

# The Transactional and Transformational Approaches to Leadership in Corporate Sector

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**Abstract:** *Ethical principles serve as the basis for various contemporary frameworks for work, business, and organizations, which extend individual and corporate concerns far beyond conventional business aims of profit and shareholder enhancement (Wren, 1994). The value of Ethical Leadership Skills is grounded on the principle that genuine leaders are concerned with "doing the right thing" and not just "doing things right." The benefits of ethical leadership traits are also seen to go beyond the decision making process itself. Previous studies have found that in organizations where leaders have demonstrated ethical leadership skills, these traits are among the most appreciated by employees of the organization (Richardson, 1992).*

**Keywords:** ethics, leadership

## 1. Introduction

Ethical principles serve as the basis for various contemporary frameworks for work, business, and organizations, which extend individual and corporate concerns far beyond conventional business aims of profit and shareholder enhancement (Wren, 1994). The value of Ethical Leadership Skills is grounded on the principle that genuine leaders are concerned with "doing the right thing" and not just "doing things right." The benefits of ethical leadership traits are also seen to go beyond the decision making process itself. Previous studies have found that in organizations where leaders have demonstrated ethical leadership skills, these traits are among the most appreciated by employees of the organization (Richardson, 1992).

Ethical leadership starts with the manner leaders perceive and conceptualize the situations around them. Ethical leadership, organizational ethics, and corporate social responsibility, which are fundamentally perceived as separate studies, are interrelated concepts. The way that ethical leaders interact with and comprehend the phenomenon around them necessitates their capacities for examination, decision-making and action. These capacities are typically a set of skills, knowledge and behaviors that can be developed (Johnson, 2005). In totality, the leader's function is to direct and empower the development of the potentials of the followers as one community in order to accomplish the organizational aims in ways that free the individuals rather than restrain their talents and collaborative behaviors.

Ethical leadership must be 'effective, efficient, and excellent if it is not to waste human potential'. Furthermore, it is not sufficient to be ethical in one's individual actions to be an ethical leader of a community. To be 'effective, efficient, and excellent,' then, the leader must adopt and demonstrate the style appropriate to the situation (Johnson, 2005). Ethical leadership often comes from top leaders who hold a formal position of authority and establishes casual interpersonal relationships and exhibits personal characteristics (Mellahi & Wood, 2003).

Various research studies have examined the theories of ethical leadership over the years. The fundamental perception of ethical leadership is that success or failure in producing outcomes generally depends on the leader's

character, traits, culture as well as behavior and not just on any concept of leadership (Wren, 1994). Years of research in leadership and its relative theories have demonstrated that not all organizational leaders have the same leadership styles in achieving success (Bass, 1990).

In today's unstable world, ethics and values exist at a number of levels for executives and managers—leaders who commit their time and efforts to directing the process of value development. This more general perspective of ethical leadership empowers leaders to integrate and be ambiguous about their own values and ethics. Leaders have a strong influence on how their followers achieve organizational goals (Peters, 2005). They have a better understanding of leadership styles to direct development and progress in attaining the organization's goals. Leaders establish the functional atmosphere of an organization through their leadership style, thus leadership has a vital role in organizational effectiveness (Howard, 2006). On the other hand, absence of empowerment leads to discontented followers who may not function to accomplish organizational goals and objectives. Leadership is also crucial in keeping a healthy work environment (Shirey, 2006).

Every business necessitates a touch of leadership to be a successful and thriving enterprise. The outcomes of any organization particularly in strategic decisions and performance are partially predetermined by the features of the leaders (Hambrick & Mason, 1984). Thus, a sound understanding of leadership and its relative theories is very beneficial for aspiring leaders and to any organization. This essay starts on the premise that for an organization to be successful, it must adopt a robust leadership style. According to Cox (2001), there are two basic categories of leadership, namely transformational and transactional leadership styles, which are recognized as strong approaches for directing an organization. In this essay, I aim to examine how leadership styles influence an organization's productivity and success and moreover to determine which robust theoretical model of leadership is the most preferred when it comes to the ethical leadership of people.

