Effectiveness of transactional leadership in times of uncertainty

Bachelor Thesis

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Management summary

Currently we are dealing with an economic crisis and strong leadership is effective to make positive changes in the time of uncertainty. Often radical and difficult decisions have to be made within a limited timeframe. Strong leadership to make these decisions is therefore a necessity for the survival of the organization. While much research has been done on the effectiveness of leadership on behavior, this paper exams the yet unexamined effectiveness of transactional leadership in times of uncertainty. Transactional leadership style can take 3 three different forms, contingent reward, management-by-exception, laissez-faire leadership

This thesis focus will be on the contingent reward. The contingent reward system has two main characteristics, coercive power and motivation. Coercive power indicates that power is directed from above to make decisions and the second characteristic is the motivation of the employees through rewards. It is this use of coercive power and the motivation of the employees that are investigated in this research.

In times of uncertainty and crisis there is a need for quick decision making for the survival of the company. The use of coercive power and a centralized decision making system provides this speed. For this leadership style to be effective in crisis, a relationship of trust needs to be build between the leader and its employees. Also the leader needs to provide clarity about the changes and the benefits it brings for the employees to make its coercive power acceptable. It is both trust and the clarity that will keep the resistance towards the changes to a minimum and the employees will behave as desired.

Also motivation is a important mechanism to have employees behave as desired. Employees will work and behave as expected if they perceive that they will be rewarded accordingly. Clear expectations on both the work that is expected and the rewards that will be received is of great importance. To overcome resistance and create readiness among the employees towards the changes. This readiness can be created by letting the employee feel the need of immediate action, show the necessity and inevitability of the proposed changes and let the employees see how the changes improve their situation.

From this research can be concluded that in times of uncertainty the transactional leadership style has the right characteristics to help the organization get through the crisis and therefore effective. It is both the use of the coercive power and the reward system that will make the employees behave as desired. But there is a need for trust, clarity, expectations in both the effort that is expected from the employees as the rewards they receive in return.

This literature research has its limitations. The results have not (yet) been tested empirically, although the presented cases of Apple and Xerox have shown the transactional effectiveness in practice, it has not been proved empirically in real life settings.

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Chapter 1- Problem Definition

1.1 Problem Indication

During times like these, when the world is in an economic crisis, the need for strong leadership is high. The crisis can have a tremendous impact on an organization, its members and their capabilities. Often radical and difficult decisions have to be made within a limited timeframe. Strong leadership to make these decisions is therefore a necessity for the survival of the organization. Burns (1987) identified two types of political leadership, transactional and transformational leadership.

Over the last century we have witnessed transformational leaders who thought they could make a big difference in times of uncertainty. In politics these were Moa Zedong, Hitler, Fidel Castro, but also in the business world strong leaders such as Lee Iacocca (Chrysler) and John deLorean (DeLorean Motor Company) have lead their organization through crisis and change. However, transformational leadership and its core characteristic of charismatic appearance are losing their effectiveness. As Shaw (2005) reports, "Charismatic leaders nowadays often weaken the efficiency, security, and stability of organizations as well as their members"

Conger (1998) argues that "A leader with charismatic appearance and a visionary way of influencing his employees, constructs an organizational vision that is essentially a personal wish and therefore potentially something quite different from the actual wishes of organization members". Moreover, the drive to create this very personal wish could result in an inability to see problems and opportunities in the environment. So these limitations and weaknesses of transformational leadership, raises the question whether or not a transactional leadership would be more suitable in times of uncertainty.

The transactional leadership style is known for its coercive system which indicates that power is directed from above. This type of leadership provides the employees with clarity about what is expected and accepted from them, and what the employees get in return. The leaders show little interest in the opinions of the employees and clarify a sense of duty with rewards and punishments to reach their goals. This type of leadership makes decision making go faster, which in times of crisis is important. (Balagun & Hailey, 2008)

Another characteristic of transactional leadership is its contingent reward system, in which the leader provides rewards if followers perform in accordance with contracts or extent the necessary effort (Hater & Bass, 1988).

In this paper the coercive system and reward system will be examined during times of a crisis and organizational uncertainty. These two systems are linked to employee behavior in an organization. This research will focus on the usefulness of transactional leadership during a crisis, and whether or not it is a more suitable style than transformational leadership. This will give us an insight in the most suitable leadership style in times of uncertainty.

1.2 Problem statement

A new insight is required on how transactional leadership can contribute to desired employee behavior in the organization in times of organizational uncertainty.

How can transactional leadership contribute to employee behavior in the organization in times of organizational uncertainty?

