

Transactional Leadership and Job Performance: An Empirical Investigation

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Abstract

Present study investigates the relationship between transactional leadership and job performance in the six large banks of Pakistan. The survey method was used to collect data from the middle managers of six large banks of Pakistan. The data was analyzed and reported using Smart-PLS and its standard reporting style. The findings of the study reveal that transactional leadership has significant relationship with job performance. The last part of the paper presents insights on future research.

Keywords: *Transactional leadership; Job Performance; Banks; Pakistan.*

1. Introduction

Job performance has been reported as one of the important factors and significant indicators of organizational performance but it has been conceptualized in different ways (Organ, 1997). (Schmitt & Chan, 1998) had break up performance into “will do” and “can do”. The concept *will-do* relates to knowledge, skill, ability, and other distinctiveness which one individual needs to carry out a particular job. The *can-do* creates inspiration for employees to perform the job. Whereas, (Jamal, 2007) defined job performance as an individual’s function carrying out efficiently within the prevailing constraints and the resources available. The meaning and scope of job performance varies depending upon job to job. Some researchers including (Campbell, 1990) have comprehended broader scope of performance which can be generalized for various jobs. The scholars have pointed out job performance as a multidimensional concept that consists of task and contextual elements of job performance. However, job performance that contributes to organizational effectiveness has been measured differently and literature reports numerous factors influencing job performance.

Leadership is one of the factors that significantly contribute to job performance (Vigoda-Gadot, 2007; Wang, Law, Hackett, Wang, & Chen, 2005). Furthermore, the term leadership could be expressed in numerous ways and has been commonly referred to as leadership style (Avolio, 1999). Prominent scholars have suggested <https://doi.org/10.30537/sijmb.v2i2.94>

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many different leadership styles and transactional and transformational leadership styles are the most popular among them (Bass, 1985). Particularly, transactional leadership focuses on the achievement of the set goals (Bass, 1985). Additionally, (Humphreys, 2001) explained that transactional leadership is characterized by a reward system for their subordinates that motivate them to meet organizational goals.

Numerous studies suggest that transactional leadership has positive influence on job performance; these studies have been looking into how transactional leadership enhances job performance. Since organizations are unique in terms of their culture and people, hence how do people react towards leadership decision making varies across the globe. Particularly the focus of past studies have been dominantly on the job performance of employees; however the present study aims to address the potential influence of transactional leadership on job performance of the middle managers of six large banks of Pakistan.

2. Literature Review

2.1. Job Performance

In the research domain of industrial and organizational psychology the job performance has been considered as one of the most important construct (Borman, 2004; Borman & Motowidlo, 1997; Organ, 1997) In general job, performance refers to effectiveness of individual behaviors that contribute to the organizational objectives (McCloy, Campbell, & Cudeck, 1994).

Job performance is gauged usually in financial terms, but sometimes other factors are also taken into consideration like task related aspects and expected behaviors, which affect performance (Borman & Motowidlo, 1993; Britt & Jex, 2008). Job performance consists of both monetary and non-monetary factors and these are linked with organizational performance and success (Anitha, 2014).

The word "performance" highlights upon the concepts such as "attainment," "accomplishment," and "the execution of a task". Campbell introduced eight factors related to job performance those are; a) job specific proficiency, b) non-job specific task proficiency, c) effort to demonstrate, d) written and oral communication, e) to maintain personal discipline, f) motivating team and peer performance, g) supervision and leadership, h) administration and management. He further elaborated that all of these factors are not relevant to all jobs and can be used to portray job performance for any possible occupation. Moreover, all factors and content of factors varies from job to job, primarily each factor is one of motivational elements. The study conducted by (Hochwarter, Kiewitz, Gundlach, & Stoner, 2004) has further added social worth towards all these factors. Studies report that job performance comprised two dimensions; task performance and organizational citizenship behavior (Borman & Motowidlo, 1997; Organ, 1988). The importance of task performance and OCB performance is highlighted in the work of (Borman & Motowidlo, 1993; Motowidlo & Van Scotter, 1994), according to which these dimensions of measuring job performance play a critical role.

According to (Motowidlo & Van Scotter, 1994) and (Campbell, 1990) model provide a comprehensive explanation in terms of defining job performance by further breaking it into task performance and OCB.

