

Transformational and Transactional Leadership Styles on Employee Performance

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ABSTRACT: *The purpose of this study was to examine the effect of leadership styles, namely transformational and transactional leadership on employee performance. The sample consisted of 333 leaders and subordinates of different managerial levels, job responsibilities, gender, and education backgrounds drawn from a telecommunications company in Malaysia. Measures used included the Multifactor Leadership Questionnaire (MLQ) and Employee Performance scale. This study found that the transformational leadership style had positive effect on employee performance. The results of this study will contribute to a better understanding about the roles and functions of leadership styles, particularly transformational leadership towards increasing employee performance in Malaysian work organizations.*

Keywords: *Transformational leadership, Transactional leadership, Employee performance.*

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I. INTRODUCTION

The purpose of this study was to examine the effect of leadership on employee performance. The positive effect of transformational leadership has been shown in previous research where it has been reported that transformational leadership showed positive significant relationships with employee performance (Avolio, 1999; Behery, 2008; Emery & Barker, 2007).

Employee Performance

Previous studies have indicated that positive organizational outcomes consist of both individual and organizational level indicators. Among individual outcomes studied were employee performance (Gyu-Chang Yu & Jong-Sung Park, 2006), organizational commitment (Kovjanic, Schuh, Jonas, Quebeke & Van Dick, 2012), customer satisfaction and improved employee retention (Sundaray, 2011). Organizational level outcomes on the other hand, included profit (Gyu-Chang Yu & Jong-Sung Park, 2006; Sundaray, 2011), company efficiency (Febriansyah 2010), quality, organizational performance and improved organizational adaptability (Sundaray, 2011).

This division into individual and organizational outcomes is also evident in the use of terms related to POO such as positive organizational behavior (POB) and positive organizational scholarship (POS). Positive organizational behavior (POB) has been defined as:

“positively oriented human resource strengths and psychological capacities that can be measured, developed, and effectively managed for performance improvement in today’s workplace” (Luthans, 2002, p. 59).

POB refers to characteristics of motivated and efficient employees within the organization. These characteristics include hope, optimism, resiliency, and self-efficacy (Youssef & Luthans, 2007). Self-efficacy describes employees who are confident in their abilities to accomplish their tasks. Hope refers to employees’ motivation towards achieving their goals. Optimism on the other hand, describes employees who have strong expectancies about achieving positive organizational outcomes. Resiliency is attributed to employees who are able to recover after encountering conflict or even failure. These four characteristics of employees are key indicators of positive organizational behavior (Giachetti & So, 2009; Malik, 2013) and must be strong among employees in order to achieve positive organizational outcomes (Malik, 2013; Youssef & Luthans, 2007).

Positive organizational scholarship (POS) has been defined as representing:

“an expanded perspective that includes instrumental concerns but puts an increased emphasis on ideas of “goodness” and positive human potential. It encompasses attention to the enablers (e.g., processes, capabilities, structures, methods), the motivations (e.g., unselfish, altruistic, contribution without regard to self), and the outcomes or effects (e.g., vitality, meaning, exhilaration, high quality relationships) associated with positive phenomena” (Cameron, 2003, p.4).

POS is more interested in examining work related outcomes that go beyond individual behaviors (Bakker & Schaufeli, 2008). POS is rather interested in examining the organizational aspects that can lead to

positive work-related results. POB is focused on developing positive individual characteristics, whereas POS assumes individuals have positive attributes which are used to achieve POO.

POB is suggested to be more related to the influences of employees' psychological states, such as the levels stress or motivation, on their work performance. Whereas, POS is more focused towards analyzing employees' performance at the organizational level. According to Luthans and Avolio (2009) the main difference between POB and POS is that POB determines organizational performance based on individuals' behaviors, whereas, POS emphasizes organizational outcomes before individual outcomes.

Both POB and POS are focused on improving organizational outcomes but they influence POO at different levels. POB focuses on changing behaviors of employees in order to perform better, hence, it is more focused on improving employee performance towards improving organizational effectiveness (Donaldson & Ko, 2010) However, POS focuses more on analyzing organizational performance as a whole rather than employee performance individually.

Employee performance is measured through employee performance, which is reported to be one of main desired outcomes of organizations. Akin and Hopelain (1986) in their study have stated that:

“productivity occurs when management, supervisors, and workers focus primarily on the work being done and on how things go right” (p. 32).

Productivity refers to the quality of employee performance in the organization (Gyu-Chang Yu & Jong-Sung Park, 2006). Furthermore, it was suggested that the quality of employee performance is indicated by the level of employee performance (Patton & King, 1985). For example, the productivity of sales department employees was evaluated based on how much sales they have made, and whether they have met the target. High performers were those who met the sales or revenue target. In other words, employees who were considered productive in the organization were also considered to be high performers (MacKenzie, Podsakoff & Fetter, 1993).

