

Transformational Versus Transactional Leadership

The Transactional Leader:

Approaches followers with an eye to exchanging one thing for another ... Burns

Pursues a cost benefit, economic exchange to meet subordinates current material and psychic needs in return for “contracted” services rendered by the subordinate ... Bass

The Transformational Leader:

“Recognizes and exploits an existing need or demand of a potential follower... (and) looks for potential motives in followers, seeks to satisfy higher needs, and engages the full person of the follower” ... Burns

The leader who recognizes the transactional needs in potential followers “but tends to go further, seeking to arouse and satisfy higher needs, to engage the full person of the follower ... to a higher level of need according to Maslow’s hierarchy of needs” ... Bass

Transformational leadership is a leadership perspective that explains how leaders change teams or organizations by creating, communicating and modeling a vision for the organization or work unit and inspiring employees to strive for that vision. Transactional leadership is more about ‘managing’ i.e. helping organizations achieve their current objectives more efficiently by linking job performance to valued rewards to ensuring that employees have the resources needed to get the job done. Transformational leadership on the other hand is more about ‘leading’ i.e. changing the organizations strategies and culture so that they can have a better fit with the surrounding environment. Transformational leaders are change agents who energize and direct employees to a new set of corporate values and behavior. Although transactional leadership steers an organization onto better courses of action, the caution is for the leader not to get trapped with the daily managerial work and forget relevance and forward (vision) casting.

Transformational leaders have a clear collective vision and most importantly they manage to communicate it effectively to all employees. They inspire employees to put the good of the whole organization above self-interest by acting as role models. They also stimulate employees to be more innovative, and they themselves take personal risks and are not afraid to use unconventional (but always ethical) methods in order to achieve the collective vision.

This form of leadership goes beyond traditional forms of transactional leadership that emphasized corrective action, mutual exchanges and rewards only when performance expectations were met. Transactional leadership relies mainly on centralized control. Managers control most activities, telling each person what, when and how to do each task. Transformational leaders, on the other hand, trust their subordinates and leave them space to breathe and grow.

The following table summarizes the differences between transactional and transformational leadership.

Transactional Leadership	Transformational Leadership
Leaders are aware of the link between the effort and reward.	Leaders arouse emotions in their followers which motivates them to act beyond the framework of what may be described as exchange relations.
Leadership is responsive and its basic orientation is dealing with present issues.	Leadership is proactive and forms new expectations in followers.
Leaders rely on standard forms of inducement, reward, punishment and sanction to control followers.	Leaders are distinguished by their capacity to inspire and provide individualized consideration, intellectual stimulation and idealized influence to their followers.
Leaders motivate followers by setting goals and promising rewards for desired performance.	Leaders create learning opportunities for their followers and stimulate followers to solve problems.

Leadership depends on the leader's power to reinforce subordinates for their successful completion of the bargain.	Leaders possess good visioning, rhetorical and management skills, to develop strong emotional bonds with followers.
	Leaders motivate followers to work for goals that go beyond self-interest.

Table: 2.1 The differences between transactional and transformational leadership

Three Fundamental Goals Of Transformational Leadership

- a.) *Helping staff develop and maintain a collaborative culture:* Norms of collective responsibility and continuous improvement encourage people to teach each other how to do things better. Transformational leaders involve staff in collaborative goal setting, reduce isolation, use bureaucratic mechanisms to support cultural changes, share leadership with others by delegating power, and actively communicate the company's values, norms and beliefs.
- b.) *Fostering staff development:* Employee motivation for development is enhanced when they internalize goals for professional growth. This process is facilitated when they are strongly committed to a corporate vision. To inspire and energize people, corporate goals should be explicit and ambitious but not unrealistic.
- c.) *Helping people solve problems more effectively:* Transformational leaders stimulate people to engage in new activities and put forth that "extra effort". Transformational leaders use practices

primarily to help staff members work smarter, not harder. These leaders share a genuine belief that their staff members as a group could develop better solutions than the leader could alone.

Why Transformational Leadership Is Important For Organizational Functioning

Numerous studies have shown that transformational leadership:

1. Significantly increases organizational performance
2. Is positively linked with long term market share and customer satisfaction
3. Generates higher commitment to the organization from their employees
4. Increases employee trust in management and organizational citizenship behaviours (i.e., extra-role work-related behaviours such as conscientiousness, altruism and sportsmanship that are discretionary, not related to the formal reward system of the organization)
5. Enhances employee satisfaction with both their job and the leader
6. Reduces employee stress and increases wellbeing.

Transformational Leaders:

- Articulate a compelling vision of the future
- Use stories and symbols to communicate their vision and message
- Specify the importance of having a strong sense of purpose and a collective mission
- Talk optimistically and enthusiastically and express confidence that goals will be achieved
- Engender the trust and respect of their followers by doing the right thing rather than doing things right
- Instill pride in employees for being associated with them
- Talk about their most important values and beliefs
- Consider the moral and ethical consequences of decisions
- Seek different perspectives when solving problems
- Get employees to challenge old assumptions and to think about problems in new ways
- Spend time teaching and coaching
- Consider each individual employee's different needs, abilities and aspirations
- Are compassionate, appreciative and responsive to each employee and recognize and celebrate each employee's achievements.

