THE EFFECT OF TRANSFORMATIONAL AND TRANSACTIONAL LEADERSHIP ON MOTIVATION IN ONE OF CHINA’S MANUFACTURING COMPANY

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A thesis submitted in partial fulfillment of the requirement for the award of the degree of Master of Science Human Resource Development

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OCTOBER, 2014
To my beloved mother and father
ACKNOWLEDGEMENT

In preparing this thesis, I was in contact with many people, researchers, academicians, and practitioners. They have contributed towards my understanding and thoughts. In particular, I wish to express my sincere appreciation to my supervisor, Dr. SHAH ROLLAH ABDUL WAHAB for his encouragement, guidance, critics and friendship. Without their continued support and interest, this thesis would not have been the same as presented here. A special thanks to the examiners of my thesis Dr. SITI FATIMAH BINTI BAHARI and Dr. MASTURA BINTI MAHFAR for their invaluable feedback and suggestions that the thesis tends to further improved. Furthermore, I would like to thank the staff of the faculty of management and the Graduate School of the UTM for their help in this research.

I would also like to express my gratitude to the managers and staffs of the investigated China’s manufacturing company for their participation and cooperation in this research. My special thanks to the company involved for allowing the study to be carried out in their company. Finally, I wish to convey my sincere appreciation to all kind hearted people who have contributed to this work and deserve to be recognized for their effort. I sincerely thank all of you for your good deeds. Your support and contribution have made this experience more momentous. I also want to express my thanks to my family for the financial and moral support, as well as the motivation to complete this research.
ABSTRACT

This study attempts to identify the effect of transformational and transactional leadership on motivation in one of China’s manufacturing company. A total of 193 respondents from one of China’s manufacturing company are selected as respondents and thus data is analyzed based on the completed questionnaires. Multifactor Leadership Questionnaire (MLQ) is employed to measure transformational and transactional leadership. Work Intrinsic and Extrinsic Motivation Scales (WEIMS) is employed as measurement tool to measure employees’ motivation. Descriptive analysis, correlations analysis and multiple regressions analysis are utilized to analyze the collected data. The findings reveal that both types of leadership styles have a significant relationship to motivation (transformational leadership: r value is 0.576; transactional leadership: r value is 0.404). In addition, it is also found that transformational leadership and transactional leadership have a significant effect on employees’ motivation. Several recommendations are suggested for the company and for future research.
ABSTRAK

# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>DECLARATION</td>
<td></td>
<td>ii</td>
</tr>
<tr>
<td>DEDICATION</td>
<td></td>
<td>vi</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td></td>
<td>vii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td></td>
<td>viii</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td></td>
<td>ix</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td></td>
<td>xvi</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td></td>
<td>xviii</td>
</tr>
<tr>
<td>LIST OF SYMBOLS</td>
<td></td>
<td>xix</td>
</tr>
</tbody>
</table>

1 INTRODUCTION

1.1 Research Overview 1
1.2 Background of the Research 1
1.3 Problem Statement 5
1.4 Research Questions 7
1.5 Purpose of the Research 8
1.6 Research Objectives 8
1.7 Research Hypothesis 9
1.8 Significance of the Research 9
1.9 Scope of the Research 10
1.10 Limitation of the Research 10
1.11 Definition of Terms
1.11.1 Conceptual Definition of Terms
1.11.1.1 Transformational Leadership
1.11.1.2 Transactional Leadership
1.11.1.3 Motivation
1.11.2 Operational Definition of Terms
1.11.2.1 Transformational Leadership
1.11.2.2 Transactional Leadership
1.11.2.3 Motivation