Organizational Leadership

This research has adopted the relational perspective on leadership which emphasizes high quality interpersonal relationships between leaders and followers (Daft, 2008). The relational perspective has been described as a process “that meaningfully engages all participants and enables each person to contribute to achieving the vision” (Daft, 2008: p. 21). Uhl-Bien (2006) views the relational perspective as focusing on “the social dynamics by which leadership relationships form and evolve in the workplace” (p. 672). This perspective views the quality of the relationship between leader and followers as a significant influence on leader effectiveness.

An important relational theory is transformational leadership which is characterized by the leader's ability to bring about significant change in followers (Daft, 2008). Transformational leaders challenge employees to change their ways of working to be more innovative when faced with challenge. Transactional leaders however, maintain the same situation and meet challenges by increasing the efficiency of existing work processes (Bass & Avolio, 1990). The transformational and transactional leadership styles are defined in greater details and discussed in the next section. While there have been many studies, both foreign (Behery, 2008; Emery & Barker, 2007; Organ, 1988) and local (Ansari, Ahmad & Aafaqi, 2004; Jayasingam & Cheng, 2009; Olanrewaju, 2009) which highlight the effectiveness of transformational leadership, this leadership style has also been criticized because of the potential for leader abuse of followers' trust (St-Hilaire, 2008).

Critics of transformational leadership have questioned the morality and fairness of transformational leaders claiming that transformational leaders use empowerment and trust of employees as means to achieve organizational outcomes rather than the development of employees (Smith, Montagno & Kuzmenko, 2004). Transformational leaders are reported to abuse their power by manipulating employees to work beyond their expectations without any reward. In addition, Stone, Russell and Patterson (2003) have observed that transformational leaders can exert a very powerful influence over followers, who offer them trust and respect.

It has been reported that:

“some leaders may have narcissistic tendencies, thriving on power and manipulation. Moreover, some followers may have dependent characters and form strong and unfortunate bonds with their leaders” (Gachunga & Nedge, 2014: p.8).

Malaysian leadership studies have found support favoring transformational leadership as the more effective leadership style than the transactional leadership style. The transformational leadership style has shown positive and significant correlations with outcome variables namely, extra effort, effectiveness and satisfaction (Amirul & Daud, 2012), organizational growth and profitability (Arham, 2014). Similarly, Voon, Lo, Ngui and Ayob (2011) have reported that the transformational leadership style has a stronger relationship with job satisfaction. This finding suggests that employees in Malaysian organizations reported to be happier when led by transformational leaders.

Contrary to the above studies, some Malaysian studies that investigated the relationship between leadership styles and positive organizational outcomes (POO) such as organizational performance and employee performance, found that both transformational and transactional leadership styles have an effect on positive outcomes. Both transformational and transactional leadership styles showed significant positive relationships with organizational performance measured as sales growth, employment growth, market value growth, profitability and perception of overall performance (Aziz, Mahmood & Abdullah, 2012), trust and distributive justice (Ismail, Mohamad, Mohamed, Raifuddin&Zhen, 2010) and organizational commitment (Lo, Ramayah& Min, 2009). However, some studies have reported the opposite effect, that transactional leadership has a stronger effect on organizational performance (Arham&Muenjohn, 2012; Gill, 1998). This suggests that despite the majority of studies favoring transformational leadership in Malaysia, transactional leadership is still observed to be effective (Arham&Muenjohn, 2012). Some recent studies have proposed that both transformational and transactional leadership styles need to be practiced in Malaysian culture (Arham, Boucher &Muenjohn, 2013; Ismail, Mohamad, Mohamed, Raifuddin&Zhen, 2010; Soieb, Othman &D'Silva, 2013).

Transformational And Transactional Leadership Styles

Leadership refers to the process of influencing others in order to achieve assigned goals in an organization (Bass, 1985; Fiedler & Garcia, 1987; Marturano& Gosling, 2008; Yukl, 1994). Further, leaders are responsible to lead, direct, and coordinate with members to meet their expected goals (Burns, 1978; Fiedler & Garcia, 1987). A frequently used definition of leadership comes from the book "Leadership" by James MacGregor Burns (1978) who stated that:

"Leadership is the reciprocal process of mobilizing, by persons which motivates certain motives and values, various economic, political and other resources, in a context of competition and conflict, in order to realize goals independently or mutually held by both leaders and followers" (Burns, 1978: p.425).

