



## **Leadership & Performance**

The qualities of transformational leaders and what distinguishes them from transactional leaders

CQ Dossier | Evidence-based Leadership

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## Executive summary

This CQ Dossier describes the qualities of transformational leaders and how they gain commitment to their vision and the mission of the organization. It draws on the main theories of transformational leadership to present the key behaviors that distinguish transformational leaders from transactional leaders. The paper describes how transformational leaders show individualized consideration, intellectually stimulate their followers, provide inspirational motivation and idealized influence.

### Transformational leaders guide followers through inspiration and motivation

Over the last ten years, researchers have focused on transformational leadership as a being an effective leadership strategy to implement within public and private sector organizations (Hassan & Hatmaker, 2014). Transformational leaders work with their employees to implement change. Transformational leaders create a vision for their followers and guide the change through inspiration and motivation. They are excellent role models and their followers emulate many of their actions. They also inspire through activating follower self-efficacy so that followers believe that they can go beyond expectations (Barth-Farkas & Vera, 2014). This paper describes the main dimensions of transformational and describes those qualities that distinguish transformational leaders from managers who use a transactional leadership style. The CQ Dossier supplies recommendations on how best to cultivate a culture where transformational leadership flourishes and the interventions that can help an organization foster through transformational leadership.

### The key components of transformational leadership

There has been a proliferation in research on transformational leadership with charisma being the most important construct. The sociologist, Weber first used the term 'charisma' to describe a form of social authority and stated that transformational leaders derive their legitimacy through their behavior and character rather than through a

formal position, rules, or tradition. In fact, the term, 'charisma' means "endowed with the gift of divine grace" and imbues a person with referent power so that they gain legitimacy as a leader. Concern about a faltering world economy led scientists and practitioners to rediscover the concept of transformational leadership. Transformational leadership was viewed as a positive force to mobilize organizations.

## Transformational leadership is comprised of four main components

Instead of managers who continue to move organizations along historical tracks the new leaders must transform the organizations and head them down new tracks. What is required of this kind of leader is an ability to help the organization develop a vision of what it can be to mobilize the organization, to accept and work toward achieving the new vision and to institutionalize the changes that must last over time (Tichy & Ulrich, 1984). This resurgence of interest in outstanding leadership generated a substantial body of theoretical and empirical investigation of transformational leadership. The main contributor to the field was Bernard Bass (Bass, 1985). Along with his colleague Bruce Avolio, they developed and refined a theory and measurement of transformational leadership that comprised of four main components.

**Individualized Consideration** is the extent to which a leader attends to each follower's needs and is a mentor, coach or guide to the follower. This leader listens to the concerns and needs of each follower and provides support and is empathic of each person's situation and background. When a leader shows individualized consideration they are also aware of the unique talents that each follower brings to the workplace and support them in developing and demonstrating these key skills and behaviors. This leads the follower to aspire to develop further and they show intrinsic motivation when performing their work.

**Inspirational Motivation** is the degree to which a leader articulates an appealing vision that inspires and motivates others to perform beyond expectations. Leaders who use inspirational motivation have high standards and expectation for their followers. They are optimistic about follower ability to meet goals and they always provide meaning to their followers through showing the importance of all duties and responsibilities. In fact,

they are able to motivate their followers to have a strong sense of purpose so they provide purpose and meaning to drive their group forward. This encourages followers to invest more effort in their tasks and to be optimistic about the future and to invest in their own abilities. Team spirit is usually enhanced by this type of leadership. Here is an example of speech that was used in a research study by Howell and Frost and exemplifies transformational leadership:

*The result of this project could go a long way towards changing the way business schools train their students. We hope this project will have a direct effect on how managers are trained in the future. What you are doing today is going to have an impact on your own future. As you go through the exercise, I really want you to be as creative and imagine as you can ....Don't be afraid to take risks. Trust your instincts (Howell & Frost, 1989, p250).*

Transformational leaders who show **Idealized Influence** are role models for their followers because they engage in high standards of ethical behavior. Followers identify with these leaders, and want to emulate them. These leaders usually have very high standards of moral and ethical conduct and can be considered to doing the right thing. They are deeply respected by followers, who usually place a great deal of trust in them. They provide followers with a sense of vision and mission.