1.3 Conceptual model

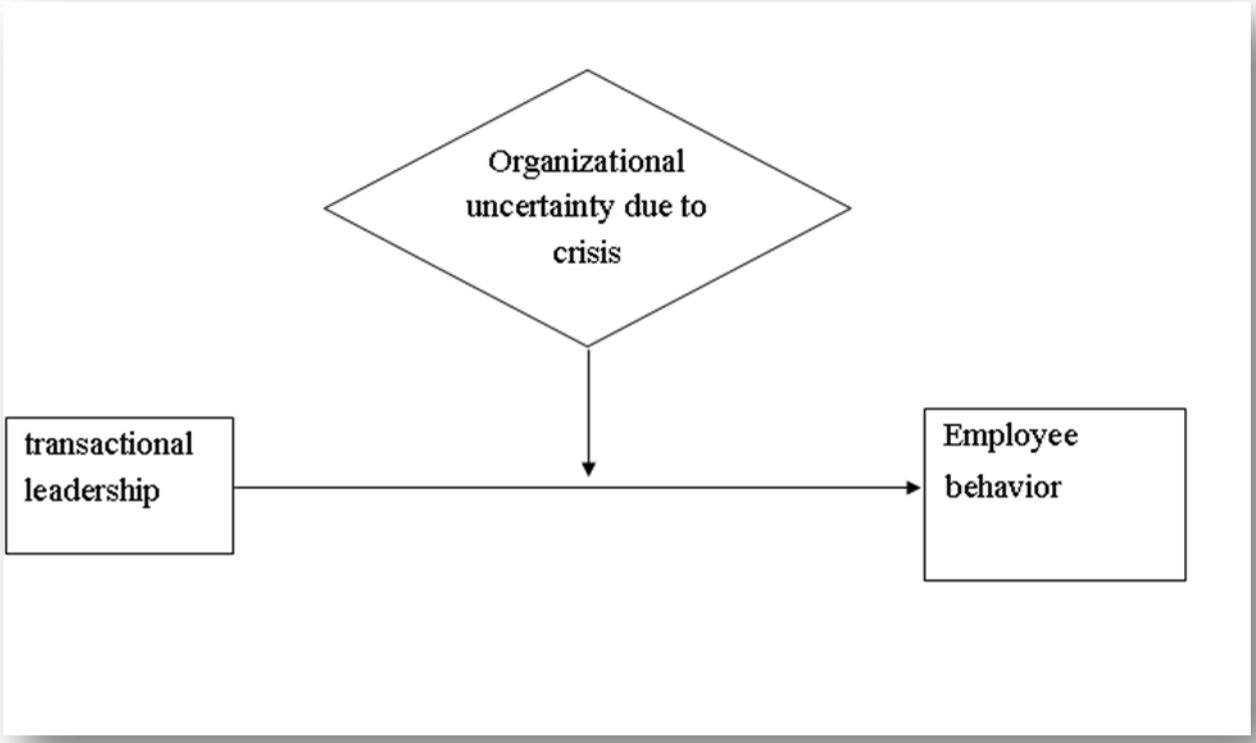

Figure 1: conceptual model of the problem statement

1.4 Research Questions

In order to examine the relationship in the above model, the following research questions have been formulated.

First, How to define transactional leadership?

Second, What is the influence of coercive power on employee behavior?

Third, To what extent has a reward system effect on employee motivation?

1.5 Relevance

Due to the current crisis, many organizations cope with making changes to adapt to the new circumstances. Given this situation it is of high importance they are lead in the correct way. With this paper current leaders get better insights in the transactional style and its impact on employee behavior.

The academic relevance of this paper lies in the examination of yet unexamined relationships of transactional leadership on employee behavior in times of organizational uncertainty. A significant amount of research has been done on performance and behavior and the impact of leadership like Eden, Avolio & Shamir (2002) and Jung & Avolio (2002). However not in times of crisis and organizational uncertainty. Therefore this paper will give new insights which are needed in these times of crisis.

1.6 Outline

In the following chapters these questions will be addressed by analyzing the transactional/transformational paradigm. The next chapter will focus on the essence of transactional leadership style. This will be followed by a discussion on coercive power and its effects on employee behavior. In chapter 4 the relationship between rewards and employee motivation will be addressed with the help of several theories such as the expectancy theory and equity theory. Finally a conclusion, recommendations and limitations of this research will be provided.

Chapter two - Introduction into of transactional leadership

Burns (1987) identified two types of political leadership, transactional and transformational leadership. The difference between transformational and transactional leadership lies in terms of what leaders and followers offer one another. According to Kuhnert & Lewis (1987) transformational leaders are focused on satisfying intrinsic needs of the employees. This is in contrast with transactional leaders who focus on the exchange of resources. Transformational leadership results in employees identifying their needs with the needs of their leader, the transactional leader gives followers something they want in exchange for something the leader wants. To Burns, transactional leadership is more common than transformational leadership.

