follower's consciousness levels about the importance and value of designated outcomes and ways of achieving them. They also motivate followers to transcend their own immediate selfinterest for the sake of the mission and vision of the organisation.

The transformational aspect of leadership included five sub variables which are: idealised attribute, idealised influence, inspirational motivation, intellectual stimulation and individualised consideration. These are commonly known as the five (5) I's of transformational leadership. Idealised attribute are evident when followers report that their leader is charismatic. Idealised influence enables a leader to instil pride, faith, and respect in followers causing the followers to identify and emulate their leaders. Inspirational motivation represents behaviour that provides symbols and simplified emotional appeals, thus raising expectations and optimism amongst followers. Intellectual stimulation arouses followers on new ways of problem solving through proactive thinking. Individualised consideration is present when a leader delegates assignments and stimulates and coaches followers on an individual basis.

In contrast, transactional leadership consists of three behavioural factors: contingent reward and management by exception (active/passive). Contingent reward is behaviour that provides reward for contracts completed. Management-by-exception is the behaviour that avoids giving directions where current methods work and performance goals are met. The model further suggests that the behaviour can be divided further into active and passive components. Management-by-exception (active) refers to a leadership style where performance is actively monitored for errors; Management-by-exception (passive) describes the leader as waiting to learn

of such errors. In both instances, the leader punishes individuals for their failure to reach an expected level of performance (Antonakis, Avolio, & Sivasubramaniam, 2003).

### Leadership Styles and Organisational Performance: An Empirical Review

The nature of the relationship between leadership styles and organisational performance has attracted considerable research interest over time. Most research findings showed that leadership behaviour impact on and is significantly related to organisational performance (Bass, 1990; Collins & Porras, 1996; Manz & Sims, 1991; Sarros & Woodman, 1993; Goleman, 2000).

Rejas, Ponce, Almonte & Ponce (2006) carried out an investigation in Chile, which was aimed at finding out whether or not leadership style influences the performance of small firms. They revealed from their study that transformational leadership has a positive impact performance, whereas transactional leadership and laissez-faire style had negative impacts. In another study, Obiwuru, Okwu, Akpa & Nwankere (2011) carried out a survey of selected small scale enterprises in Nigeria as regard the effects of leadership styles on organisational performance and found out that while transactional leadership style had a significant positive effect on performance, transformational leadership style had positive but insignificant effect on performance.

Pradeep & Prabhu (2011) in their study examined the relationship between effective leadership style and employee performance in India. Their study revealed that leadership was positively linked with employee performance for both transformational behaviour and transactional contingent reward leadership behaviour. A similar research carried out by Paracha, Qamar, Mirza, Hassan & Wagas (2012), to determine which leadership style can increase the performance of employees of some selected private schools in Pakistan, demonstrated that transactional and transformational leadership styles are both positively associated with employee performance. However, transactional leadership was found to be more significantly to employee performance transformational leadership style.

### Impact of Transactional and Transformational leadership styles on Organisational Performance: Empirical evidence from Nigeria

Muterera (2012) in his study, carried out in the United States of America, revealed that both transactional and transformational leadership behaviours are positively related with organisational performance but that transformational leadership behaviour positively contributed to organisational performance over and above the contribution made by transactional leadership.

The foregoing theoretical considerations provided the basis for generating the following four hypotheses that are put forward for empirical determination:

- **H1:** Transformational leadership style tends to impact positively on organisational performance.
- **H2:** Transactional leadership style is likely to impact positively on organisational performance.
- **H3:** Transformational leadership style tends to have a positive relationship with organisational performance.
- **H4:** Transactional leadership style is likely to have a positive relationship with organisational performance.

#### **METHODOLOGY**

Akwa Ibom Water Company Limited, Uyo, Nigeria was the research location. The research design used to carry out the study was the descriptive survey. A representative sample of 184 respondents were drawn from the universe using a simple random sampling technique. The Multifactor Leadership Questionnaire (MLQ) developed by Bass & and Avolio 1997 was used to elicit data from the respondents. The MLQ is a rater-report questionnaire consisting 45 items measured on a five-point Likert-type scale of Not at all to 4-frequently. sub-scales was used to transformational leadership style which are attributes, idealised behaviours, idealised inspirational motivation, intellectual stimulation and individual consideration), while three was used to assess transactional leadership style (contingent rewards, management by exception (active).

The Bass and Avolio MLQ scale was adopted in this research because of the internal consistency, validity and reliability of the scale have been empirically tested. The reliability for all items and for each leadership factor scale was reported to range from .74 to .94 (Avolio & Bass, 1997)

Two hundred and seven questionnaires (207) were administered and One hundred and eighty four (184) questionnaires were retrieved in usable condition giving 88.9% response rate. Data collected were analysed using the Statistical Package for Social Sciences (SPSS 17.0). Descriptive analysis was used to analyse socio-demographics of the respondents while simple linear regression and Pearson's Product Moment correlation were used to test research hypotheses. All statistical tests were performed at 5% level of significance.

