

# Impact of Transformational and Transactional Leadership Styles on Employees' Performance of Banking Sector in Pakistan”

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## Abstract

This study identified the basic tool for development of organization by utilizing the leadership qualities where as there are two independent variables included Transactional and transformational leadership qualities and dependent variable is employee performance. The author(s) believes that employee performance is very essential for any organization throughout motivating, satisfying, idealized, influence/inspirational encouragement directly impact on the employee's performance and result in organizational performance although Banking sector is growing industry in Pakistan therefore to know the impact of Transactional and transformational leadership on employees performance and they are facing the critical hurdles while this study is based on quantitative and primary and secondary data has been used for this study along-with it is exploratory researcher. Researcher has made the eighteen questions which are based on five likert scale and firstly researcher has assured the reliability and validity through the pilot test from different bankers in Pakistan and SPSS 20 Software has been used for study for the first time Cronbach's Alpha shown .79 for pilot test, this data provides the validity and reliability of study. Furthermore, the researcher has proceeded and sample size has taken around 172 from population size and tried to his/her best efforts in order to achieve the results and then recommendations conclusion is made for this research.

**Index terms**— transactional leadership, transformational leadership, employees performance, management, leadership, banks.

## 1 Impact of Transformational and Transactional Leadership Styles on Employees' Performance of Banking Sector in Pakistan”

Introduction a) Background his research study is belonging to the impact of transformational and transactional leadership styles which directly influenced on employees' performance of banking sector in Pakistan. Banks are often portrayed as a nation's economic engine. They provide financial intermediation functions between investors, savers, businesses and consumers. They are looking for growth, safety, access to capital and credit. Pakistan's banking sector is playing a main position as appliances of the government's monetary strategy intended at amendable interest rates and money supply in the financial system.

It is an also providing sustainability of economy and improves financial strength for betterment of country. Leaders play important role in accomplishment of goals and enhance employees' productivity through satisfying them by their jobs. Consequently, there are different aspects of leadership. Mintzberg (2010) defines that leadership is the essential toward the confidence which comes from the admiration of others. Jamaludin (2011) conducted research work on the leadership as well as their methods and suggested that efficient leaders are those

who utilize their commands for the additional worth of followers and company. Leaders are only key source that drive to improving the performance and modernization of followers, Lievens et al, ??1997).

Furthermore, (Realin, 2011) focused on the leadership is directly associated to performances to which persons are devoted. The most important of the leaders is their dominant personality which has optimistic relationship with the roller follower job satisfaction as well as performance, Lian et al, (2011) found over the last three decades the transformational Leadership theory is captured the interest of many researchers in the field of leadership. The early theories of Burns, ??1978) : Bass, (1985 ?? Bass, ( , 1998)); Bennis & Nanus, ??1985); Tichy & Devanna, (1986); Avolio ??&, 1988; ??ass & Avolio, (1994) claims that the essential principle of the transformational leadership theory is the leader has the capability to encourage the fan to acquire in excess of what the followers are expected toward accomplish ??Krishnan, 2005).

There are four components of transformational leadership including inspirational motivation, intellectual stimulation, and individualized consideration and idealized influence. Bass (1985) concluded that Transformational leadership has four components: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Recent study outlined by ??rishnan (2002) suggests that Transformational leadership inspire followers toward acquire additional through concentrating on the followers morals of the company supporting the follower align these morals and values with the values of company. It is suggested by Burns. In addition, transformational leadership like a relationship where the leader and the follower encourage everyone to higher levels which resulted in value method correspondence among leader and follower.

Hautala & Routamaa (2008) assert that the purpose of our research is to know the impact of transformational and transactional leadership style on employees' performance in banking sector of Pakistan, There is lofty authority distance but low individualism in Pakistani traditions, and it is based on the authority distance as well as gives main concern to the autocratic decisions creating styles.