Bass (1985) argued that transactional leadership builds the foundation for relationships between leaders and followers in terms of specifying expectations, clarifying responsibilities, negotiating contracts, and providing recognition and rewards for achieving expected performance. The transformational leader tries to change beliefs and needs and the values of his employees while using his charisma. Furthermore he is focus is on individual consideration and intellectual stimulation (Bass, 1985).

In the following paragraphs will transactional leadership de discussed into more detail.

2.1 Different forms

Within transactional leadership are three different types. (Bass, 1999). Firstly the form contingent reward, in which the leader provides rewards if followers perform in accordance with contracts or expend the necessary effort. This style is characterized by the use of coercive power in decision making and the use of rewards to motivate employees towards desired behavior.

Secondly is the active management-by-exception. This means that the leader, after monitoring the follower's performance, takes corrective action if the follower fails to meet standards. As noted by Howell and Avolio (1993), active leaders monitor follower behavior, anticipate problems, and take corrective actions before the behavior causes serious difficulties. This style of leadership implies close monitoring for deviances, mistakes, and errors and then taking corrective action as quickly as possible when they occur. Passive leaders take (only) corrective actions after the problem has occurred.

A final form of leadership called nonleadership, is laissez-faire leadership. Laissez-faire leadership is the avoidance or absence of leadership. These leaders avoid making decisions, hesitate in taking

action, and are absent when needed. This leadership form should be treated separately from the other transactional dimensions (Avolio, 1999; Bass, 1998).

For this thesis has been chosen to look only further into the contingent reward style (figure 2).

