

Review of Leadership Theories and Organizational Performances

¹Oladipo Kolapo Sakiru, ¹Jamilah Othman, ¹Abu Daud Silong,

²Jeffrey Lawrence D'Silva and ²Salami Dada Kareem

¹Faculty of Educational Studies, ²Institute for Social Science Studies,
Universiti Putra Malaysia, Malaysia

Abstract: With the advent of information and communication technology and globalization, there is a pressing need to develop a better understanding on leadership theories and performance in organizations that would enable organizations not only to survive but more importantly to advance and prosper. The focus of this study is to identify the best style of leadership theory for a better performance in an organization. Earlier studies on leadership theories and performances in organizations were analysed and these are the data for this present study. The conclusion garnered from the literature showed that transformational leadership style is deemed as the best style for organizational performance due to an ever increasing support of this theory in numerous studies.

Key words: Leadership, employee's performance, leadership theories, organizational performance, Malaysia

INTRODUCTION

Leadership has attracted much attention in the literature over the years. Without doubt leadership is an important element to all business organizations. Due to its importance, leadership has received much attention over the years. At the helm of every successful organization, there is a good and excellent leader. Leadership can be understood from different perspectives and point of views. Apart from viewing leadership as a process, previous study have attempted to examine the qualities of leaders to gain insights into leadership styles as well as to understand the determinants of effective leadership on organizational performances. Chien (2004) found that many past studies on leadership were based on transformational and transactional leadership styles. Given the importance of leadership in organizations, numerous studies have attempted to examine the impact of leadership styles on organizational performances. For some years, several studies identified that transformational and transactional leadership styles as having an influence on organizational performances (Yammarino and Bass, 1990).

It is also postulated that leaders determine to improve employee's job satisfaction and performance. Besides, it is also said that employees' satisfaction and performance have a positive relationship with organizational performance and they are both linked with each other. When employees' job satisfaction increases then the performance improves (Buchanan, 2006). It is often being

said that transactional leadership styles and transformational leadership styles are expected to affect employees' job satisfaction and employees' performances in an organization. But, they might not be totally good in increasing all types of subordinates' performances (Johnson, 2006).

Leadership theories: A review on the theories of leadership revealed that studies about leadership theories existed since the time of the 20th century with views from the great man which saw leaders as different individuals (Bass and Stogdill, 1990). The understanding then was that certain dispositional qualities (traits) gives clear different between leaders and non leaders. Researchers on leadership focused on investigating individual qualities (traits) that are associated with leadership. Traits like intelligence and dominance which are associated with leadership were identified (Stogdill, 1948). Moreover, different researches have indicated that some qualities or traits are seen in leaders (Murphy, 2005). From the views of the researchers that worked on leadership in the 1940's proved leaders as having certain traits which were based on physical and personality qualities as well as interpersonal skills and intelligence (Steers *et al.*, 1996). Presently, the traits perspective appears to be enjoying a resurgence of interests (Lowe and Gardner, 2000). From the general assumption on traits theory, it was basically assumed that leaders were born with some traits that basically made them to be successful in their leadership positions.

Consequently to the reviews of the traits literature, there was a quick move in looking for types of traits that distinguish leaders from the followers, by doing so the leadership studies moved from the traits theory to the behavioural theory. In quest for this, it gave way to the behavioral theory of leadership in the 1950's. Its' focus was on the leadership behaviors that were being exhibit by the leaders to the followers. Two leadership style dimensions were identified by the University of Michigan and Ohio State University which were referred to as consideration (i.e., employee-oriented leadership) and initiating structure (i.e., production-oriented leadership) (Lowe and Gardner, 2000). It was discovered in the Michigan University that leaders who are more employee-oriented and allowed participation fostered more productive teams. Moreover, leaders with more focus on completing tasks or jobs produced lowered producing team. It was concluded that both structures were separate components but if a leader were dedicated in both they could achieve higher result (Murphy, 2005). According to behaviorist, leadership effectiveness is determined by behaviour not traits (Bass and Stogdill, 1990). Moreover, based on the contradictory findings related to the beavioural approaches, leadership researchers were again in crisis, looking for the best style of leading for the leaders. In view of the forgoing argument, it was then became clear that success of leaders depend upon the group tasks situation and the degree to which the leader's personality fits the group (Sybil, 2000).

