

# The Relationship between Effective Leadership and Employee Performance

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**Abstract.** Leadership has drawn great attention from scholars in various fields in the recent years. The present work, however, focus on the transformational, transactional and laissez-faire leadership model and the relationship between these leadership styles and employee performance. The study is a comparison between selected public and private sector enterprises and the data comprises of 43 middle-level managers and 156 subordinates. The paper looks first at various factors that add to the effectiveness of leadership through Garrett scores. It then discusses whether there is any differences in the leadership choice between the public and private sector enterprises. Finally, the relationship between transformational, transactional, laissez-faire leaderships and employee performance is explored through correlation and regression analysis. The results are likely to suggest that leaders must have the ability to attract / influence their subordinates, be able to set clear standards of performance to their peers and act as a best role model to the subordinates. The subordinates expect that their achievements must be recognized and rewarded either with monetary or with non-monetary terms. The Garrett's score that gives the preferences of the Middle level managers and the subordinates from among various leadership styles recommended the transformational leadership style in both the public and in the private sector enterprises. The results of correlation and regression analysis suggests that the transformational leadership style has significant relationships with performance outcomes; The study thus adds some additional knowledge for a better understanding of the preferred leadership approach and appropriate style for use with subordinates in various professional levels.

**Keywords:** employee performance, garrett scores, leadership, leadership effectiveness, public and private sector enterprises.

## 1. Introduction

In a competitive business environment, organizations rely upon their leaders to facilitate the changes and innovations required to maintain competitive advantage. Leaders are perceived as persons who can single handedly create order out of chaos, navigate organizations through unthinkable environmental turbulence, bring mightiness out of mediocrity, and thrive where lesser mortals will quickly fade away. Leadership has been altered over time, with the change in employee requirements resulting in a demand for change in the relationship between a leader and his subordinates. Leaders have been found to influence followers in many ways, including coordinating, communicating, training, motivating, and rewarding (Yukl, 1989).

It is argued that effective leadership has a positive sway on the performance of organisations (Maritz, 1995; Bass, 1997; Charlton, 2000). Behling and McFillen (1996) confirmed the link between high performance and leadership in the United States by developing a model of charismatic/transformational leadership where the leaders' behavior is said to give rise to inspiration, awe and empowerment in his subordinates, resulting in exceptionally high effort, exceptionally high commitment and willingness to take risks. Effective leadership is helpful in ensuring organisational performance (Cummings and Schwab, 1973; Hellriegel, Jackson, Slocum, Staude, Amos, Klopper, Louw and Oosthuizen, 2004). As a result, many leadership theories have been proposed in the last fifty years which are claimed to have influenced effectiveness of organisations where they have been employed through employee performance.

The present study adds to the existing literature of finding the extent of relationship between leadership effectiveness and employee performance in the Indian context with the following objectives: To ascertain the various factors that affects the effectiveness of the existing leadership styles;

To determine whether there is any difference in the leadership choice between public and private sector enterprises; To find out the relationship between effective leadership and employee performance as measured by extra effort, employee effectiveness, satisfaction and dependability.

## **2. Leadership styles and employee performance – a causal link**

The success of an organisation is reliant on the leader's ability to optimise human resources. A good leader understands the importance of employees in achieving the goals of the organisation, and that motivating the employees is of paramount importance in achieving these goals.

It has been widely accepted that effective organisations require effective leadership and that organisational performance will suffer in direct proportion to the neglect of this (Fiedler and House, 1988). Furthermore, it is generally accepted that the effectiveness of any set of people is largely dependent on the quality of its leadership – effective leader behaviour facilitates the attainment of the follower's desires, which then results in effective performance (Fiedler and House, 1988; Maritz, 1995; Ristow, et al., 1999). Leadership is perhaps the most investigated organisational variable that has a potential impact on employee performance (Cummings and Schwab, 1973).