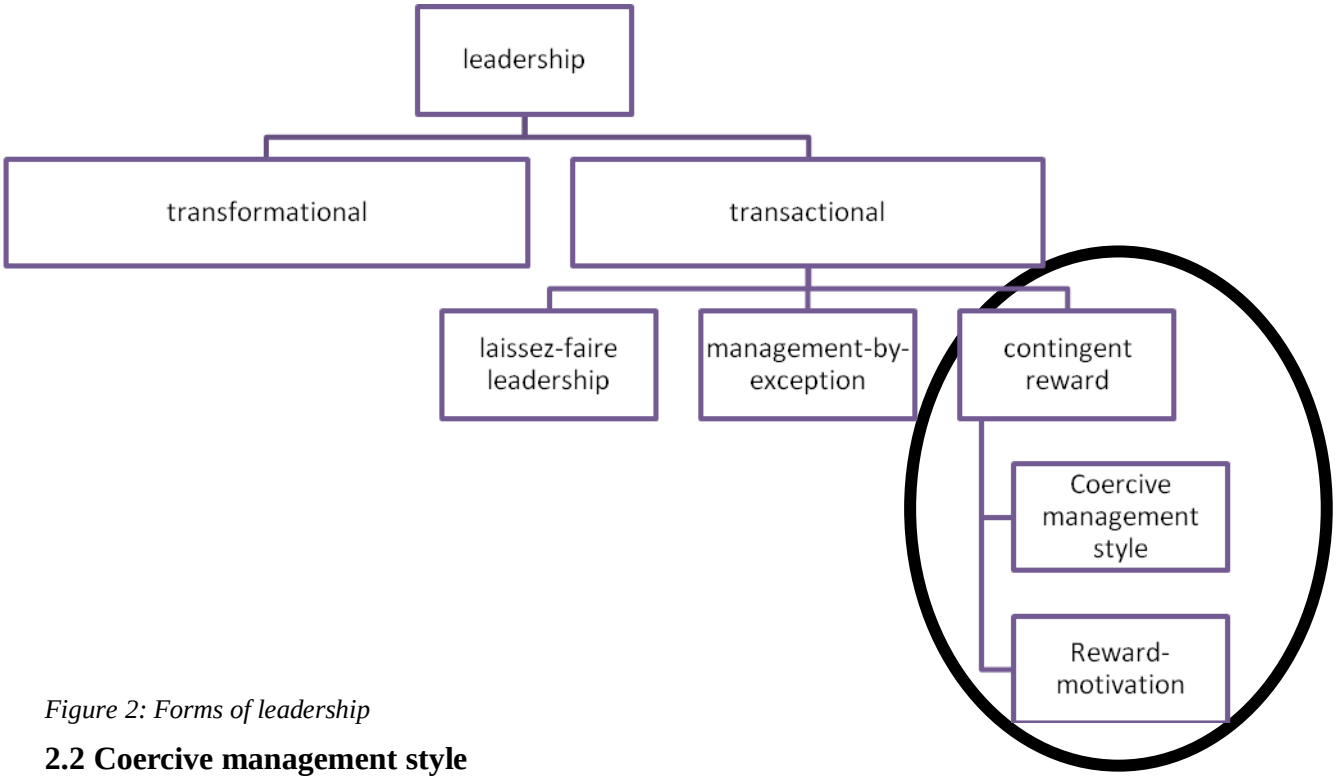

Figure 2: Forms of leadership

2.2 Coercive management style

Within transactional leadership style coercive power is used to direct employees. Decisions are made from above and directed towards employees, which is called top down change and creates a certain structure (Balogun & Hailey, 2008). Balogun & Hailey (2008) explained that *"*Coercion style change is imposed on employees rather than employees having the idea of change sold to them. In this way change will be achieved rapidly. However this may lead to greater resistance, given the lack of effort devoted to explaining the need for change to staff, or to encourage buy-in for the changes".

One of the effects of this style it that it provides structure. Due to this structure knowledge and performance on organization level is enhanced. The relationship between leadership, knowledge and performance has been explored (Gronn, 1997). Table 1 illustrates the impact of transformational and transactional leadership on knowledge cultivation. As can be concluded form this table is transactional leadership not effective on the individual level. Transactional leadership tends to overemphasize detailed goals, rules and policies. This overemphasis tends to reduce creativity and the creating of new ideas (Conger & Kanungo, 1998). Transactional leaders

do not reward ideas that do not fit with existing plans and goals. At group level, transactional leaders tend to reward structure and conformity to rules as well. They enforce policies which can hold back creativity. Therefore groups may benefit from having transformational leaders to foster knowledge creating. However, groups themselves need to be assigned to particular projects in order to achieve overall firm objectives. A transactional leader would be most effective in this process of coordination. The transactional leader tend to be stronger on systems, structures and implementation. These systems and structures are shown at the organizational level. The knowledge created will be exploited across the rest of organization with IT systems, provided by the transactional leader.

So the transactional leadership style is most effective on the organizational level where it takes care of the systems and structures that help exploit knowledge across the organization.

Table 1
Impact of Transformational and Transactional Leadership on Knowledge Cultivation

Level	Knowledge Creating	Knowledge Sharing	Knowledge Exploiting
Individual	**Transformational Leadership** • Creativity • Innovation		
Group	**Transformational Leadership** • Innovation	**Transformational Leadership** • Integration • Shared mental model	**Transactional Leadership** • Coordination
Organization			**Transactional Leadership** • Systems (IS, KM) • Institutionalization

Table 1: Impact of transformational and transactional leadership on knowledge cultivation. Source : Bryant, 2003

Coercive power provides more structure within the organization and has influence on the quick decision making and gives structure. However it is also important to the motivate employees. The transactional leader does this through rewarding for the effort. This characteristic of transactional leadership will be explained next.

2.3 Reward-motivation

Motivation of employees is very important. Simply stated, transactional leaders give employees something they want in exchange for something the leaders want. In these situations, leaders are influential because doing what the leaders want is in the best interest of the employees.

Bass (1985) noted that transactional leaders have various rewards available to them. Rewards in the form of desired personal outcomes of employees (e.g., working overtime for a paid vacation) are most common. In these exchanges, transactional leaders clarify the roles employees must play and the task requirements they must meet. A less common form of transactional leadership involves promises or commitments that are rooted in "exchangeable" values such as respect and trust. Employees can build a base level of trust in the leader as he or she reliably executes what has been agreed to over time (Bass, Avolio, Jung, & Berson, 2003).

2.4 Case Study

The following two case studies of Xerox and AA emphases the importance of transactional leadership.

Xerox

When Xerox invented the user-friendly personal computer it was unable to capitalize it. The charismatic leader of the Xerox, Bob Taylor, recruited only the very brightest scientists, and gave them the freedom to innovate and inspired them to work together to solve very complex problems. Indeed the researchers at PARC (Xerox Palo Alto Research Center) invented new products, obtained multiple patents and pioneered many of the computer technologies we now take for granted. However, because Xerox PARC was not well integrated into the rest of the company, Xerox's top management was skeptical of the inventions the lab developed and didn't see how they fit in with their current copying equipment (Poe, 2000).

Xerox lacked a transactional leadership style in the top management team to provide the structure and systems that could capture the knowledge generated in the PARC labs (Bryant, 2003). This is where Xerox failed and Apple succeeded. Steve Jobs, leader of Apple, visited the PARC facility in 1979 and saw the future of computing in the mouse-driven graphical user interface right away (Bennis & Biederman, 1997). Jobs left the PARC labs without any hardware or software but with a vision for how computers should operate. He and his Apple employees were able to convert the innovative PARC ideas into the Macintosh computer, which debuted in 1984. This invention changed the face of computing. Because of Jobs' leadership, Apple created the systems and structures that were able to convert their knowledge into a valuable product.

