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Transactional leadership is most often explained as a cost-benefit exchange between leaders and their followers (Kuhnert & Lewis 1987). The transaction or exchange involves something of value between what the leader possesses or controls and what the follower wants in return for his/her services (Yukl & Van Fleet 1992). Transactional leadership involves leaders clarifying goals and objectives, communicating to organize tasks and activities with the co-operation of their employees to ensure that wider organizational goals are met (Bass 1974: 341). The success of this type of leader-follower relationship depends on the acceptance of hierarchical differences and the ability to work through this mode of exchange. Transactional leadership is based on the assumption that subordinates and systems work better under a clear chain of command. The implicit belief in the leader / follower relationship is that people are motivated by rewards and penalties (Kuhnert 1994). Despite numerous leadership studies highlighting the limitations of this approach, transactional leadership remains popular among leaders and managers. Along the spectrum leadership versus management, this approach is clearly closer to the management end (MacKenzie, Podsakoff & Rich 2001).

In his seminal work on leadership, James MacGregor Burns (1978) defines transactional leadership as the first form of interaction between leaders and followers. On

the opposite side of transforming leadership, transactional leadership occurs when one person takes the initiative in making contact with others for the purpose of an exchange of valued things. The relations of most leaders and followers are transactional-leaders approach followers with an eye to exchanging one thing for another: jobs for votes, or subsidies for campaign contributions (Burns 1978:19). In his historical review of political leadership practices exemplified by numerous case studies, Burns defines this exchange as economic or political or psychological in nature. The relationship leader-follower revolves around the bargaining process and the maintenance of it. This is also the limit of this leadership approach, which does not attempt to push the relation beyond a bargained and contracted and exchanges.

Barnard M. Bass (1985) further elaborated on Burns's conceptualization of transactional-transformational leadership. Bass argued that transactional and transformational leadership are not two opposite ends of the spectrum but are two separate concepts. According to Bass, the best leaders are both transformational and transactional. Although his leadership model has undergone various revisions, the most recent version considers four dimensions of transformational leadership, three dimensions of transactional leadership, and a non-leadership dimension, or *laissez-faire*. Apart from its emphasis on transformational leadership exemplified by charisma, or idealized influence, inspirational motivation, intellectual stimulation and individualized consideration, three important distinctions identify transactional approaches to leadership. The first dimension, contingent reward, is the degree to which the leader sets up constructive transactions or exchanges with followers. The leader using this dimension clarifies expectations and establishes the rewards for meeting these expectations.

The second and third dimensions of transactional leadership are two types of management-by-exception. Management by-exception occurs when the leader intervenes to make a correction when something goes wrong (Bass 1985). The two types of management-by-exception are active and passive. Howell and Avolio (1993) observe that the difference between the active and passive management by exception—active lies in the timing of the leader’s intervention. Active leaders monitor follower behavior, anticipate problems, and take corrective actions before the behavior creates serious difficulties (Northouse 2004: 179). Passive leaders wait until the behavior has created problems before taking action. A substantial difference is that in the active form the leader looks for deviations whereas in the passive form, the leader waits for problems to emerge (Hater and Bass 1988).

The distinction between transactional and transformational is commonly emphasized in leadership studies. In spite of the fact that transformational theories have been a popular topic in leadership literature, transactional leadership constitutes a foundation for it and the two approaches are not necessarily in opposition to one another. (Northouse 2004; Tracey & Hinkin 1998). While transactional leaders motivate followers to comply with the leader’s requests and organizational role through an exchange process, transformational leaders motivate followers by encouraging them to transcend their self-interests for the sake of the organization and shared goals. According to Barnard M. Bass, transactional leaders predetermine what their followers should do to realize their personal and organizational aims while transformational leaders motivate and stimulate their followers to surpass their own self-interests and direct themselves to a

higher level of motivation linked to the interests of the team, organization or larger community (Bass and Avolio 1994).

