

**The Relationship between Transformational and Transactional Leadership styles
practiced by the Foreman with Job Performance of Production Workers in
Grand Banks Yacht Sdn.Bhd**

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To my beloved mother and father

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ABSTRACT

Effective leadership always plays a vital role in the growth and better performance of the employees and organization. This research has been conducted to determine the relationship between transformational and transactional leadership styles with job performance of the production workers in Grand Banks Yacht Sdn.Bhd which is from the shipbuilding and ship-repairing sector. Besides that, this study also intends to identify the leadership style that contributes to higher job performance. Information was gathered, using two instruments, from a sample of 9 leaders and 140 production workers. The Multifactor Leadership Questionnaire was used to determine the leadership style practiced within the organization, while the Performance Appraisal Questionnaire was used to determine the job performance of the production workers. Results showed positive trends of all variables. It was concluded that the transformational and transactional leadership styles are found to have a positive and highly significant relationship with job performance of the production workers in this study. The results of regression analysis show that transformational leadership style has more influence on job performance compared to transactional leadership style.

ABSTRAK

Kepimpinan yang efektif memainkan peranan yang amat penting dalam perkembangan dan pencapaian yang lebih baik di kalangan pekerja dan organisasi. Penyelidikan ini telah dilakukan untuk mengetahui hubungan antara gaya kepemimpinan transformasi dan transaksi dengan prestasi kerja pekerja pengeluaran di Grand Banks Yacht Sdn.Bhd yang berasal dari sektor pembuatan dan membaikpulih kapal. Selain itu, kajian ini juga bertujuan untuk mengenalpasti gaya kepemimpinan yang memberikan sumbangan terhadap prestasi kerja yang lebih tinggi. Maklumat ini dikumpulkan dengan menggunakan dua instrumen, dari sampel 9 pemimpin dan 140 pekerja pengeluaran. Borang soal selidik “Multifactor Leadership Questionnaire” digunakan untuk menentukan gaya kepemimpinan yang dipraktikkan dalam organisasi, sementara borang soal selidik Penilaian Prestasi Kerja digunakan untuk menentukan prestasi kerja pekerja pengeluaran. Keputusan kajian menunjukkan kecenderungan positif dari semua pembolehubah. Korelasi Pearson mendapati bahawa gaya kepemimpinan transformasi dan transaksi mempunyai hubungan yang positif dan signifikan dengan prestasi kerja dalam kajian ini. Keputusan analisis regresi pula menunjukkan bahawa gaya kepemimpinan transformasi lebih berpengaruh terhadap prestasi kerja berbanding dengan gaya kepemimpinan transaksi.

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List of Abbreviations

GBM	Grand Banks Yacht Sdn.Bhd (Malaysia)
GBS	Grand Banks Yacht (Singapore)
SDN.BHD.	Sendirian Berhad
UTM	University Teknologi Malaysia
MLQ	Multifactor Leadership Questionnaire
SPSS	Statistical Package for the Social Sciences

CHAPTER 1

INTRODUCTION

1.1 Overview

Globalization is a process of interaction and integration among the people, organizations and governments of different countries, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world (Levin Institute)¹. In order for an organization to succeed in the globalized and competitive environment, it must deal with various challenges. Among the challenges are changes in technology and increased competition with other organization around the world.

Most of the organizations are now improving the effectiveness and the people in the organizations to gain competitive advantage in the globalized environment. Some of the organizational development interventions include strategic planning, performance management and leadership development. The organizations are realizing that effective leadership is one of the factors that establish the triumph of an organization in the challenging environment.

¹ Levin Institute: www.globalization101.org/ (visited on [18 February 2010]).

There are numerous ways of looking at leadership and many interpretations of its meaning (Mullins, 1999). According to Forster (2005), leadership in English-speaking countries is derived from an old Anglo-Saxon word, *loedan*, meaning a way, road, path or journey. This is an ancient definition of leadership. He adds on that in organizational contexts, leadership can still be viewed in terms of the process of guiding employees down the right ways, roads or paths, thereby ensuring that their efforts are in line with broader organizational goals and objectives. Hellriegel, *et al.*, (2004:286) define leadership as being “the ability to influence others to act toward the attainment of a goal”, while Mullins (1999:253) adds that it is “a relationship through which one person influences the behavior of others.

