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Holier than Thou: A Comparative Study of Leader-Member Exchange (LMX) Effectiveness in Transactional and Transformational Leadership in IT Companies

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ABSTRACT

This research aims to explore the effectiveness of transactional and transformational leadership styles in creating effective Leader-Member Exchange relationships in the organization, particularly in IT companies. The research was carried out in Indonesia during the year 2020. Semi-structured interviews were conducted on 149 respondents over 12 months between February 2020 and November 2020 in 119 IT companies located in major cities of Indonesia. The results of this study indicate that transformational leadership is more holistic than transactional leadership. In developing a high-quality leader-member relationship, the personal touch of a leader is needed to inspire his/ her followers to perform beyond expectations and sacrifice to surpass their self-interests for organizational interests. Moreover, to create a warmer and friendlier work atmosphere a leader should be more aware of the out-group existence and he/she supposes to build a relationship reciprocally not based on personal preferences, but rather based on the recent and future potential, and also assigns tasks to those who have skill and readiness. The challenge of this paper is that difficult to generalize the result as this paper approaches the problems from a qualitative stance. This paper contributes to the existing literature on how effective transformational leadership in generating high-quality leader-member relationships influences members' job performance and job satisfaction in an organization.

Keywords: Leader-Member Exchange (LMX), effectiveness, IT industry, creative industry, qualitative.

INTRODUCTION

Leadership in an organization is bringing a great number of impacts to the organization itself, whether it is realized or not. Leadership according to Gary (2006) is "a process of social interaction where leaders attempt to influence the behaviors of their followers". In addition, Kurniawan (2013) also defines leadership as the skill of an individual to influence, motivate, and empower the subordinates to accomplish effectiveness and achievement in the organization. Recently, there are some dominant approaches to studying leadership. Those approaches are predominantly based on Bass' transactional and transformational leadership (1990). In the real-life, there are also so many arguments about the effectiveness of transactional and transformational leadership approach in organizations, consequently, there are so many questions that emerged; such as, "Which one is the most effective approach in creating a high-quality leader-follower relationship?" and "does the transactional style is the only panacea in managing people compared to transformational, and vice versa?"

When assessing the effectiveness of a leadership style in a leader-follower relationship, we should regard the multiple decisive factors due to the complexity and the dynamics of the leadership itself (Haeruddin, 2017a). Also, it should be highlighted, that the leader-member exchange (LMX) relationship is also holding a crucial role in determining the effectiveness

(Barge & Schlueter, 1991; Bass, 1990; Boerner, Eisenbeiss, and Griesser, 2007; Boies & Howell, 2006; Burke et al., 2006; Caldwell, 2003).

The purpose of this paper is to argue that transactional leadership is not effective than transformational leadership regarding developing high-quality leader-follower relationships to influence employees' job performance and job satisfaction. Furthermore, this paper will look forward to how effective transformational approach compared with transactional in developing high-quality LMX in the organization, also with several types of research that support the anti-thesis of the topic. In addition, this paper also will be divided into three major points, firstly the differences between transactional and transformational leadership with their characteristics and also the brief definition of LMX theory; secondly, the paper will discuss the reasons why transactional is not always more effective than transformational leadership. Finally, the conclusion of the paper will be presented.

METHOD

The research was carried out in Indonesia during the year 2020. Semi-structured interviews were conducted on 149 respondents over 12 months between February 2020 and November 2020 in 119 IT companies scattered in major cities of Indonesia. In these interviews, respondents described various aspects of their perception of leadership style, working preferences, and personal experiences. Criteria for respondents' inclusion in this study were: 1) work in the IT business, and 2) at least work in the same company for 1 year. The entire interview recordings consist of 433 hours of interview, accompanied by 669 pages of transcribed text. The data was then imported into the NVivo software package for coding. Also, to ensure interviewees' anonymity, pseudonyms were assigned and all identifying detail was removed from the transcripts.

RESULT AND DISCUSSION

Transactional leadership

As admitted by most of the respondents, the transactional leadership style is quite effective in creating LMX in their organization. Mostly they perceive that the leadership style was more effectively applied during the first period of their working tenure.

I feel appreciated by my boss; he gave me a financial bonus as long as I finished all the tasks given (Danny, 45 years old, Company #88).

My former manager always looks after me during my first days; he ensured that I got everything I need to finish all of my duties (Anna, 29 years old, Company #2).

It is clear that from the above quotes those employees were satisfied with the transactional leadership style applied by their superior in finishing their duties, especially during the early days of working in the company. However, according to most respondents, that is not enough. This will be elaborated in the following sub-section on the transformational leadership style.

Transformational leadership

It is discovered that most of the respondents were satisfied with the transactional leadership style, however, they argued that it is important for them that transformational leadership is the most effective style in managing them and eventually creating a good leader-member exchange relationship.

In here [IT industry], you always have a bargain position. If you are not treated properly by your employer you can just walk out the door. Therefore, managers must be able to be transformational leaders in the workplace (Rene, 45 years old, Company #101).

My boss is great. He knows what to do in managing millennials like us. You need that kind of [transformational] figure in the workplace to get everything right (Malik, 24 years old, Company #90).