According to Burns (1978), leadership refers to the stimulation of employees to achieve certain goals that leaders and employees expect. He associates leadership with leaders and employees together, not with the leader or leader activities alone. Burns (1978) shifted the main focus of organizational leadership from the behaviors and actions of individuals to the interaction between leaders and their followers as one group working towards mutual benefit (Burns, 2003). Thus, he made significant contributions to the schools of transformational and transactional leadership styles. Leadership style as compared to the general definition of leadership explains specific manners and approaches that a leader or manager uses to interact with others. While leadership refers to persuading employees to accomplish their tasks, leadership style describes the way in which a particular leader gets the task done. In addition, leadership style refers to the skills that the particular leader uses to accomplish the task (Berkowitz, 2010). Depending on the type of work or different situations in an organization, a leader might exercise one of a variety of leadership styles.

Transformational leadership occurs when employees are motivated to meet the highly challenging expectations of the organization. Transformational leaders tend to help employees find new ways to meet organizational challenges (Bass &Avolio, 1994; Behery, 2008; Burns, 1978). The most frequently used definition of transformational leadership referred to a leader's behavior, influential traits, power and situational variables that influence employee performance in a positive direction such as motivating employees to work more than expected and enjoy the work they do (Behery, 2008).

Bass and Avolio (1994) identified four main dimensions of transformational leadership namely idealized influence, inspirational motivation, intellectual stimulation and individual consideration. Each of the four dimensions explains the characteristics of a transformational leader in an organization. Idealized influence refers to the leader who becomes a model for his employees. In this dimension, leaders apply their highest moral and ethical standards towards employees or followers rather than practicing power and authority in leading followers. In modern organizations, employees are more skillful and they expect their abilities to be acknowledged. When employees are acknowledged for their contributions, it is more likely that they will reciprocate the behavior of the leader with respect and improve their performance. Inspirational motivation on the other hand, refers to a leader who gives meaning to different challenges at the work place. Leaders with this behavior inspire followers by providing meaning to followers' work and effort. These leaders emphasize explaining the importance of their roles and performance to employees in the organization. This makes employees regard themselves as an important asset of the organization rather than a regular employee. Intellectual stimulation means leaders motivate followers by providing them with a variety of problem solving skills. This leader behavior makes followers aware of their intellect and skills that they have in solving problems or challenges in the work place. Followers need to be encouraged to express their thoughts and vision towards the organization and to be taught to look at issues in different ways, thinking before acting and being accurate with decisions. Individualized consideration refers to a situation whereby a leader has a personalized relationship with each employee, paying special attention to individuals in an organization. In other words this

behavior focuses on how to treat employees as your colleagues with neither prejudice nor doubt, and seeing a future in them.

The general definition of transformational leadership suggests that transformational leaders help transform employees from ordinary performers to extraordinary performers (Bass & Avolio, 1994; Behery, 2008; Burns, 1978). While transformational leadership emphasizes stimulating employees to perform beyond the organization's expectation, transactional leadership emphasizes maintaining the existing process of work and culture in an organization (Boemer, Eisenbeiss & Griesser, 2007). In other words, transformational leadership helps followers transform their behavior from traditional to new ways of thinking and to be innovative in the working environment. Transformational leadership is interested in motivation, goal attainment, teamwork and behaviors that help employees find meaning in their work and at the same time enjoy their work (Behery, 2008).

The transactional leadership style has been reported to be a market-based exchange process where leaders and employees negotiate tasks for different types of rewards (Bass, 1995; Behery, 2008; Burns, 1978; MacKenzie, Podsakoff & Rich, 2001). The transactional leader forms a mutual agreement with the employee about his or her responsibilities and expectations are kept closely to that agreement (Bass, 1985; Bass & Avolio, 1994). In addition, transactional leadership is also characterized by reward and punishment oriented leaders (Bass & Avolio, 1994; Behery, 2008).

There are two main dimensions of transactional leadership namely contingent reward and management by exception (Bass, 1995). Contingent rewards refer to rewards such as an increase of salary or promotion after the employee has successfully accomplished the assigned task. Contingent reward is a sign of recognition towards employees for their good performance. Management by exception on the other hand, refers to a leader who monitors employees to observe if they are doing what they are supposed to do and intervenes when employees do not meet the requirements. According to Bass & Avolio (1995), "Management by exception (transactional leadership) allows the status quo to continue without being addressed until things go wrong before a leader would intervene to make correction" (p. 97). Management by exception describes leaders who evaluate their subordinates' performance based on mistakes made while doing their tasks.

Further, management by exception is divided into active and passive management by exception. Active management by exception refers to a leader who regularly monitors employees to make sure that the assigned tasks are completed. Active management by exception describes the behaviors of leaders who are responsible to monitor the performance of employees and intervene if any problem arises. They will be ready to correct the problem if necessary. Passive management by exception on the other hand, refers to leaders who monitor employees only when they do not meet the requirements for completing assigned tasks. This type of leadership describes leaders who are not interested in the performance of employees unless a problem is brought to their attention, rather than being there when the problem arises. In addition, when the problem is brought to the attention of leaders who observe passive management by exception, they respond with negative feedback.