2.2. Transactional Leadership

The transactional leadership emphasizes on the need recognition of the followers and it clarifies the ways in terms of how these needs are to be fulfilled with a mere objective of enhancing job performance for attaining desired objectives. It is comprised of contingent reward and management-by-exception (Bass & Avolio, 2000). This style of leadership is comprised of behavior of an exchange in between the leader and follower, where rewards are always linked with the effort and output produced by the subordinate (Burns, 1978). (Bass, 1985) has mentioned two types of behaviors of transactional leadership styles; contingent reward and management by exception. Contingent behavior is related to positive feedback by the supervisor. This type of behavior is related to criticism and negative feedback by the leader subject to unsatisfactory performance by the subordinate. The risk of punishment makes a transactional conduct which differentiates this from "arbitrary and punitive behavior" (Kohli, 1985).

Transactional leaders make their subordinates happy by rewarding them with the best possible way of identifying their desires (Wegner, 2004). Transactional leader is concerned with a stable environment and with less competition (Tichy & Devanna, 1986). According to (Zaleznik, 1977) transactional leaders are those who set goals for their followers; allocate tasks and get the work done; finally reward those followers who perform better and punish those who do not perform. In the organizational behavior studies, they have widely used the type of transactional leadership style as effective style which can motivate the followers to enhancing their inspiration to achieve the objectives of the organization. (Burns, 1978) as a pioneer to the study on transactional leadership pointed out those transactional leaders are motivating their followers through appealing them to their self interests. The theories of transactional leadership are based on the idea that leader-follower relationships are based on a number of exchanges or implicit bargain between them. Transactional leadership is characterized by behaviors and attitudes that emphasize the quality of exchanges between superiors and subordinates. According to (Bass & Stogdill, 1990) the achievement of tasks and goals are the responsibilities of the leaders who are the main actors to motivate the followers in identifying the objectives and developing confidence to meet the desired high performance levels.

2.3. Transactional Leadership and Job Performance

The relationship between leadership and job performance has received considerable scholarly attention. Most of the studies on the relationship between transformational / transactional leadership and job performance have yielded both significant as well as insignificant results. According to (Bass, 1985), transactional, transformational, and laissez-faire leadership style plays an important role in management. Additionally, this study also reports a high correlation between job performance and transactional leadership using Multifactor Leadership Questionnaire (MLQ).

According to (McGrath & MacMillan, 2000), the effective leadership styles contribute towards better performance in the times when new challenges are faced; this notion of the positive relationship between transactional leadership and job performance is also supported by (Gumusluoglu & Ilsev, 2009; Mahdinezhad, Suandi, bin Silong, & Omar, 2013; Zhu, Chew, & Spangler, 2005). A strong relationship is evident in most studies about the relationship between performance of the organization and its managerial leadership. Leadership is critical at all levels in an organization. However, the managerial level embraces high significance. In many organizations, it seems that leadership is one of the most effective processes in influencing employees to drive best out of them. (Rickards & Moger, 2006) stated that leaders of the organization have the ability to educate as well as support their employees while challenging them with creative and innovative work at the same time. Leaders hence, with their words, actions and behavior encourage the employees to put extra effort to promote achievement of set aim and goals. On the contrary, other studies report a negative relationship between transactional leadership and job performance (Geyer & Steyrer, 1998; Lowe, Kroeck, & Sivasubramaniam, 1996; MacKenzie, Podsakoff, & Rich, 2001; Parry & Proctor-Thomson, 2002).

Hence the relationship between transactional leadership and job performance still stands confusing and the results evident a mixed relationship between the two. The present study, in the light of leader member exchange (LMX) theory (Graen, 1976), aims at investigating the postulated relationship between transactional leadership and job performance in the banking sector of Pakistan.

3. Methodology

3.1. Sample and Population

The Full time branch managers of six large banks of Pakistan were surveyed. For the total population of 1314 (Pakistan Banks Association, 2014) branch managers all around the province of Sindh a minimum of 302 (Krejcie & Morgan, 1970), responses were required. Hence using proportionate random sampling a total of 500 questionnaires were mailed to the bank branches with self-addressed returned envelopes out of which 297 useable questionnaires were received.