Leadership has been around for as long as there has been a person to lead. The history of the world abounds with great leaders, from Moses and David in the Old Testament to Napoleon in the 1700s and Nelson Mandela and Martin Luther King in the 1900s (Bass, 1997).

In Malaysia, the issue of leadership is a topic commonly discussed in our society. A good example of a leader is our fourth Prime Minister Mahathir who became an outstanding leader for education and economic development in the developing world. The economic success of Malaysia cannot be without the tough leadership of Tun Dr. Mahathir Mohammad. Dr. Tarmizi Taher M. D (2005) said for the future, the young generation needs to learn the good example of leadership of their leaders of the past so that it can help them to navigate in the future world.

An organization’s success or failure relies upon the leaders. According to Spinks & Wells (1995), leadership presence is vital to the success and prosperity of an organization because the leader plays a pivotal role in bringing groups of people together to accomplish organizational objectives. Leaders become the role model to their

subordinates. Thus, they should provide them with concrete guidance about what they should do and what personality that should be highlighted (Aminnuddin, 1990). The effectiveness of leadership is measurable. One of the most widely used criteria to measure the effectiveness of leadership is through employees' performance (Aminnuddin, 1990).

Leadership style has a significant impact on performance (Avolio and Bass, 1993). The performance of employee is essential in accomplishing the goals and objectives of an organization. The leadership behavior favored by the employees can influence the performance of the organization (Tan Bee Hong, 2000). Therefore, the leaders in the organization has to learn to adjust their leadership behavior according to the social level, education, gender, period of service and different cultures of the employees in order to achieve the organization's objectives and goals (Tan Bee Hong,2000). The issue of leadership behavior and job performance would be one aspect that cannot be ignored anymore.

1.2 Problem statement

Grand Banks Yachts is one of the leading manufacturers of pleasure crafts for Export to USA, Europe and Australia. The demand for these leisure crafts is a fairly recent trend, influenced by the geographical pattern of the country, economic growth and the disposable incomes of the people and the extent to which boating has become part of their leisure culture. With the increasing popularity of water sports, and the development of a boating community in the country, there is that basis for the development, of a leisure craft industry in Malaysia, that can, with the right strategies, serve the market within the region and also globally. To date, there are 9 companies in production, manufacturing leisure crafts, with the total capital investment of RM155.1 million,

including Grand Banks Yachts. Human capital has been the most important asset to the Grand Banks Yachts Sdn. Bhd (GBM) as employees' performance is one of the important factors that contribute to the success of GBM in the leisure craft manufacturing.

However, according to the Human Resource Manager of GBM, the performance of the employees has decreased. This could be seen through the quantity and quality of their work. Furthermore, the turnover rate has also increased. Employees who have been working there for many years have also left GBM to work with other manufacturing companies. The Human Resource Manager also said that this may be due to the retrenchment process that has been going on lately. As GBM is an American based company, the economic crisis has pulled down the company's production as demand for leisure yachts has decreased and due to this some of the employees got retrenched.

The Human Resource Manager of GBM thinks that the retrenchment process could have caused employees feeling de-motivated to work. In addition to that, the employees started taking precaution by applying jobs elsewhere as they are afraid they will soon be the victim of retrenchment. Some of the employees also have expressed their dissatisfaction towards their immediate leaders not taking care of their wellbeing nor attending to their concerns. The Human Resource Manager also added that from her opinion, if the leaders took the initiative to communicate with the employees and recognize their effort during the retrenchment process, these problems could have been avoided.

Therefore, a question has occurred here if there is a relationship between the leadership styles of the immediate leaders and the job performance of the employees. According to Avolio & Bass (1994), it is widely believed that leadership creates an essential link between organizational effectiveness and individual performance at an organizational level. In addition to that, many studies have shown that transformational

leadership relates positively to performance. The transformational leadership style has a positive association with work performance and organizational commitment of subordinates than the transactional style Limsila *et al.* (2007). She added that transformational leaders produce higher leadership outcome as well.

