

# A STUDY ON THE EFFECTIVENESS OF TRANSACTIONAL AND TRANSFORMATIONAL STYLES OF LEADERSHIP

**Mr. Heisnam Lakeshwar Singh, Dr. S. Keshorjit Singh, Dr. Laishram Prabhakar Singh**

Research Scholar

Manipur Institute of Management Studies

Manipur University (A Central University) Imphal, Manipur, India

Assistant Professor

Manipur Institute of Management Studies

Manipur University (A Central University) Imphal, Manipur, India

Professor

Manipur Institute of Management Studies

Manipur University (A Central University) Imphal, Manipur, India

## ABSTRACT

*The paper studies the transactional and transformational styles of leadership and established the effective style that influences organizational effectiveness. It aimed at exploring and elaborating the styles of leadership (Transactional and Transformational) for managing small and medium firms in Manipur during Covid 19 pandemic. The study adopts survey and interview techniques and 98 employees from 25 small and medium firms in Manipur, India are considered as sample. The data are analysed using ordinal regression and the spearman correlation coefficient. It has been found that 55% of leadership effectiveness is subject to exhibition of either transactional or transformational leadership style. It has been found that leadership effectiveness is increased by 2.213 for every unit increase in transformational leadership style. On the other hand for every unit increase in transactional leadership style, effectiveness increased by 1.329. The result shows that transformational leadership style is more effective than transactional style in managing the Small and Medium firms in Manipur*

*This study is an attempt to determine effective leadership style whether transactional or transformational for managing small and medium firms in Manipur during Covid 19 pandemic. A sample of 98 employees from small and medium firms in Manipur was taken for the research using Multifactor Leadership Questionnaire MLQ (Form 5x-Short). The data were analysed using ordinal regression and the spearman correlation coefficient. It has been found that 55% of leadership effectiveness is subject to exhibition of either transactional or transformational leadership style. The study highlighted that leadership effectiveness is increased by 2.213 for every unit increase in transformational leadership style as compare to transactional style. However, for every unit increase in transactional leadership style, leadership effectiveness increased by 1.329. The above comparison shows that transformational leadership style is more effective than transactional leadership style in Small and Medium firms in Manipur. This study is an attempt to determine effective leadership style whether transactional or transformational for managing small and medium firms in Manipur during Covid 19 pandemic. A sample of 98 employees from small and medium firms in Manipur was taken for the research using Multifactor Leadership Questionnaire MLQ (Form 5x-Short). The data were analysed using ordinal regression and the spearman correlation coefficient. It has been found that 55% of leadership effectiveness is subject to exhibition of either transactional or transformational leadership style. The study highlighted that leadership effectiveness is increased by 2.213 for every unit increase in transformational leadership style as compare to transactional style. However, for every unit increase in transactional leadership style, leadership effectiveness increased by 1.329. The above comparison shows that transformational leadership style is more effective than transactional leadership style in Small and Medium firms in Manipur.*

**Key words:** Transformational leadership, Transactional leadership, Leadership Style, Multifactor Leadership Questionnaire, Spearman Correlation Coefficient and Covid-19 Pandemic.

## **1. INTRODUCTION**

The corona virus (COVID-19) outbreak has significantly affected the economy and all business activities. This pandemic resulted in low mobility rate, lower outputs and a stagnating economy. Low productivity is the worst organizational crisis which challenged business organizations existence. This is marked by uncertainty in a cause, effect, and resolution methods, as well as a conviction that choices must be taken quickly (Pearson & Clair, 1998). Small and medium-sized businesses have been struck the hardest during pandemic. Their future is uncertain due to this crisis; therefore, making the right decisions is critical to companies (Carracedo et al., 2020). This pandemic situation brought changes in working style from the traditional way of working from the organization's premises to working at home (Kalogiannidis, 2021). This unfortunate situation calls the effective leaders and their role in saving their organizations from collapse. Leadership and crisis are closely intertwined. Transformational leadership is considered as a highly efficient leadership style. It is receptive to new ideas and entails major organisational changes. Subordinates are motivated by transformational leaders and become change agents. Transformational leaders inspire their followers and lead them toward a dream or vision, unlike transactional leaders who exercise their authority by rewarding people and providing them money and position (Kalogiannidis, 2021).