3.2. Measures

The job performance was measured using job performance scale developed by (Williams & Anderson, 1991) with 37 items and Transactional leadership was measured using Multifactor Leadership Questionnaire (MLQ) developed by (Bass & Avolio, 2000) with 12 items.

Respondents were asked to self evaluate about perceived job performance and transactional leadership style. The five point Likert scale with 1 indicating (strongly disagree) and 5 as (strongly agree) was employed.

3.3. Demographic Profile of the respondents

The majority of managers were fall in 31 to 40 years of age group with 39.1% and lowest percent falls in 51 or above age group that is with 8.1 percent. The majority of

the managers were male with 94.9% whereas females are 4.7% percentage only. 84.2% managers are married and 15.8% are unmarried. A larger portion of managers were graduates with 91.2%, undergraduate. The major two groups of the managers have salaries PKR 40,000 or less with 21.5% and PKR 80,000 or above with 21.2%. The detailed demographics of the respondents are given in the table 1 below:

Table 1: Demographic Profile of Respondents

<u>Characteristics</u>	<u>Frequency</u>	<u>Percentage</u>
Gender		
Male	282	94.9
Female	14	4.7
Age		
20-30 years	74	24.9
31-40 years	116	39.1
41-50 years	82	27.6
51 and above	24	8.1
Position		
Branch Manager	155	52.2
Operations Manager	141	47.5
Experience		
Less than five years	46	15.5
5 to less than 10 years	117	39.4
10 to Less than 15	49	16.5
15 to less than 20	32	10.8
20 to less than 25	17	5.7
25 to less than 30	15	5.1
30 and above	21	7.1
Qualification		
Undergraduate	22	7.4
Graduate	271	91.2

Post Graduate	4	1.3
Monthly Income		
40K or less	64	21.5
41 to 50 K	56	18.9
51 to 60K	51	17.2
61 to 70K	33	11.1
71 to 80K	30	10.1
81 to above	63	21.2
Marital Status		
Married	250	84.2
Unmarried	47	15.8

4. Analysis and Results

Before performing the analysis, the assumptions related to linearity, normality and multi-co-linearity were assessed (Hair, Ringle, & Sarstedt, 2011; Tabachnick & Fidell, 2001). After satisfying these assumptions, the partial least square (PLS) path modeling (Wold, 1974, 1985) using Smart PLS 2.0 (Ringle, Wende, & Will, 2005).

4.1. Measurement Model Results

The individual item reliability, internal consistency reliability and discriminant validity were ensured for assessing the psychometric properties of the scales that have been adopted in the present study. In order to determine individual item reliability the outer loadings were used following on (Hair Jr, Hult, Ringle, & Sarstedt, 2013).

Table 2 a: Results of Measurement Model

<u>Latent Variables</u>	<u>Items</u>	<u>Loadings</u>	<u>AVE</u>	<u>CR</u>
Contingent Reward (CR)	LS1	0.76434	0.619921	0.765223
	LS31	0.809708		
Management by Exception -Active	LS22	0.824517	0.632942	0.774977

(MBEA)

	LS25	0.765543		
Management by Exception –Passive (MBEP)	LS10	0.815171	0.51476	0.807711
	LS15	0.612149		
	LS18	0.723341		
	LS3	0.704689		
Task-Performance	JPTSK1	0.83753	0.568512	0.793924
	JPTSK2	0.820655		
	JPTSK3	0.574981		
Organizational Citizenship Behavior (OCB)	JPOCB28	0.634294	0.507909	0.877523
	JPOCB32	0.642152		
	JPOCB33	0.790144		
	JPOCB34	0.758635		
	JPOCB35	0.774777		
	JPOCB36	0.634145		
	JPOCB37	0.733758		

Table 2 b: Correlation and Discriminate Validity

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
CR	0.7873506				
MBEA	0.190901	0.7955765			
MBEP	0.056968	0.288594	0.7174678		
OCB	0.284067	0.35446	0.185216	0.7126773	
Task	0.279529	0.147699	0.011416	0.298467	0.7539973

Note: bold diagonal figures are the square root of AVE.

The items which consisted of 0.5 and above loadings were retained (Barclay, Higgins, & Thompson, 1995; Chin, 1998). The loadings are presented in Table 1. Further, in order to ascertain internal consistency reliability the composite reliability coefficient were used which according to (Bagozzi & Yi, 1988) and (Hair et al., 2011) should be at least 0.7 or above (refer table 1). Therefore, it can be said that the present study meets the internal consistency reliability.