#### **FINDINGS**

The socio-demographics of the respondents are presented in Table-1. One hundred and thirty five (73.4%) respondents are males while 49 (26.6%) are females. Respondents in the age bracket of 20 years and below were 19 (10.3%), 21-49 years were 149 (81%) while 16 (8.7%) were 50 years and above. With respect to marital status, 114 (62%) of the research participants were single, 69 (37.5%) were married and one (0.5%) was divorced/separated. One hundred and eighty one (98.4%) of the respondents were Christians, one (0.5%) was Muslim while 2 (1.1%) were of the African Traditional Religion (ATR). With regard to educational attainment, 8 (4.3%) had primary education, 57 (31%) had secondary education and below, 52 (28.3%) were National Diploma holders or equivalent, 49 (26.1%) were bachelor degree holders or equivalent, 17 (9.2%) were masters degree holder, and 1 (0.5%) was doctorate degree holder. In terms of job status, 13 (7.1%) respondents were management staff, 57 (31%) of the respondents were senior staff, and 114 (62%) were junior staff. One hundred and seventeen (63.6%) of the respondents' years of service was less than 5 years, 45 (24.5%) of the respondents' years of service were between 5-10 years while 22 (12%) of the respondents' years of service were 10 years and above.

#### **INSERT TABLE-1 HERE**

Table 2 presents the result of the impact of transformational leadership style on

organisational performance. Based on the coefficient of determination (r-square) 49.6% of the total variation in organisational performance was explained by transformational leadership style. The results of the regression also revealed a significant positive impact of transformational leadership style on organisational performance. ( $\beta$  = 0.386, t calculated =13.396, t tabulated =1.96, p< 0.05).

#### **INSERT TABLE-2 HERE**

Table 3 presents the result of the impact of transactional leadership style on organisational performance. Transactional leadership style accounted for 20.5% variation in organisational performance (r square = 0.205). The results of the regression also revealed a significant positive impact of transactional leadership style on organisational performance. ( $\beta$  = 0.582, t calculated =6.844, t tabulated =1.96, p< 0.05).

#### **INSERT TABLE-3 HERE**

Table 4 and 5 shows the result of Pearson Product-moment correlations between each of the leadership styles and organisational Result performance. obtained showed significant positive relationship between transformational leadership and organisational performance (r = 0.705, p<0.05). Also, a significant positive relationship was obtained between transactional leadership style and organisational performance (r=0.402, p<0.05). Therefore, both leadership styles relates positively with organisational performance.

#### **INSERT TABLE- 4 HERE**

The finding of the test of the first hypothesis shows that transformational leadership style has positive organisational impact on performance. This research outcome corroborates the finding of Rejas, Ponce, Almonte & Ponce (2006) that transformational leadership style has a positive impact on performance and differs with Obiwuru, Okwu, Akpa & Nwankere (2011) finding that transformational leadership style has a positive but insignificant effect on performance. However, the result obtained after testing the second hypothesis also supports the views of Obiwuru, Okwu, Akpa and Nwankere (2011) who considers transactional leadership style of having a significant positive effect on

performance. The third hypothesis was also accepted denoting that there is a significant relationship between transformational leadership organisational style and performance. This finding supports the results of Pradeep & Prabhu (2011) and Muterera (2012) that transformational leadership style positively contributed to organisational performance over above the contribution made and transactional leadership style. Moreover, the fourth hypothesis was upheld thus indicating that transactional leadership has a positive relationship with organisational performance. This is in consonance with the views of Pradeep & Prabhu (2011) and Muterera (2012) but does not support the views of Paracha, Qamar, Mirza, Hassan & Wagas (2012), which suggested that transactional leadership style was more significantly related than transformational leadership style to organisational performance.

# CONCLUSION AND RECOMMENDATIONS

This research has provided incisive insights regarding the respective impacts of transactional and transformational leadership styles on organisational performance. This study affirms that both transformational and transactional leadership styles had significant positive impacts on organisational performance. The study further demonstrated that transformational and transactional leadership styles had a significant positive relationship with organisational performance but that transformational leadership style had a strong positive relationship with organisational performance while there was a weak positive relationship between transactional leadership style and organisational performance.