Both, transformational and transactional leadership styles have been practiced for the last three decades since Burns (1978) introduced them. Bass (1985) has suggested that both transformational and transactional leadership styles are important for positive organizational outcomes. However, in 1999, Bass reported that changes and advancements in the marketplace and workforce over the last two decades had resulted in the need to promote transformational leadership more and demote transactional leadership. In addition, it was found that transactional leadership was more important in the past when employees were mainly driven by financial resources (Olanrewaju, 2009). In this regard, Montgomery (1996) reported that:

"transformational leadership works well when important organizational changes are needed because the environment has shifted and the organization needs to respond and break old routines" (p. 461).

Malaysian researchers have also suggested that with the current globalized economy, greater emphasis needs to be placed on the transformational leadership style, compared to the transactional style of leadership, in order to break the old routines and energize work environments through inspirational leadership (Ismail, Mohamad, Mohamed, Raifuddin & Zhen, 2010; Olanrewaju, 2009).

Transformational leadership style was found to contribute to organizational effectiveness more than transactional leadership (Organ, 1988; Emery & Barker, 2007; Behery, 2008). In addition, in previous studies it was also noted that most of the positive characteristics of leadership such as encouragement, imparting confidence, acknowledging competence, motivating, encouraging innovation and many other positive behaviors are credited to transformational leaders (Yukl, 2006). However, the transformational leadership style is not necessarily suited to all types of organizations (Tseng & Huang, 2009). Previous studies have suggested that one style of leadership cannot be generalized as the effective style for all organizations and situations (Rad & Yarmuhammadian, 2006). For instance in the study done by Obiwuru, Okwu, Apka and Nwankwere (2011) it was reported that in smaller organizations, the transactional leadership style was more related to increase of performance than the transformational leadership style. The same study suggested that organizations need to transit to the transformational leadership style as they grow. Although some studies have reported that the transformational leadership style made stronger contributions to positive organizational outcomes, the

transactional leadership style has also been reported as an effective style in some organizations. Therefore, in the present study both the transformational and transactional leadership styles will be investigated in relation to positive organizational outcomes.

Transformational Leadership and Employee Performance

Previous studies have consistently reported positive relationships between the transformational leadership style and employee performance, work commitment and job satisfaction (Bass & Avolio, 1993; Emery & Barker, 2007; Walumbwa, Wang, Lawler & Kan Shi, 2004) and employee engagement (Soeib, Othman & D'Silva, 2013). However, only few studies have examined the relationship between transformational leadership and organizational effectiveness (Koene, Vogelaar & Soeters, 2002; Zhu, Chew & Spangler, 2005).

Emery and Barker (2007) conducted a research using a sample of 124 managers and 389 subordinates from the food and banking industries to examine the nature of the relationship between leadership styles and employee performance. They found that employees were more satisfied with the transformational leadership style than transactional leadership. This study found that the transformational leadership style made a greater contribution to organizational commitment, and job and leader satisfaction. Similarly, Walumbwa, Wang, Lawler and Kan Shi (2004) reported that, compared to other leadership styles, transformational leadership was found to enhance employees' levels of organizational commitment and job satisfaction in the organization. Employees who were led by transformational leaders reported stronger levels of confidence in their capability to perform their tasks (Walumbwa et al., 2004). Transformational leadership was found to have a strong effect on employee outcomes in different countries as well. For instance, Walumbwa, Orwa, Wang and Lawler (2005) conducted a research to compare the relationship between transformational leadership and organizational commitment and satisfaction in Kenya (158 participants) and USA (189 participants). Consistent with previous studies, transformational leadership was found to be positively related to organizational commitment in both countries. Similarly, a significant positive relationship was observed between transformational leadership and satisfaction with leader and work (Walumbwa et al, 2005). Although, it was initially predicted that the effect of transformational leadership would vary between Western cultures and African culture, the results showed that transformational leadership was equally effective in both cultures (Walumbwa et al, 2004; Walumbwa et al, 2005).

