THE EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL LEADERSHIP ON JOB PERFORMANCE OF MANUFACTURING INDUSTRY IN KUCHING, SARAWAK

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THE EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL LEADERSHIP ON JOB PERFORMANCE OF MANUFACTURING INDUSTRY IN KUCHING, SARAWAK

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Dedicated to My Beloved Family
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ABSTRACT

THE EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL LEADERSHIP ON JOB PERFORMANCE OF MANUFACTURING INDUSTRY IN KUCHING, SARAWAK

The general objective of this study was to investigate the effect of transformational and transactional leadership on job performance of manufacturing industry in Kuching, Sarawak. While researchers have discovered the relationship between transformational and transactional and job performance, the understanding of the effect of transformational and transactional leadership towards manufacturing industries on employees’ job performance is scarce. Thus, the present research differs from the previous studies which will resulted in a better understanding on these relationships. In this study, there were 200 sets of questionnaires distributed to the respondents of the selected manufacturing firms in Kuching, Sarawak. There were only 191 sets of questionnaires returned and the overall response rates were 95.5%. In this study, two hypotheses were tested. The results of this study show that job performance has significant relationship with transformational and transactional leadership. Hence, this study is important for manufacturing industry to implement suitable leadership style that are able to improve job performance which in turn will benefited the manufacturing firms.
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CHAPTER 1
INTRODUCTION

1.1 Background

In today's highly competitive marketplace, organizations struggle to survive in the global expansion to meet their objectives and goals. Organizations are highly dependent on their leaders to ease the changes and innovations required to maintain their competitiveness in the market. A leader also oversees and regulates the overall function of an organization. Hence, leaders play crucial role to ensure that the goals are achieved and employees' performance are enhanced. Leaders also have to be exertive in turning around their followers' perspective including coordinating, communicating, training, motivating and rewarding (Yukl, 2010). Therefore, it grasps the attention of many researchers to study on the different aspects of leadership (Paracha, Qamar, Mirza, Hassan & Waqas, 2012). According to Yukl (2010), leadership is involved in influencing the behaviour of the subordinates towards accomplishing organisational goals. Mintzberg (2010) noted that leadership is the core of trust that enables them to gain respect from their followers. Jamaludin (2011) suggested that effective leaders use their authority to further enhance their followers and the organization's performance. The leaders' influential personality is the most essential for leaders and has positive relation with follower's job performance (Lian, Brown, Tanzer & Che, 2011).

Yukl (2010) regarded leadership as one of the main factors for the organization's success. Therefore, the leadership style of the leader is deemed to be particularly vital in affecting employees' job performance. Scholars have long recognized that how employees perceived their jobs determines job performance (Grant, 2008). Job performance is the basic
fundamental and important tool to achieve high performance that the organization must carefully analyze. The ability for organizations to continuously improve and innovate is a skill that few have. Grant, Gino and Hofmann (2011) concluded that employee performance will increase under extraverted leadership when employees are passive and the employee performance will decrease if the employees are proactive. According to Avolio, Waldman, and Einstein (1988) and Waldman, Bass and Yammarino (1989), employee performance is influenced by leadership which controls them.

According to Adnan and Mubarak (2010), leadership consists of two main important components, namely transformational and transactional leadership styles. Transformational leaders are able to influence their subordinate to strive harder to achieve extraordinary goals (Robbins, Decenzo & Coulter, 2010). As for Daft (2010), leadership is referring to influencing the subordinates to believe in their own potential, trust their leaders and contribute to the better prospect and future of the organization. Therefore, employees in a transformational workplace may feel more flexibility in his or her approach in performing job tasks. According to Bass and Avolio (2010), the theory of transformational leadership can be measured by four dimensions namely, idealized influence, inspirational motivation, intellectual stimulation and individual consideration. Shamir, House, and Arthur (1993), Yukl (2010) emphasize that different behaviors of transformational leader might practice different influence processes.

In contrary, transactional leadership an exchange process whereby leaders administer reward to the exceptional performer and punish the low performer. Through transactional leadership, employees understand what their job is and know how they should perform because the leaders will communicate to the employees on their expectations. It can be
concluded that transactional leaders assist the followers to recognize the necessary actions to accomplish the desire outcome which includes improved quality, additional services, and reduction in production cost. The elements of transactional leadership include contingent reward, active management and passive management (Northouse, 2010; Sarros, Gray & Densten, 2002). Transactional leaders usually will assist their followers to familiarize themselves with their task and objectives in achieving a desired performance (Lo, Ramayah, & Min, 2009). Thus, this indicates that the practices of the transformational and transactional leadership styles in the organization are able to influence the employee job performance in a different way.

1.1.1 The Malaysian Scenario

Malaysia culture is rich with diverse ethnics, religious groups and British colonial heritage. According to Lo and Ramayah (2011), the Malaysia’s unique culture creates a continually shifting environment which involves traditional leadership style and business management.