Jeger (1986) has showed that transactional leadership is more successful in various countries outside of North America, including India, Nigeria, Japan and Pakistan. Ahmed, (1996) state there is command and control rules in Pakistan because it is bureaucratic state. Consequently, transactional leadership might be more efficient in this specified culture, and yet, the main purpose of our research is to know the impact real styles of leadership in the banking sector where it leads to growing the job satisfaction and, finally, has resulted in an increase in the performance of the employee.

## 2 b) Justification and Logical Reasoning

In today's aggressive environment of Pakistan's banking sector, it is facing the challenges of talented people and focusing on the satisfaction of customers and employees. Managers are also striving to attain targets on timely basis. Reason for this research, Managers will be create diverse motivational strategies and methods to enhance employees' performance or transform the resulted oriented environment in banks through the support of transformational and transactional leadership styles to adopt it in their banks and it will in results boots up the performance of employees. Hence, researcher wants to perform investigation on following problem. "Impact of Transformational and Transactional Leadership Styles on Employees' Performance of Banking Sector in Pakistan" for that reason main research question and problem statement are given as under:c) Research Question

What is the impact of the transformational and transactional leadership style on employees' performance?

## 3 d) Statement of Problem

Transformational and transactional leadership has important impact on employees' performance of banking sector in Pakistan.

## 4 e) Objectives of the Study

This research extremely focuses on Impact of transformational and transactional leadership employees' performance of banking sector in Pakistan. For that reason the most important purpose of this research is to discover the impact of transformational and transactional leadership on employees' performance of banking sector in Pakistan.

The research objectives are given as follow.

? To know the impact of transformational leadership on employees' performance of banking sector in Pakistan.

? To know the influence of transactional leadership on employees' performance of banking sector in Pakistan.

## 5 f) Hypothesis

H o = The transformational leadership has not significant impact on employees' performance of banking sector in Pakistan.

H 1 = The transformational leadership has significant impact on employees' performance of banking sector in Pakistan.

H o = The transactional leadership has not significant impact on employees' performance of banking sector in Pakistan.

H 2 = The transactional leadership has significant impact on employees' performance of banking sector in Pakistan.

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## 6 g) Scope of the Study

The importance of this study is that it will help the banks to adopt a leadership styles, build a resultoriented environment and increase employees' performance. This research is contributing for boost up the productivity of employees working in banks of Pakistan. Leadership is about inspiration to the employees.

## 7 ? It will supportive to overall human resource departments

? It will maintain and boast the leadership qualities among the employees ? It will helpful to understand current and future condition of organization

## 8 ? It will provide encouragement and motivation for employees

### h) The Delimitation

There are several limitations that we faced during and completing this research work; these were time constraints, geographical constraints, and financial constraints. This research was aimed to be completed in the limited time frame and consists of different total quality management tools which are being implementing in different banking sector in Pakistan.

## 9 Literature Review

Recent studies declares the Transformational Leaders as kind of "GREAT MAN", this is great quality to being a Transformational Leaders. There are different approaches over the Transformational and Transactional leadership which is categorized into four aspects included Contingency approach, Situational Model, Trait Approach and Behavioral approach. The Leadership was limited within person or the circumstance but with the passage of time, it has revised and creating the role social interaction as well differentiates in broader aspect. The Transactional era thought generate by the recent time when the dominance has increases among the managers and subordinates and the Transactional theory has established recently which most prominent evolutionary development of leadership is era of Transformational.

Bass, (1985) declared that the recent theories considering only two kinds of leadership behavior these are Transactional and Transformational along-with these are very vital and play important role. The managers must play the role of leadership within the organizations. Mostly managers create the mistake by assuming, as they are supervisors and managers along-with they are leaders as well linkage undoubtedly considered but the fact is this their designation indicate the title not exclude leadership.

Peter Northouse, (2001) state that leadership like a shared process whereas an individual impact the overall team members to acquire the mutual objectives; it is indeed to impact must be in positive way towards acquire the goals within the industry and it is very effective leadership. Considering the Leadership quality transactional leadership is access and bolsters to make the leaders of exceptional.

