

Transactional Leadership Style and Employee Performance in Food and Beverage Manufacturing Companies of OSUN State

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Abstract:

Background: Effective leadership has huge relevance in achieving high levels of performance in organizations. For this reason, it is necessary for an organization to identify the leadership styles that have high potential for enhancing organizational performance. Transactional leadership is among the prevailing leadership styles of manufacturing companies in Osun State, Nigeria. However, some of the challenges of company leadership emanate from not exhibiting proactive behavior thereby producing consequences that are detrimental to high-level performance. Furthermore, effective implementation of rewards enhances the confidence employees place in organizational leadership while ineffective implementation has opposite effect. It is on this basis that this study investigated the relationship between transactional leadership style and the performance of employees of food and beverage manufacturing companies in Osun State, Nigeria.

Materials and Methods: This study employed a cross-sectional survey research design that involved both qualitative and quantitative approaches. The quantitative approach of the study involved using standard statistical tools to test hypotheses and to analyze data collected for the study. Qualitative approach was also used to provide in-depth responses relating to leadership styles and organizational performance. The qualitative responses, apart from enabling the observation of patterns and trends in the responses, were converted to quantitative data via a five-point Likert scale having scores ranging from Strongly Agree 5 to Strongly Disagree 1.

Results: Transactional leadership was found to have significant and positive effect on employee performance. The components of transactional leadership had positive relationships with employee performance and they made individual contribution to performance. The biggest contribution emanated from contingent reward ($\beta=0.361$, $p < 0.05$) and the smallest from passive management by exception ($\beta=0.065$, $p < 0.05$).

Conclusion: The findings of the study revealed positive relationship between transactional leadership and employee performance. They also showed positive relationships between the components of transactional leadership and employee performance such that contingent rewards explained the largest variation in performance. These findings indicate the need for leadership to place great emphasis on contingent rewards and active management by exception because of the potential of these variables in predicting employee performance.

Key words: Leadership, transactional leadership style, employee performance.

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I. Introduction

Leadership is an important factor that brings about success in an organization.¹ This is why it is necessary to use appropriate leadership styles that have potential for attaining the objectives of the organization. The business of manufacturing companies is carried out in a competitive environment where the urge to survive and grow is of primary concern to leaders in these organizations. Transactional leadership is a leadership style where the leader rewards or disciplines the follower based on the adequacy of the follower's performance.² They are leaders that use an exchange model that provides rewards for good work or positive outcomes and punishes people for poor work or negative outcomes until the poor work meets expectation.³ Transactional leadership style is a contingent-reward leadership style that involves active and positive exchange between leaders and followers whereby followers receive rewards or recognition for accomplishing performance goals.⁴ What the transactional leader does is to reach agreement with followers on the tasks to be carried out and makes a promise to reward them or actually rewards them for successfully carrying out the tasks. The relationship between the transactional leader and followers is based on task performance. Transactional leaders place emphasis on achieving results by following an established organization structure, policies and procedures.⁵ For this reason, they set goals, monitor performance, and provide feedback.

The features of transactional leadership style are contingent reward, active management by exception, and passive management by exception. There are two types of contingent reward - contingent positive reinforcement and contingent negative reinforcement.⁶ A transactional leader gives contingent positive