Transformational leaders are crisis prepared, whereas transactional leaders are crisis-prone since transformational leaders demonstrate self-awareness, motivation, charisma, and other social skills, which let the subordinates cooperate in addressing critical, collective, and individual preparatory tasks (Sheaffer & Brender-Ilan, 2014). In order to save the small and medium enterprises hit by pandemic, leaders need to adopt suitable leadership style and changing practices.

## **2. TRANSFORMATIONAL AND TRANSACTIONAL LEADERSHIP STYLE**

Transformational leaders inspire followers to think about challenges in new ways, offer support and encouragement, share a vision, and elicit emotion and identification (Bond, 2015). They inspire followers' ambitions for success and self-improvement while simultaneously fostering collective and organisational growth. It needs to exhibit idealised influence (charisma), individualised consideration, intellectual stimulation, and inspirational motivation (Bass & Avolio, 2005). When a leader projects a desirable future, articulates how to get there, sets an example to be followed, sets high-performance criteria, and demonstrates resolve and confidence, he or she is demonstrating idealised influence and inspiring leadership (Bass, 1999). In individualized consideration, the leader allocates assignments to generate learning opportunities, gives coaching and instruction, and treats each follower with respect (Lowe et al., 1996). Intellectually stimulation leaders train their followers to solve challenges from unique and innovative viewpoints; with or without the leader's assistance, followers become more effective problem solvers (Bass & Avolio, 2005).

The term "transactional leadership" refers to a relationship in which a leader and a follower exchange information in order to achieve their self-interests (Bass, 1999). Transactional leaders engage their followers in a mutually dependent relationship in which both sides' contributions are recognized and rewarded (Lewis, 1987). It may be in the form of contingent reward or active management-by-exception or passive managing-by-exception. In the contingent reward, the leader specifies what the follower has to do to be rewarded for their work, either through guidance or participation. In the case of active management-by-exception, if a follower fails to fulfill standards, the leader monitors their performance and takes corrective measures. For passive managing-by-exception, the leaders wait for problems before taking corrective measures (Bass, 1999). The effectiveness of transactional leaders is decided by consistently meeting their followers' expectations.

## **3. ANALYSIS ON ORGANIZATIONAL EFFECTIVENESS AND LEADERSHIP STYLE**

There is a correlation between leader style and effectiveness, implying a connection between transformational leadership behaviour and leader effectiveness (Lowe et al., 1996). Kirby et al. (1992) revealed that individualized consideration and intellectual stimulation behaviours were favored by followers from transformational leadership style, and contingent reward behaviour was preferred by followers from transactional leadership style, which ultimately brings effectiveness in the organization (Kirby et al., 1992). According to Erkutlu (2008), there are substantial relationships between leadership behaviours and organisational and leadership effectiveness, and that changing leadership styles has an effect on organisational and leadership effectiveness. Leadership effectiveness is positively correlated with transformational leadership.

Pedraja-Rejas et al., (2006) findings revealed that transformational leadership has a favorable effect on performance, whereas transactional leadership and a laissez-faire style had a negative effect in small companies. Whereas Purwanto et al. (2020) finds that both transformational and transactional leadership styles have a positive

and highly significant effect on employee performance in public health centres.

#### 4. EFFECTIVENESS OF THE LEADER

In any organization, the efficacy of the leader is critical to the organization's success. The Effectiveness of leaders is determined by their ability to address the job-related demands of others, effectively represent their group to higher authorities, effectively meet organisational standards, and effectively lead a group. Significant correlations exist between leadership styles and leader effectiveness. While transactional leadership produces predictable outcomes, transformational leadership produces a performance that exceeds expectations. Transformative leaders were viewed as more effective leaders with better work outcomes than transactional leaders (Lowe et al., 1996). Leadership behaviours had a significant impact on organisational effectiveness, and all components of transformational leadership, including idealised influence (attributed), idealised influence (behaviour), inspirational motivation, intellectual stimulation, and individualised consideration, were positively associated with organisational effectiveness (Erkutlu, 2008). The effectiveness of leaders is greatly influenced by their ability to use the effective leadership style. It has been found that transformational leadership behaviours are more effective (Hur et al., 2011). Due to their close relationship with their followers, transformational leaders should be more effective than transactional leaders. In order to prove the relevance of the study two hypotheses are framed as follows.