2 LITERATURE REVIEW

2.1 Introduction
2.2 Motivation
  2.2.1 An Overview of Motivation
  2.2.2 Dimensions of Motivation
  2.2.3 Motivation Models and Theories
    2.2.3.1 Herzberg’s Motivation-Hygiene Theory
    2.2.3.2 Self-Determination Theory
2.3 Leadership
  2.3.1 An Overview of Leadership
  2.3.2 Transactional Leadership
  2.3.3 Dimensions of Transactional Leadership
  2.3.4 Transformational Leadership
  2.3.5 Dimensions of Transformational Leadership
  2.3.6 Transformational and Transactional Leadership Models and Theories
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3.6.1 The Full Range of Leadership Development Model</td>
<td>37</td>
</tr>
<tr>
<td>2.3.6.2 The Model of Transactional Leadership</td>
<td>39</td>
</tr>
<tr>
<td>2.3.6.3 The Model of Transformational Leadership</td>
<td>40</td>
</tr>
<tr>
<td>2.4 Relationship between Transactional Leadership and Motivation</td>
<td>43</td>
</tr>
<tr>
<td>2.5 Relationship between Transformational Leadership and Motivation</td>
<td>44</td>
</tr>
<tr>
<td>2.6 Summary of Literature Review</td>
<td>46</td>
</tr>
<tr>
<td>3 METHODOLOGY</td>
<td>49</td>
</tr>
<tr>
<td>3.1 Overview of Methodology</td>
<td>49</td>
</tr>
<tr>
<td>3.2 Research Design</td>
<td>49</td>
</tr>
<tr>
<td>3.3 Population and Sampling</td>
<td>51</td>
</tr>
<tr>
<td>3.4 Data Collection Procedures</td>
<td>52</td>
</tr>
<tr>
<td>3.5 Study Instrument</td>
<td>53</td>
</tr>
<tr>
<td>3.5.1 Measurement for Respondents’ Demographic Profile</td>
<td>53</td>
</tr>
<tr>
<td>3.5.2 Measurement for Transformational and Transactional Leadership</td>
<td>54</td>
</tr>
<tr>
<td>3.5.3 Measurement for Motivation</td>
<td>55</td>
</tr>
<tr>
<td>3.6 Pilot Study</td>
<td>55</td>
</tr>
<tr>
<td>3.7 Data Analysis of the Research</td>
<td>58</td>
</tr>
<tr>
<td>3.7.1 Descriptive Statistic Analysis</td>
<td>58</td>
</tr>
<tr>
<td>3.7.2 Correlation Analysis</td>
<td>58</td>
</tr>
<tr>
<td>3.7.3 Multiple Regressions Analysis</td>
<td>60</td>
</tr>
</tbody>
</table>
3.7.3.1 Testing the Assumptions of Multiple Regressions Analysis

3.8 Conclusion

4 ANALYSES AND FINDINGS

4.1 Introduction

4.2 Return and Usable Rate

4.3 Respondents’ Demographic

4.4 Findings on Transformational Leadership, Transactional Leadership, and Motivation

4.4.1 Descriptive Findings on Transformational Leadership

4.4.1.1 Descriptive Findings on Intellectual Stimulation

4.4.1.2 Descriptive Findings on Individualized Consideration

4.4.1.3 Descriptive Findings on Idealized Influence

4.4.1.4 Descriptive Findings on Inspirational Motivation

4.4.2 Descriptive Findings on Transactional Leadership

4.4.2.1 Descriptive Findings on Contingent Reward

4.4.2.2 Descriptive Findings on Active Management by Exception

4.4.2.3 Descriptive Findings on Passive Management by Exception
4.4.3 Descriptive Findings on Motivation
  4.4.3.1 Descriptive Findings on Intrinsic Motivation
  4.4.3.2 Descriptive Findings on Extrinsic Motivation
4.4.4 Overall Level of Transformational Leadership, Transactional Leadership and Motivation
4.5 Findings on Transformational Leadership Style and Motivation
4.6 Findings on Transactional Leadership Style and Motivation
4.7 Findings on the Effect of Transformational Leadership and Transactional Leadership on Motivation
4.8 Summary of Data Analysis

5 DISCUSSION AND CONCLUSION
5.1 Introduction
5.2 Discussion of the Research
  5.2.1 Objective 1: The Level of Transformational Leadership in One of China’s Manufacturing Company
  5.2.2 Objective 2: The Level of Transactional Leadership in One of China’s Manufacturing Company
  5.2.3 Objective 3: The Level of Motivation in One of China’s Manufacturing Company
5.2.4 Objective 4: The Relationship of Transformational Leadership and Motivation in One of China’s Manufacturing Company

