Transformational and Transactional Leadership as a Function of Employee Performance

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ABSTRACT

Purpose: Using responses from 176 employees working in the top leadership role in the FMCG sector of Pakistan, this study aimed to investigate the effect of transformational and transactional leadership on employee performance.

Design/Methodology/Approach: A quantitative approach was adopted, while a convenience sampling technique was used for data collection. The results were analyzed using the SmartPLS and SPSS, i.e., Partial Least Square, and the Measurement Model included Confirmatory Factor Analysis and Factor Loadings.

Findings: According to the findings of our study, transactional (TRLS) and transformational leadership (TFLS) are positively correlated with employee performance. Thus, transformational and transactional leadership positively affect employee performance in Pakistan’s FMCG sector

Implications/Originality/Value: This study shall help the directors, top management, and executives working in the leadership roles to develop better pathways for achieving high objectives in terms of performance.

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Introduction

The leadership styles of a company determine its organizational performance. The leadership style has a significant impact on the success or failure of the organization. An inappropriate leadership style may be one of the causes of a company’s negligence. Leadership styles are one of the most critical aspects of an organization because they influence whether or not employees
are interested in or committed to the organization, which leads to improved performance (Ashibogwu, 2008). According to Mintzberg (2010), the key to gaining the confidence that comes from the appreciation of others is leadership. Jamaludin et al. (2011) Leaders are the only motivational factor for followers to enhance and modernize their performance (Lievens et al., 1997). The leadership style is effective when the leaders and those who follow agree on what they want and where they want to go. To comprehend a good leadership style, we must differentiate between management and leadership. Management is concerned with the system of an organization, whereas leadership is concerned with its people (Naeem & Nawaz, 2017). Transformational and transactional leadership are two types of leadership that emphasize a change in the most comprehensive and dealing with leadership in the twenty-first century. Transformational leadership (TFLS) aims to transform a visionary’s vision into a collective vision, with subordinates working to make it a reality. In other words, TFLS behaviors like attributed personality, idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration are all part of the transformational process (Bass & Avolio, 1994).

According to Yukl (1998), transformational leadership may improve performance because the goal is to develop knowledge and employee potential. A transformational leader gives employees the opportunity and confidence to accomplish tasks to achieve the organization’s goals. Similarly, transactional leadership (TRLS) is a style of leadership that concentrates on information exchange between leaders and subordinates. TRLS encourages and influences subordinates by transferring a reward for a specific achievement. According to Krishnan (2002), transformational leadership encourages followers to purchase more by focusing on the company’s morals and values and assisting followers in matching their values and morals with the corporate purpose.

Furthermore, transformational leadership is differentiated by a connection in which the leader and the follower encourage each other to tremendous success, resulting in improved communication between the leader and the follower. When evaluating employee performance, transformational leaders, according to Walumbwa et al. (2008), influence subordinates’ capacities through work worth. They frequently conduct training programs for their employees, collect feedback from their associates, and hold scheduled meetings, all of which contribute to improved employee performance. Transactional leadership is built on the start-giving principle, which necessitates you to deliver exceptional results in exchange for incentives. Managers inform employees that rewards and penalties are directly related to their excellent or poor performance (Paracha et al., 2012).

Organizations frequently use transactional leadership to evaluate their employees’ performance and reward them by increasing their pay, progressing their careers, and punishing poor performers (Bass, 1990). Multan city was chosen as a study sample to look into the effect of transformational & transactional leadership on the performance of employees. Most researchers adhere to transformational leadership; however, only a tiny amount of research was done in Pakistan on the leadership style used in the FMCG industry. Even though Pakistani culture is based on power distance and prioritized autocracy decision-making, our research aims to identify successful leadership styles in Pakistan’s FMCG industry. Pakistan is a bureaucratic country governed through command and control. As a result, TRLS may be more effective in this culture; however, the main goal of our analysis is to assess the impact of TFLS and TRLS on employee performance in the FMCG industry.

Literature Review
Transformational Leadership (TFLS)
Transformational leaders encourage employees to “go the extra mile” by improving job morale and motivation, which advantages both employees and employers (Apoi & Latip, 2019). TFLS is a leadership style in which a leader transforms, builds trust, inspires, encourages, and begins to
develop their followers (Bass & M., 1985). TFLS is a leader’s ability to motivate employees to perform above and beyond expectations, which may help improve one’s ability to motivate them typically (Thomas & Velthouse, 1990). According to Butler et al. (1999), a transformational leader encourages subordinates to have a view of the organization’s goals, inspires and motivates them to perform to the best, think deeply, resolve issues in unexpected ways, and want to treat employees in a way. As a result, superiors respond by performing to the best of their abilities. Transformational leadership also includes four aspects: intellectual stimulation, indirect influence, individualized consideration, and idealized influence. These characteristics are highly beneficial to corporate managers.