Transformational Leadership: Born or Bred?

Transformational leadership is not a quality that only a few privileged individuals possess. Managers can learn how to become more transformational with significant positive implications for their organizations.

There are two primary methods for transformational leadership training:

a.) Individual coaching sessions

In individual coaching, subordinates' ratings as well as self-ratings of the manager's transformational leadership style are obtained and subsequently fed back to the manager by a coach. Attention is usually drawn to discrepancies between subordinate and self-ratings of leadership behaviours. The coach together with the manager is trying to explore the reasons for those discrepancies or identify the specific behaviours that might have led to them. The coaching sessions result in the development of specific action plans for enhancing the individual manager's transformational leadership style.

b.) Workshops

In the second type of training, managers participate in workshops on transformational leadership. Common activities in those workshops include brainstorming of effective/ineffective leader behaviours, as well as watching videos that demonstrate various leadership styles in action.

Once again, the outcome of those workshops is the development of specific action plans for the participating managers.

Studies by Julian Barling (Queen's University, Canada) and Kevin Kelloway (St. Mary's University, Canada) have shown that both

training interventions are equally effective. Subordinates of trained managers report significantly more positive perceptions of their manager's behaviours as well as higher organizational commitment than do subordinates of untrained managers.

Kevin Kelloway and Julian Barling suggest that managers can start behaving more transformational by:

- *Making their decisions more transparent and by being consistent in their reasoning* with their employees. Consistent use of the same criteria in decision-making builds respect and trust as employees know what to expect from the leader.
- *Displaying more enthusiasm and optimism*: Communicating the message that "I know you can do it" raises employees' confidence and inspires them to try harder.
- *Getting employees to think about work related problems in new ways*: Instead of offering ready answers and solutions, managers can respond to employees' questions by asking, "what do you think we should do?" Such behaviour would engage employees' minds in the workplace and also involve them more in decision-making.
- *Making time to pay attention to individual concerns*: Personally thanking subordinates for their efforts at work either in personal communication or "thank you" cards can have powerful motivational effects.

Limitations Of Transformational Leadership

There is a great deal of perfectly effective leadership that is not transformational. It is possible to lead by citing hard facts in a quiet, soft or even assertive manner. Also, too much emphasis is placed on style over substance. Today, substance has become extremely important, including integrity or character and content (as in “content is king”). There is a growing demand for “evidence based” decision-making where, to show leadership, you need to cite hard evidence. Whether you can present your business case in an inspiring manner is not as important as having solid facts to back you up. You can have great sales skills to get people on board but if you do so for unethical purposes, this style of leadership can be dangerous. Cult leaders, for example, are often transformational. Secondly, without good content, leaders have nothing worth saying so it doesn't matter how powerfully they say it.

Participative leadership means involving employees in making decisions. To be a participative leader, it isn't necessary to be an inspirational speaker. Transformational leaders make their mark primarily by promoting a vision in an inspiring manner. We admire such leaders, but they aren't necessarily skilled at employee engagement. They are like skilled sales people or promoters so they want to sell you their vision. In today's knowledge intensive world, the participative leadership style is likely to be more engaging and motivating for knowledge workers.

Another issue is the fact that transformational leadership has, for some people, become the very meaning of leadership while its transactional counterpart is identified with management. This is unfortunate. The beauty of a purely functional way of defining leadership and management (leadership promotes new directions; management executes them) is that you can leave the style question completely open. Now we can say that inspirational leaders move followers to change direction while inspirational managers motivate employees to work harder. In this regard, style is concerned with the

manner in which you influence people and not a way of defining leadership. Suppose you lead by example by just quietly being the first to try something new. There is no inspiring speech or vision offered here.

Yukl (1994) draws some additional practical tips from transformational leadership for organization leaders:

1. Develop a challenging and attractive vision, together with the employees.
2. Hook the vision with the strategy for its achieving.
3. Develop the vision, specify and translate it to actions.
4. Express confidence, decisiveness and optimism about the vision and its implement.
5. Realize the vision through small-planned steps and small successes in the path for its full implementation.

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Foundations Of Transformational Corporate Leadership

The American Heritage® Dictionary of the English language defines a foundation as:

- The act of founding, especially the establishment of an institution with provisions for future maintenance.
- The basis on which a thing stands, is founded, or is supported.

The foundation of transformational leadership thus refers to the basis on which leadership practice is supported, or the non negotiable principles that will support a leader's exercise of leadership and ensure its sustainability both in the short run and in the future.

Transformational leadership is not about quick fixes. It is about building, rewarding and sustaining passion and commitment. Modern leadership is about motivating committed followers.

This chapter addresses the fundamentals of leadership, which play a key role in transforming organizations. These fundamentals are;

- Strategic Leadership
- Visioning and
- Leading Ethically.