5.2.5 Objective 5: The Relationship of Transactional Leadership and Motivation in One of China’s Manufacturing Company

5.2.6 Objective 6: The Dominant Leadership Affect on Motivation in One of China’s Manufacturing Company

5.3 Recommendation

5.3.1 Recommendation for the Organization

5.3.2 Recommendation for the Future Research

5.4 Conclusion

REFERENCES

APPENDICES A-C
# LIST OF TABLES

<table>
<thead>
<tr>
<th>TABLE NO.</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Herzberg’s Motivation-Hygiene Theory (Hoy and Miskel, 2005)</td>
<td>20</td>
</tr>
<tr>
<td>2.2</td>
<td>The Self-Determination Theory (Ryan and Deci, 2005)</td>
<td>23</td>
</tr>
<tr>
<td>3.1</td>
<td>Reliability Coefficient (Cronbach's Alpha)</td>
<td>57</td>
</tr>
<tr>
<td>3.2</td>
<td>The Strength of the Relationship</td>
<td>59</td>
</tr>
<tr>
<td>3.3</td>
<td>Correlation between Transformational Leadership and Transactional Leadership</td>
<td>62</td>
</tr>
<tr>
<td>3.4</td>
<td>Multicollinearity of the Variables</td>
<td>62</td>
</tr>
<tr>
<td>3.5</td>
<td>Skewness and Kurtosis Value</td>
<td>63</td>
</tr>
<tr>
<td>3.6</td>
<td>Summary of Research Objectives and Its Method of Data Analysis</td>
<td>64</td>
</tr>
<tr>
<td>4.1</td>
<td>Return and Usable Rate of the Questionnaire</td>
<td>66</td>
</tr>
<tr>
<td>4.2</td>
<td>Findings on Respondents’ Demographic</td>
<td>66</td>
</tr>
<tr>
<td>4.3</td>
<td>Mean Score and Standard Deviation of Intellectual Stimulation</td>
<td>68</td>
</tr>
<tr>
<td>4.4</td>
<td>Mean Score and Standard Deviation of Individualized Consideration</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>Mean Score and Standard Deviation of Individualized Consideration (continued)</td>
<td>70</td>
</tr>
<tr>
<td>4.5</td>
<td>Mean Score and Standard Deviation of Idealized Influence</td>
<td>71</td>
</tr>
</tbody>
</table>
4.6 Mean Score and Standard Deviation of Idealized Influence (continued)

4.7 Mean Score and Standard Deviation of Inspirational Motivation

4.8 Mean Score and Standard Deviation of Inspirational Motivation (continued)

4.9 Mean Score and Standard Deviation of Inspirational Motivation (continued)

4.10 Mean Score and Standard Deviation of Contingent Reward

4.11 Mean Score and Standard Deviation of Active Management by Exception

4.12 Mean Score and Standard Deviation of Passive Management by Exception

4.13 Mean Score and Standard Deviation of Intrinsic Motivation

4.14 Mean Score and Standard Deviation of Intrinsic Motivation (continued)

4.15 Mean Score and Standard Deviation of Extrinsic Motivation

4.16 Descriptive Statistics on the Three Variables

4.17 Correlations between Transformational Leadership and Motivation

4.18 Correlations between Transactional Leadership and Motivation

4.19 The Effect of Transformational and Transactional Leadership on Motivation

4.20 Coefficient for Transformational Leadership and Transactional Leadership on Motivation
# LIST OF FIGURE

<table>
<thead>
<tr>
<th>FIGURE NO.</th>
<th>TITLE</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Full Range Leadership Model (Bass and Riggio, 2006)</td>
<td>37</td>
</tr>
<tr>
<td>2.2</td>
<td>Transactional Leadership and Follower Effort (Bass, 1985)</td>
<td>39</td>
</tr>
<tr>
<td>2.3</td>
<td>Transformational Leadership and Extra Follower Effort (Bass, 1985)</td>
<td>41</td>
</tr>
<tr>
<td>2.4</td>
<td>Research Framework</td>
<td>48</td>
</tr>
<tr>
<td>3.1</td>
<td>The Research Design Process</td>
<td>50</td>
</tr>
</tbody>
</table>
**LIST OF SYMBOLS**

- $s$ - Required sample size
- $X_2$ - the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).
- $N$ - the population size.
- $P$ - the population proportion (assumed to be .50 since this would provide the maximum sample size).
- $d$ - the degree of accuracy expressed as a proportion (.05).
- $\alpha$ - Cronbach’s alpha
- $Y'$ - Predicted value of the dependent variable
- $a$ - the value of $Y$ when $X$ is equal to zero. This is also called the “$Y$ Intercept”.
- $X$ - an X score (X is Independent Variable)
- $b_1$ - the change in $Y$ for each 1 increment change in $X_1$
- $b_2$ - the change in $Y$ for each 1 increment change in $X_2$
CHAPTER 1

INTRODUCTION

1.1 Research Overview

This research aims to explore the effect of transformational and transactional leadership on motivation. This chapter discusses the background of this study, which begins with the background of the research, problem statement, research objectives, research questions, and significance of the study, as well as explains conceptual and operational definitions including transformational leadership and transactional leadership, and motivation.