**Intellectual Stimulation**
Top management can enhance and motivate creativity by challenging group viewpoints or traditional belief systems. Mental stimulation is essential to building a successful group that advocates critical thinking and problem solving (Rafferty & Griffin, 2004).

**Individual Consideration**
This leadership characteristic encourages managers and followers to serve as advisors and coach staff on the person, individuals, and managers must achieve organizational goals (Yukl, 1999).

**Idealized Influence**
Managers with an idealized version effect are highly regarded and trusted with the obligation to make strategic decisions and perform an exemplary role (Advani, 2015).

**Inspirational Motivation**
Refers to managers who arouse and encourage their employees to accomplish, resulting in increased revenue for the company. It is linked to a dedication to the leader’s objectives (Advani, 2015).

**Transactional Leadership (TRLS)**
The term “transaction” is an abbreviation for “exchange.” The interaction between the leader and his subordinates is the focus of TSL (Paracha et al., 2012). TRLS is described as a swap between associates and leaders who achieve the leader’s and followers’ desired results by fulfilling the leader’s and supporters’ standards through responsibilities or duties built on trust, according to Kuhnert and Lewis (1987). To improve employee performance, the leader is given the authority to review and train superiors and to prize efficacy when the desired objectives are met (Couto., 2007). Afolabi et al. (2008) investigated and provided data favoring transactional leadership. They discovered that transactional leadership is more effective when an organization’s goals and objectives are well defined. TRLS is primarily concerned with a framework of forms of punishment and incentives, and it does not provide enough motivation or encouragement to go beyond the necessities. So, superiors do their best to achieve organizational goals to avoid punitive measures or fines (Bass, 1990). They work to reap the additional benefits of completing the tasks assigned to them. In reality, Howell and Avolio (1993) discovered that predicated bonus governance adversely influences followers’ performance. “An active and effective exchange between leaders and followers in which supporters compensated for achieving a mutually agreed-upon goal,” according to the definition of contingent compensation.

**Employee’s Performance**
The term “performance” relates to comparing outcomes to predetermined criteria (Dessler, 2011). The behavioral approach to management defines performance as the quantity or quality of anything produced or services provided by someone who performs a task (Luthans, 2006). According to Rivai and Basri (2005), performance can be defined as a person’s overall success in carrying out tasks over time when compared to numerous possibilities, such as work standards,
objectives, or specified by agreed-upon criteria. Employee performance is a result of the relationship between motivation and ability, according to (Robbins & Judge, 2003). Employee performance is a topic that needs serious consideration in management research because the achievement of employees in an organization affects the overall performance of the company. Individual or team performance levels will impact the performance or failure of the organization’s performance. According to Walumbwa and Hartnell (2011), there is a positive connection between leadership and employee performance, and the term “performance” is used to define variables such as early pioneers and stirrers and to investigate individual strengths to be influenced. According to Advani (2015), the banks’ effectiveness and relationships within banks are highly motivated by the value of leadership qualities, while TRLS and TFLS are essential within the organization as the organization’s performance is improved by employees’ commitment, and employees are the only investments that can enhance the banking sector’s performance.

Hypothesis Development
Relationship between Transformation Leadership (TFLS) and Employee Performance
Khan et al. (2020) investigated how transformational leader affects employee performance. According to the findings, TFLS has a significant positive relationship with the mediator’s intrinsic motivation. Because transformative leaders may inspire people to achieve meaningful outcomes, the author concluded that organizational leaders must exhibit transformational traits by getting to know their staff well. According to Rafia and Sudiro (2020), TFLS has no positive impact on employee performance, but it positively affects worker turnover and employment fulfillment. Employee engagement and job satisfaction directly affect employee performance and are essential mediators between TFLS and employee performance.

In the Pakistani health sector, Naeem and Khanzada (2018) investigated the connection between TFLS and employee performance and the mediation of job satisfaction in the connection among TFLS as an explanatory variable and employee performance as a reliant variable. Employee satisfaction was found to be a moderator of the relationship between transformational leadership as an entirely unrelated variable and employee performance as a reliant variable. According to Naeem and Nawaz (2017), there is a positive relationship between employee performance and transformational and transactional leadership. According to studies, transactional leadership is more successful at reaching goals. According to Sundi (2013), transformational leadership, transactional leadership, and job involvement positively affect employee performance. TRLS and TFLS are both strongly favorable associated with employee performance, according to Paracha et al. (2012). However, transactional leadership is more significant than transformational leadership. Khan et al. (2009) investigated the role of organizational structure as a moderator in the relationship between TFLS and corporate innovation. The study also looked into the impact of TFLS on organizational innovation. The findings demonstrated that idealized influence and organizational size strongly affected the association between all aspects of TFLS and corporate innovation. The results also show that TFLS positively and substantially affects organizational innovation. (Fernandes & Awamleh, 2004) investigated the influence of TRLS and TFLS styles on employees’ satisfaction and self-perceived performance. TFLS has a significant impact on satisfaction, according to the findings. Notably, the results cast some doubt on the notion that both leadership styles are required to be operationalized.