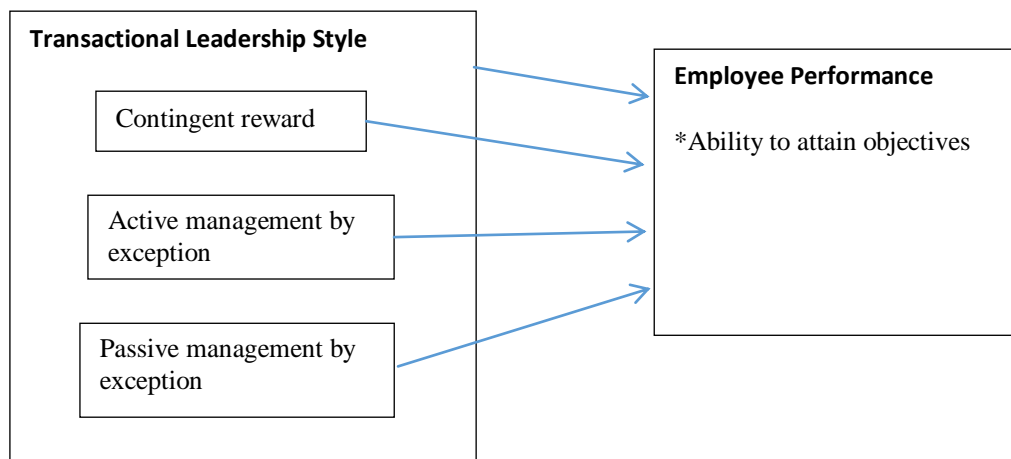
reinforcement in the form of praise and rewards when goals are achieved on or before a scheduled time while a contingent negative reinforcement is given when goals are not met, tasks are not accomplished and performance falls below standard. Active management by exception, as a feature of transactional leadership style, means that the transactional leader anticipates problems, monitors the performance of followers, observes deviations from rules and regulations, and takes actions according to followers' performance while passive management by exception means that the transactional leader does not get involved in fixing an issue unless it becomes severe.⁶ Active management by exception has also been described as transactional leadership behavior that involves making arrangements to actively monitor deviations from standards and errors and to take corrective action as necessary while passive management by exception implies waiting passively for deviations and errors to occur and then taking corrective action.² Another author that distinguished between these two features of transactional leadership style states that active management by exception refers to leader behavior that involves carrying out positive supervision of performance to avoid mistakes while passive management by exception is a style of leadership whereby the leader intervenes only after mistakes against the task requirements are noticed.⁷ It has also been stated that passive management by exception implies leadership interference in the affairs of employees when they perform unexpectedly.⁸

The retention of any leadership style becomes necessary if the style makes meaningful contribution to performance. The survival and growth of organizations depend on their ability to attain objectives thereby make positive impact on performance. The chances of making positive impact on performance increases with increased leadership effectiveness. Fiedler and House posit that performance directly proportional to leadership effectiveness.⁹ Therefore, it will augur well for an organization where followers show high commitment to attaining the goals and objectives of the organization. Empirical studies on the impact of transactional leadership style on company performance provide various degrees of support for transactional leadership. An aspect of the conclusion of a study of manufacturing companies indicated that transactional leadership represented a viable way of strengthening subordinates' goal attainment, by providing clarifications to subordinates on how to attain work goals and by enabling them to receive intrinsic and extrinsic rewards upon goal attainment.¹⁰ This outcome of the research is indicative of the potential of leadership application of intrinsic and extrinsic rewards to result in goal attainment. The results of another study on the relationship between transactional leadership style and the growth of small and medium enterprises (SMEs) that involved stratified proportionate and purposively selected sample of 227 chief executive officers (CEOs) and managers revealed that transactional leadership style had a strong positive correlation with performance.¹¹ A recommendation of the authors, however, was that for employees to effectively carry out their assignments, transactional leadership would be an appropriate style for workers employed on a short-contract basis. There are yet other studies that reported positive relationship between transactional leadership style and performance.^{12,13,14,15,16} However, while a study of bank employees revealed negative relationship between transactional leadership style and performance,¹⁷ the study by Tsigu and Rao reported that transactional leadership style explained less variation in performance than transformational leadership.¹⁸

The broad objective of this study is to examine the effect of transactional leadership style on employee performance in food and beverage manufacturing companies of Osun State, Nigeria while the specific objectives are to ascertain the relationship between transactional leadership behaviors (contingent reward, active management by exception, passive management by exception) and employee performance. It is on the basis of these objectives that the following hypotheses are formulated:

- H₀₁: transactional leadership style has no significant effect on employee performance
- H₁₁: transactional leadership style has significant effect on employee performance
- H₀₂: contingent reward has no relationship with employee performance
- H₁₂: contingent reward has relationship with employee performance
- H₀₃: active management by exception has no relationship with employee performance
- H₁₃: active management by exception has relationship with employee performance
- H₀₄: passive management by exception has no relationship with employee performance
- H₁₄: passive management by exception has relationship with employee performance

Figure 1: Conceptual Framework



Dependent variable

Independent variables

Source: By researcher, 2021

II. Materials and Methods

Four randomly selected manufacturing companies in the food and beverage industry having a total population of 1,520 employees were studied. The employees were middle-level managers and junior members of staff.