1.2 Background of the Research

Motivation is driving forces to arouse and direct people’s behavior that lead to employees to take the initiatives in activities and actions to greater performance when the required condition satisfied (Lameck, 2011). Peterson and Luthans (2006) identified financial and nonfinancial incentives in the process of motivating employees for business unit outcome, which involve tangible or intangible rewards to provide employees inner momentum in their work. Wiese and Coetzee (2013) emphasized nonfinancial incentives are strongly associated with motivation enhancement for sales representatives; the nonfinancial incentives are explained in influencing intrinsic and extrinsic motivation. Concretely, intrinsic motivation is referred to inner interests and enjoyment (Guay et al., 2000). By contrast, extrinsic
motivation refers to positive rewards and higher psychological needs from outside such as organization and society (Ryan and Deci, 2000b).

The motivation which is intrinsic and extrinsic motivation potentially exists in families, schools, and workplace (Benabou and Tirole, 2003). Particularly, Kelly Global Workforce Index (2013) initiated an investigation to 120,000 respondents in 31 countries; the findings of the survey in China show company culture/reputation (30%), opportunity for personal growth/advancement (28%), and competitive compensation benefits (18%) as the top three factors influence employees to engage in the job. Another survey also from Kelly Global Workforce Index (2012) collected data from 170,000 respondents in 30 countries, the result from approximately 5,600 Chinese found personal fulfillment and personal growth/advancement as top two crucial motivators influenced employees to participate in the job. Hence, the organizations are required to create a supportive environment and flexible motivation mechanism for promoting employees’ growth and fulfillment, as well as reward achievement.

Mohammed and Dinesh (2010) supported employees’ motivation depends on positive work environment and leaders’ support. The employees perform their job with high level of motivation when they perceive their managers investing time care about them in a positive organization environment. Kelly Global Workforce Index (2013) reported more transparent communication with leaders, more autonomy, and explicitly clarifying responsibilities, goals and objectives will deepen managers-employees relationship that employees take the initiatives in the organization activities. Furthermore, with employees’ diversified needs, managers are continually challenged to conduct strategies to reinforce employees’ motivation (Shanks, 2007). Wiese and Coetzee (2013) pointed out leadership is crucial to improve sales people motivation. Effective strategy which is leadership is developed to maintain and reinforce employee’s motivation towards expected and beyond expected performance (Bass, 1985).

Leadership is an important strategy in organization for guiding employees to contribute their competencies, expertise, and responsibilities in their work for career
development (Sarros and Santora, 2001). Leadership is developed to organize activities effectively, motivate employees, and reasonably distribute tasks for objectives attainment, along with human resource was recognized as a vital asset in organization (Islam et al., 2012). Managers and leaders do exert greater personal ability and influence over their employees including effective incentive system setting and influencing on employees’ emotion and psychology such as emotional support, recognize and praise (Benabou and Tirole, 2003; Shanks, 2007). Organization’s success depends on managers’ competencies and their leadership (Boehnke et al., 2003). In an organization, leadership is vitally utilized to gain sustainable profitability, comply with ethical standards, innovation and creativity, and to create a safe and healthy work environment (Hussain Haider and Riaz, 2010).

Facilitating leadership in an organization is an inevitable tendency in order to enhance competitive edge and sustainable development (Hussain Haider and Riaz, 2010). Givens (2008) highlighted leadership directly influences motivation reinforcement. McKinsey Quarterly Survey by Dewhurst et al. (2009) collected data from 1,047 executives, managers, and employees and found that performance-based cash bonuses (60%), praise and commendation from immediate manager (67%), attention from leaders (63%), opportunities to lead projects or take forces (62%) are more effective motivators to motivate employees. Different leadership styles diversely affect individuals and groups when the leader interacts with their employees (Goleman, 2000; Drew, 2013). As stated by Drew (2013), traditional leadership emphasizes on extrinsic reward to motivate employees such as compensation package, benefits, and promotion. Nevertheless, the extrinsic reward is more effective in short-term, when the extrinsic reward disappear or non-increased, the employees’ positive behaviors and motivation will not be produced.