While the results of this research cannot be generalised in its current form to different organisations, they provide statistically significant evidence of the relationships and the impacts of transactional and transformational leadership styles on organisational performance. Based on these findings, the conclusion reached is that this research affirms that though transformational and transactional leadership styles are both positively related to organisational performance but that transformational leadership is more significantly

- related and impactful on organisational performance than transactional leadership. Based on the findings of this study the following recommendations are advanced:
- (i) Organisational leaders should apply the mix of both transformational and transactional leadership styles but with due consideration to the situation and nature of task assigned employees/followers.
- (ii) Efforts should be made by the organisation's top management to understand the critical factors that affect the performance of organisational members and the strategic options (training, motivation and performance appraisal) to be adopted to address them.
- Organisational (iii) leaders as well as scholars researchers or should endeavour to study holistically the subvariables of the transformational and transactional leadership styles which may enhance or hinder organisational performance and subsequently, adopt creative applicability of appropriate leadership style sub variables/ components.
- (iv) It would also be beneficial to replicate this study using the same type of organisations but with different performance measures. Since limitation of the present study was that it relied on only Akwa Ibom Water Company Limited, larger domain of study/different organisation certainly be needful to throw more light on the various dimensions studied. This same research can also be carried out in other countries so that a broad comparison of the concepts leadership styles as it relate and impact on organisational performance can be made.

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able 1: Descriptive S Characteristics	statistics of Respondents Frequency (N=184)	Percentage (%)
Sex		
Male	135	73.4
Female	49	26.6
Age (years)		
20 or below	19	10.3
21-49	149	81
50 and above	16	8.7
Marital status		
Single	114	62
Married	69	37.5
Divorced/Separated	1	0.5
Religion		
Christianity	181	98.4
Muslim	1	0.5
ATR	2	1.1
Educational status		
FSLC	8	4.3
SSCE and equivalents	57	31
OND and equivalents	52	28.3
HND/B.Sc	49	26.1
Masters	17	9.2
Doctorate	1	0.5
Employment status		
Management staff	13	7.1
Senior staff	57	31
Junior staff	114	62
Years of service		
Less than 5years	117	63.6
5- 10years	45	24.5
Above 10years	22	12

# Impact of Transactional and Transformational leadership styles on Organisational Performance: Empirical evidence from Nigeria

TABLE 2: Regression output of the impact of transformational leadership style on organisational performance

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.705ª	0.496	0.494	5.43636		

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5303.499	1	5303.499	179.451	.000a
	Residual	5378.827	182	29.554		
	Total	10682.326	183			

a. Predictors: (Constant), TRANSFORMATIONAL LEADERSHIP STYLE

b. Dependent Variable: ORGANISATIONAL PERFORMANCE

Coefficients <sup>a</sup>							
			ndardized fficients	Standardized Coefficients			
Model		В	Std. Error	Beta	t	Sig.	
1	(Constant)	3.223	1.432		2.251	0.026	
	TRANSFORMATION	0.386	0.029	0.705	13.396	0	
a. Dep	a. Dependent Variable: ORGANISATIONAL PERFORMANCE						

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TABLE 3: Regression output of the impact of transactional leadership style on organisational performance

	Mode	l Summary		
				Std. Error of the
Model	R	R Square	Adjusted R Square	Estimate
1	.452a	0.205	0.2	6.83229
		 DERSHIP ST`		

		ANOVA <sup>b</sup>				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2186.544	1	2186.544	46.841	.000a
	Residual	8495.782	182	46.68		
	Total	10682.326	183			

a. Predictors: (Constant), TRANSACTIONAL LEADERSHIP STYLE

		Coefficier	nts <sup>a</sup>			
		Unstandardized (	Coefficients	Standardized Coefficients		
Model		В	Std. Error	Beta	t	Sig.
1	(Constant)	12.597	1.414		8.908	0
	TRANSACTION	0.582	0.085	0.452	6.844	0
a. Dependent	Variable:ORGANISAT	IONAL PERFORMA	NCE			

b. Dependent Variable: ORGANISATIONAL PERFORMANCE

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TABLE 4: Correlation analysis output of the relationship between transformational leadership style and organisational performance

		Correlations	
		TRANSFORMATIONAL	ORGANISATIONAL
		LEADERSHIP STYLE	PERFORMANCE
TRANSFORMATION	Pearson	1	.705*
	Correlation		
	Sig. (2-tailed)		0
	N	184	184
PERFORMANCE	Pearson Correlation	.705**	1
	Sig. (2-tailed)	0	
	N	184	184

Table 5: Correlation analysis output of the relationship between transactional leadership style and organisational performance

<u> </u>		•				
Correlations						
		TRANSACTIONAL	ORGANISATIONAL			
		LEADERSHIP STYLE	PERFORMANCE			
TRANSACTION	Pearson	1	.452*			
	Correlation					
	Sig. (2-tailed)		0			
	) T	101	101			
	N	184	184			
PERFORMANCE	Pearson	.452*	1			
	Correlation					
	Sig. (2-tailed)	0				
	N	184	184			
*. Correlation is signi	l ficant at the 0.05 le	vel (2-tailed).				