When we take a closer look at the leadership style of Steve Jobs, we can identify both transformational and transactional leadership. He used the transformational leadership style to

create a vision for the Macintosh computer, and thereby challenged his employees to reach nearly impossible goals. Furthermore he used the transactional leadership style to create the systems and structure in Apple. This allowed the knowledge throughout the organization to be converted into a valuable product, the Macintosh personal computer.

This case study emphasis the need for an effective transactional leader. When there is no such leadership style, like with Xerox, huge opportunities can be which could have tremendous impact on the performance of the organization could be missed. Due to the lack of structure in the organization, knowledge was not shared among departments and Bob Taylor didn't make the important decisions himself. He should have stand out and used coercive power to implement his top down change to convert the new ideas of the researches into a product. On the contrary, Steve Jobs did have structure in his organization and systems to exploit the new knowledge. He did make the decisions to convert the knowledge into a new product, and forced it down on his employees.

AA

The case study of AA, a British motoring organization, is a good example of a top down change that is imposed in a coercive manner during organizational uncertainty.

In September 2004 when he entered the company, chief executive Tim Parker stated that the organization was inefficient with low levels of productivity and a declining membership and had no alternative but to deliver a short, sharp reconstruction. In the 20 months he has been in charge, he changed the former mutual organization into rather good shape. (Goodman, 2006)
Profits, which were £93m in 2003 under Centrica (British gas company), doubled to just over £200m in 2005. The number of jobs is going up, as is the percentage of cars that are fixed at the roadside and don't have to be towed to a garage. Furthermore the retention rate of members went also on a rise. While the cuts were painful for all involved, Parker said they were inevitable. "When we came here, it felt a very inefficient organization and there were very low levels of productivity," he said. "Effectiveness among the patrols ranged from very good to very poor. Membership was declining and the company had made a couple of poorly calculated acquisitions. The management seemed more interested in extending the brand rather than improving the core business."

There was a mismatch between the goal setting of the employees and the organizational goal setting. Due to this mismatch, radical changes needed to be done. As the employees saw this problem themselves, they understood that these changes had to be made.

By end of 2006 Parker had fired about 2,000 people of operations that were not adding value, such as the vehicle inspection arm, had been sold off or closed down. New working hour arrangements and pay deals were negotiated to encourage patrolmen to do the job rather than just work set hours. However, cost savings have also been used to invest in areas such as marketing to build membership and a new fleet of vehicles for patrolmen.

Alistair Maclean, national secretary of the AA Democratic Union, which represents AA staff, said the vast majority of those who lost their jobs took voluntary redundancy and received in many cases handsome payoffs. “When Centrica owned it, they weren’t willing to spend the money on redundancy payments, even though they knew it had to be done. The new owners have spent more than £100m on redundancy payments. It’s never easy for someone in my position to see people being made redundant but it had to be done,” he said.

In this case study Tim Parker is acting as a transactional leader. He is leading with coercive power. When he enters the company he states that changes need to occur fast. The company is doing badly, and immediate action is needed. He brings more structure into the company and dares to make big changes. Due to his quick action he saves the company. Although he fired a lot of people, they took his decision well because they understood it was necessary to save the company.

Thus in the case of AA, the coercive change style a positive effect on the performance and well being of the company and therefore is a good example of transactional leadership.

Chapter three - The influence of coercive power on employee behavior

This chapter will deal with the first characteristic, the use of coercive power. In times of uncertainty and crisis there is a need for quick decision making. The use of coercive power and a centralized decision making system makes this possible. However this style does only have positive effects on the behavior of the employees. For example, the lack of autonomy however will lead to resistance of the employees. In this chapter will describe the influence of coercive power on employee behavior

3.1 Transactional leadership

The transactional leader uses coercive power to influence employee behavior. When using coercive power, decisions are made from above and directed towards the employees. When changes need to be implemented this is done as top-down change. This usually involves a program of change determined and implemented by the top management and directed to their employees.

Coercive power is necessary in times of crisis or turnaround situation where there may be no alternative but to deliver a short, sharp reconstruction (Balogun & Hailey, 2008) . There is no time to sit down and discuss the matter. Just as Balagun and Hailey (2008:41) reported, “Coercion style change is imposed on staff rather than staff having the idea of change sold to them. In this way change will be achieved rapidly, however will lead to greater resistance. Given the lack of effort devoted to explaining the need for change to staff, or to encourage buy-in for the changes, this approach is unlikely to work unless there is a very real crisis that is felt by most of the staff within the organization”.