Generally, Grand Banks Yacht Sdn, Bhd, has not done any study on the relationship of transformational and transactional leadership style with job performance of its employees. Therefore, based on the problems exist, this research is designed in order to identify the extent of relationship between the transformational and transactional leadership style practiced by the immediate leaders of the production workers and job performance based on the employee's perception in Grand Banks Yacht Sdn. Bhd.

1.3 Background of Grand Banks Yachts

Grand Banks Yachts began its journey in 1956 as American Marine, Ltd in Hong Kong which was found by Robert J. Newton and his sons, John and Whit. They produce leisure crafts. Now Grand Banks Yacht is a multinational company and its design of yachts are recognized around the world as the Grand Banks Heritage Series, an iconic design built first of wood. Then, in 1969, Grand Banks built its new factory in Jurong, Singapore. Beginning in 1973, they started building boats using fiberglass. The Hong Kong yard was closed as Grand Banks ends production of wood-hull yachts. Grand Banks opens a new boatyard, Grand Banks Yacht Sdn. Bhd. (GBM) in Pasir Gudang, Malaysia, with over 100,000 square feet of space on the factory floor in 1995. This company continues producing leisure crafts and exporting them to other countries such as Australia and Singapore.

There are four production departments in Grand Banks Yacht Sdn. Bhd (GBM) which includes the assembly, fiberglass, manufacturing and electrical, mechanical and plumbing department. These departments have a total of 321 workers including the practical, temporary and contract staffs supervised by 27 foremen and 2 executives as at June 2010. In addition to that, there a total of 97 number of employees in the finance, administration, human resources, information technology and managers and executives from the production departments.

The financial challenges that buffeted so many countries and companies during the past year hit the marine industry particularly hard; the economic situation since early 2008 brought a gale-force economic storm to the sector later that year. Demand for products in the industry and the sector dropped considerably, putting many respected manufacturers and distributors into bankruptcy in 2009. While Grand Banks Yachts faced the same brutal conditions, but they managed to cope up better than many other boat builders. According to the Human Resource Manager, heavy debt loads were a major factor in the many failures in the industry; fortunately Grand Banks has not only no debt, but also healthy cash balance. Nonetheless, she continued that it has not been an easy road to higher ground.

In June 2009, Grand Banks close the Singapore factory, retrenching almost all employees from that manufacturing facility. Approximately half of the staff from Malaysia factory also faced retrenchment. The Human Resource Manager added on that the result of these activities was a restructuring cost to the company of approximately SGD7 million. They were able to offset these costs by selling the Singapore manufacturing buildings and leasehold property for approximately SGD6 million. In addition to that, Grand Banks also mandated a 10% cut in salary for all personnel at and above manager level, and reduced the production schedule for Year 2009 and 2010. It has been challenging and difficult for Grand Banks to take such decisions, but they feel

these are also the right actions to keep Grand Banks healthy and well positioned for that time when market recovers.

According to Grand Banks, they truly believe that companies who can withstand the downturn will emerge with a very real opportunity to gain greater market share and drive better results. The manager also said that no one knows just how long the downturn will last. In taking a conservative approach, they are preparing to face slow sales for another 12 months which would be till end of year 2010. Nevertheless, Grand Banks is confident that they will emerge from this downturn and be a stronger company. This is because they have an excellent team backed by a strong and skilled workforce and together they can continue to pave the way to a bright and successful future.

1.4 Research Questions

1. What is the level of transformational and transactional leadership style in Grand Banks Yacht Sdn.Bhd?
2. What is the job performance level among the employees?
3. Is there a relationship between transformational and transactional leadership styles with the job performance of the employees in Grand Banks Yacht Sdn.Bhd?
4. Is there a relationship between the dimensions of transformational leadership (intellectual stimulation, inspirational motivation, idealized influence, individualized consideration) and the dimensions of transactional leadership (contingent reward, active management-by-exception and passive management-by-exception) with the job performance of the employees in Grand Banks Yacht Sdn.Bhd?