**Intellectual Stimulation** is the extent to which transformational leaders challenge assumptions, take risks and solicit followers' ideas. They recognize followers through stimulation, creativity and innovation. The leader support and collaborates with the followers as they try new approaches and develop innovative ways of dealing with organizational issues. The leader encourages followers to think things out on their own and encourages followers to think independently so that followers become autonomous.

## Transactional leader put their focus on deviation management and corrective action

These are the four main factors of Transformational Leadership. Transformational leadership has been contrasted with Transactional Leadership (Bass, 1985). The active

transactional leader, through an exchange with subordinates, emphasizes the giving of rewards if subordinates meet agreed upon performance standards. The less active transactional leader practices avoidance of corrective action (management-by-exception) as long as standards are being met and is best depicted by the old adage, "if it ain't broke, don't fix it." Thus, active transactional leadership emerges from a rational-legal relationship, whereby leaders gain compliance from their followers through an exchange of goods. There is empirical evidence that transformational leadership is more effective than transactional leadership. In contrast to managers who use transactional methods such as providing contingent rewards in exchange for effort, transformational leaders are more effective in mobilizing their followers to exert extra effort (Bass & Avolio, 1993). In the military, transformational leaders are more effective in leading teams than transactional leaders (Longshore, 1988).

## **Transformational leaders are positive role models regardless of hierarchy**

Transformational leadership is visible at all levels of an organization. Managers can use empowering language to gain commitment from their subordinates. There is no doubt that CEOs who are transformational have a significant impact on the performance of their organization mainly because they are seen as positive role models whose behaviors are emulated throughout all levels of the organization (Waldman, Ramirez, House & Puranam, 2001). Successful CEOs also practice "management by walking around" and use language that is appropriate for a particular, individual, group, or department. This ability to connect with others regardless of hierarchy is a behavior that transformational leaders practice on a daily basis. Transformational leaders also have close contact with their followers and are authentic in showing their strengths and weaknesses within the firm. Transformational leadership has been observed at all levels of management. Transformational leadership can cross hierarchical echelons so is transparent on the shop floor as well as at the top of the hierarchical chain (Bass & Avolio, 1993).

## Studies support the claim that transformational leaders positively impact financial performance

There is also empirical evidence that transformational leadership is important in helping to elevate the effectiveness and efficiency within organizations. Boas Shamir and his colleagues reviewed more than twenty studies and found that transformational leadership was positively associated with performance. A meta-analysis that focused on the use of the Multifactor Leadership questionnaire, which measures Transformational Leadership, also found a positive association between transformational leadership and organizational effectiveness (Lowe et al., 1996). In another study, presidents of 27 simulated business firms who were described as transformational had higher financial performance in their firms compared to those who were described as transactional (Avolio, Yammarino, & Bass, 1991). Transformational leaders are effective in the vision and mission that they disseminate throughout the organization. In a survey of 183 entrepreneurs in the woodwork industry, Baum and colleagues found that company visions that were effectively written and communicated throughout the organization and contained attributes of future orientation and challenge, affected subsequent venture growth (Baum, Locke & Kirkpatrick, 1998).

This dossier focuses on those behaviors that differentiate transformational leaders from transactional leaders. There are four main components of transformational leadership: Individualized consideration, Intellectual stimulation, Inspirational Motivation, and Idealized Influence. Each of these components are positively related to individual and organizational performance. Transformational leaders enable their followers to go beyond expectations whereas transactional leaders merely provide contingent rewards in exchange for effort and are less effective than transformational leaders.

## Key take-aways

- Transformational leaders are visionary
- Transformational leaders attend to each follower's needs
- Transformational leaders empower their followers to perform beyond normal expectations
- Transformational leaders are excellent role models
- Transformational leaders use intellectual stimulation to motivate followers to think outside the box
- Compared to Transactional leadership, transformational leadership is positively related to organizational performance
- Transformational leaders have a strong sense of purpose

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