The present study was conducted in Malaysia, and it is reported that Malaysia is known to be collectivistic in nature (Hofstede, 1991) thus, suggesting that Malaysian leaders are more likely to emphasize maintaining supportive relationships more than rewarding individual performance. Bass (1990) has reported that the transformational leadership style is more appropriate for collectivistic cultures than other styles of leadership. It was expected that the transformational leadership style would make better contribution to employees' individual performance than transactional leadership style

Transactional Leadership and Employee Performance

Previous researchers have compared the effectiveness of transformational leadership to transactional leadership. The results of these studies show that in some instances transactional leadership has contributed to organizational performance more than transformational leadership style (Arham & Muenjohn, 2012; Gill, 1998). For instance, an empirical study in Yemen has shown that transactional leadership was more effective than transformational leadership (Ahmad & Gelaidan, 2011). This study suggested that employees in public companies in Yemen preferred working with transactional leaders over transformational leaders. The results showed that transactional leadership made a stronger contribution to employees' affective commitment to change than transformational leadership. In addition, the transactional leadership style has also been shown to have a stronger contribution to employee performance and job dedication (Suryanarayana, 2011) indicating that transactional leaders are better in persuading employees to perform well. The transactional leadership style has also been found to be a stronger influencing strategy than the transformational leadership style (Deluga, 1988). The transactional leadership style has been reported to have a positive influence on employees' behaviors (Ismail et al, 2010). This result suggested that the transactional leadership style contributed the job satisfaction (Howell & Avolio, 1993; Ismail et al, 2010; Yukl, 1994) and stress reduction (Rowold & Schlotz, 2009).

While, some researchers argue that transactional leadership is negatively related to organizational performance (Behery, 2008; Emery & Barker, 2007; Organ, 1988), most prominent leadership researchers claim that transactional leadership is as necessary in an organization as transformational leadership style (Bass, 1985). Transactional leadership was also important to positively influence organizational performance (Aziz, Mahmood & Abdullah, 2012) trust and distributive justice with employees (Ismail, Mohamad, Mohamed, Raifuddin & Zhen, 2010) and employee commitment (Lo, Ramayah & Min, 2009). Previous Malaysian studies have also reported that Malaysian leaders were more directive and autocratic in their relationship with their followers (Jayasingam & Cheng, 2009; Gill, 1998), suggesting that employees had little opportunity to participate or become involved in decision making. In other words, in the past, employee creativity and

innovativeness was restricted and yet, this leadership style was reported to be effective (Ansari et al., 2004). In addition, Ansari and his colleagues (2004) have reported that in the Malaysian context, organizational hierarchy is well respected and employees are expected to obey the orders of their superiors. Further, in the Malaysian context, leaders are expected to use their authority over their subordinates. This type of relationship is against the practices of transformational leaders. Conversely, this relationship is more related to transactional leadership.

However, researchers who have argued that compared to the transactional leadership style, transformational leadership has a stronger relationship with organizational effectiveness (Behery, 2008; Emery & Barker, 2007; Organ, 1988) found many flaws with the transactional leadership style. These studies showed that the transactional leadership style is effective in terms of keeping subordinates happy and satisfied as indicated by Howell and Avolio, (1993), Yukl (1994) and Ismail et al (2010). But, the problem with transactional leadership is how to motivate and guide employees to achieve higher individual and organizational performance (You-De Dai, You-Yu Dai Kuan-Yang Chen and Hui-Chun Wu, 2013). Transactional leaders are direct and action oriented leaders who work within the existing organizational culture (Odumeru & Ogbonna, 2013). This could be perceived as positive leader behavior in certain cultures, but, for organizations that look for continuous improvement, this is not perceived as positive. This style of leadership was effective in the past (Ansari et al., 2004; Jayasingam, 2009), but not in the present organizations.

In the present globalized economy the transactional leadership style is observed to be less effective. On the contrary, employees in current organizations have requested for transformational leadership more than transactional leadership (Bass, 1999; Evans, 2005; Ismail et al., 2011). Many studies have reported that the transactional leadership style has a negative impact on positive organizational outcomes (Evans, 2005; Erkutlu, 2008; You-De Dai et al., 2013). The above studies reported that transactional leadership was negatively related to work performance and job satisfaction (Evans, 2005; Erkutlu, 2008), and organizational commitment (Behery, 2008; Emery & Barker, 2007; You-De Dai et al., 2013).

This is because transactional leaders were not inclined to motivate employees about the meaning of performance and tasks given to them. Employees reported that transactional leaders are not concerned about the feelings of employees or individual consideration. In certain cases, reward motivated employees but did not contribute to performance enhancement (Evans, 2005; Erkutlu, 2008; Rowold & Schlotz, 2009). Rewards from transactional leaders are not always meaningful to employees, as it does not contribute to enhancing knowledge and building innovation but encourages the repetition of the same behaviors (Erkutlu, 2008).

In general, some studies showed that the transactional leadership style was more effective than the transformational leadership style (Gill, 1998; Arham & Muenjohn, 2012), others showed the opposite indicating that the transactional leadership style is negatively related to job performance (Evans, 2005; Erkutlu, 2008) and yet, Bass (1985) reported that transactional leadership is important for achieving positive organizational outcomes. One possible reason for these mixed results on the relationships between reward and leadership styles is because the dimension of transactional leadership namely contingent reward is associated with both transformational and transactional leadership styles (Tejada, Scandura & Pillai, 2001). Therefore, according to Tejada, et al (2001), contingent reward can also be a dimension of transformational leadership, but reward was not found to be positively related to enhancement of employee and organizational performance.