Hypothesis 1 (H1): There exists a significant relationship between Transformational Leadership (TFLS) and Employee Performance.

Relationship between Transactional Leadership (TRLS) and Employees Performance
Kabiru (2020) examined the effect of TRLS styles on employee performance at a few commercial banks in Nairobi City County, Kenya. The findings reveal that transactional leadership has a positive impact on employee performance. According to the study, transactional
leadership motivates employees to become more productive and effective team members (Ahmad & Ejaz, 2019). It assesses leadership styles’ effects on organizational performance in Pakistan’s textile sector. According to the findings, both leadership styles significantly influenced organizational performance, but at different levels. Transactional leadership had the most significant impact on organizational performance, followed by transformational leadership.

According to Brahim et al. (2015), managers should adopt leadership styles such as transformational leadership to successfully integrate and optimize available resources within the internal and external environment to achieve organizational goals. Zeb et al. (2015) examined the impact of TRLS and TFLS styles on the achievement of Pakistani public companies. According to the findings, both leadership styles have a direct effect on organizational success. As a result, both transformational and transactional leadership styles can be attributed to organizations’ performance.

**Hypothesis 2 (H2): There exists a significant relationship between Transactional Leadership (TRLS) and Employee Performance.**

**Research Framework**
This research found its findings based on a literature review; a theoretical framework presented in Figure 1. The dependent variable used in a study is employee performance, while explanatory variables are transformational and transactional leadership.

![Figure 1: Research Model](image)

**Methodology**

**Population and Sampling Design**
This study is based on a quantitative approach, drawing on information gathered from Multan-based employees of FMCG companies. The study’s population comprises all employees of FMCG companies in Multan. The data was gathered through the use of a convenient sampling technique. An amount of 225 questionnaires were circulated among FMCG employees, and 176 questionnaires were properly filled and used in a study with a response rate of 88.0 percent.

**Model Specification**
To estimate the effect of TFLS and TRLS on the performance of employees following model is used:

\[ EMP_i = \beta_0 + \beta_1 TFLS + \beta_2 TRLS + u_i \]

Where; \( EMP \) = Employees Performance, \( TFLS \) = Transformational leadership, \( TRLS \) = Transactional leadership, \( u_i \) = Error Term

**Table 1: Description of Variables**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Description of Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMP</td>
<td>Employee’s Performance</td>
</tr>
<tr>
<td></td>
<td>Measured by a 5-point Likert scale consists of four statements that were also used in the studies of Teclemichael et al. (2006)</td>
</tr>
<tr>
<td>TFLS</td>
<td>Transformational</td>
</tr>
<tr>
<td></td>
<td>Measured with a 5-point Likert scale that consists of four items that</td>
</tr>
</tbody>
</table>
leadership were developed by McColl-Kennedy and Anderson (2002).

<table>
<thead>
<tr>
<th>TRLS</th>
<th>Transactional leadership</th>
</tr>
</thead>
</table>
|        | The Multifactor Leadership Questionnaire (MLQ) by Bass and Avolio (1994) is used to measure transactional leadership with six items.

**Methodological Subject**

The partial least square (PLS) method is used to analyze the effect of TFLS and TRLS on employee performance in the FMCG sector in Multan. The measurement model consists of confirmatory factor analysis and factor loadings. Fornell and Larcker (1981) clearly state that Cronbach’s Alpha and composite durability should be higher than 0.70 and 0.60, respectively. Hair et al. (2011) suggest that the derived median fluctuation be more significant than 0.50.

**Data Analysis**

The correlation matrix is presented in Table 2. It is found that employees’ performance is positively correlated to transformational leadership (0.821) and transactional leadership (0.749).