A large body of empirical evidences has demonstrated that leadership behaviors influence organizational performance that strong leaders outperform weak leaders, and that transformational leadership generates higher performance than transactional leadership (Burns 1978; Bass 1990; Hater and Bass 1988; Howell and Avolio 1993). Kirkpatrick and Locke (1996) identified over 35 studies reporting positive relationships between leadership and performance. Transformational leadership or its components have been associated with the increases in individual, unit, and/or organizational performance in a variety of meta - analyses (Lowe et al. 1996), historical archival studies (House et al. 1991), laboratory experiments (Howell and Frost 1989; Kirkpatrick and Locke 1996), field experiments (Barling et al. 1996), and field studies (Baum et al. 1998; Curphy 1992; Hater and Bass 1988; Howell and Avolio 1993; Keller 1992). Recent leadership studies have continued to affirm the positive relationship between transformational leadership and performance at various levels (e.g., Dum Dum et al. 2002; Dvir et al. 2002; Howell et al. 2005). Thus the researchers aim to discuss whether the transformational leadership does really stimulate the employees for higher performance or not.

The proposed hypothesis is:

**H01: There is a significant positive relationship between Transformational leadership and Employee performance.**

Transactional contingent reward leadership behaviors have also been positively associated with performance, although to a lesser degree than transformational leadership (Klimoski and Hayes 1980; Podsakoff et al. 1982, 1984; Boerner et al. 2007). Although they are sometimes treated as a dichotomy, it is entirely possible for a given leader to exhibit neither, one, or both transformational or transactional leadership behaviors in varying degrees, in different situations. From the foregoing the following hypothesis is proposed:

**H02: There is a significant positive relationship between Transactional leadership and Employee performance.**

Bass et al. (1997) conceptualised a third type of leadership, laissez - faire leadership, which was hypothesized to occur when there is an absence or avoidance of leadership. In this case the decisions are delayed, and reward for involvement is absent. No attempt is made to motivate the followers, or to recognise and satisfy their needs (Bass & Avolio, 1997). And hence:

**H03: There is a negative relationship between Laissez-faire leadership and Employee performance.**

### 3. Methodology of the study

The data is collected from Fenner (India) Ltd., Madurai, Hindustan Lever Ltd., Pondicherry, Solamalai Automobiles Pvt. Ltd., Madurai and TVS (India) Pvt. Ltd., Madurai. A self - structured questionnaire assessing the various leadership behaviors and employee performance measures were distributed to a random sample of 215 respondents. A total of N = 199 surveys were returned representing a response rate of 92.56 per cent. The sample consisted of 43 middle level managers (21.61 per cent) and 156 sub ordinates (78.39 per cent) who were under the direct control of the middle level managers. 62.80 per cent of the middle level managers (27 respondents) belonged to the Public sector enterprise whereas 37.2 per cent (16 respondents) belonged to the Private sector enterprises. Likewise, Sixty two per cent of the sub ordinates (96 respondents) belonged to the Public sector and thirty two per cent of the respondents belonged to the Private sector enterprises who were sixty in actual numbers. Their age ranged from 23 to 37, with a mean age of 32.7.

### 4. Research Instrument and Measures

The questionnaire consisted of 50 items out of which 29 items were used to assess the various leadership behaviors (transformational, transactional and laissez - faire leadership behaviors), 11 items were administered to measure the employee outcomes (performance) and the remaining 10 items were used to assess the rank scores of various leadership behaviors. In all the cases, Likert's Five Point scaling ranging from "1" (Never) to "5" (Always) was used. In case of Laissez – Faire leadership reverse scoring was used and for employee performance terms ranging from "Rarely" to "Very Often" was used.

### 5. Leadership measures

Transformational Leadership:

Six scales were identified and defined as characteristics of transformational Leadership (Bass 1985; Bass, Avolio, & Goodheim, 1987). They are as follows:

**Charisma:** The leader instills pride, faith and respect, has a gift for seeing what is really important, and transmits a sense of mission which is effectively articulated.

**Individualized Consideration:** The leader delegates projects to stimulate learning experiences, provides coaching and teaching, and treats each follower as a respected individual.

**Intellectual Stimulation:** The leader arouses followers to think in new ways and emphasizes problem solving and the use of reasoning before taking action.

**Inspirational Motivation:** The leader provides followers with challenges and meaning for engaging in shared goals and undertakings. Individual Consideration: The leader takes care of each and every follower of the group.