The outcome of this was it gave way for the leadership researchers to begin to focus on leadership contingency which started in 1960's which makes the interest in behavioural theory to become very low (Lowe and Gardner, 2000). The suggestion provided was that the ability to lead is dependent on the situations factors at the present time. It assumes leadership behavior has impact on the outcomes of performances (Butler and Reese, 1991). This theory of leadership is credited to Fiedler (1967) who mentioned that leader-member relations, the task structure and the position power of the leader would suggest the effectiveness of the type of leadership exercised (Lowe and Gardner, 2000). The situational theory maintains that leaders are the outcomes of a given situation. This suggests that leadership is strongly affected by a given situation from which leaders operate and emerge. The contingency theory is the combination of the traits theory and situational theory (Sybil, 2000). The situational leadership style focuses on telling, selling, delegating and participating style to leadership. It recommends the appropriate leadership styles based on the level of maturity of the subordinates to focus their styles on tasks or objectives (Parks, 2005).

Furthermore, there was a shift from all this theories of leadership to a new theory which emerged in order to ensure the survival of the organization and to overcome the short-coming of the traits, behavioural and contingency situational theories of the past. In reactions to the increasingly sophisticated ways of the previous theories of leadership which became more difficult to implement, it gave way for the new leadership theory which are the transactional theory of leadership and transformational theory of leadership (Bass and Stogdill, 1990). The idea that leadership behavior being categorized into transformational styles or transactional styles is first put on by Burns (1978).

LEADERSHIP STYLES AND ORGANIZATIONAL PERFORMANCES

It was reviewed from the literature that styles of leaders and organizational performances have often been a subject for discussion. From the literature, it was discovered that styles of leaders have a significant positive relationship with the performance of the organization and different styles of leaders may have negative or positive correlation with performance in the organization, based upon different tools used by the researchers. Sun (2002) compared organizational performance and styles of leaders and it was discovered that there is a positive relationship between organizational performance and styles of leaders in an organization. Basically speaking, the organizational performances of an organization depend on the style of leadership style exhibit by a leader.

From the review of the literature, it was also discovered that transformational leadership and organizational performance are both positive correlated. The success of the organization is being attached to the performance of the leader that is the style of leader has a considerable effect on the performance of the organization (Terry, 2000). The success of an organization is totally dependent on the ability of the leader to optimize human resource. The importance of employees in achieving the goals of the organization is being understood by a good leader hence effective organization needs an effective leader (Maritz, 1995).

Meanwhile, it is widely agreed that the effectiveness' of the organization is generally dependent on the types of its leadership. From his own view, Bass (1997) has proven that in the modern business environment, leaders make a difference in the performance of their subordinates' and also make a difference as to whether their organization fail or succeed. The most thoroughly investigated an organizational variable that has a wide impact on

employees performance in an organization is leadership (Meyer and Botha, 2000). It is also agreed that one that factors that determine the success or failure of an organization is leadership style of its leader (Bass, 1997). It is also assumed that leaders are more effective when the influence they have over their employee work towards achieving performance in the organization (George and Jones, 2000).

On top of it, leadership style of leaders in an organization increases employee's performance and make the organization to have more reward. The review of the literature showed that leadership style has a correlation impact on the performance of employee in the organization. Furthermore, for better employee motivation and performance, leadership styles should be carefully used as a guide in achieving this (Elenkov, 2002). When there is carefully use of appropriate leadership styles, it would enhance employees' self interest in their work as well as job satisfaction and performance in the organization. It is also concluded that there is a positive correlation between organizational performance and leadership styles (George, 2000).

LEADERSHIP BEHAVIOR AND ORGANIZATIONAL EFFECTIVENESS

The ability to motivate people, build relationship and influences outcomes is being categorized among others things as leadership effectiveness. Leadership behavior of the leaders and top management usually determines the competency level of their subordinates and employees.

Transformational leadership and transactional leadership have been identified by previous research as a factor that influences leadership behavior in the organization (Dionne *et al.*, 2004). Comparing this two leadership styles together, it has a major impact on the efficiency level and quality of their followers and subordinates in an organization (Hackett and Allen, 1995). So far, these two leadership styles have being included into the research as having relatively greater passionate commitment to a new vision for organization effectiveness (Brown, 2003).

Heightened awareness and interest in the group or organization, increase of confidence and strengthen concern for existence for achievement and growth that lead to development of competencies among the follower and the employees in an organization is being aroused from transformational leaders (Vaishali and Kumar, 2001).