Hypothesis 1: Transformational leadership style has positive impacts on the leaders' effectiveness.

Hypothesis 2: Transactional leadership style has negative impacts on the leaders' effectiveness.

#### 5. METHODOLOGY

Both primary and secondary data are used in this study. The primary data are collected using interview cum multifactor leadership questionnaire (MLQ). MLQ form 5x-short is built on a five-point scale that can assess the frequency of leader behaviours. The rating scale are: Not at all (0), Once in a while (1), Sometimes (2), Fairly often (3), and Frequently, if not always (4). Appropriate statistical tools like regression analysis and the Spearman correlation coefficient are used to analyze the data.

The research design is descriptive correlation. The population consists of small and medium size enterprises in Manipur. Through stratified random sampling ninety-eight respondents from target SMEs were chosen as sample.

##### 5.1. Data Analysis:

The score of each parameter is categorized and calculated based on the lowest and maximum scores of transformational and transactional style and leadership effectiveness. Multiple regression is used to systematically analyse factors of leadership effectiveness.

Table No. 1: Variables and indicators

Concepts	Variables	Indicators
Leadership Style (Independent Variable)	Transformational Leadership (TOL)	Idealized Attributes Idealized Behaviors Inspirational Motivation Intellectual Stimulation Individual Consideration
	Transactional Leadership (TAL)	Contingent Reward Mgmt by Exception (Active)
Effectiveness (Dependent Variable)	Effectiveness (EFF)	Effective in meeting others' job-related needs Effective in representing their group to higher authority Effective in meeting organizational requirements Lead a group that is effective

#### 6. FINDINGS AND DISCUSSIONS

The data are analyzed using the Spearman correlation coefficient (r) and the Ordinal Regression to determine the dependence or the relation between the dependent and the independent variables.

As the sample size is 98 (less than 100), Shapiro-Wilk test is used to check whether the variables are normally distributed or not. It has been found that the significance of Log<sub>e</sub> Transformational Leadership Style (TOL), Log<sub>e</sub> Transactional Leadership Style (TAL), and Log<sub>e</sub> Effectiveness (EFF) come less than 0.05; thus confirmed non-

normally distributed and hence ordinal regression is applied.

**Table 2: Tests of Normality**

	Shapiro-Wilk		
	Statistic	Df	Sig.
Log_TOL	.919	98	.000
Log_TAL	.905	98	.000
Log_EFF	.809	98	.000

a. Lilliefors Significance Correction

**6.1. Regression for Transformational and Transactional Leadership style and Effectiveness:**

**Table 3: Model Fitting Information**

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Intercept Only	424.804			
Final	347.907	76.897	2	.000

Link function: Logit.

**Table 4: Goodness-of-fit**

	Chi-Square	Df	Sig.
Pearson	768.115	1042	1.000
Deviance	339.353	1042	1.000

Link function: Logit.

To confirm the model fits data Pearson and Deviance, chi-square is calculated. Table 4 shows Goodness-of-fit; the result is (Sig.>0.05); hence the model fits data.

**Table 5: Pseudo R-Square**

Cox and Snell	.544
Nagelkerke	.550
McFadden	.177

Link function: Logit.

From the ordinal regression analysis, Nagelkerke value is 0.550, which implies that 55% of leader's Effectiveness (EFF) is a function of their transformational leadership styles (TOL) or transactional leadership styles (TAL). It implies that a leader's effectiveness is dependent on his or her leadership style.

It has been found from table no.6 that for every unit rise in transformational leadership style (TOL), the level of leadership effectiveness is improved by 2.213 units. And for every unit rise in transactional leadership style (TAL), the log probabilities of leadership effectiveness is improved by 1.329. These figures indicate that transformational leadership style (TOL) is more effective than transactional leadership style (TAL) in their leadership practices.