Transactional leadership however, was found to be strong in one aspect which is the influencing strategy. The transactional leadership style was found to be stronger as an influencing strategy on employees compared to transformational leadership. In terms of influencing strategies, transactional leaders scored higher but not necessarily in a positive way (Deluga, 1988). It could be that because of their managerial power to control and instruct employees, they have greater influence on employees compared to transformational leaders. However, this type of leadership could make followers merely comply with instructions; transactional leaders are less able to generate motivation or commitment to task objectives (Deluga, 1988; Zagorsek, Dimovski & Skerlavaj, 2009). Although, transactional leadership was found to be a significant influencing style of leadership, transformational leadership was found to be more effective in building employee-employer relations. This was investigated by Bass (1985) using a sample of 117 participants in a manufacturing company. It was found that the transformational leadership style resulted in better leader-employee relationships. While transactional leaders are interested in giving orders, rewards or other tangible transactions, transformational leaders build trust and loyalty in followers. Leadership styles were measured using the MLQ. The number of participants in this study (Bass, 1985) was not large enough for the results to be generalized but this is the only study found investigating the relationship between leadership styles, influencing strategies and leadership effectiveness. Another study by Evans (2005) using a sample of 194 employees from UAE banks interviewed respondents about the relationship between leadership style and their behavioral outcomes. The researcher reported that transformational leadership had a significant positive relationship on employee satisfaction. Conversely, transactional leadership showed no significant relationship with employee job satisfaction.

The above studies have reported mixed results on the relationship between transactional leadership and organizational outcomes. Some reported that, in small organizations the transactional leadership style made a stronger contribution to work performance than transformational leadership (Obiwuru, Okwu, Apka&Nwankwere, 2011). Previous studies agreed that the transactional leadership style was effective in the past when people were oriented towards financial resources (Jayasingam, 2009). In addition, Suryanarayan (2011) has also found that transactional leadership was stronger than transformational leadership in relation to job performance. Yet, many studies have reported that both transformational leadership and transactional leadership are positive predictors of individual and organizational effectiveness (Bass, 1985; Trotter, 2008; Zopiatis and Constani, 2010; Obiwuru, et al, 2011).

II. METHOD

The purpose of this study was to assess the effect of leadership styles on employee performance. Leadership styles namely transformational and transactional leaderships were identified as independent variables. Employee performance as dependent variables.

Research Design

The study was cross-sectional in nature and used the quantitative approach. The purpose of using a cross-sectional design was so that data could be collected from a large number of participants at one point of time (Creswell, 2003). Using this design assisted the researcher to utilize self-administering questionnaires to measure the styles of leadership and positive organizational outcomes among a sample of Malaysian respondent.

Participants

In this study, a total of 333 individuals participated. 140 of the participants were males and 193 were female. Participants were selected from different departments of a telecommunications company in Malaysia as shown in Table 1 below. Participants were aged between 20 to 56 years with a mean age of 33.7 years. Participants had different levels of education where 26 had completed their secondary school, 37 completed pre-university degrees or diplomas, 227 had bachelor degrees and 43 were master graduates. Of all participants, 23 were junior executives, 122 assistant managers, 109 managers, 26 senior managers and 53 non-executives.

Table 1 Characteristics of the second sample

Socio-demographic Factors		Frequencies	Percent
Age	less-25	23	6.9
	26-30	110	33.0
	31-35	68	20.4
	36-40	53	15.9
	41-45	33	9.9
	46-50	25	7.5
	51-more	21	6.3
Gender	male	140	42.0
	female	193	58.0
Marital Status	single	84	25.2
	married	243	73.0
	divorced	3	.9
	widower	3	.9
Education	secondary	26	7.8
	diploma/pre-university	37	11.1
	bachelor degree	227	68.2
	masters	43	12.9
Job Position	junior/executive	23	6.9
	assistant manager	122	36.6
	manager	109	32.7
	senior manager	26	7.8
	non-executive	53	15.9