TRANSACTIONAL THEORY OF LEADERSHIP AND ORGANIZATIONAL PERFORMANCE

Traditional bureaucratic authority and legitimacy are what transactional leadership style is being based on (Bass and Avolio, 1995). It engineers the followers to

perform and to achieve the desired goal and objectives and promising rewards and benefits for the outcomes of the tasks (Bass and Stogdill, 1990). Transactional leader put their strength on completion of task and compliance and depend on the rewards from the organization to influence employees performance in the organization, this reward is contingency on the followers that perform the jobs as designed by the leaders (Bass *et al.*, 2003; Mester *et al.*, 2003).

The types of reward or disciplines depend on the employee's performance in the organization. There is no mind to change follower's value, growth, attitudes and development because achieving the negotiated level is being focused by the leaders and the followers (Chan, 2005).

Meanwhile, subordinates get an exchange of reward for services whenever a job is being accomplished, like pay rise or promotion for higher production from the transactional leaders. The most difficult things about transactional leader styles to the organizational performances is that employees are not invested in their work and once there is no reward or motivation it is difficult to continue motivating them (Johnson, 2006).

Therefore, many leaders fail to utilize transactional leadership style because they fail to continue to apply this behavior because of lack of skills, reinforcement effectiveness, opportunities to observe and ineffective appraisal system (House *et al.*, 1996). It was identified that basic leadership competency among leaders is indicated in transactional leadership styles (Densten, 1999). One of the behaviours of transactional leaders is that things are being managed the way they find it and leaves things much as they find it and then move on (Howell and Avolio, 1993).

Meanwhile, organization requires a new style of leadership to ensure organizational performance and effectiveness which can be identified via transformational leadership (Daft, 1999).

TRANSFORMATIONAL THEORY OF LEADERSHIP AND ORGANIZATIONAL PERFORMANCE

The ability of a leader to motivate followers to rise above their own personal goal for the greater achievement of the organization is the transformational leadership (Bass, 1985; Murphy and Drodge, 2004). Transformational leaders are characterized as assured, visionary, articulate and able to engender confidence in others so as to motivate them to surpass their usual organizational performance goal which make it to go beyond transactional leadership (Schwarzwalder *et al.*, 2001). When leaders have the ability to motivate employees to surpass their own individual aspiration at a higher level, the organizational performance is being put on transformational leadership (Van Eeden *et al.*, 2008).

Furthermore, the aspiration of the transformational leader is to look for potential motives in the employees and seek for a way to get their need and also engage them their full person of the follower. Murphy (2005) in his own views categorize transformational leaders as visionary, futuristic or mechanism for challenges in an organization. Idealized influence (Charisma), intellectual stimulation, inspirational motivation and individualized consideration are four based primary dynamics to influence the behavior and attitudes of others in transformational leadership (Mullins, 1996). Meanwhile, role modeling behaviors when the leader instills, respect faith and pride and has a reward for seeing what is really important is the idealized influence. Using the images and symbols which enable the leader to raise his belief and expectation of their followers concerning mission and vision is the inspirational motivation. When discussing on individualized consideration, it occurs when the leader delegates an assignment to individual and also gives the training on how the assignment will be done one by one. Leaders arouses followers to think in special ways and focus on problem solving and the use of deep thinking before going for action is the intellectual stimulation (Johnson, 2006).

It was argued by Burns (1978) that transactional leaders do not have any significant effect on employee's performance in an organization but transformational leaders motivate employees to perform very well in organizations making it to be more effective than transactional leadership. Chan (2005)'s study showed that over the last decade transformational leadership has significant success with organizational performance. Various literatures have also supported this findings that transformational leadership has a positive relationship with organizational performance which concluded that transformational leadership is highly effective in an organization than transactional leadership (Lowe *et al.*, 1996).

Research has also proven that one of the critical element in the successful implementation of transformational leadership in an organization is trust (Kouzes and Posner, 2007). In their own view, Murphy and Drodge (2004) mentioned that training for transformational leadership is possible and have a positive relationship and impact on organization performance as evidence from other studies (Boerner *et al.*, 2007).

CONCLUSION

From the review of the literature, there is an agreement that the success or failure of the organization

basically depend on the leadership styles of that organization. A broad overview of the leadership theory has been presented and it was discovered that an excellent and effective organization begins with effective leaders.

The current study reviewed leadership theories which are based on the traditional theory and the new theory and from it the conclusion is that the better style of leadership for an effective organization is the transformational leadership style. It is viewed as the foremost leadership theory that optimized job performance in an organization at this present time. Also, it was observed from the review of the literature that leaders should be trained basically on transformational leadership styles, for positive improvement of the organizational performance.

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