5. Which is the most appropriate leadership style that contributes to high job performance?

1.5 Research Objectives

The general purpose of this study is to establish the relationship between transformational and transactional leadership with job performance in Grand Banks Yacht Sdn. Bhd. The specific objectives of this study are:

1. To identify the level of transformational and transactional leadership style in Grand Banks Yacht Sdn. Bhd.
2. To identify the job performance level among the employees.
3. To examine the relationship between transformational and transactional leadership styles with the job performance of the employees in Grand Banks Yacht Sdn.Bhd.
4. To examine the relationship between the dimensions of transformational leadership (intellectual stimulation, inspirational motivation, idealized influence, individualized consideration) and the dimensions of transactional leadership (contingent reward, active management-by-exception and passive management-by-exception)with the job performance of the employees in Grand Banks Yacht Sdn.Bhd
5. To identify the most appropriate leadership style that contributes to high job performance.

1.6 Hypotheses

- H1** Ha There is a significant relationship between transformational leadership style with the job performance of the employees in GBM
- Ho There is no significant relationship between transformational leadership style with the job performance of the employees in GBM
- H2** Ha There is a significant relationship between transactional leadership style with the job performance of the employees in GBM
- Ho There is no significant relationship between transactional leadership style with the job performance of the employees in GBM
- H3** Ha There is a significant relationship between intellectual stimulation dimension with the job performance of the employees in GBM
- Ho There is no significant relationship between intellectual stimulation dimension with the job performance of the employees in GBM
- H4** Ha There is a significant relationship between inspirational motivation dimension with the job performance of the employees in GBM
- Ho There is no significant relationship between inspirational motivation dimension with the job performance of the employees in GBM

- H5** Ha There is a significant relationship between idealized influence dimension with the job performance of the employees in GBM
- Ho There is no significant relationship between idealized influence dimension with the job performance of the employees in GBM
- H6** Ha There is a significant relationship between individualized consideration dimension with the job performance of the employees in GBM
- Ho There is no significant relationship between individualized consideration dimension with the job performance of the employees in GBM
- H7** Ha There is a significant relationship between contingent reward dimension with the job performance of the employees in GBM
- Ho There is no significant relationship between contingent reward dimension with the job performance of the employees in GBM
- H8** Ha There is a significant relationship between active management-by-exception dimension with the job performance of the employees in GBM
- Ho There is no significant relationship between active management-by-exception dimension with the job performance of the employees in GBM
- H9** Ha There is a significant relationship between passive management-by-exception dimension with the job performance of the employees in GBM
- Ho There is no significant relationship between passive management-by-exception dimension with the job performance of the employees in GBM

1.7 Scope of the Study

The scope of this study focused on the relationship of transformational and transactional leadership with the job performance. In the western countries or Malaysia, the issue of leadership mostly has been researched in the manufacturing, nursing, military, political and educational industries.

In this study, the researcher has drawn in an organization from the shipbuilding and ship-repairing sector, mainly the leisure craft industry. The research was conducted in Grand Banks Yacht Sdn. Bhd. (GBM), Johor Bahru whom produces cruising and semi-custom motor yachts.

There are many departments in this organization, however, for the purpose of this study; the researcher focused only on the production workers and foremen as respondents. Furthermore, this study is based on the employee's perception on the leadership style practiced by their immediate leaders and the leader's perception on the performance of the respondents who are their direct subordinate.

1.8 Significance of the Study

In the past, some scholars have squabbled that the actual influence of leaders on organizational outcomes is overestimated and as a result of biased provenance about leaders (Meindl & Ehrlich, 1987). Despite these assertion however, it is largely recognized and accepted by practitioners and researchers that leadership is important, and research supports the notion that leaders do contribute to key organizational outcomes (Day & Lord, 1988; Kaiser, Hogan, & Craig, 2008).

This study is significant to the higher management of the organization that is involved in this research to identify the appropriate dimensions of leadership and its relation to job performance. This matter is important because supervisors and managers who are not capable of leading their followers will result in negative implications, such as job dissatisfaction, job misconduct, job turnover, low motivation and a decrease in productivity and quality in long term. Thus, the organization can use the findings from the study as a guide to change or enhance their leadership practice, leadership style and approach to produce higher job performance and better organizational outcomes.