Importantly, Bass (1985) developed leadership styles on transformational and transactional leadership, of which aim to motivate people to achieve expected performance even transcend expected performance. The two types of leadership distinguish leaders’ influence on the aspects of language, behavior, attitude, and perceptions to their followers (Bass, 1990). Initially, the leaders have transactional leadership disposition on transaction and bargain with followers (Azman et al., 2010).
However, not only reacting to satisfy the followers’ basic needs and crisis management, the leadership also advocates a greater role on supporting individuals to accomplish tasks and make extraordinary contributions, which namely transformational leadership (Bass and Riggio, 2006). Bradley (2013) and Drew (2013) highlighted that transformational leadership develops a long-term impact towards intrinsic motivation within continuous process by idealized influence, individual consideration, intellectual stimulation, and inspiration motivation.

According to transactional and transformational leadership concepts, the two types of leaders’ styles tend to motivate employees through different behaviors and attitudes (Avolio et al., 1999). As stated by Bass (1985), most leaders do both transactional and transformational leadership in different amounts, and transformational leadership is integrated with transactional leadership to heighten motivation for transcend performance. Many research pertaining to transformational and transactional leadership tend to hold their focus on the direct relationship of the two types of leadership in increasing the level of motivation in different industries such as banks (Chaudhry and Jave, 2012), universities (Islam et al., 2012), public sectors (Almintisir et al., 2013) and private sectors (Kaur, 2012; Hemsworth et al., 2013).

To sum up, motivation is an inner momentum to drive people to take actions. In the workplace, motivation can be vitally influenced by leaders due to the supportive work environment, recognition and praise from leaders, and personal development opportunities which as significant motivators to employees. Thereby, leadership is considered as an effective strategy in organization to higher level of motivation. As noted by Bass (1985), transformational and transactional leadership are two types of leadership in implementing different characteristics to influence employees’ motivation through motivational language, supportive attitude, perception and behavior influence, as well as contingent reward and passive and active management by exception.
1.3 Problem Statement

There are several major problems that interest the researcher to investigate motivation phenomena in one China’s manufacturing company. Firstly, based on today’s labor market, many workers are relatively new to fit the job, and they are less experienced to identify the problems and underlying causes (Business for Society Responsibility, 2010; Eloot et al., 2013). Moreover, generation replacement and diversity personal psychological requirements generate new issues in the organization (Scarborough, 2001). Younger generation puts more concern on working atmosphere and career development (Business for Society Responsibility, 2010). Additionally, Business for Society Responsibility (2010) pointed out some factories lost workers because of low wages and ineffective incentives. According to these, the leaders of companies have vital responsibilities to develop strategies in creating a supportive environment and arousing employees on innovation and creativity, as well as developing effective motivation mechanism in organization (Bass and Riggio, 2006).

Secondly, China companies are lack of an effective system which links long-term motivation to promote, retain and attract employees (Cooke, 2004). Especially, companies and education in China are lack of encouragement on innovation and creativity, and less difference of communication styles (Chmielecki, 2012; European Union Small and Medium Enterprises Center, 2013). A report by China Consumers Association Examine Company (2013) showed private enterprises have no adequate motivation mechanism in organization. Most companies lack of permanent and effective mechanism of motivation support and complement traditional reward incentives that may indicate less engagement, poor cohesiveness, and high turnover. The problems are embodied in inexplicit incentives for different levels of employees, less multiple types of motivation, and neglecting employees’ psychological and emotional needs. Career International Research Center (2013) investigated 1,700 different industries companies in China found that 42.2% employees in private enterprises consider the organization is lack of diversity motivation system; 43.0% employees consider less career development opportunities provided. Moreover, 41.3 % managers consider that the organization has inexplicit
strategies, and 31.6% managers consider poor leadership facilitating in the organization.

Significantly, motivation can be aroused by leadership as stated by Chandler and Richardson (2005), all 100 ways to motivate people that linked closely with leadership. However, in a survey by KeyLogic (2009), China companies are lack of maturity leadership training and development. KeyLogic (2009) investigated leadership in China among 160 Chinese companies reported that 62% companies are accounted for less than 30% of the entire training expenses to leadership training development; in contrast to American companies averagely invest more than 50% training expenses to develop leadership. Furthermore, only 18% of the investigated companies develop leadership programs integrated with business orientation and organization development, and only 29% of the investigated companies develop training programs and projects on the basis of the different levels of management. 40% respondents consider that the leadership in the organization is not systematized. Today’s companies in China less attention on effective leadership may indicate the deficient motivation mechanism.