Study Design: The study was conducted based on a cross-sectional survey design that utilized both qualitative and quantitative approaches. As a descriptive survey, the study obtained information on what the respondents were currently involved in and gave explanations to the observations in order to make them easy to understand. The quantitative approach of the study involved using standard statistical tools to test hypotheses and to analyze data collected for the study. Qualitative approach was also used in this study to provide in-depth responses relating to transactional leadership style and organizational performance. The qualitative responses, apart from enabling the observation of patterns and trends in the responses, were converted to quantitative data via a five-point Likert scale having scores ranging from Strongly Agree 5 to Strongly Disagree 1. Employee performance was measured by employee perception of ability to attain stated objectives.

Study Area: The study was carried out at Osogbo, Osun State, Southwest Nigeria.

Sample size: 317 respondents constitute the sample size of the study.

Sample size calculation:

The sample size for the study was calculated based on Taro Yamane formula: $n = N/(1+Ne^2)$ where n represents the desired sample size, N represents the population of study, and e is the desired margin of error. With 5 percent error margin and a population of 1,520, the sample size for the study is given by: $n = 1,520/[1+1,520(0.05)^2] = 317$ respondents. The respondents that constituted the sample size for the study were proportional to the population of the selected manufacturing companies.

Inclusion criteria: The employees that made up the study sample had tertiary education and had worked for the manufacturing companies for not less than 5 years. This was done to enhance the validity of the findings of the study.

Exclusion criteria: Employees without tertiary education and less than 5 years work experience did not take part in the study.

Procedure methodology: The structured questionnaire used for data collection, designed to fulfill the objectives of this study, contains construct items adapted from previous studies.^{19,20} It also contains questions on demographic variables such as age, sex, income, and marital status of the respondents.

The distribution followed a purposive sampling technique because of the desire to obtain answers from respondents who had tertiary education and not less than five years work experience.

Statistical analysis: Statistical analysis was carried out based on 74 percent response rate using Statistical Package for Social Sciences (SPSS) version 20.0. Descriptive analysis shows the relationship between transactional leadership style and employee performance while multiple regression analysis was the basis for accepting or rejecting a null hypothesis thereby indicating the effect of transformational leadership style on employee performance at 5 percent significance level. The multiple coefficient of determination, R^2 , denotes the percentage of variation in employee performance that is explained by transactional leadership style.

III. Results

Descriptive analysis shows the mean and standard deviation values of transactional leadership behavior in relation to employee performance in table 1 while table 2 shows correlation analysis.

Table 1: Transactional leadership behavior and employee performance

Leadership behavior	mean	standard deviation
Contingent reward	3.745	0.741
Active management by exception	4.417	0.412
Passive management by exception	2.415	0.327

Higher mean values shown in table 1 signify higher values for the measured construct.

Table 2: Correlation between transformational leadership behavior and employee performance

CR	AM	PM	EP	
CR	1.0			
AM	0.17	1.0		
PM	0.12	0.24	1.0	
EP	0.65**	0.71*	0.19*	1.0

CR = Contingent reward, AM = Active management by exception, PM = Passive management by exception, EP = Employee performance

Note: **p < 0.01 *p < 0.05

Table 2 shows the relationship between transactional leadership behavior and employee performance. As can be seen, the correlations are high ($r = 0.65$, $r = 0.71$) except for passive management by exception ($r = 0.19$).