Autocratic leadership is regarded as the most common type of leadership in any industry in the early years. However, since the mid-1980s the management world has experience dynamic transformation towards globalization which encouraged leaders to shift the perspective of their behaviors. According to Gill (1998), Malaysia managers’ leadership styles are more transactional and delegate less. Madinah, Abu, Azimi, Azizan, and Zaharah (2008) discovered that the democratic style which involves two-way communication is the most efficient leadership style to implement in a multiracial community. Lo and Ramayah (2011) found that Malaysian management styles and practices are going toward western style
especially the manufacturing companies that are report directly to foreign boss or partners. The transformational leadership styles suit both female and male managers in the Malaysian context than in the Western environment (Eagly, Johannesen-Schmidt & Van Engen, 2003). In the western environment, men are found prefer leading in a transactional manner whereby women prefer leading in transformational styles.

1.2 Problem Statement

Employee is a valuable resource to the organization. The degree of success of the organization depends on employee performance. Poor performance has been always an issue that faced by organizations regardless of its location, size or natures of business. Poor performance worries managers because it is a measure of how effectively the organization is led. Poor work performance negatively impact the productivity and workplace effectiveness which caused negative effect on the organization. These include impact on the organization's commitment. According to Panayiotis, Pepper and Philips (2011), job uncertainty, lacking of trust, high level of pressure and insecurity will increase if the workforce is not dedicated to the organization. These will negatively affect the organizations' performance.

Therefore, there is a need to develop better leadership styles is becoming increasingly important. Keeping in view the importance of leadership style on influencing the job performance, it is important to study and observe whether transformational and transactional leadership will have effect on job performance in the manufacturing industry besides knowing the effect of job performance on the firm performance.
1.3 Research Objectives

This research aims to examine the impact of transformational and transactional leadership on job performance of the manufacturing industries in Samajaya, Kuching.

The specific objectives are includes:

- To identify the relationship between charisma or idealized influence and job performance such as task and contextual performance

- To examine the relationship between inspirational motivation and job performance such as task and contextual performance

- To investigate the relationship between intellectual stimulation and job performance such as task and contextual performance

- To look at the relationship between individualized consideration or individualized attention and job performance such as task and contextual performance

- To analyze the relationship between contingent reward and job performance such as task and contextual performance

- To examine the relationship between active management and job performance such as task and contextual performance
• To identify the relationship between passive management and job performance such as task and contextual performance

1.4 Research Questions

The research questions are:

• Is there a relationship between charisma or idealized influence and job performance such as task and contextual performance?

• Is there a relationship between inspirational motivation and job performance such as task and contextual performance?

• Is there a relationship between intellectual stimulation and job performance such as task and contextual performance?

• Is there a relationship between individualized consideration or individualized attention and job performance such as task and contextual performance?

• Is there a relationship between contingent reward and job performance such as task and contextual performance?

• Is there a relationship between active management and job performance such as task and contextual performance?
• Is there a relationship between passive management and job performance such as task and contextual performance?

1.5 Definition of Key Terms

This section provides definitions of the important terms used in this study.

Leadership - Is a process whereby leaders inspire their subordinates to achieve organizational goals (Northouse, 2010)

Transformational Leadership – Is the process of influencing major alterations of the attitude of followers by creating, communicating and fostering commitment for the organisation's mission or objectives (Bass, 1985).

Idealized influence - Is focus in motivating followers to align their self-interest towards the achievement of common goals (Dionne, Yammarino, Atwater & Spangler, 2004).

Inspirational motivation – Is the action or behavior of the leader in motivating and inspiring their followers to be dedicated to the organization’s vision that are attainable and achievable (Antonakis, Avolio & Sivasubramaniam, 2003).

Intellectual stimulation – Refer to the leader stimulating innovation and creativity in their followers which enable followers to think of out of the box (Bass & Riggio, 2006, Nicholson, 2007).
Individualized consideration – Refer to the leader acting as a coach or mentor who gives personal attentiveness to each follower to encourage their development and success (Nicholason, 2007).

Transactional leadership - Is defined as leaders who administer rewards and sanctions based on the exchange process (Awamleh, R., Evans, J. & Mahate, A., 2005).

Contingent rewards - Refer to the leader identifying the work needed to be accomplished and use rewards or incentives as an exchange to satisfy achieve results when expectations are met (Nicholson, 2007).

Active management - Refers to leader that is actively monitor their subordinates' job performance and uses corrective methods to ensure the work is completed and meet their expectations (Antonakis, Avolio & Sivasurbramaniam, 2003).

Passive management – Refer to the leaders who will take corrective action only when problem arise (Antonakis, Avolio & Sivasurbramaniam, 2003).

Job performance - Is the individual’s self-control in their conduct and behaviours that contribute to the organization’s goals (Rotundo & Sackett, 2002).

Task performance – Is the behaviors and activities that support the organization’s specialized core either directly or indirectly (Borman & Motowidlo, 1993).
**Contextual performance** - Is an individual behavior that has no direct relation to their main task function (Werner, 2000). However, it supports organizational, social, and psychological environment to attain organizational goals (Borman & Motowidlo, 1993).