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s Alpha</th>
<th>rho_A</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EMP</td>
<td>0.929</td>
<td>0.939</td>
<td>0.95</td>
<td>0.825</td>
</tr>
<tr>
<td>TFLS</td>
<td>0.892</td>
<td>0.898</td>
<td>0.925</td>
<td>0.756</td>
</tr>
<tr>
<td>TRLS</td>
<td>0.810</td>
<td>0.843</td>
<td>0.874</td>
<td>0.637</td>
</tr>
</tbody>
</table>

Hair et al. (2011) suggested that the value of factor loadings of each item must be greater than 0.60. Factor loadings show how closely items in a construct are related to each other. Table 4 presents the outcomes of factor loadings. It can be observed that most of the items have values greater than the threshold level. Only one item of transactional leadership has a value less than the threshold level, so this item is excluded from the study.
Table 5 demonstrates the PLS estimates the effect of TFLS and TRLS on employee performance. The dependent variable used in a model is employee’s performance, while explanatory variables are TFLS and TRLS. The outcomes show that TFLS and TRLS positively and significantly influence the employee performance in the FMCG sector in Pakistan. The amount of $R^2$ is 0.742, indicating that separate variables explain 74.2 percent of the fluctuations in the relying variable. The variable TFLS shows a positive and highly significant ($t$-stat. = 5.652, $P$-value = 0.000) association with employee performance, so the study’s first hypothesis is accepted that there is a positive association between TFLS and the performance of the employees. TFLS is the influential factor that can enhance the ability of employees to deal with diverse situations. The supportive environment given to employees can improve their mental highest level of health through increased confidence and motivation (Diebig et al., 2017).

On the contrary, the variable TRLS shows a positive and highly significant ($t$-stat. = 4.639, $P$-value = 0.000) association with employee performance, so the study’s second hypothesis is accepted that there is a positive association between TRLS and the performance of employees. Jung (2001) TRLS is defined as a leader’s ability to identify followers’ desires and aspirations and to clearly show how to fulfill the needs in return for supporters’ efficiency.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Original Sample (O)</th>
<th>Sample Mean (M)</th>
<th>Standard Deviation (STDEV)</th>
<th>T-Statistics</th>
<th>P-Values</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>TFLS -&gt; EMP</td>
<td>0.500</td>
<td>0.497</td>
<td>0.089</td>
<td>5.652</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>TRLS -&gt; EMP</td>
<td>0.408</td>
<td>0.412</td>
<td>0.088</td>
<td>4.639</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.742</td>
<td></td>
<td>$R^2$-Adjusted</td>
<td>0.739</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Conclusion**

The goal of this research is to look into the impact of TFLS and TRLS on the performance of employees in the FMCG sector in Multan, Pakistan. The 176 employees were used to approximate the outcomes for this reason. To collect data, a convenience sampling method was used. The results were estimated using the partial least square method, and the measurement model included confirmatory factor analysis and factor loadings. Confirmatory factor analysis revealed that the Cronbach’s Alpha coefficient, rho A, median obtained variation, and composite trustworthiness values are higher than threshold levels, implying that the data used in the study is highly reliable. Employee performance is positively correlated with transformational leadership (0.821) and transactional leadership (0.821), according to correlation analysis (0.749). $R^2$ is 0.742, reflecting that the independent variable explains 74.2 percent of the dependent variable’s fluctuation. The findings indicate that leadership styles significantly impact employee performance in the FMCG sector, which is important to consider when evaluating employee performance. Better rewards and honors can improve employee performance in the organization because transactional leadership is based on rewards. On the other hand, a transformational leadership style, powerful motivation, and trying to encourage employees could improve employee performance in Pakistan’s FMCG sector.

**Limitations and Future Research Horizons**

However, apart from the actual study’s key results, there are some substantial limitations of the present study. To begin, the present study primarily includes and tends to focus on FMCG
organizations in Multan city, even though many FMCG organizations are currently operating in other districts of Pakistan. Their results may differ due to differences in their environments. Consequently, this feature should be considered in future research, as it will yield more significant results. Despite these constraints, the present study provides some direction for future research in many dimensions for trying to analyze or conducting research on different leadership styles, as this study only considered TFLS and TRLS styles, other respective leadership styles such as visionary, democratic, and autocratic, etc., shall also have significant impacts on employee performance. Moreover, it is also suggested that the locale of this study can expand to other industries across Pakistan and worldwide. Thus, the findings can further be generalized on a global scale.

Managerial Implications
This research benefits managers in FMCG companies who supervise or oversee employees or superiors because it may help them understand and apply a suitable leadership style to enhance employee performance. It is recommended that firms use a mixture of transformational and transactional leadership styles, depending on the context, and content of the work assigned to employees. It is recommended that the organization use a transactional leadership style for day-to-day work and a transformational leadership style when the job is complicated and related to FMCG tasks.

References
Diebig, Bormann, C., K., et al. (2017). Day-level transformational leadership and followers’ daily level of stress: A moderated mediation model of team cooperation, role conflict, and type.