**Confidence:** The leader trusts the followers.

**Transactional Leadership:** Three scales are identified and defined as being characteristics of transactional leadership (Bass, 1985; Bass, Avolio, & Goodheim, 1987):

**Contingent Reward:** The leader provides rewards if followers perform in accordance with the contract or expend the necessary effort.

**Task Completion:** The leader has a firm belief on achieving the goals and that should have higher priority than any other objectives.

**Management by Exception (Active):** The leader concentrates fully on dealing with employees' mistakes, complaints and failures.

**Laissez Faire Leadership:** Two scales are identified and defined as being characteristic of Laissez – Faire leadership; **Management by Exception (Passive):** The leader will not interfere in any problems until it becomes serious.

**Laissez – Faire:** The leaders who have less involvement in performance or who has no involvement at all in performing.

## 5.1. Outcome Measures

**Extra Effort:** The followers' interact in putting the efforts which were beyond their ability for higher performance.

**Effectiveness:** The ability of followers to think more methodically and effectively.

**Satisfaction:** Quantum of satisfaction the followers' does have with their leaders.

**Dependability:** Ability of the followers to work with Zeal and confidence even in the absence of leaders.

## 6. Data Analysis

Descriptive statistics, Garrett Scores, Correlations and Regression Analysis were used to analyze the data set. Garret ranking technique was used to convert the order of preference given by the sample respondents into ranks. The following formula was used to convert the order of merit:

$$\text{Per cent position} = \frac{R_{ij}}{N} 100(R_{ij} - 0.5)$$

Where,

$R_{ij}$  = rank given by the  $j$ th individual for the  $i$ th factor, and

$N_j$  = number of factors ranked by the  $j$ th individual.

After obtaining the per cent position of each item, it was further converted into scores by using Garret's table. The computed scores of the individual respondents for each factor were added and divided by the total number of respondents who had responded. The mean scores of all the factors thus arrived at were arranged in a descending order and ranks assigned according to the scoring. The hypotheses framed for the relationship between dependent and independent variables were analyzed using correlations and regression analysis.

## 7. Review of Literature

In a survey conducted by Bono and Judge (2003) as to whether the followers of transformational leaders exhibit higher performance, motivation, job satisfaction, and organizational commitment in service and manufacturing organizations, it was found that Transformational Leadership behaviors, as evaluated by followers, was positively related to followers' job performance. From the answers given by the employees about the transformational leadership, Nemanich and Keller (2007) concluded that the Transformational Leadership behaviors had a significantly positive relationship with acquisition acceptance and to be positively related to goal clarity, creative thinking, and follower performance. The authors suggest Transformational Leadership be used to face challenges, such as those encountered during an acquisition.

In a similar study of Piccolo and Colquitt (2006) the authors found Leadership Transformational behaviors had a significantly positive relationship with task performance. They also found intrinsic motivation and goal commitment to significantly mediate the relationship between Transformational Leadership behaviors and task performance. The authors suggested for training and manager development plans for Transformational Leadership. Wang et al. (2005) studied 81 managers enrolled in master of business administration courses at a Chinese university and 162 of their immediate subordinates (68% response) to assess the two - way relationship between the leader and follower. Each manager rated task performance and organizational citizenship behavior of his/her followers and each follower rated Transformational Leadership behaviors of the manager and the leader member exchange between them self and the leader. The authors found Transformational Leadership behaviors and the leader - member exchange to have significant relationships with task performance and organizational citizenship behavior. The authors also found the leader member exchange to fully mediate the relationship between Transformational Leadership and task performance. The authors believe Transformational Leadership strategies, especially those that enhance the leader member exchange, should be included in management training.

Judge and Piccolo (2004) conducted a meta analysis of 87 studies measuring transformational, transactional, and laissez faire leadership. From the study, the authors found that the Transformational Leadership had shown the highest overall validity, while contingent reward leadership was a close second. The authors found more validity with Transformational Leadership than contingent rewards when looking at

leader effectiveness. Contingent reward was found to be more valid for leader performance. The authors found the differences in validity were not significant for follower motivation and group performance. The authors found, through their meta analysis, Transformational Leadership had a positive relationship with follower job satisfaction, follower leader satisfaction, follower motivation, leader job performance, group performance, rated leader effectiveness.