1.6 **Significance of the Study**

This study has significant contribution in terms of theoretical development and managerial practice. The findings and results stated in the study will provide leaders in the manufacturing industry in Kuching a more reliable scientific measure and perspective for describing and evaluating the effect of transformational and transactional leadership with the job performance. Many studies showed that effective leadership styles are important to achieve excellent job performance.

Secondly, there are very few research conducted on the transformational and transactional leadership with job performance in manufacturing industry in Kuching. In terms of Malaysian setting, previous empirical work on leadership in Malaysia has not established agreement on a Malaysian leadership style (Lo & Ramayah 2011). Hopefully it will add knowledge in the area of organizational behavior literature in Malaysia context. Furthermore, the research is conducted in the multi social and organizational cultures in Malaysia.

Thirdly, it is believed that the findings will help managers to improve their leadership skill in this rapidly changing business environment. This is important because it is crucial to get effective leaders that have required leadership skills and enthusiasm in influencing their followers in the challenging business organization. And also, the employees can be better motivated to achieve organizational goals.
Lastly, the increasing knowledgeable workers have added challenges to today’s leader. The workers are more demanding and demand for both rewards and recognition from the organizations while management is demand for better productivity and performance from the employees. Hence, it is essential to study the leadership style to determine if there are effects of the leadership style towards the job performance.

### 1.7 Scope of the Study

This study will be conducted at the manufacturing industry in Samajaya, Kuching. This study is focused in examine the impact of transformational and transactional leadership on job performance of manufacturing industry in Kuching. The job performance will be identified based on the transformational and transactional leadership of the firm. The factors contribute to the transformational leadership are charisma or idealized influence, inspirational motivation, intellectual stimulation, individualized consideration or individualized attention. On the other hand, the factors contribute to the transactional leadership are contingent reward, active management and passive management. In this study, the questionnaire will be distributed to the executives currently working at manufacturing industry located in Samajaya, Sarawak. Middle level employees who work at the manufacturing companies are targeted in this study.

### 1.8 Organization of Chapters

This research is organized into six chapters and consists of five main parts, namely introduction, literature review, methodology, results, discussion and conclusion.
Chapter 1 is an introduction, which provides a brief introduction of the study including the background of the research, problems, objective, research questions, definition of terms, significance, and scope of the study.

Chapter 2 is literature review, which provides details of the definition, model, theory and previous researcher studies that are relevant to this topic. After which a theoretical framework and hypothesis which linked the relation between transformational and transactional leadership and job performance is provided in order to understand the concepts.

Chapter 3 is methodology, which consists of the measuring instrument, data sources, population, sample and qualification of the variables and statistical analyses.

Chapter 4 is results, which consists overall findings of the research and the result obtained from the statistical analyses.

Chapter 5 is discussion and conclusion, which concludes all the finding and outcomes of the research. The limitation of the research will also be presented. Besides, some recommendations and future work are also discussed to improve the research performance.
2.1 Introduction

This chapter reviews on some of the previous studies in relation to the research topic. This chapter discusses the three main items in the research, which are transformational leadership, transactional leadership and job performance, as well as its sub components. The theoretical framework of the research, including the gap in the literature and description of variables also will be discussed in this chapter. Apart from that, the development of hypothesis is also present in the end of this chapter.

2.2 Leadership

Leadership is a process whereby the leaders and followers interact with one another in which the leaders intend to change the behavior of their follower to achieve organizational goals (Northouse, 2010; Yukl, 2010). Similarly, Georges (2009) viewed leadership as a process of influencing others in the organization in order to achieve personal and organizational goals. According to Bryman (1992), Jong and Hartog (2007), Robbin and Coulter (2002), leadership is referring to the use of formal authorities by the leader to influence a group of people to support the organizational strategy and goals.

Leadership is usually expressed with two common words such as influence and followers. It refers to an art or a process that influence people willingness and enthusiasm in order to realize groups’ goals (Koontz & Weihrich, 2008). The core process remains the same
while the roles of leadership change. According to Cashman (2008), the principle of the leadership style among leaders is the same, the only difference is in the way they influence and generate worthy ideas, systems and people.

Leadership is the main factor for organizational success (Yukl, 2010). According to Wang, Law, Hackett, Wang and Chen (2005), leadership has high impact towards organizations', managers' and employees' performance. The leaders' interaction skill with their subordinates will highly affect the employee turnover rate. According to Davis (2003), Spears and Lawrence (2003), House, Hanges, Javidan, Dorfman and Gupta (2004), Hirtz, Murray and Riordam (2007), there are different types of leadership styles that are adopted by leaders in managing organizations (Chen & Chen, 2008). According to Ahmad, Francis and Zairi (2007), differences in leadership style will result in different outcome. Leadership process involves managing and orienting employees using different leadership styles through creativity that includes identification of new problems, solving and implementation of new solutions continuously (Basadur, 2004). According to Northouse (2010), leadership involves the communications among leaders and followers and therefore, is observable and can be learned.

Implementation of task and achievements are impracticable to achieve without leadership (Quinn Mills, 2005). Therefore, leadership is an important weapon for the organization to achieve its goals and objectives. The below is the key elements of leadership.