So in order for the coercive style to be successful, the resistance has to be kept to a minimal. Convincing reasons have to persuade them the employees and take away their ignorance and incomprehension which lead to fear and resistance. These reasons have to persuade the employees that the change is necessary. In order to create readiness it is important to make employees dissatisfied with the current situation, and make them aware of the urgency of the situation. The employees will feel the urge to change, and as such they are motivated to try new things and ways of behavior (Schalk, Campbell & Freese, 1998). In this way the employees themselves are convinced that change is necessary and therefore a good thing, as their situation will likely improve with the changes. As such resistance towards the changes is kept at a minimum.

3.2 Trust in leaders

Sometimes the proposed changes clearly describe how the situation for the employees improves, but often employees do not see how the situation improves with the proposed changes. This is often because the employees do not see the complete picture and have all the information that the leaders have. Because of this, it is important that the employees have trust in their leader, and that the leader and the proposed changes have the interest of the employees at heart.

When Mishra (1996) interviewed 33 managers from different companies, including Chrysler, Ford, these managers identified trust and distrust as critical factors affecting their organization's functioning and performance, especially in crisis. Employees trust their leaders because they believe they will care about their employees' job security (Kanter, 1983; Kanter, 1989). When management undertakes any organizational change effort, employees evaluate leaders' action in terms of whether or not it can be trusted to be concerned with the employees' own welfare and interests (Kotter & Schlesinger, 1979).

In stable situations, the trust between the employees and the leader fosters decentralized decision making. As the employees receive more autonomy, this will motivate their behavior (Mishra, 1996). However this decentralized decision making involves increasing dependence of the employer on the capabilities of the employees and entails greater risk on the employees. It is at the core of trusting behavior that the leader accepts greater dependence and the employees accept their increased risks as it comes with the increased autonomy (Deutsch, 1973; Lewis & Weigert, 1985).

Trust may be even more important during crisis than in stable situations. In crisis, decisions have to be made fast and there is no time to negotiate. As such the decision making process has to be shifted from decentralized to centralized to save time, and the leader will be fully in charge but also carries all the responsibilities.

Dutton (1986) reports: "on the one hand, decision makers want to enhance their ability to act quickly and decisively in the wake of crisis. On the other hand, lower level employees want to disassociate themselves with any responsibility or blame in case resolution attempts fail". So in the times of uncertainty, where the employees do not want to have the responsibilities, and the leader needs a quick decision making process, a centralized decision making process is the best option.

3.3 Conclusion

To answer the research question, the coercive power used by a transactional leader in crisis will thus be effective if a former relationship of trust is build between this leader and his employees. This to overcome the lack of autonomy because of the change towards centralization of decision making. Also the leader needs to create readiness to change, so that the employees will not resist the changes. This readiness can be created by letting the employee feel the need of immediate action, and let the employees see how the changes improve their situation. The leader has to keep his employees up to date about his plans to achieve the organizational goals and what changes are being implemented and the consequences of this. Only when readiness is created, coercive power and a centralized decision making process will be effective and employees allow the leader to make decisions for them. This is in accordance with Locke (1978) who reported that to get employees to accept goals this depends upon factors as fairness and difficulty of the goals, values of the employee, their trust in leadership and the perceived authority of leader's demands.

Chapter four - The effects of reward systems on employee motivation

This chapter will deal with the second characteristic, reward system. The right reward will lead to the right motivation. It is the leaders task to reward his employees with the right reward to trigger desired behavior. This chapter help examine the effect of rewards on motivation in times of uncertainty. Different theories like the expectancy theory, path-goal theory and furthermore the exchange/equity theory will explain how the leader needs to do this. Therefore this chapter will examine my research question about the effect of the reward system on employee motivation.

4.1 Transactional leadership

The transactional leader provides material rewards (salaries and bonuses) and personal rewards (self-satisfaction, fulfilling a personal desire, recognition of their work, and peer recognition) to employees as stated in figure 3.

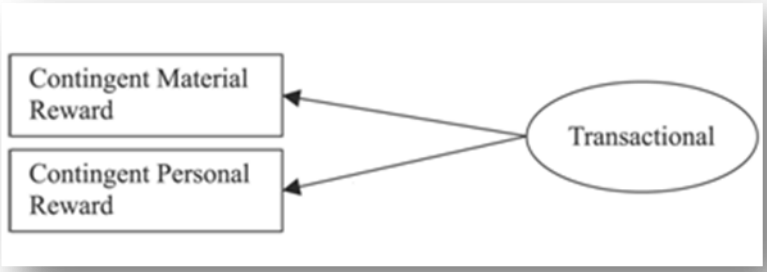

Figure 3: Contingent rewards of the transactional leader

Transaction leaders motivate employees by rewarding. The following theories explain the types of rewarding. The basis of the transactional leadership type lies in expectancy theory (Vroom, 1964), path-goal theory (House, 1971; House & Mitchell, 1974), exchange/equity theory (Adams, 1963; Homans, 1958, 1961), and reinforcement theory (Luthans & Kreitner, 1985; Scott & Podsakoff, 1982)