## 10 a) Transformational Leadership

Bass along-with some authors declared that it very hard to control the employees who are commitment as well dedication for greatness while to lead this perception leaders have to follow the Transaction Qualities.

James McGregor Burns (1978) contends that Leadership for the 1 st time concept was developed in his book Transactional Leadership to engage with team and acquire the common goals, Transformational Leadership is only process that increases the connection and impact the overall members of team along-with enhances the level of morality as well motivation.

Recent study outlined by Northouse, (2001) suggests that by using this method Transformational Leadership it is very important to understand correctly because it is procedure that transforms the individual and finally changes. Along-with Transformational Leadership is the only way to retain people, change the ability and improve the productivity. Identify the values, satisfy them motivates them according to their requirements. If companies use this leadership characteristic then it enhances productivity and it could make the more successful business. (Walton, 1996) found that It was great example of Wall Mart founder who usually visited to Stores and once times he was gone to different outlets around the country and during his visit he met with everyone who are working in Wall Mart and shake hand with them with his courage and appreciation everyone was happy. After that he Sam Walton defined rules for success according to his autobiography; appreciate one of them to the employees with praise.

Furthermore transformational leadership divided into four factors included Intellectual stimulation, Individual Consideration, Idealized influence and Inspirational Motivation which also recognized as the four I's. These factors are very useful and helpful for managers within the organization.

? Intellectual Stimulation: Define that by challenging the group views or normal beliefs the supervisors and managers encourage the creativity and innovation. To create the successful organization and enhances the critical thinking as well problem solving it is necessary to have the intellectual stimulation.

? Individual consideration: it is very essential for the individual and managers to reach the organizational objectives because this leadership quality motivates to followers and managers usually perform as an advisors and coaches who encourage the individual.

? Idealized influence: those managers who has the Idealized influence maybe respected as well trusted with the affiliation towards create the well decision for the business and they play the role of exemplary

? Inspirational motivation: it defines that supervisors who generally motivates and inspires others to achieve the organizational goals and it increased the revenue within the organization. It associates to commits towards the organization vision. This is process of Transformational leadership and each component is very supportive for an organizations. While managers must play the role model of motivators, coaches, advisors and innovators by exercising the four I's towards support and links in to more productive as well impact the successful employees within the organizations.

Northouse, (2001) explored the Transformation theory around 39 studies those employees who pursuing the Transformational Leadership would be very efficient for the organization and outcome would be produced within the organization this method has been useful for together low as well high level leaders within the private and government organizations So, these approaches applicable for the both sectors.

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### 11 . Strengths and Weaknesses of Transformational Leadership

Considering the any theory or approach towards leadership it becomes obvious strengths and weaknesses.

Furthermore Northouse (2001) states the several strengths and weaknesses for transformational leadership theories included:

? Strengths of transformational leadership it has been researched in broader aspect and efficiently way to influence the group "of the one on one throughout the organization" and it create the link which correspond the values as well needs.

? There are many components of weaknesses in a broader aspect, while it focused on the character of personality based, after that like a behavior for learning as well dominance of power within the organization.

### 12 ii. Applying Transformational Leadership

The term Transformation Leadership it is very broader level into leadership. The 1 st stage of fetching an efficient transformational leadership is an activity or procedure because there is no any particular stage for supervisors to follow. It is ongoing process while it shows that effort for consciousness prerequisite to acquired the style of transformational.

These Four I's are efficiently useful method for modern world and it supports to manager along-with exercise this method.

Furthermore recent study outlined by Northouse (2001) focused on the qualities of transformational leader included:

? Listen to all perspectives to enhance the spirit of collaboration.

? Influence and inspire to others for what is suitable for the company

? Become a idol with lofty value

? Makes the creativity, vision and imagination utilize employees within the company

? Helping and supporting to others and contribute towards the organization success

? Acting as an agent of change in the company with visualizing the example of how to begin and apply change;

For the strategic development of small companies it is very crucial style of transformational Leadership. Those businesses which are based on small with transformational leaders at the summit to take ambitious objectives and they can quickly acquire success with the vision and capacity building of the team leader.