Measures

The questionnaire used in this study contained six main scales. The Multifactor Leadership Questionnaire (MLQ) consisting of 28 items was used to measure styles of organizational leadership styles. The Positive Organizational Outcomes measure consisting of 13 items was used to measure how well the organization had performed in terms of employee performance and organizational effectiveness. Transformational and Transactional Leadership: The Multifactor Leadership Questionnaire (MLQ) Form 5-X Rater (Bass & Avolio, 2004) was used to explore the differences between transactional and transformational styles of leadership. This scale consists of 45 questions which included: attributed charisma, idealized influence, inspirational motivation, intellectual stimulation, individual consideration, contingent reward, management-by-exception (passive), management-by-exception (active), laissez-faire leadership, extra effort, effectiveness and satisfaction. The MLQ measures the full range of leadership styles, starting from the avoidant style of leadership to an inspirational style. In addition, this scale has been used in various industries and different organizational settings such as governmental, private and non-profit organizations from various countries (Bass & Avolio, 2004). In past studies, the MLQ instrument showed high levels of reliability and validity (Connell, 2005). In addition, the MLQ has been used in the Malaysian context and shown to have significant scores of validity and reliability (Jamaludin, Abd Rahman, Makhbul & Idris, 2011). Jamaludin et al., (2011) in their study reported Cronbach's alpha of .81 for the transformational scale and .84 for the transactional scale. Therefore, the researcher decided to use the MLQ scale in the present study.

In the present study, the researcher excluded items that did not belong to idealized influence, inspirational motivation, intellectual stimulation, individual consideration, contingent reward, management-by-exception (passive) and management-by-exception (active). More specifically, four items that belong to laissez-faire such as "avoids getting involved when important issues arise", "is absent when needed", "avoids making decisions" and "delays responding to urgent questions" were omitted. Laissez-faire has also been referred to as a non-leadership factor (Bass, 1990), and it was reported to be negatively related to employee satisfaction, performance and commitment (Yilmaz & Ergun, 2008). Therefore, these items were omitted because they did not contribute to measuring transactional and transformational leadership. The researcher was more interested to investigate the impact of transformational and transactional leadership styles. The total number of items used consisted of 28 items, 16 of which belonged to transformational and 12 to transactional styles of leadership.

Employee Performance: Employee performance was measured using the modified version of The World Health Organization Health and Work Performance Questionnaire (HPQ) as developed by Kessler, Barber, Beck, Berglund, Cleary, McKenas, Pronk, Simon, Stang, Ustun, and Wang (2003). HPQ is a self-report measure designed to assess absenteeism, work performance and job related accidents. However, since the present study had no interest in examining absenteeism or job related accidents, only items that measured level of employee performance were used. For the present study only three items that rated employees' own overall performance (i.e. 1. "how would you rate your usual job performance over the past year or two?" 2. "how would you rate your overall job performance on the days you worked during the past 4 weeks?") and the performance of coworkers of similar jobs (i.e. "how would you rate the usual job performance of most workers in a job similar to yours?") were used. The HPQ instrument has been found to be reliable and valid (Scuffham, Vecchio & Whiteford, 2013).

Factor Analysis

An exploratory factor analyses was conducted to understand the factor structure between items of all scales. Prior to conducting a regression and other data analysis for the present study, the researcher tested if the measure results were influenced by common method variance (CMV). CMV refers to the "variance that is attributable to the measurement method rather than to the constructs the measures represent" (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003: 879).

The results of Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and the Bartlett's Test of Sphericity are shown in Table 2. A KMO value of .95 was found indicating adequate sampling. The Bartlett's test was significant at $p=.001$ which indicates that there are some relationships between the variables in factor analysis.

Table 2 KMO and Bartlett's Test for overall variables

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.945
Bartlett's Test of Sphericity	Approx. Chi-Square	39469.260
	Df	7260
	Sig.	.000

Leadership Measures

The output in Table 2 indicates that the MLQ measure loaded on four different factors. Especially, respondents have clearly differentiated between transformational and transactional leadership styles. Results from table 3 showed that idealized influence, individualized consideration, intellectual stimulation and inspirational motivation formed one factor with the eigenvalue of 12.84 indicating that respondents have not differentiated between components of transformational leadership. Whereas, in regards to transactional leadership style, contingent rewards, management-by exception passive and active, formed the second (eigenvalue of 3.536), the third (eigenvalue of 1.49) and the fourth (eigenvalue of 1.05) factor respectively, meaning that respondents have made clear distinction between leaders who practice contingent reward, management by exception active and management by exception passive. Table 3 shows that an item from management by exception active (i.e. “focuses attention on mistakes and deviations from standard”) loaded in line with contingent reward indicating that respondent perceived the item as opposite to rewarding if mistakes found by their leader, and therefore loaded together with contingent reward. Therefore, for the further analysis this item will be treated as contingent reward. For the present study MLQ consists of four components namely transformational leadership (16 items with alpha value of .96), contingent reward (five items with alpha value of .82), management by exception active (3 items with alpha value of .80) and the management by exception passive (4 items with alpha value of .86). All four subscales revealed high reliability between items.