## 2. Transactional Leadership versus Transformational Leadership

There are evidently various types of leadership that are linked to the authenticity of influence and well-versed approval by followers. Two diverse but interconnected ideal leadership styles are transformational and transactional leadership. Majority of the studies made on leadership are directed on the leader's characteristics and influence on the organization (Bass, 1985). Bass' (1990) theory states that in transformational leadership, the leader empowers followers by encouraging them, laying healthy challenges and promoting personal development. Through a sense of purpose and a common goal, the transformational leadership encourages the attainment of high standards. The second leadership style is transactional wherein the leader empowers his followers through the gain of certain benefits provided that the followers are capable of accomplishing the tasks assigned to them. The transactional style involves negotiation between the leader and follower (Bass, 1990). To have a full understanding of which approach is most effective in ethically leading people, it is important to differentiate between transformational and transactional leadership.

## 3. Transactional Leadership

Transactional leadership is grounded on reciprocity (Bass, 1990). The connection between leaders and their followers happens from the exchange of certain benefits such as performance ratings, pay increase, recognition, and appraisal. This approach includes leaders clarifying goals and communicating to have a system for tasks and activities with the collaboration of their followers to make certain that wider organizational goals are attained. The relationship relies on hierarchy and the ability to work through this manner of exchange.

A transactional leader replaces the wants of a leader for the wants of a follower. The wants of followers are considered their needs and those certain needs are fulfilled through recognition or rewards for the tasks that are performed for the organization (Shriberg, Shriberg & Lloyd, 2002). With the support of the transactional leader, individuals achieve the goals of the organization through their performance and in turn receive rewards for it. Bass (1990) further supports this perception by stating that the transactional leader presents a benefit for the follower and in exchange, the follower delivers a quality performance and achievement of the organization's goals and objectives. The transactional leader sets the path and direction needed to attain these goals and objectives. Transactional leaders emphasize process development in setting goals, directing, and striving to manipulate and control the situation (McGuire & Kennerly, 2006). This approach ensures that the appropriate resources and training is provided to the individuals to perform the functions needed for the organizational success and in return, individuals are benefitted for their efforts and accomplishments. Rewards are employed so the followers are encouraged to focus on the functions and goals of the organization.

The transactional leadership style is one approach, which is widely and commonly used in most organizations. The relationship is based on transactions arranged between an employee and an organization or between followers and leaders.

A transactional leadership is similar to a military type of command applying the 'Carrot and Stick' philosophy. It is a proven approach of managing an organization wherein, through reward and punishment, things get accomplished. Similar with Maslov's hierarchy of needs, transactional leadership style is suited for individuals whose needs in the bottom half of the pyramid such as food, shelter, security are not satisfied. Transactional leadership is grounded on the perception that rewards and punishment are factors that motivate individuals. This approach also lies in the view that a clear chain of command is the most effective way of managing an organization. Once followers agree to perform a task, they are entirely in the command of the leader, thus they yield complete authority to the leader. Once complete authority has been given to the leader, followers must perform as they are instructed and in return will be benefitted.

Transactional leadership works effectively if the followers are motivated by rewards. This approach is a proven compliance strategy which usually works best if the leader is capable of making important decisions and has a strong personality.

A transactional leader directs positive results to individuals for performing their tasks but also puts attention on employee mistakes and complaints. An assertive and commanding leader will find the transactional leadership favorable in managing an organization. However, while the leader can strongly influence the followers, the growth of the followers as leaders can also be restrained. When individuals become accustomed to performing just what they are told and only as much they are told, the capability to think out of the box is usually suppressed. Transactional leadership may produce an obedient workforce but hinders original thinking, creativity, or initiative. The discovery of new leaders will be difficult from the lower levels of authority. Hence, this leadership approach may lead to a stressful environment. Productivity may be generated but innovations and breakthrough will be difficult to achieve.