Those who have Transformational Leadership qualities they can be more effective CEO's or sale Managers. There is need to plan and communicate grand strategic mission for Executive managers, Executive managers need the ability to design and communicate grand strategic missions, for implementation of the details, it is passing the missions towards transactional leaders.

There is essential association between transformational Leadership with operation of organization according to several investigations documented.

Weber, Kelloway & Barling ??1996) shows that employee commitment to the organizations it is a particular objective which is linked with the transformational leadership.

### 13 b) Transactional Leadership

"Keeping the ship afloat" term may be defined by Transactional leadership. The style of transactional leadership is more concerned by maintaining the standard process for operations or functions. Transaction Leaders works effectively and this type of quality usually encourages to employees and subordinates through rewarding them for their performance. Most of the employees are motivated and their performance increases with the Transactional leaders because they use incentives array and disciplinary power.

The term Transactional leadership uses for as exchange the relation of transaction among the employees and themselves. Basically they say "I will examine after your interests if you will examine after mine". Employees are motivated with the incentive along-with punishment it is believe by transactional leaders.

Leaders ensures to followers and gives the clear suggestions regarding what are the expectations of them and how much take time to fulfilled those

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A expectations. There is severe punishment for them and store reward failure. Contingent reward-it is defining that exchange between expectations of follower and what will obtain in return by followers.

Active management by exception-The point of interest is on detecting and correcting mistakes, complaints or issues in order to maintain current performance status. Management by exception passive-Addressing issues most effective after they've grow to be critical Laissez faire-abdicates duties and avert making decisions

The styles of transactional leaders were more concerned with the theories such as situational approach and behavioral approach at which point leaders encouraged and motivated to followers within the way of settled objectives and goals by task requirement and make clear role. While nothing could also be incorrect by this strategy.

The entire important points that come collectively to construct a strong popularity on the market handle by Transactional leaders whilst retaining performance of employees on the forefront .These kinds of leaders generally isn't look ahead in deliberately controlling an association to a position of business sector leadership rather, these supervisors and managers are singularly concerned with verifying everything streams easily nowadays. They provide specified advantages by their competencies to deal with small functional and operational important data rapidly.

i. Applications Different administration methods are best suited to various conditions. In regards to frontline managers of lowest salary employees such as it can be more efficient by transactional leadership style. If shift supervisors are more concerned by making sure all of the different stations run smoothly comparatively spending much time thinking up enhances techniques toward serve hamburgers at fast food fast restaurant will be more effective.

Stephen Covey (1992) argues on the Top Line as well offers a contrast between two factors focuses by Transactional Leadership included

## 16 Comparison of Transformational and Transactional Leadership Styles Transformational Leadership

Transactional Leadership Hartnell & Walumbwa (2011) argue that there is good association between leadership and employee performance furthermore performance word is uses for determinant to obtaining the organizational goals, pioneering, stirring and examine the individual skills to be inspired. Recent study outlined by ??arris & Ogbonna (2000) suggests that it is more focused and considerable attention between the relationship of Performance and Leadership.

Gadot, (2006) state that organizations mostly more concerned with the enhancement of employees performance and this is main target of organizations.

Howell, Merenda (1999) Goodwin, (2001) define that to achieve the organizational objectives as well employees act, the transformational leadership will play an essential role and it increasing the job satisfaction. Walumbwa, Avolio & Zhu (2008) state that the transformational leaders have impact on the subordinates' abilities through work worth toward asses' the performance of employees. They generally provides

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the training programs for their employees, receive feedback from their subordinates, arranged the meetings with their subordinates consequently performance of employees added these are assets for an organization. ??Ozaralli, 2002) argue that empower the team members because most of the organization enhances the employee's performance through empowerment.