Table 3 Factor Loadings of MLQ (transformational and transactional)

Nr	Items	Transformational	Contingent	Management by	Management by
1	Transformation-IS	.674			
3	Transformation-IS	.756			
12	Transformation-IS	.737			
14	Transformation-IS	.745			
2	Transformation-II	.725			
6	Transformation-II	.820			
9	Transformation-II	.757			
15	Transformation-II	.700			
4	Transformation-IM	.789			
5	Transformation-IM	.772			
10	Transformation-IM	.787			
16	Transformation-IM	.724			
7	Transformation-IC	.706			
8	Transformation-IC	.630			
11	Transformation-IC	.720			
13	Transformation-IC	.757			
1	Transactional-CR		.626		
4	Transactional-CR		.665		
6	Transactional-CR		.608		
12	Transactional-CR		.521		
3	Transactional-MBEA		.592		
9	Transactional-MBEA				.639
10	Transactional-MBEA				.779
11	Transactional-MBEA				.700
5	Transactional-MBEP			.869	
7	Transactional-MBEP			.830	
8	Transactional-MBEP			.828	
2	Transactional-MBEP			.760	

III. RESULTS

In the present study a self-administered questionnaire was utilized to examine the relationships between leadership styles, employee performance.

Multiple Regression Analysis

Multiple regression analysis was used to predict how well the independent factors such as organizational leadership styles (transformational and transactional) were able to predict employee performance among Malaysian respondents. These analyses were conducted in four stages. The first stage analyzed the prediction level of leadership styles including transformational, contingent reward, management by exception active and passive on employee performance as shown in Table 4.3.

The first step of the multiple regression analysis showed that age group, gender, education and job position alone accounted for only eight percent of variation in employee performance among respondents and the model was significant as shown in the Table 4.3.

Table 4.3 Multiple regression analysis for leadership on employee performance

	R ²	F	SE	Beta	t-score	Sig.
Step 1	.08	2.2				.012
Step 2	.18	4.1				.001
Transformational Leadership			.02	.27	3.61	.001
Contingent Reward			.07	.02	.29	.774
Management by Exception Active			.08	.05	.71	.480
Management by Exception Passive			.04	.10	1.75	.082

Regression coefficients are significant at the .001 level ** and the .05 level *

The second step involved the addition of leadership styles namely transformational and sub-dimensions of the transactional leadership style to the multiple regression analysis which resulted in an increase in variance explained from ($R^2 = .08$, $F = 2.2$, $p \leq .012$) to ($R^2 = .18$, $F = 4.1$, $p \leq .001$) with significant change in R^2 value ($\Delta R^2 = .10$, $p \leq .001$).

Transformational leadership style significantly predicts employee performance. One of the main tenets of transformational leadership was reported to encourage employees to perform better and therefore contribute to employee performance.

The regression correlations as shown in Table 4.3 indicated that the strongest predictor of employee performance was transformational leadership style ($\beta = .27$, $p \leq .001$).

Results in Table 4.3 indicated that components of transactional leadership namely contingent reward, management by exception active and management by exception passive were shown to be insignificant predictors of employee performance. The transactional leadership style was found to have no significant influence on employee performance.

IV. DISCUSSION

The main goal of this paper was to expand upon previous research about the effect of leadership styles namely transformational and transactional leadership on employee performance in the Malaysian context. This section discusses the direct effects of leadership styles on employee performance based on the results regression analysis.

The results indicated that the transformational leadership style significantly predicted employee performance. This result was consistent with previous studies reporting that transformational leadership has shown a significantly positive relationship with employee performance (Avolio, 1999; Emery & Barker, 2007; Behery, 2008). The transformational leadership style was found to be strongly supported in Malaysian culture as well, indicating that transformational leadership is effective cross-culturally. The results in this study supported previous research, which reported that Malaysian leaders are moving towards transformational leadership (Lo, Min & Songan, 2010).

On the contrary, the transactional leadership style including contingent reward, management by exception active and passive did not significantly predict employee performance. This result supported previous studies that claimed transactional leadership had an insignificant effect on employee performance (Evans, 2005; Erkutlu, 2008; Rowold & Schlotz, 2009).

Based on the significant direct effects observed between the transformational leadership style and employee performance, the present paper concluded that the transformational leadership style, as compared to the transactional leadership style, had significant effect on the individual performance of employees.

V. CONCLUSION

The main goal of this study was to examine the effect of leadership styles observed in the Malaysian context. Using the regression analysis, the researcher examined the strengths of the relationships between independent variables namely transformational leadership, transactional leadership and the depended variable namely employee performance.

Overall, as predicted by the researcher, the transformational leadership style was shown to predict positive employee performance more than transactional leadership style. Finally, it is expected that this study will encourage other studies to further investigate other possible extraneous factors in addition to leadership styles that can influence employee performance.

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