Particularly, in China manufacturing industry, the companies are facing new challenges in competitive environment as economic growth slows, cost rise, and value-chain complexity (Eloot et al., 2013). The Chinese manufacturing industry has insufficient versed professionals to cope up advanced technology and technical (EconomyWatch, 2010; Association Manufacturing Excellence, 2012). Moreover, economic pressures and accelerated technology development make the leaders of companies to be sensitive on creating effective strategies to organization survive and development (Nelson et al., 2003). Companies expect more innovation and product development to raise output and productivity gains to overcome high labor cost (Eloot et al., 2013). The creativity of product and service is an important driver to enhance manufacturing companies’ competitiveness (Deloitte, 2011). Thereby increasing motivation on innovation and creativity, and high efficient productivity are crucial for manufacturing companies.
As a private enterprise in manufacturing industry, the investigated company is improving productivity by expanding their market and establishing new factories. The company tries to remain competitive and sustainable development in the continuous competitive environment. But in the mean time, the company also faces the new challenges comprising of high labor cost, innovation and product-development, as well as developing effective motivation mechanism. Based on the interview of a manager in one of China’s manufacturing company at December 2013, the employees are lack of motivation resulting in high turnover and low efficiency especially in the production line. The turnover rate tends to 25%-30% in the company and most of them are from the production department, therefore production employees are chosen as the respondents of this study. According to previous studies, leadership is considered as a strategic process to influence employees (Ricketts, 2009; Eisenberg and Goodall, 2010). Significantly, leadership also is considered as a vital factor to motivation (Chandler and Richardson, 2005). As stated by Bass (1985;1990), transformational and transactional leadership have significant responsibilities on encouraging innovation and creativity, higher value and objectives, creating healthy environment, positively providing contingent reward, and active and passive management by exception. Thereby, understanding the effect of transformational and transactional leadership on motivation is deemed necessary. In this study, transformational and transactional leadership as emerging leadership styles are measured to employees’ motivation.

1.4 Research Questions

1. What is the level of transformational leadership in one of China’s manufacturing company?
2. What is the level of transactional leadership in one of China’s manufacturing company?
3. What is the level of motivation in one of China’s manufacturing company?
4. Is there significant relationship between transformational leadership and motivation in one of China’s manufacturing company?
5. Is there significant relationship between transactional leadership and motivation in one of China’s manufacturing company?
6. Do transformational leadership and transactional leadership affect motivation in one of China’s manufacturing company?

1.5 Purpose of the Research

The purpose of this study is to probe the effect of transformational and transactional leadership on motivation in one of China’s manufacturing company.

1.6 Research Objectives

The research objectives are to:

1. Identify the level of transformational leadership in one of China’s manufacturing company.
2. Identify the level of transactional leadership in one of China’s manufacturing company.
3. Identify the level of motivation in one of China’s manufacturing company.
4. Measure the relationship between transformational leadership and motivation in one of China’s manufacturing company.
5. Measure the relationship between transactional leadership and motivation in one of China’s manufacturing company.
6. Determine the dominant leadership affecting on motivation in one of China’s manufacturing company.
1.7 Research Hypotheses

**H1**: There is a significant relationship between transformational leadership style and motivation among workers in one of China’s manufacturing company.

**H2**: There is a significant relationship between transactional leadership style and motivation among workers in one of China’s manufacturing company.

**H3**: Transformational and transactional leadership have a significant effect on motivation among workers in one of China’s manufacturing company.

1.8 Significance of the Research

The research has significant contributions to employees’ motivation, especially to probe the implementation of leadership affecting motivation in one of China’s manufacturing company. Firstly, this study provides discussion of motivation and of the two emerging leadership styles which are transformational and transactional leadership. Pertinent certified theoretical models and substantive findings are discussed on the basis of empirical researches to build the connection between theories and practice in a real workplace. Simultaneously, this study gives an overview to explain the crucial role of transformational leadership and transactional leadership on motivation. Transformational leadership significantly influences the followers in respect of innovation and creativity, personal development and higher value. Moreover, transformational leaders are put on their efforts to individualized consideration along with listening and reflecting upon followers’ needs, and also idealized influence followers. On the other hand, transactional leadership emphasizes on providing contingent reward to motivate followers with more effort. The leadership also involves active and passive management by exception in organization.
Secondly, this study aims to identify the effect of transformational and transactional leadership on motivation in one of China’s manufacturing company. The research clarifies the characteristics of the two leadership styles and motivation. The levels of the two leadership styles and motivation are measured based on the collected data from the manufacturing company. Significantly, this study provides empirical findings to identify the effect of transformational and transactional leadership on motivation in the investigated Chinese manufacturing company. The results present statistical data pertaining to the application of transformational and transactional leadership in improving employees’ motivation at the work place. Moreover, developing depth understanding on how the transformational and transactional leadership affect motivation in one of China’s manufacturing company.