## 4. Transformational Leadership

Transformational leadership is perceived as a more humanitarian leadership approach, as compared to the militaristic transactional style. It stands in empowering individuals to do great work through the example and influence of a leader's personality. Visser, de Coning and Smit (2005) described transformational leadership as the ability to empower followers to achieve results greater than what was originally planned. The description further emphasizes that motivation of human resources leads to greater productivity and higher performance.

Transformational leaders have a closer relationship with the followers and adapt their characteristics to achieve organizational growth and success. A transformational

leader's personality presents charisma, inspiring motivation and intellectual encouragement (Harland, Harrison, Jones, & Reiter-Palmon, 2005). In a successful organization, all individuals function for one common goal and objectives. A transformational leader delivers confidence to the followers. When individuals trust their self-worth, they adopt self-confidence to deal with any function delegated to them (Hesselbein, Goldsmith, and Beckhard, 1996). A follower gains the needed resources from a transformational leader to have self-confidence. Transformational leaders are capable to persuade followers to function beyond their self-confidence so they devote to the organization's goals and objectives (McGuire & Kennerly, 2006).

The basic assumptions of transformational leadership style are grounded on the perceptions that individuals willingly adheres to a leader who inspires them and that the vision and passion of a leader can transform his followers to achieve great works. This approach is also based on the view that power and motivation are the vital factors that get things done.

Transformational leaders also perceive situations from a new perspective within a strategic environment. In today's setting when almost everything is being viewed at from the military's joint perspective, the concept of transformational leadership is very important. This perspective of leadership is categorized down through each function and to each follower, and it improves the perception of change in a positive direction.

In transformational leadership style, the vision of the leader is perhaps the most important aspect in the organization. The leader's vision provides a sense of direction and purpose to the organization and its followers. It also provides the leader and the organization a road map on where it wants to go and what it wants to achieve. The transformational leader is responsible in making certain that the organization fulfills these strategic goals.

Additionally, the transformational leader does not fear committing errors. Growth is developed from the learning brought by mistakes hence progress may not exist if there are no mistakes (Buhler, 1995). In this approach, the greater good of the majority is always kept in mind replacing self-interests. The transformational leader raises the awareness of everyone, not just the followers. Everyone becomes aware of working toward superior goals beyond self-interest (Buhler, 1995). According to Bass (1990), transformational leadership is a style of leadership that occurs when leaders widen and raise the interests of their followers, when they produce awareness and acceptance of the organization's goals and objectives, and when they motivate their followers to look beyond their own self-interest for the benefit of the organization.

Even though the idea of transformational leadership is relatively new, people who have demonstrated the characteristics of this form of leadership have already existed for many years. As argues by Yates (2002), Genghis Khan was a transformational leader who unified violently independent Mongol tribes during the late 12<sup>th</sup> and early 13<sup>th</sup> centuries to ultimately create one of the largest land empires ever seen in the world. Lou Gerstner, the retired Chairman

and CEO of IBM, is another transformational leader. He transformed IBM around from having an \$8.1 billion loss in 1993 after recognizing part of the company's problem as 'success syndrome'. That is, as being one of the greatest commercial organizations from the 1960s-1980s, IBM had become inward-looking and inflexible (Sheppard, 2002). Gerstner totally changed the culture of the organization from developing desired behavior and getting rid of IBM's infamous dress code (Sheppard, 2002).

Lee Iacocca is another prominent transformational leader who is recognized for saving the Chrysler Corporation. He took over Chrysler when it was on the verge of bankruptcy and set about changing the perceptions of his followers. His pursuit transformed the corporation's culture. Since a transformational leader empowers others to become transformational leaders, soon Chrysler was filled with effective leaders (Kelly, 2003).

In the educational environment, one high profile transformational leader is Dr. Ruth Simmons, the first African-American to be selected as President of an 'Ivy League' university (Brown) in the USA. As President of Smith College, Simmons had earlier begun an engineering program, making her the first ever pioneer at a women's university in the USA. Simmons was a transformational leader who herself accredited her own successes to her kindergarten mentor, Ms. Ida Mae Henderson, who had advised her she could do anything in her heart she set out to achieve (Chekwa, 2001).