Discussion

All of those methods or characteristics of transformational leadership mentioned above are giving more “personal/ human touch” compared to transactional leadership to the followers; consequently, followers feel that they are appreciated and respected by their leaders (Pawar, 2003). Also, empowerment from leader to the subordinates to solve the problems and leader would pay close attention to subordinates’ needs for achievement and acts as mentor and coach; likewise, the transformational leader would enthuse subordinates to take more risks and responsibilities to build up their potential (MacKenzie et al., 2001; Musa et al., 2018). These will lead the followers to become more responsible and more committed to the organization’s collective objectives and voluntarily transcend their self-interest for the sake of the organization or team (M. I. Musa et al., 2020; Senior & Fleming, 2005; (Wang, Law, Hackett, Wang, & Chen, 2005).

In addition, McGregor’s Theory Y is applied in transformational leadership, where subordinates assumed that self-motivated, love their job, high skilled, and exercise self-control and self-direction (Natsir, Tangkeallo, Tangdialla, 2020). Consequently, there is a chance for greater productivity by giving employees the freedom and authority to perform at the best of their abilities without being bogged down by rules and supervisory from the leader (Afsar & Masood, 2018; Farahnak et al., 2020; Shafi, Lei, Song, Sarker, 2020; (Siangchokyo, Klinger, and Campion, 2020). This kind of leadership approach is more effective than transactional in the larger scale of organizations to adjust with external environments, where there are high levels of readiness and willingness from subordinates, and the character of the task itself matched with the leadership style (Alhashedi, Bardai, Al-Dubai, and Alaghbari, 2021). For example, in an information technology (IT) organization, a leader supposes to utilize transformational approaches to managing his/her subordinates. Characteristics of the employees in the IT industry are highly skilled, dealing with creativity and innovations, and most of them are already achieve the higher level of Maslow’ hierarchy of needs. Also, the employees in IT

industry are placed in high demanded skill. It is a loss for the organization if it cannot retain its human capital in global competition because of a leader mismanages the relationship. As we know, although money is positively required in this case, transactional characteristic: contingent reward, it is not adequate to retain, attract, and inspire good employees. Employees have continually been concerned that personal considerations, value involvement, and individual recognition are more important than money itself (Budur & Poturak, 2021; Cop, Olorunsola, and Alola, 2021).

In addition, as we assumed that employees in the IT industry need to be treated as human beings rather than treated as “servants”. For those reasons, transformational is important in building and developing high relationships between leader-followers in such an industry. If the leader insists to apply a transactional approach in the IT industry, probably followers would feel insecure and uncomfortable with his/her style (Cop, Olorunsola, and Alola, 2021). These symptoms are strengthened by Lee, works (2005), who contended that transactional leader tends to practice management by exception whether it is active or passive by constantly monitor follower’s works and outcomes and condemn them when deviation occurred. This can generate a poor leader-followers relationship, especially in trust building which can lead to poor performance and satisfaction from subordinates (Alhashedi, Bardai, Al-Dubai, and Alaghrabi, 2021).

There are many significant types of research about how effective transformational leadership compared with transactional in generating high LMX to influence job performance and job satisfaction (Siangchokyoo, Klinger, and Campion, 2020). (Boemer, Eisenbeiss, and Griesser, 2007) found that transformational is positively enhancing the followers’ performance through Organizational Citizenship Behavior (OCB), where the follower’s behavior exceeds the expectations. On the contrary, transactional was not the contributing factor in determine OCB, since the relationship is limited only in an economic exchange where “followers act rationally by only committing to as much as will be rewarded” (Bass, 1990, p. 121). Even though (Burke et al., 2006) state that contingent rewards are bringing positive impacts on subordinate’ performances and satisfactions, therefore would lead to high relationships between leader-followers, MacKenzie, (MacKenzie, Podsakoff, and Rich, 2001) argue that transformational not only influences followers to go beyond organizational expectations, but also have effective direct and indirect relationships than transactional (Shafi, Lei, Song, and Sarker, 2020; Siangchokyoo, Klinger, and Campion, 2020).

CONCLUSION

To be become more productive and effective in managing relationships with the subordinates, a leader should be more aware of the out-group existences in the internal environment. Out-group community can be a hassle in creating a warm and friendly work atmosphere, since the community tends to be cynical to the in-group and the management; which can lead to office politics. Therefore, the leader supposes not to have a relationship based

on preferences and favorites; but establishes a relationship that is based on individual approach, current and potential performances, and keeps the relationship fluid and dynamic.

As one of the famous approaches to leadership in managing followers, transformational leadership is more holistic than transactional leadership. Even some researchers found that contingent rewards from the transactional approach are bringing a positive impact on job performance and satisfaction, on the contrary, numerous researchers argue that transformational leadership goes beyond what the transactional has achieved. One simple example is in the IT organization, where the natures of the job are highly skilled employees, employees are achieved higher needs in Maslow's hierarchy of needs – usually in the self-actualization stage and deal with creativity and innovation. In developing a high-quality leader-member relationship, the personal touch of a leader is needed to inspire his/ her followers to perform beyond expectations and sacrifice to surpass their self-interests for organizational interests. Moreover, to create a warmer and friendlier work atmosphere a leader should be more aware of the out-group existence and he/she supposes to build a relationship reciprocally not based on personal preferences, but rather based on the recent and future potential, and also assigns tasks to those who have skill and readiness. Despite its contribution, it is difficult to generalize our findings, as this study was employing a qualitative stance. Therefore, future research may benefit from a quantitative approach to generalize the findings while at the same time strengthening the results of the current research. This paper has showing how effective transformational leadership is in generating high-quality leader-member relationships to influence members' job performance and job satisfaction in an organization.

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