1.9 Scope of the Research

There are three issues confined in the scope of the study. Firstly, this study is conducted in one of China’s manufacturing company to investigate the effect of transformational and transactional leadership on motivation. The data are collected from respondents of the investigated company. Secondly, a designed questionnaire is employed as the research instrument to collect data. The transformational and transactional leadership are measured by using Bass’s (1985) Multifactor Leadership Questionnaire (MLQ). Furthermore, the motivation is measured using Work Intrinsic and Extrinsic Motivation Scales (WEIMS) which is developed by Tremblay et al. (2009). Thirdly, the questionnaires are distributed to randomly selected respondents at the production department of the company. The general findings are produced based on the objectives of the study.

1.10 Limitation of the Research

There are several major limitations being associated with this study that need to be highlighted. Firstly, this study is conducted in one of China’s
manufacturing company. Therefore, the findings are analyzed based on the investigated company only. Secondly, the duration of this study is set to one year, therefore only questionnaire is used for data collection. Thirdly, Multifactor Leadership Questionnaire (MLQ) and Work Intrinsic and Extrinsic Motivation Scale (WEIMS) are employed as research instruments to measure the level of transformational and transactional leadership and the level of motivation, as well as to identify the dominant leadership style affecting on motivation. Fourthly, based on the privacy and confidential of the company, the name list is not allowed to access the researcher; therefore the questionnaires are distributed by the manager.

1.11 Definition of Terms

1.11.1 Conceptual Definition of Terms

1.11.1.1 Transformational Leadership

Transformational leadership is looked upon as the process of changing and transforming individuals (Northouse, 2007), which involves encouragement, two-way communication, individual consideration and support, inspiring creativity and challenging, self-determination as well as influencing others as a charismatic leader (Sarros and Santora, 2001). It transcends short-term goals to focus higher value and intrinsic needs (Burns, 1978). Four characteristics of transformational leadership are developed in relation to idealized influence, individual consideration, intellectual stimulation and inspiration motivation (Bass, 1985).

Idealized influence is referred as a charismatic and successful model making followers follow his decisions, vision and goals (Bass, 1985; Hall et al., 2012). The leaders influence others based on emotional level with followers’ heartfelt trust, respect and admire (Burns, 1978). The second dimension is individual consideration which stresses the leaders act as advisors and mentors to listen and reflect upon followers’ needs, thought, and expectations with open communication and interaction (Bass and Riggio, 2006). Furthermore, the leaders invest time to care about
employees and integrate their needs with organization development in order to effectively coordinate individuals within the whole organization towards common goals (Hall et al., 2012).

Next, intellectual stimulation emphasizes creativity and innovation, and the leaders who encourage followers to create better methods and perspectives on old problems (Greiman, 2009). Some previous problems are proposed to discuss by arousing employees’ creative consciousness and senses of fulfillment (Politis, 2004). Finally, inspirational motivation focuses on inspiring followers to make extra effort through communicating higher value and expectations (Islam et al., 2010). In addition, strengthening their understanding on the job and raising the consciousness of employees on the organization’s mission and vision (Sarros and Santora, 2001).

1.11.1.2 Transactional Leadership

Transactional leadership emphasizes on transaction and exchange between leaders and employees with contingent reward (Bass and Riggio, 2006). The leader pays more attention on controlling and monitoring followers with economic control and management (Bono and Judge, 2004). The leadership style involves reward and punishment to respond to employees’ contributions, active and passive management (Sarros and Santora, 2001). Thereby, transactional leadership comprises three characteristics namely contingent reward, active management by exception and passive management by exception (Bass, 1985).