Gino, Hofmann and Grant, (2011) conclude that according to researchers they believe that employees' performance that have extroverted leadership they consistently work hard with keen interest and their performance are enhanced over the extroverted leadership if employees are optimist and proactive the outcome would be productive. Recent study outlined by ??iswas (2009) suggests that communication plays an active role and organizational communication act in approach to securing staff through maintaining and transmitting the culture values, managers also plays worthwhile role for the augment of Employee performance by supporting style of managers since organizational framework towards employees' way of life within the organization.

## 19 Theoretical Framework

## 20 III.

## 21 Research Methodology

In order to gather the proper data the researcher used both Quantitative and Qualitative methods. The sample procedure was used Snowball Method and Simple Random sampling and descriptive study. Primary Data collected through Questionnaire. On the other hand, researcher also used Secondary data including from electronic resources and research articles .Sample was gathered from both male and female employees working in banks of Pakistan. The job positions of employees comprise Management Trainee, Managers, Assistant Managers, OG-I, OG-II and OG-III officers and others employees. The survey population has taken from several banks in Pakistan. The researcher has taken Sample size around 172 from population size 1000, there were some limitations whereas researcher hardly compile and collect the data due to managers were busy and some of them couldn't give the proper time for filling the questionnaire therefore the researcher has spent more time to collect the data and manage it properly.

IV. In the Above Summary of ANOVA shows the statistically significance and their values are  $>0.05$  which shows that transactional and transformational leadership highly impact on the employee's performance and there is positive relationship such as: H1: The Null hypothesis has failed to reject and the Alternative hypothesis has been accepted H2: The Null hypothesis has failed to reject and the Alternative hypothesis has been accepted V.

## 22 Results and Findings

## 23 Conclusion & Recommendations

This study highlights that the performance of banks and their relationship within the banks are highly motivated with effectiveness of Leadership qualities whereas Transactional Leadership and Transformation Leadership are very important within the organization because organization performance are enhance with the effort of employees and employees are only assets that they can enhance the overall performance of banking industry and modern era there are many technologies has been used for retaining the employees as researcher try to find the factors and ultimately result shows the strong relationship between the IV and DV after getting result of pilot test then researcher proceeded furthermore Anova and Regression model has been used for this study because this given us facts and data. Leaders are inspire to others and they will motivated with efficient and leaders throughout the overall study the researcher has made conclusion and recommendations on the basis of Facts and concluding overall data.

## 24 a) Recommendations and Implementations

? The banks should start a companywide perception of TQM through seminar and workshop.

? Employees' value perception and engagement through well-developed program should be granted broad publicity.

? Top administration should be engaged in relentless supervising of the advancement of applying the leadership style at distinct department of the banks.

? Encourage the valuable employees and use the scale of 360 degree which enhance the performance of employees

? There should be open forum to all employees whereas Managers and leaders should listen to all employees and work as team.

? Review methods should be established in each of the banks.

? Managers and leaders are be pro-active and retain the employees within the organization

? Quality enhancement scheme should be developed to cover all the facet of banking transaction. <sup>1 2</sup>

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Figure 1:

ANOVA SUMMARY				
ANOVA a				
Model		Sum of Squares	df	Mean Square
1	Regression	13.109	1	13.109
	Residual	87.602	170	.515
	Total	100.711	171	
2	Regression	20.632	2	10.316
	Residual	80.079	169	.474
Total Transformational Leadership 100.711 a. Dependent Variable: Employee Performance 171				
b. Predictors: (Constant), Transformation Lead				
Sector in Pakistan c. Predictors: (Constant), Transformation Lead, Transactional Lead				
Transactional Leadership				
a) Pilot Test				
Case Process				
Cases Valid				
Excluded a				
Total				
a. Listwise				
procedure.				
Cronbach's				
The Model Summary				
Model Summary c				
Model	R	R Square	Adjusted R Square	Std. Error Estimate
	.453	.205	.195	.68836
b				
a. Predictors: (Constant), Transformation Lead, Transactional Lead				
b. Dependent Variable: Employee Performance				

Figure 2:



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