**Table 6: Parameter Estimates**

	Estimate	Std. Error	Wald	Df	Sig.	95% Confidence Interval		
						Lower Bound	Upper Bound	
Threshold	[EFF = .75]	3.163	1.290	6.012	1	.014	.635	5.691
	[EFF = 1.50]	4.174	1.122	13.844	1	.000	1.975	6.373
	[EFF = 1.75]	5.162	1.076	23.001	1	.000	3.053	7.272
	[EFF = 2.00]	6.309	1.093	33.316	1	.000	4.167	8.452
	[EFF = 2.25]	6.477	1.099	34.756	1	.000	4.324	8.631
	[EFF = 2.50]	7.406	1.142	42.040	1	.000	5.167	9.644
	[EFF = 2.67]	7.514	1.148	42.856	1	.000	5.265	9.764
	[EFF = 2.75]	8.409	1.200	49.103	1	.000	6.057	10.761
	[EFF = 3.00]	9.867	1.296	58.011	1	.000	7.328	12.407
	[EFF = 3.25]	10.591	1.340	62.460	1	.000	7.964	13.217

	[EFF = 3.50]	11.505	1.395	68.014	1	.000	8.771	14.240
	[EFF = 3.75]	12.514	1.452	74.233	1	.000	9.667	15.361
Location	TOL	2.213	.456	23.563	1	.000	1.319	3.106
	TAL	1.329	.400	11.065	1	.001	.546	2.112

Link function: Logit.

### 6.2. Correlation between Transformational and Transactional Leadership Style and Leaders' Effectiveness:

The Spearman correlation coefficient is applied to determine correlation functions. Table 7 shows that there is a moderate correlation (0.700) between Transformational Leadership Style (TOL) and Effectiveness (EFF). The value of correlation is (0.624) between Transactional Leadership Style (TAL) and Effectiveness (EFF). This proves that there is strong dependence between Transactional and Transformational Styles of Leadership and leaders' Effectiveness.

**Table 7: Correlations**

			EFF	TOL	TAL
Spearman's rho	EFF	Correlation Coefficient	1.000	.700**	.624**
		Sig. (2-tailed)	.	.000	.000
		N	98	98	98
	TOL	Correlation Coefficient	.700**	1.000	.634**
		Sig. (2-tailed)	.000	.	.000
		N	98	98	98
	TAL	Correlation Coefficient	.624**	.634**	1.000
		Sig. (2-tailed)	.000	.000	.
		N	98	98	98

\*\* . Correlation is significant at the 0.01 level (2-tailed).

### 6.3. Verification of Hypothesis (H1 and H2):

Results obtain from ordinal regression and spearman correlation demonstrates that both the leadership styles (transformational and transactional style) exert positive influence on effectiveness of the leaders. Therefore, it confirmed the first Hypothesis (H1), which validates that transformational leadership style has positive impacts on the Effectiveness of SME leaders in Manipur.

The second Hypothesis (H2) asserts that the Transactional leadership style has negative impact on the leaders' Effectiveness. From the Spearman Correlation and Ordinary Regression results, it concluded that this Hypothesis cannot be verified. To be verified or confirmed, this Hypothesis requires that its variables be negatively linked with the dependent variable, which is not the case as demonstrated by the results, and thus the second Hypothesis (H2) is rejected.

**Table 8: Verification of hypothesis**

Hypothesis	Variable	Coefficient	Impact on Effectiveness	Significance	Decision
Hypothesis 1	Transformational Leadership Style	2.213	Positive	Significance (.000)	Accepted
Hypothesis 2	Transactional Leadership Style	1.329	Positive	Significance (.001)	Rejected

## 7. CONCLUSION

The Covid 19 epidemic has hit hard on small and medium-sized business enterprises in the state of Manipur. Keeping employees engaged and productive is the biggest challenges for many business leaders. All the responsibilities for organization growth and development need leaders' vision. Leadership style is crucial for organizational productivity and employees' satisfaction. The objective of this research is to determine suitable leadership style that signifies effectiveness of the leaders for managing SMEs in Manipur during Covid-19 pandemic. To comprehend the objective, systematic descriptive and explanatory analyses are worked out. The Nagelkerke

value is found to be 0.550 which indicate that independent variables (transformational leadership style and transactional leadership style) account for 55% of leadership effectiveness. The ordinal regression coefficient for transformational leadership is 2.213 and for transactional leadership is 1.329, these figures revealed that transformational and transactional leadership styles bring effectiveness of SME leaders in Manipur. Moreover Transformational leadership style (2.213) is more preferred to transactional style (1.329) for leaders' effectiveness for SMEs in Manipur. It is concluded from the study that the effectiveness of the leaders is highly dependent on the Transformational and Transactional styles. It further validates that transformational leadership style is more preferred to transactional style for SMEs in Manipur during Covid-19 pandemic.