This research also provides an opportunity for employees to express their feelings and views of leadership behavior of their immediate leaders to the organization's management systematically. The higher management can deliver the employees' expectations to the leaders which could be helpful for the leaders to develop and employ these expected leadership behaviors and utilize them to further their organization.

Furthermore, the results of this research helps to enhance our understanding of leadership, the association between organizational leadership and job performance, thereby making a contribution toward increasing the excellence of organizational life, which may have a constructive influence on members of the organization and the wider community.

1.9 Limitations

There were several limitations that affected the quality of the study

1. The scope of the study is focused on one sector only; the other sectors were not tested. Due to this, the researcher was unable to obtain a more

comprehensive result on the relationship between the transformational and transactional leadership with the job performance of the employees.

2. The research was only conducted in an organization in Johor Bahru. The other state that may be involved in the same industry was not tested.
3. The organizational structure and organizational management style also influence the result of the study conducted.
4. The organization involved in this research has not done any study previously on the relationship of leadership style with the job performance. Therefore, based on the problems exist; this study is designed to determine the extent of relationship of transformational and transactional leadership with job performance in GBM, Johor Bahru.
5. The success of this research relies heavily on honesty and cooperation of respondents in answering the questions.
6. The research is done in GBM, Johor Bahru and not done on respondents from other branch in America and Singapore. Therefore, the results of this research cannot be generalized to the workers in the other branch of GBS or other industries.

1.10 Definition of Terms

For clearer understanding of this study, some important terms have been defined theoretically based on definitions given by other authors and also operationally based on the specific circumstances of this study.

1.10.1 Conceptual Definition

1.10.1.1 Leadership

Leadership is a daily process that occurs only when there are two or more people congregate. Most of the researchers define leadership as a process of social influence where a person is able to provide support to others to ensure the success of a task.

Stogdill(1975) defined leadership as the individual behavior to guide a group to achieve the common target. In latter days, Kaiser, Hogan, & Crai, (2008) defined leadership as an establishment of vision, value and creation of environment so that the objective can be accomplished.

Effective leadership occurs when a leader recognizes the employee's efforts, taking care of their wellbeing, motivates them to achieve higher goals and helping employees understand how they contribute to the key business objectives which would lead to better organizational outcomes (Philip Sadler, 2003).

1.10.1.2 Leadership Style

The patterns of behavior practiced by leader in influencing the behavior of the followers are known as leadership styles. It is the result of the philosophy, personality and experience of the leader. These patterns differ from one leader to another leader. The behavioral theorists assumed that the best styles of leadership could be learned whereby training programs could be developed to change managers' leadership behaviors.

According to Fiedler (1967), leadership style generally intended as a specific actions taken by the leaders to lead and coordinate the activities of its members. Fred E. Fiedler's contingency theory postulates that there is no best way for managers to lead. Situations will create different leadership style requirements for a manager. The solution to a managerial situation is contingent on the factors that impinge on the situation.

However, in the recent years, the current phase of leadership styles focuses on transformational and transactional leadership. Yukl (1989) defines transformational leadership as the process of influencing major changes in attitudes and assumptions of organizational members and building commitment for the organization's mission and objectives. Whilst, transactional leadership is a primarily exchange-oriented relationship that is a task-focused (Bass, 1985).

1.10.1.3 Job Performance

Job performance refers to performance in terms of quantity and quality expected from each employee. According to Cascio (1992), job performance is defined as

completeness of the work that has been undertaken by the employees, while, Campbell (1990) defines job performance as a behavior that is reflected in an employee's action.

If performance is associated with work, it can be intended as a result of an individual behavior in completing a job task. Mohd Yusuf (1996) stated that performance can be measured from the aspect of discipline, attendance, willingness to receive task other than the routine task, time accuracy and the quality work produced. Job performance is seen as an ability of an employee in achieving the organization's goals and objectives (Robbins, 1978).