Contingent reward refers to feedback positive reward or punishment on the basis of employees’ contributions and their outcomes (Bass, 1985; Chaudhry and Jave, 2012). The reward is a tangible encouragement such as commission, allowance, compensation packages, or penalty (Hussain Haider and Riaz, 2010). Active management by exception stresses on positive and proactive management which describes leaders draw attention on setting plan and strategies as well as predicting problems before the implementation of the project (Bass, 1985). The leaders actively
solve problems and give directions on the process of the project (Sarros and Santora, 2001). On the contrary, passive management by exception is negative and reactive management which describes the leader attempts to interfere with the work because the standards and the outcomes cannot be reached (Gill and Pitt, 1998).

1.11.1.3 Motivation

Motivation is the driving force to make people take actions or engage in activities (Mescon et al., 2006). The motivation is derived from psychological needs such as a sense of ego-accomplishment and self-fulfillment, economic needs, emotional needs, and social relations needs (Sansone and Harackiewicz, 2000; Maslow, 1954). Lai (2011) defined motivation as the reason that drives people have willingness to take behaves. Particularly, Ryan and Deci (2000a) identified motivation into intrinsic and extrinsic motivation which from different factors comprising of internal motivation and external coercion.

Guay et al. (2000) defined intrinsic motivation as a reference to the people who do something for the things itself, and also to obtain pleasure and fulfillment. Intrinsic motivation is derived from inherent interest and satisfaction which means the person performs the work even pays extra effort because of the job itself (Ryan and Deci, 2000a). People are active, curious and ready to learn or to engage in because of inherent drives (White, 1959). The intrinsic motivation is not only a type of motivation, but also a form of volitional activity (Mageau and Vallerand, 2003). For instance, football players participate in the training activities every day until they gained the champion title because they have a deep love for playing football (Tremblay et al., 2009).

By contrast, extrinsic motivation refers to the person who actively join in the activities due to some extrinsic factors such as expected reward, higher psychological needs, or to avoid punishment and cope with external pressure and perceive the thing that is important for the future (Ryan and Deci, 2000b; Tremblay et al., 2009).
Likewise, Benabou and Tirole (2003) defined extrinsic motivation is regarded as an external force driving people to carry out actions such as reward or punishment. However, extrinsic motivation is partially internalized from controlled motivation to autonomous motivation (Gagne and Deci, 2005).

1.11.2 Operational Definition of Terms

1.11.2.1 Transformational Leadership

In this study, transformational leadership aims to transform and change employees’ perspectives and behaviors through explicit articulation of job responsibilities, value enhancement, taking employees’ needs into consideration, as well as influencing employees as a charismatic model. There are four dimensions of transformational leadership including idealized influence, intellectual stimulation, inspiration motivation, and individual consideration. Idealized influence refers to the leader who influences employees as a successful and trustworthy model. Intellectual stimulation emphasizes the leader who intellectually stimulates employees to higher value and development with motivational language and explicit interpretation of job responsibilities, as well as sharing organizational vision and mission. In addition, inspiration motivation is to motivate employees shift from the conventional thinking into creative perceptions. The leaders motivate employees to innovate and create new technology and products. Individual consideration refers to the leader who cares about employees’ emotional and psychological needs and takes different personal characteristics and individual development into consideration. Transformational leadership is measured by using the Multifactor Leadership Questionnaire which is developed by Bass (1985).
1.11.2.2 Transactional Leadership

Transactional leadership, in this research, focuses on performance orientation, which emphasizes on transaction and exchange benefits with followers’ effort and contributes. The reward is negotiated with the employees based on their contributions and performance. Moreover, transactional leadership involves with active and passive management by exception to proactively and reactively monitor and control employees towards tasks accomplishment. In respect of active management by exception, the leader proactively manages and monitors employees before the problems happened. By contrast, the leader with passive management by exception interferes with followers when the problem has already occurred. Transactional leadership is measured using the Multifactor Leadership Questionnaire from Bass (1985).

1.11.2.3 Motivation

Motivation is defined as psychological force and the reason to boost people taking the initiatives in activities. In this study, the motivation is referred to intrinsic and extrinsic motivation. Intrinsic motivation is autonomous motivation and self-determined motivation, which derived from innate interest and enjoyable. In contrast, extrinsic motivation is from external reward, psychological needs, and also coercive psychological factors and pressure. The extrinsic motivation is controlled motivation and partial autonomous motivation. Motivation is measured in organization which is referred to intrinsic and extrinsic motivation by using Work Intrinsic and Extrinsic Motivation Scale from Tremblay et al. (2009).
REFERENCES