Within military and government contexts, General Colin Powell triumphed over well-established racism, particularly in the US military and low institutional expectations of African Americans to become chairman of the US Joint Chiefs of Staff in 1989. Yet, he pursued further, becoming the first African American to become US Secretary of State in 1991, a position others said filled with vision and the qualities of a transformational leader (Chekwa, 2001).

Other successful transformational leaders comprise of Christine Nixon, the present Police Chief Commissioner in the Australian state of Victoria, who is widely known to have changed the culture of the region's police force for its advantage (Lussier & Achua, 2004).

The transformational leadership approach effectively creates an enthusiastic environment and drives the organization with innovations. When individuals function through self-motivation, higher output and efficiency are guaranteed to be achieved. The inspiring environment also provides potential for the development of future leaders. It is proven that individuals adhere to the transformational leader even when rewards or benefits offered are lesser since the inspiration is based on the leader's vision. However, this approach is entirely based on the ability of the leader to motivate the followers to put their best in. Some leaders may not have the character and capability to achieve that.

## 5. Conclusion

In summary, I can infer that both transformational and transactional leadership styles have a significant impact on organizational objectivity and success. Although previous studies have demonstrated that transformational and transactional leadership styles help develop the basis for robust leadership yet I believe that every leader's primary responsibility is to provide ethical leadership to followers to create maximum performance, effectiveness, and satisfaction to achieve optimum productivity and success.

Transactional leadership regards the association between leaders and followers as a two-way process of exchange and mutual influence. Leaders accrue power through their positions and their personalities, but their authority is controlled by the expectations of their followers.

Transformational leadership on the other hand presents a one-way outlook of the relationship between leaders and followers. Leaders establish the relationships which, directs followers to new ethical levels and motivation. Transactional leadership displays a militaristic image while transformational leadership presents representations of remarkable individuals such as Mahatma Gandhi or Nelson Mandela.

The contrast between accomplishing and transforming expectations is at the heart of the distinction. Transactional leaders are oftentimes portrayed as consenting and keeping an organization's culture on its current existence while transformational leaders transform institutional culture through introduction of new beliefs and goals and by transforming the way followers define their roles, thus this approach goes beyond the traditional forms of transactional leadership.

Additionally, in transactional leadership, the corrective actions, mutual agreements and certain benefits are only emphasized when performance expectations are achieved. While in transformational leadership, trust is given to the followers and they are given an opportunity to think on their own and grow.

In today's ever-changing environment leaders are finding themselves playing significant roles. Contemporary leaders have to be strategic in every sense of the word. Small and large organizations alike are seeking for that special leader who is not only strategic, but also one who can effectively and ethically lead people. As we continue to move forward in this fast-paced world, our society will need more leaders who will help lead these organizations and turn them into competitive markets.

Ethical leaders display similar values that impact the ethical conduct of their followers. Many agree that the character and success of the most admired organizations emanates from their leader. I believe that ethical leaders need to perform various pre-requisites. Firstly, ethical leaders should create a common goal or vision for the company. Influential leaders are good at getting support from their followers, thus great ethical leaders are also great motivators and know how to effectively apply the resources that are available to them. Like most other well-known leaders, a valuable

characteristic is more of a spirit, but great leaders value their jobs and approach them with determination, zeal and commitment.

From the comparison between transformational and transactional leadership styles, I can conclude that motivation from leaders gives employees inspiration to achieve personal satisfaction. Giving employees the authority to make decisions demonstrates flexibility in leadership, which is viewed as an attribute of transformational leadership style and a critical factor for increasing performance in an organization. Transformational leaders also demonstrate the characteristics that an ethical leader possesses. The bottom line is that transformational leadership is a more developmental and constructive form of leadership for the follower and the organization as a whole. Hence, it is the most preferred approach in ethical leadership of people.

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