According to Mehra et al. (2006), when some organizations seek efficient ways to enable them to outperform others, a longstanding approach is to focus on the effects of leadership. This is because team leaders are believed to play a pivotal role in shaping collective norms, helping teams cope with their environments, and coordinating collective action. This leader centered perspective has provided valuable insights into the relationship between leadership and team performance.

## 8. Results And Discussions

### 8.1. Leadership Effectiveness

By referring the Garrett's table, the percent position estimated is converted into scores. Then for each factor the scores of each individual are added and the mean values are considered to be the most important. The Garrett's score for the various factors that turns out the ordinary leadership styles into an effective one has been presented in Table 1. At its first level, ranks had been assigned to various factors under every question in accordance with their relative mean scores. (The results were too lengthy to be presented here. It may be given on requisition).

From the selected factors, the major factors that determine the effectiveness of leadership were listed and the ranks were also assigned:

**Table 1. Garrett Ranking Method for Leadership Effectiveness**

<b>Factors</b>	<b>Total Score</b>	<b>Mean Score</b>	<b>Rank</b>
<b>Planning and controlling ability</b>	11270.00	56.63	5
<b>Role model</b>	12290.00	61.76	3
<b>Self - Confident</b>	11290.00	56.73	4
<b>Sets standards of performance for group members</b>	12430.00	62.46	2
<b>Rewarding Achievement</b>	11090.00	55.73	6
<b>Influencing</b>	13170.00	66.18	1

In our study, all the respondents have given the scoring for all the factors since the number factors given are only few. The table gives a clear picture that a leader should be able to influence his/her subordinates for better achievement and also be able to set the standards of performance for his/her peers that suit the individual capabilities as well as the organizational targets. They must act as “Role-Models” to encourage their followers, instill self confident and has the ability to plan and control diverse activities of their peers. Thus, it is consistent with the result that the qualities possessed by transformational leaders were regarded the most effective than that of the transactional leaders and Laissez Faire leaders.

At the same time, it is evident that Contingent Reward, one of the important features of Transactional leaders also play a vital role in determining the effectiveness of leadership but to a lesser extent than that of the transformational leadership qualities.

## 8.2. Leadership Style Preferences In Select Enterprises

The Middle Level managers’ preferences on leadership styles among autocratic, democratic, transformational, transactional and laissez - faire leadership are displayed in the selected enterprises. The result does not give a wider difference between the selected public and private sector enterprises. The highest mean score of 63.33 indicates that majority of the respondents working in the middle level management prefer transformational leadership followed by transactional (50.00) and democratic leadership (47.04 per cent) in the selected public sector enterprises. The lowest mean scores of 44.07 and 45.56 can be found for laissez faire leadership and autocratic leadership.

Note: The Garrett’s scores were used to measure the middle level managers’ preferences on leadership styles that are supplemented with the questionnaire drawn for the study. And so is the case for the middle level managers working in the selected private sector enterprises. The highest mean score of 63.75 is found for transformational leadership whereas the least score of 38.75 is found for autocratic leadership. The mean scores of subordinates’ preferences on leadership styles in the selected public and private sector enterprises are also given.

It is seen that the transformational leaders are more preferred by the subordinates in the public sector enterprises with the mean score of 64.58, whereas transactional leadership (53.33) scores is better in case of private enterprises. The least mean scores of 43.33 and 45.67 are found for laissez faire leadership in case of both public and private enterprises. The comparison of previous two paragraphs suggest that the transformational leaders are more preferred by majority of the respondents working both in public and the private sector enterprises followed by the transactional leadership qualities. The laissez faire leadership had the least preferences in case of the selected enterprises.

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Table 2 deals with the descriptive statistics for each of the variables involved in this study.