The distinction between transactional leadership and laissez-faire is less clearly defined (Bass 1985; Judge & Piccolo 2004). Laissez-faire leadership is the avoidance or absence of leadership. Laissez-faire leaders are indifferent and have a “hands-off” approach toward the workers and their performance. These leaders, unlike most transactional leadership approaches, ignore the needs of others, do not respond to problems or do not monitor performance. Leaders who score high on laissez-faire leadership avoid making decisions, hesitate in taking action, and are absent when needed. Although laissez-faire leadership bears some resemblance to management by exception—passive leadership, researchers have argued that laissez-faire leadership should be treated separately from the other transactional dimensions because it represents the absence of any leadership (transformational or transactional), (Avolio 1999; Bass 1998).

Transactional leaders exhibit specific leadership skills usually associated with the ability to obtain results, to control through structures and processes, to solve problems, to plan and organize, and work within the structures and boundaries of the organization. As the transactional style revolves around the formulation and maintenance of a contract, negotiation skills are essential for this type of leadership. The exchange will successfully happen only on the basis of clear and effective communication skills. While leaders need to clearly define job descriptions and task assignments, subordinates must be able to show results and fulfill the leader’s expectations. Effective transactional leaders are

capable of (1) clarifying what is expected of the employees' performance, (2) explaining how to meet such expectations (3) spelling out the criteria of the evaluation of their performance, (4) providing feedback on whether the employee is meeting the objective and (5) allocating rewards that are contingent to their meeting the objectives (Bass 1974: 339).

The transactional and leader-follower exchange theories represent a significant step beyond the "leader oriented" approaches most often focused exclusively on the leader's actions and attitudes. In a general sense, transactional leadership exemplifies the most common dynamic of social exchange between leadership and fellowship (Bass 1974: 319). The question remains as to what is the dynamic in this exchange process that produces satisfactory results for the leaders, followers and organizations involved? Many transactional leadership studies have shown that the nature of the exchange process between leaders and subordinates can highly influence the group performance and morale. Bass considers the leader-follower interactive effects from the perspective of an effective transactional leader who acts as a source of feedback, as communicator, as a model and a source of influence (Bass 1974: 339). He also explores how subordinates use effective tactics to influence and gain feedback and how transactional leadership mutually influences both leaders and followers. Building on Bass's work, George Grean and his associates (1977) studied how a more positive exchange between leader and follower characterized as a true partnership with a large degree of freedom for the subordinate generates higher subordinate satisfaction, reduced turnover and produced greater identification with the organization (Grean et.al. 1977).

The style of a transactional leader is creating clear structures, expectations and rewards. Whereas transformational leadership has more of a 'selling' style, transactional leadership, once the contract is in place, takes a 'telling' style. The Multifactor Leadership Questionnaire (MLQ) developed by Bass is the most commonly used instrument to assess an individual's transformational, transactional and laissez-faire leadership styles (Avolio, Bass and Jung 1999; Bass & Avolio 1990). Although individual leaders exhibit tendencies toward transactional or transformational leadership styles, most leaders show characteristics of both styles. While transformational leadership motivates subordinates through a shared vision and responsibility, transactional leadership motivates followers by appealing to their self-interests. Its principles are to motivate by the exchange process.

The limits of transactional leadership hinge on the behaviorist assumption that a 'rational person' is largely motivated by money and simple rewards, and hence his behavior is predictable. In practice this assumption often ignores complex emotional factors and social values present in work environments and interpersonal relationships. For example, transactional leadership may operate successfully in a work environment where leaders' and workers' personalities are compatible, but it could result in conflict between task-oriented and person-oriented personalities. Transactional leadership works well in a supply-and-demand situation of much employment, coupled with the effects of deeper needs, but it may be insufficient when the demand for a skill outstrips the supply. Transactional leadership behavior is used by one degree or another by most leaders. However, it can be quite limiting if it is the only leadership style used. As the old saying

goes, “if the only tool in your toolbox is a hammer...you will perceive every problem as a nail”. Today, most leaders would agree that material rewards and fear of punishment may not be the best approach to motivate their workers. Because transactional leadership encourages specific exchanges and a close connection between goals and rewards, workers are not motivated to give anything beyond what is clearly specified in their contract.

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