4.1.1Expectancy theory: This theory explains the processes of making choices by an individual. According to the expectancy theory the motivation of individuals is based on valence, instrumentality and expectancy. As Montana & Charnov (2008) explain "This theory emphasizes the needs for organizations to relate rewards directly to performance and to ensure that the rewards provided are those rewards deserved and wanted by the recipients." This proposes that employees engage in particular behaviors based on the

probability that the behavior will be followed by a certain outcome and the value of that outcome.

Expectancy theory relies mainly upon extrinsic motivators to explain causes for behaviors occurring in the workplace (Leonard &Beauvais & Scholl, 1999). When the rewards are highly valued by the employee, this will enhance the probability of triggering self-motivation. The leader is therefore responsible to provide the salience of various rewards to attract employees.

4.1.2Path-goal theory: Building on the concepts of expectancy theory, House (1971) developed the path-goal theory. This theory explains how various leaders influence employee satisfaction and performance by clarifying the path to desired rewards. Employees will accept their leaders' behavior as either an immediate source of satisfaction or as instrumental to future satisfaction (House & Dessler, 1974).

4.1.3Exchange/equity theory: According to the equity theory (Homans, 1961) and exchange theory (Adams, 1963) individuals seek to maintain equity between what they give with regard to what they obtain in an exchange (Landy, 1985; Pinder, 1984). This theory states that in order to motivate employee's performance they need to be provided with equitable rewards for inputs, and thus predict that higher levels of employee input can be generated through higher levels of reward. Equity Theory in business, however, introduces the concept of social comparison, whereby employees evaluate their own input/output ratios based on their comparison with the input/outcome ratios of other employees (Carrell and Dittrich, 1978).

4.1.4 Reinforcement theory: Reinforcement theory suggests that the consequence of a behavior is an important determinant of whether the behavior will be repeated. The transactional leader behavior influences employee behavior by reinforcing (rewarding) those behaviors that are desired (Luthans and Kreitner, 1985; Sims, 1977).

4.1.5 Influence of reciprocity: Long-standing tradition in economics view human beings as solely self-interested (Fehr & Gachter, 2000).However, according to them many people move away from purely self-interested behavior in a reciprocal manner. Reciprocity means that in response to friendly actions, people are often much nicer and much more

cooperative than predicted by the self-interest model. Conversely, in response to hostile actions they are frequently much nastier and even brutal.

Many studies have carried out detailed analyses of individual decisions and found that between 40 and 66 percent make reciprocal choices (Gachter and Falk, 2002; Berg, Dickhaut & McCabe, 1995; Fehr and Falk, 1999; Abbink, Irlenbusch & Renner, 2000). And therefore reciprocal choices will have a big influence on decision making of employees. The experiment of Fehr, Gachter & Kirchsteiger (1997) has investigated the influence of reciprocity on effort. In this experiment employers could offer a wage contract that set a binding wage *w* and a desired effort level *e*. If an experimental worker accepted this offer, the worker was free to choose the actual effort level *e* between a minimum and a maximum level. The outcome of this experiment suggests that in response to generous job offers, people are on average willing to put forward extra effort above what is implied by purely economic considerations.

The different theories explain the different types of rewarding. Linking it with transactional leadership; The exchange theory is in line with the transactional leadership style, because it focuses on clarifying the effort-reward relationships and using the reward systems to achieve maximal motivation (Pearce & Sims 2002). Thus, rewards are part of the “exchange” equation.

According to the path-goal theory, the leader’s job is viewed as guiding workers to choose the best paths to reach their goals, as well as the organizational goals. It is the leader’s job to assist employees in attaining goals and to provide the direction and support needed to ensure that their goals are compatible with the organization’s goals (House, 1971).

The exchange theory; The idea of recognition for the job performance and the act of thanking the employee will cause a feeling of satisfaction and will therefore help the employee feel valued and have more outcomes. However employees who perceive that they are in an inequitable relationship attempt to eliminate their distress by restoring equity. The greater the inequity, the more distress people feel and the more they try to restore equity. (Walster, Traupmann and Walster, 1978)

Furthermore, the reinforcement theory states that when rewards are in line with desired rewards this will determine whether behavior will be repeated. The transactional leader can thus with different rewards influence the behavior of the employee and thus make them behave desired. This desired behavior will even be enhanced when the employees make reciprocal choices which indicates that employees are willing to put more effort in the task that is predetermined.