The average variance extracted (AVE) was used for determining discriminant validity drawing on the suggestions of (Fornell & Bookstein, 1982). According to whom the square root of AVE should be greater than the correlations among latent variables. The results of discriminant validity are presented in Table 2.

4.2. Structure and Model Results

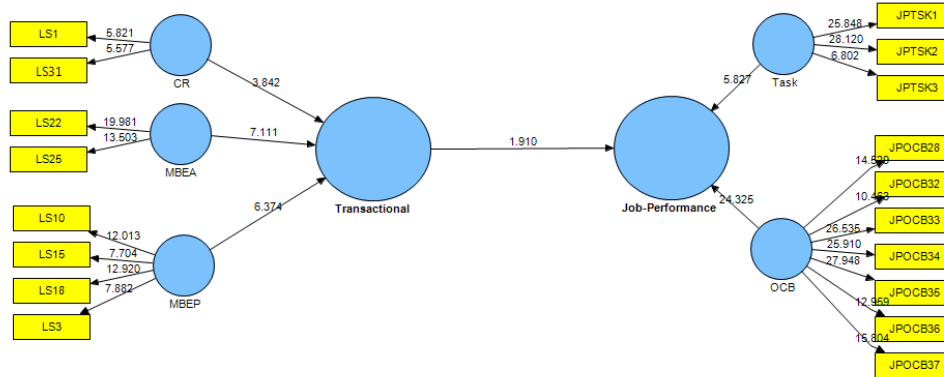
In order to assess the significance of the path coefficients the bootstrapping procedure was used with 5000 bootstraps and 297 cases (Hair, Sarstedt, Ringle, & Mena, 2012). The path coefficients are presented in Table 3 and Figure 1.

Table 3: Path Coefficients and Hypothesis testing

<u>Hypothesis</u>	<u>Relationship</u>	<u>Beta</u>	<u>SE</u>	<u>t- statistics</u>	<u>Decision</u>
H1	Transactional -> Job- Performance	0.084075	0.044026	1.909667	Supported

Note: Transactional = Transactional Leadership

Figure 1: Assessment of structure model



The relationship between transactional leadership and job performance is discussed in Table 3. According to which the path coefficient from transactional leadership to job performance is 0.08 (t-value = 1.90). Hence it suggests that there is a relationship between transactional leadership and job performance. Table 4 presents the r-square value of job performance which is 0.87. This informs us that the transactional leadership explains 87 percent of the variance in the job performance.

Table 4: Variance Explained in the Endogenous Variable

Latent Variable	Variance Explained
Job Performance	87%

5. Discussion, Recommendations and Conclusion

The purpose of the present study was to assess the transactional leadership and job performance relationship. The results of the study suggest that transactional leadership has positive relationship with job performance. These results are also consistent with the previous research (Dolatabadi & Safa, 2010; Mohammad Mosadegh Rad & Hossein Yarmohammadian, 2006; Voon, Lo, Ngui, & Ayob, 2011).

In the light of Leader Member Exchange (LXM) theory (Graen, 1976), this study provides empirical evidence that transactional leadership adds positively to the increase of employees job performance. It posits that transactional leadership style is perceived to be very critical factor that influences employee’s job performance. The results of the present study suggest that leaders by adopting transactional style could influence dramatically job performance of employees. Therefore, prominent leaders should consider this style of management.

The present study addresses the examination of transactional leadership with job performance among the branch managers of big six banks of Pakistan. Drawing upon LXM theory the results suggest a positive association between the two. Hence it is suggested to broaden the scope of this study into the other banks of the country to better explain this relationship and collect further evidence to validate these results.

Besides, only transactional leadership style was investigated under this study. Therefore, it is also suggested to investigate the influence of other potential leadership styles over job performance in this industry. This study might also have limitations particularly due to its cross-sectional design. Further analysis on longitudinal basis is suggested.

Although the present study has several limitations despite that it reports a positive relationship between transactional leadership style and job performance. Thus, it can be concluded that leaders opting transactional style can potentially contribute to the employee's job performance and ultimately increasing organizational effectiveness.

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