**Table 2. Descriptive Statistics (all i.e. Public and Private sector)**

<b>Variables</b>	<b>Valid</b>	<b>N</b>	<b>Mean</b>	<b>SD</b>	<b>Range</b>	<b>Min</b>	<b>Max</b>
<b>Idealised Attributes</b>	199	3.61	0.62	3.33	1.67	5.00	
<b>Idealised Behaviors</b>	199	3.61	0.61	2.67	2.30	5.00	
<b>Inspirational Motivation</b>	199	3.72	0.58	3	2.00	5.00	
<b>Intellectual Stimulation</b>	199	3.49	0.64	3	2.00	5.00	
<b>Individual consideration</b>	199	3.49	0.75	3.5	1.50	5.00	
<b>Confidence</b>	199	3.82	0.83	4	1.00	5.00	
<b>Contingent Reward</b>	199	3.67	0.84	3.5	1.50	5.00	
<b>Task Completion</b>	199	3.88	0.44	2	2.75	4.75	
<b>Management-by- Exception(Active)</b>	199	2.12	0.62	3	1.00	4.00	
<b>Management-by-Exception(Passive)</b>	199	1.95	0.62	3	1.00	4.00	

<b>Laissez-faire</b>	199	1.51	0.40	1.67	1.00	2.67
<b>Extra Effort</b>	199	3.55	0.62	3	2.00	5.00
<b>Effectiveness</b>	199	3.72	0.84	4	1.00	5.00
<b>Satisfaction</b>	199	3.62	0.60	3	2.00	5.00
<b>Dependability</b>	199	3.83	0.54	2.33	2.67	5.00

Pearson's 'r' was used to measure the magnitude and the direction of the correlations between leadership styles and performance variables.

The correlations are presented in Table 3.

**Table 3. Correlation Analysis Results**

**Measures IA IB IM IS IC C CR TC MBEA MBEP LF EE EFF SAT DEP**

**\*\* p < .01 (one-tailed); \* p < .05 (one-tailed).** IA = Idealised Attributes, IB = Idealised Behaviors, IM = Inspirational Motivation, IS = Intellectual Stimulation, IC = Individual consideration, C = Confidence, CR = Contingent Reward, TC = Task Completion, MBEA = Management by Exception (Active), MBEP = Management by Exception (Passive), LF = Laissez - faire, EE = Extra Effort, EFF = Employee Effectiveness, SAT = Satisfaction, DEP = Dependability.

From the table, it can be seen that the employee effectiveness is positively influenced by the charisma. Inspirational motivation is positively correlated with employees' effectiveness and satisfaction at  $p < .01$  and  $p < .05$  but negatively correlated with dependability. Interestingly, the individual consideration given by the leaders to every subordinate tend to increase the effectiveness and satisfaction level of employees at 1per cent significance level. At the same time, it is seen that the capability of the employees to work even in the absence of the leaders tend to decrease with the individual care and consideration given by the leaders. Thus it is advisable for the leaders to be very optimum in showing chariness to their peers who are working under them.

Contingent reward is likely to increase the willingness of employees to put forth extra efforts for task completion, increases satisfaction level of employees and dependability at  $p < .01$  but negatively correlated with the effectiveness of the employees at  $p < .05$ . As expected, the laissez faire leadership is negatively correlated with employee effectiveness, extra effort and satisfaction level of employees at 1 per cent significant level does not show any correlation with dependability.

The results of the correlation analysis clearly indicates that transformational leadership style can create work effectiveness, satisfaction, dependability and extra effort more than transactional leadership. The laissez faire leadership styles do not help for better employee performances in the selected public and private sector enterprises.

**9. Hypotheses Testing**

Table 4 presents the results of hypothesis testing. From the table it is clear that this model has very high correlation between transformational leadership and employee performance as the adjusted R2 is high (Adjusted R<sup>2</sup> = 0.632), i.e., 63% of the employee performance is explained by this model. The researcher accepts the null hypothesis (H01) and concludes that there is sufficient evidence, at the 5% level of significance, that there is a linear positive relationship between transformational leadership and employee performance.