1.10.1.4 Foreman

According to Merriam Webster Dictionary (2010)², foreman is known as a chief and often specially trained worker who works with and usually leads a group or crew, a person in charge of group of workers especially in a particular operation or a section of a plant. In some organizations, foreman is seen as a part of the management group (Dunkerley, 1975).

² Merriam-Webster Incorporated (2010): <http://www.merriam-webster.com/dictionary> (visited on [3 November 2010]).

1.10.2 Operational Definition

1.10.2.1 Leadership

Leadership in this study is defined as behaviors exhibited by the foremen who are the direct leaders of the production workers in GBM. The behaviors practiced by the foreman influences the production workers to achieve their goals and objectives that lead to higher individual and organizational performances.

1.10.2.2 Leadership Style

In this study, the new approach leadership style suggested by Bass (1985) was used to investigate if the foremen are using transformational or transactional leadership style in their daily activities as perceived by the production workers. In addition to that, the researcher analyzed the relationship between the leadership style practiced by the foreman and job performance of the production workers. The production workers evaluated the foremen based on the dimensions of the transformational and transactional leadership style. They are required to judge how frequently the behavior described in each of the question is exhibited. The Multifactor Leadership questionnaire developed by (Bass and Avolio, 1997) was used to measure the leadership style practiced by the foremen.

Transformational leadership communicates a vision that inspires and motivates people to achieve something extraordinary. Yukl (1989) defines transformational leadership as “the process of influencing major changes in attitudes and assumptions of organizational members and building commitment for the organization’s mission and objectives. In addition, it is widely accepted that transformational leadership occurs

when people engage with each other in such a way that leaders and followers raise each other's levels of motivation (Burns, 1978).

Transactional leadership is a primarily exchange-oriented relationship that is a task-focused (Bass, 1985). Transactional leaders are able to entice subordinates to perform and thereby achieve desired outcomes by promising them rewards and benefits for the accomplishment of tasks (Bass, 1990).

1.10.2.3 Job Performance

In this study, job performance is taken as a dependent variable. Job performance of the production workers were measured by their foremen in order to obtain more accurate and honest data. The foremen evaluated the production workers' performance based on Borman & Motowidlo (1993) performance model which includes task performance and contextual performance.

Task performance is either directly related to the technical core or it services the requirements of the technical core (Motowidlo & Van Scotter, 1994). Technical or task activities include two types of behaviors: transformation of raw materials into goods and services produced by the organization and activities which support the core such as supply, planning & coordination, maintenance, development.

Whilst, the contextual performance are behaviors which do not form an official part of a job-role but which are valued by the organization nonetheless. These behaviors are not included in the formal job description of the organization.

1.10.2.4 Foreman

In this context of study, foreman is a person who is responsible for the activities of the group of subordinates (production workers) in proper hours record to reach out target. The key duties and responsibilities of foreman in GBM are as below.

- a) To supervise group of subordinates
- b) To maintain record of hours worked and controlling hours and material for every project according to project
- c) To guide subordinates on proper job handling
- d) To ensure the subordinates are following job instructions
- e) To assist in ensuring that subordinates are following company rules & regulations
- f) To check on subordinates carrying out duty
- g) To conduct the subordinates performance appraisal
To conduct training for subordinates
- h) To ensure that work are according to specifications
- i) To issue out material
- j) From warehouse according to requirements
- k) Ensure that all parts are done to meet the schedule and quality standard
- l) To ensure safety and housekeeping rules are followed
- m) Responsible for every item/material issued for assigned project
- n) Conduct daily department briefing
- o) To ensure all parts to GBS are completed on time

1.11 Conclusion

The first chapter presented an overview of the study, the statement of the problem, the objectives of the study, the research questions, definitions of terms, the scope and significance of the study and lastly the limitations. Transformational leadership emphasizes the importance of the individual development and contributions, whilst transactional leadership can lead to good performance but not as good as transformational leadership. The purpose of this study is to identify the impact of transformational and transactional leadership styles with job performance in the organizational setting and to determine whether these leadership practices can help develop high job performance of the employees. The organization can use the findings of this study in order to enhance the effectiveness of the leadership styles practiced in the organization and increase the organizational and individual performances.