4.2 Conclusion

To answer the research question, a leader is indeed able to influence motivation towards desired behavior through rewards in times of crisis.

According to the expectancy theory, a transactional leader can motivate employees by creating clear expectations. In times of uncertainty this is often difficult, but it is still the leaders task to tell his employees what the future prospective are and what is expected from the employees. During crisis expectations have to maintain clear, even if the expectations are decreases in salary or increase of work hours. As long as the expectations are clear, reciprocity has shown that employees are willing to put more effort into a task than is expected (Fehr, Gachter & Kirchsteiger, 1997). Which in crisis is exactly what a leader needs.

This is in accordance with the path-goal theory. It is important that the leader indicates which path the company is heading to and what this implies for the employees. It has to be clear what is expected from them, what they get in return and which paths have to be taken.

The exchange/equity theory furthermore indicates that an effective leader has to keep the balance between employee's effort and rewards. When this is not in balance, the leader should explain why this is the case and needs to persuade the employee to work harder for the same amount of rewards. In times of crisis this will be the case, and therefore the leader has to show the path to a better future, were the effort-reward equation is in balance again. He has to convince the employees that no other options are possible and these shortages on salaries are inevitable to the survival of the company. Like the reinforcement theory also indicates, with rewards you can influence behavior. Desired rewards will lead to desired behavior, conversely, unwanted rewards will lead to undesired behavior. The transactional leader thus needs to keep his rewards desired to employees, especially in crisis. This is in line with reciprocity, which suggests that desired rewards lead to even higher effort than expected, which is exactly what the leader needs when the company is doing worse, extra effort from the employees.

Chapter five - Conclusions, limitations and recommendations for further research

This paper has studied the effectiveness of transactional leadership during a crisis. The main focus was on the contingent reward form which is characterized with coercive power in decision making, and the reward system as motivation for desired employee behavior. The effectiveness of the transactional leader has been research by focusing on the employee behavior. In times of crisis it is necessary that changes occur to cope with the crisis. This means that quick decisions have to be made to change the situation in the organization. The company need to implement changes quickly to survive. In order to do this, quick decision making is necessary and to implement it the change in the structure of the company. This is up to the leader. For the leader is it important to make expectations clear to every party in the organization. To overcome the uncertainty due to crisis it is therefore important that the employees know what to expect from the leader and vice versa. The transactional leader is able to guide the company effective through a crisis

The transactional leadership contributes to employee behavior in the organization in times of organizational uncertainty. Coercive power of the leader makes it possible to give directions from above. Only if a relationship of trust is build between the leader and the employees. If this is the case than in crisis the transactional leader is possible to take quick action and will not deal with lots of resistance. Coercive power uses centralized decision making. For decisions making a trust relationship between leader and employees has to exist.
The leader needs to create readiness to change. This readiness can be created by letting the employee feel the need of immediate action, and let the employees see how the changes improve their situation. Only when readiness is created, coercive power and a centralized decision making process will be effective and employees allow the leader to make decisions for them.

A leader needs to stimulate his employees. Motivation is a important mechanism to have employees behave as desired. Employees will work and behave as expected if they perceive that they will be rewarded accordingly. The transactional leader makes expectations clear on, both the work that is expected and the rewards, that will be received is of great importance. To overcome resistance and create readiness among the employees towards the changes. This readiness can be created by letting the employee feel the need of immediate action, show the necessity and inevitability of the proposed changes and let the employees see how the changes improve their situation

The conclusion of this research: In times of uncertainty the transactional leadership style has the right characteristics to help the organization get through the crisis. It is both the use of the coercive power and the reward system that will make the employees behave as desired. But there is a need for trust, clarity, expectations in both the effort that is expected from the employees as the rewards they receive in return.

Limitations & Recommendations

This paper has some limitations which have to be considered. This paper is based on only theoretical research. However as Yukl (1989: 212) declared, "the distinction between transactional and transformational leadership is not as clear as some theorists would have us believe". He states that these differences should be determined by empirical research, not predetermined theoretical definitions. Therefore I recommend to check my findings in companies currently in crisis and uses the transactional leadership style.

Furthermore a limitation is that this paper only studies, the effectiveness of transaction leadership style in times of uncertainty. This paper looked in detail into the contingent reward form of transactional leadership. It is recommendable to research also the other forms, the Laissez-faire leadership and management by exception leadership as well to get a complete picture of the effectiveness of the transactional leadership style.

Next to transaction leadership is transformational leadership, for the further it would be very interesting to investigate the effectiveness of this type in times of uncertainty.

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