**Table 4. Regression Analysis Results for Effective Leadership and Employee Performance**

**Multiple R R Square Adjusted R Square Standard Error Observations**

**Transformational** 0.800 0.640 0.632 0.191 199

**Transformational**

IA 1.00

IB.17 1.00

IM .13 .02 1.00

IS.08 .05\*\* .12\*\* 1.00  
 IC .00 .05\*\* .09\* .14 1.00  
 C .08 .17\*\* .32\* .08\*\* .13\*\* 1.00

**Transactional**

CR .10 .04 .12 .24 .21 .14 1.00  
 TC .03 .20\*\* .02\*\* .00 .00 .21\* .01\*\* 1.00  
 MBEA .13 .14\*\* .16 .09 .18 .12 .19 .06 1.00

**Laissez-Faire**

MBEP .13 .01\*\* .00 .11\* .03 .08 .06 .02 .06 1.00  
 LF .09.19 .04 .01 .06 .03\* .03 .09\* .07 .08 1.00

**Performance**

EE .17 .07\* .08 .67 .21 .16 .16\*\* .09 .05\* .11\* .07\* 1.00  
 EFF .18\*\* .14\*\* .40\*\* .00 .53\*\* .62\* .06\* .16\* .00 .01\* .11 .18 1.00  
 SAT .06 .00 .18\* .25 .13 .38\* .79\*\* .04 .23 .12\* .01\* .08\* .07\* 1.00  
 DEP .06 .18 .06\*\* .04\*\* .00 .30\* .06\*\* .87 .02 .01 .08\*\* .01 .21 .03\* 1.00

**Transactional** 0.749 0.560 0.551 0.274 199

**Laissez-Faire** 0.820 0.673 0.666 0.147 199

The model also explained a high proportion of the explanatory capacity for transactional and laissez faire leadership (adj. R2 = 0.551 and 0.666 respectively). H02 and H03 were also supported that “the transactional leadership has a significant positive relationship with employee performance” but to a lesser extent than the transformational leadership and “laissez-faire leadership has a negative relationship with the employee performance/outcomes”.

**10. Conclusions**

Though there are numerous studies (eg. Dvir et al. 2002; Bono and Judge 2003; Bass et al. 2003; Nemanich and Keller 2007) that are extended in the area of leadership; it is quite interesting that universally acceptable conclusions are not arrived yet as to what is actually termed as effective leadership, what are the variables contributes for the effectiveness of leadership and so on. This may be attributed to several reasons like the differences in the culture, varying attitudes of the employees, varying expectations of the employees about their leaders etc. More importantly, the situation plays an important role in determining the success of leadership. A leadership quality that is effective in one situation among a particular group of members may not be effective with another situation or with another group of members. All these factors make the leadership process a tedious one, though not actually so.

Hence, the researchers have attempted to make this study taking into consideration the respondents both from the public and private sector enterprises. The paper was set out to examine the various factors that increases the effectiveness of leadership and explores the relationship between the effective leadership styles and the employee performances. At its first level, the various factors that affect the effectiveness of leadership styles are suggested. The key result is that the leaders must have the ability to attract / influence their subordinates, be able to set clear standards of performance to their peers and act as a best role model to the subordinates. Additionally, the subordinates expect that their achievements must also be recognized and rewarded either with monetary considerations (like bonus, promotions etc.) or with non - monetary terms (eg. Best performer Awards etc.).

The Garrett’s score which gives the preferences of the Middle level managers and the subordinates from among various leadership styles recommended the transformational leadership style in the public sector enterprises as well as in the private sector enterprises.

From the correlation and regression analysis, the relationship between the transformational, transactional, laissez - faire leadership and employee performance are measured. Leadership was positively linked with employee performance for both transformational leadership behaviors and transactional contingent reward leadership behaviors. The implication of this finding is that the managers, who are perceived to demonstrate strong leadership behaviors, whether transformational or transactional, will be seen as engaging in increasing the employees' performance.

In summary, the transformational leadership style has significant relationships with performance outcomes; viz. effectiveness in work, satisfaction, extra effort and dependability. The study has added some additional knowledge for a better understanding of the preferred leadership approach and appropriate style for using with subordinate in various professional levels. By using the results, leaders can adjust their behaviors in practical ways to enhance subordinates' job performance, thereby reaping increased productivity for their organizations as a consequence.

## 11.Limitations And Perspectives For Future Research

As the present study was conducted only in India, further research should replicate the results in other countries. This idea echoes recent calls for cross cultural research in the field of business ethics. Another limitation of the present studies was that they relied on selected few organizations. Larger domain of study would certainly throw more light on the various dimensions studied. And hence further studies should include a large sample size that represents the leadership qualities. The results of the present study however, can be used for future cross unit and cross institutional studies.

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