

¹ Impact of Transformational and Transactional Leadership Styles ² on Employees' Performance of Banking Sector in Pakistan"

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⁷ **Abstract**

⁸ This study identified the basic tool for development of organization by utilizing the leadership
⁹ qualities where as there are two independent variables included Transactional and
¹⁰ transformational leadership qualities and dependent variable is employee performance. The
¹¹ author(s) believes that employee performance is very essential for any organization throughout
¹² motivating, satisfying, idealized, influence/inspirational encouragement directly impact on the
¹³ employee's performance and result in organizational performance although Banking sector is
¹⁴ growing industry in Pakistan therefore to know the impact of Transactional and
¹⁵ transformational leadership on employees performance and they are facing the critical hurdles
¹⁶ while this study is based on quantitative and primary and secondary data has been used for
¹⁷ this study along-with it is exploratory researcher. Researcher has made the eighteen questions
¹⁸ which are based on five likert scale and firstly researcher has assured the reliability and
¹⁹ validity through the pilot test from different bankers in Pakistan and SPSS 20 Software has
²⁰ been used for study for the first time Cronbach's Alpha shown .79 for pilot test, this data
²¹ provides the validity and reliability of study. Furthermore, the researcher has proceeded and
²² sample size has taken around 172 from population size and tried to his/her best efforts in
²³ order to achieve the results and then recommendations conclusion is made for this research.

²⁴

²⁵ **Index terms**— transactional leadership, transformational leadership, employees performance, management,
²⁶ leadership, banks.

²⁷ **1 Impact of Transformational and Transactional Leadership 2 Styles on Employees' Performance of Banking Sector in 29 Pakistan"**

³⁰ Introduction a) Background his research study is belonging to the impact of transformational and transactional
³¹ leadership styles which directly influenced on employees' performance of banking sector in Pakistan. Banks
³² are often portrayed as a nation's economic engine. They provide financial intermediation functions between
³³ investors, savers, businesses and consumers. They are looking for growth, safety, access to capital and credit.
³⁴ Pakistan's banking sector is playing a main position as appliances of the government's monetary strategy intended
³⁵ at amendable interest rates and money supply in the financial system.

³⁶ It is an also providing sustainability of economy and improves financial strength for betterment of country.
³⁷ Leaders play important role in accomplishment of goals and enhance employees' productivity through satisfying
³⁸ them by their jobs. Consequently, there are different aspects of leadership. Mintzberg (2010) defines that
³⁹ leadership is the essential toward the confidence which comes from the admiration of others. Jamaludin (2011)
⁴⁰ conducted research work on the leadership as well as their methods and suggested that efficient leaders are those

5 F) HYPOTHESIS

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

43 Furthermore, (Realin, 2011) focused on the leadership is directly associated to performances to which persons
44 are devoted. The most important of the leaders is their dominant personality which has optimistic relationship
45 with the roller follower job satisfaction as well as performance, Lian et al, (2011) found over the last three decades
46 the transformational Leadership theory is captured the interest of many researchers in the field of leadership. The
47 early theories of Burns, ??1978) : Bass, (1985 ?? Bass, (, 1998)); Bennis & Nanus, ??1985); Tichy & Devanna,
48 (1986); Avolio ??&, 1988; ??ass & Avolio, (1994) claims that the essential principle of the transformational
49 leadership theory is the leader has the capability to encourage the fan to acquire in excess of what the followers
50 are expected toward accomplish ??Krishnan, 2005).

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

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

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

69 2 b) Justification and Logical Reasoning

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

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

79 3 d) Statement of Problem

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

82 4 e) Objectives of the Study

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

87 The research objectives are given as follow.

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

90 5 f) Hypothesis

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

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

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

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

99 6 g) Scope of the Study

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

103 7 ? It will supportive to overall human resource departments

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

106 8 ? It will provide encouragement and motivation for employees

107 h) The Delimitation

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

112 9 Literature Review

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

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

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

130 10 a) Transformational Leadership

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

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

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

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

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

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

13 B) TRANSACTIONAL LEADERSHIP

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

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

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

168 i

169 11 . Strengths and Weaknesses of Transformational Leadership

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

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

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

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

178 12 ii. Applying Transformational Leadership

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

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

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

- 187 ? Listen to all perspectives to enhance the spirit of collaboration.
- 188 ? Influence and inspire to others for what is suitable for the company
- 189 ? Become a idol with lofty value
- 190 ? Makes the creativity, vision and imagination utilize employees within the company
- 191 ? Helping and supporting to others and contribute towards the organization success
- 192 ? Acting as an agent of change in the company with visualizing the example of how to begin and apply change;
- 193 For the strategic development of small companies it is very crucial style of transformational Leadership. Those
194 businesses which are based on small with transformational leaders at the summit to take ambitious objectives
195 and they can quickly acquire success with the vision and capacity building of the team leader.

196 Those who have Transformational Leadership qualities they can be more effective CEO's or sale Managers.

197 There is need to plan and communicate grand strategic mission for Executive managers, Executive managers
198 need the ability to design and communicate grand strategic missions, for implementation of the details, it is
199 passing the missions towards transactional leaders.

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

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

204 13 b) Transactional Leadership

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

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

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

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

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

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

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

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

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

240 16 Comparison of Transformational and Transactional Leader- 241 ship Styles Transformational Leadership

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

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

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

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255 18 A

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

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

267 **19 Theoretical Framework**

268 **20 III.**

269 **21 Research Methodology**

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

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

284 **22 Results and Findings**

285 **23 Conclusion & Recommendations**

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

296 **24 a) Recommendations and Implementations**

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

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

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

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

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

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

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

308 ? Quality enhancement scheme should be developed to cover all the facet of banking transaction. ^{1 2}

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Figure 1:

24 A) RECOMMENDATIONS AND IMPLEMENTATIONS

ANOVA SUMMARY			
ANOVA a			
Model		Sum of Squares	df
1	Residual	109	1
	Residu	87.602	170
	Total	100.711	171
2	Residual	32	2
	Residu	80.079	169
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 Processing Information			
Cases Valid			
Excluded a			
Total			
a. Listwise procedure.			
Cronbach's			
The Model Summary			
Model Summary c			
Model	R	R	Adjusted R
	Square		Std. Error
		Square	
	.453	.205	.68836
	b	.195	
a. Predictors: (Constant), Transformation Lead, Transactional Lead			
b. Dependent Variable: Employee Performance			

Figure 2:

309 [Bass ()] 'From transactional to transformational leadership: Learning to share the vision'. B M Bass .
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