## REFERENCES

- [1] Bass, B. M. (1999). Two Decades of Research and Development in Transformational Leadership. *European Journal of Work and Organizational Psychology*, 8:1(September 2012), 9–32.
- [2] Bass, B. M., & Avolio, B. J. (2005). Developing Transformational Leadership: 1992 and beyond. *Journal of European Industrial Training*, Vol. 14(5), 8–12. [https://doi.org/10.1016/S0260-6917\(84\)80070-2](https://doi.org/10.1016/S0260-6917(84)80070-2)
- [3] Bond, C. (2015). Leadership styles. In *Leadership in Sport* (Vol. 7, Issue 2). <https://doi.org/10.7748/ns.32.22.64.s37>
- [4] Carracedo, P., Medina, R. P., Luisa, M., & Selva, M. (2020). Research lines on the impact of the COVID-19 pandemic on business. A text mining analysis. *Journal of Business Research*. <https://doi.org/10.1016/j.jbusres.2020.11.043>
- [5] Elflein, J. (2020). *Number of cumulative cases of coronavirus (COVID-19) worldwide from January 8 to July 2, 2020, by day*. <https://www.statista.com/statistics/1103040/cumulative-coronavirus-covid19-cases-number-worldwide-by-day/>
- [6] Erkutlu, H. (2008). The impact of transformational leadership on organizational and leadership effectiveness: The Turkish case. *Journal of Management Development*, 27(7), 708–726. <https://doi.org/10.1108/02621710810883616>
- [7] Hur, Y. H., van den Berg, P. T., & Wilderom, C. P. M. (2011). Transformational leadership as a mediator between emotional intelligence and team outcomes. *Leadership Quarterly*, 22(4), 591–603. <https://doi.org/10.1016/j.leaqua.2011.05.002>
- [8] Kalogiannidis, S. (2021). The Impact of COVID-19 on Human Resource Management Practices and Future Marketing. *International Journal of Industrial Marketing*, 6(1), 43. <https://doi.org/10.5296/ijim.v6i1.17994>
- [9] Kirby, P. C., Paradise, L. V., & King, M. I. (1992). Extraordinary Leaders in Education: Understanding Transformational Leadership. *Journal of Educational Research*, 85(5), 303–311. <https://doi.org/10.1080/00220671.1992.9941130>
- [10] Lewis, P. (1987). *Transactional and Transformational Leadership: A Constructive | Developmental Analysis*. 12(4), 648–657.
- [11] Lowe, K. B., Kroeck, K. G., & Sivasubramaniam, N. (1996). Effectiveness Correlates of Transformational and Transactional Leadership: A Meta-analytic review of the MLQ Literature. *Leadership Quarterly*, 7(3–4), 150–161. <https://doi.org/10.1159/000149892>
- [12] Pearson, C. M., & Clair, J. A. (1998). Reframing crisis management. *Academy of Management Review*, 23(1), 59–76. <https://doi.org/10.5465/AMR.1998.192960>
- [13] Pedraja-Rejas, L., Rodríguez-Ponce, E., Delgado-Almonte, M., & Rodríguez-Ponce, J. (2006). Transformational and Transactional Leadership: a Study of Their Influence in Small Companies. *Ingeniare. Revista Chilena de Ingeniería*, 14(2). <https://doi.org/10.4067/s0718-33052006000100010>
- [14] Purwanto, A., Bernarto, I., Asbari, M., Mayesti Wijayanti, L., & Chi Hyun, C. (2020). Effect of Transformational and Transactional Leadership Style on Public Health Centre Performance. *Journal of Research in Business, Economics, and Education*, 2(1), 304–314. <http://e-journal.stie-kusumanegara.ac.id>
- [15] Sheaffer, Z., & Brender-Ilan, Y. (2014). Are sensation seekers in control? A study in crisis preparedness. *Risk Management*, 16(1), 1–24. <https://doi.org/10.1057/rm.2014.1>