Table 3: ANOVA

Model	Sum of squares	Df	Mean square	F	Sig
1 Regression	61.2172	3	20.4057	52.2419	0.001 ^a
Residual	90.2355	231	0.3906		
Total	151.4527	234			

- a. Predictors: (constant), contingent reward, active management by exception, passive management by exception.
- b. Dependent variable: employee performance

Source: Researcher, 2021

The results in table 3 indicate statistical significance for the predictor variables on employee performance [$F(3,231)df < 52.2419$, $p < 0.05$]. This implies that transactional leadership has a significant and positive effect on employee performance.

Table 4: Coefficients

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std Error	Beta		
1 (Constant)	4.124	0.431		9.568	0.000
CR	0.361	0.079	0.312	4.570	0.019
AM	0.276	0.051	0.213	5.412	0.001
PM	0.065	0.019	0.095	3.421	0.024

CR = Contingent reward, AM = Active management by exception, PM = Passive management by exception.

Source: Researcher, 2021

Table 4 indicates the relative contribution of independent variables to the prediction of employee performance. It is clearly seen from table 4 that an improvement, by 1 unit, in the predictor variable, contingent reward, improves employee performance by 36.1 percent ($t = 4.570, p < 0.05$); while an improvement in active management by 1 unit, improves employee performance by 27.6 percent ($t = 5.412, p < 0.05$) and so on.

Table 5: Model summary of predictors of employee performance

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	0.6358	0.4042	0.3965	0.6250

- a. Predictors: (constant), idealize influence, inspirational motivation, intellectual stimulation, individualized consideration
- b. Dependent variable: employee performance

Source: Researcher, 2021

The results in table 5 indicate that the multiple coefficient of determination has the ability to explain 40.42 percent variation in employee performance.

IV. Discussion

Effective leadership is essential for obtaining desired results that enhance the survival and competitiveness of organizations. This study investigated the effect of transactional leadership style on the performance of employees of food and beverage manufacturing companies. The results of the study revealed positive relationships between the components of transactional leadership [contingent reward ($r=0.65$), active management by exception ($r=0.71$), passive management by exception ($r=0.19$) and employee performance. The results of multiple regression analysis showed the magnitude of individual contribution to performance made by components of transactional leadership. The tendency to contribute to performance was biggest for contingent reward and smallest for passive management by exception. The overall result gave indication that transactional leadership had a significant and positive effect on the performance of employees [$(F(3,234)df < 52.2419, p < 0.05)$], and had the ability to explain 40.42 percent variation in their performance. These results show support for the alternate hypotheses of this study, H_{11} to H_{14} .

In a nutshell, the following findings were made:

1. Transactional leadership style had a significant and positive effect on employee performance.
2. Contingent reward had a positive relationship with employee performance.
3. Active management by exception had a positive relationship with employee performance.
4. Passive management by exception had a very small positive relationship with employee performance.

These findings have some degree of similarity with the results of some previous empirical studies. Etim and Agu studied the relationship between transactional leadership style and organizational performance based on a sample size of 286 junior and senior workers of manufacturing companies and reported significant but weak relationship between dependent and independent variables.¹⁰ Koech and Namusonge also reported positive relationship between transactional leadership style and the performance of State Corporation employees; and that contingent reward and active management by exception had medium positive correlation with organizational performance.¹³ There are yet other studies with similar results.^{12,14,15,16}

V. Conclusion

This research was carried out to examine the effect of transactional leadership style and employee performance in food and beverage manufacturing companies well as ascertain the relationship between components of transactional leadership and the performance of the employees. The findings of the study gave indication that transactional leadership had potential to improve employee performance. Transactional leadership was found to exert significant and positive effect on performance as it explained 40.42 percent variation in employee performance. Although, the various components of transactional leadership also indicated positive

relationships with employee performance, contingent reward and active management by exception exhibited more potential to contribute to performance than passive management by exception. So, there is need for leadership to place more emphasis on the predictor variables that indicated more potential in contributing to performance by ensuring effective implementation of rewards upon successful task or job performance and by exhibiting proactive behaviour in order to provide further boost to employee performance and company productivity.

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