

FACTFILE: GCE PROFESSIONAL BUSINESS SERVICES

UNIT A2 2: THEORIES OF LEADERSHIP



Learning Outcomes

Student should be able to:

- Apply the theories of leadership, including:
 - transformational; and
 - transactional;
- Explore methods and tools that professional business services firms use to assess leadership styles - including the Blake Mouton Managerial Grid and Adair's action centred leadership model.



Transformational and transactional leadership

The terms '*Transformational leadership and transactional leadership*' (CMI, 2013; Storey and Holti, 2013) are associated with Burns (1978) and Bass (2008). Burns believed that transformational leaders brought about intended change by influencing their followers to behave in ways that helped the organisation achieve its goals. The leader creates and communicates their vision to their followers and an emotional connection is formed. This emotional connection encourages followers to commit their energies, skills and behaviours to achieving the shared goals set out in the vision. Bass (2008) developed Burns' concept of transformational leadership and proposed that transformational leaders raise their followers, as in Maslow's (1954) hierarchy of needs, from lower needs such as concern for safety to higher level needs such as achievement and self-actualisation.

Research on transformational leadership indicates that it has a positive impact on followers and organisational performance although some researchers raise concerns that the internal situation (financial resources, profitability, product mix, productivity, organisational structure, talent pool) and external factors (economic, sociocultural, technological, political) are not taken into consideration when assessing its impact.

Transactional leadership concerns the exchanges that take place between a leader and their followers. These exchanges help the leader to achieve their objectives and bring about intended change through contractual arrangements with followers who are set clear goals and expected behaviours. Followers achieve their own objectives and receive rewards and remunerations for the quality and quantity of their output through these exchanges.

Research notes that in certain instances transactional leadership may positively affect performance. Criticisms of transactional leadership include:

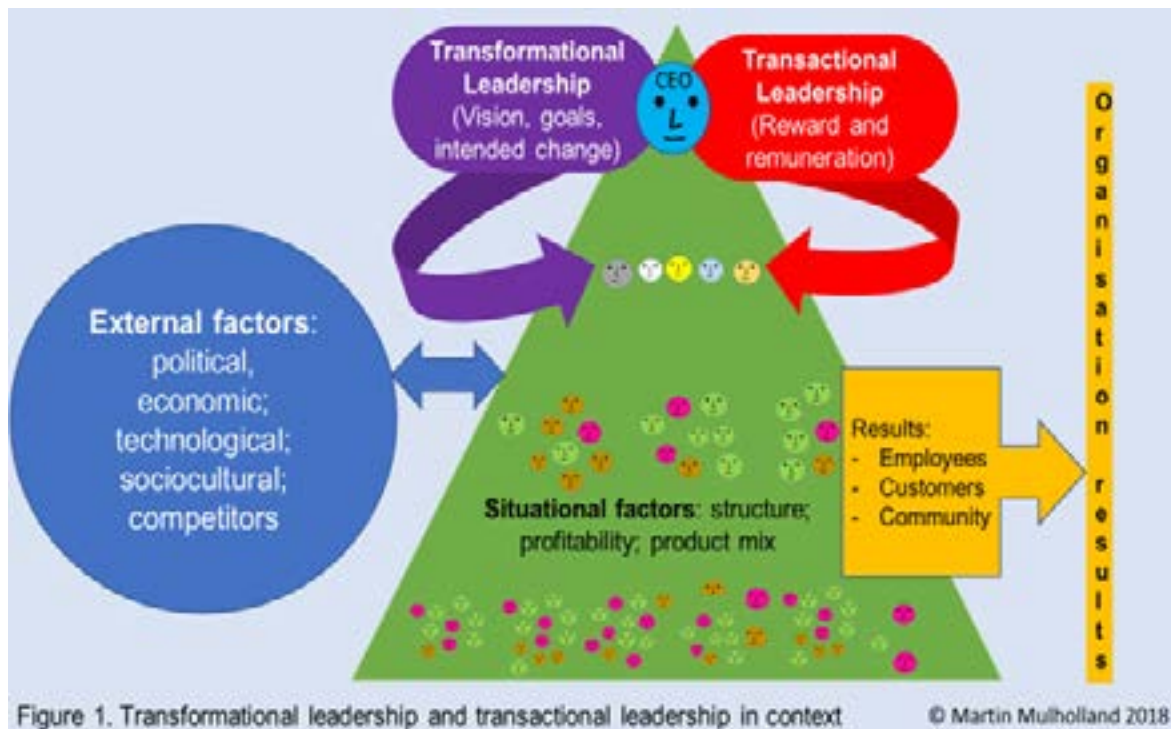
- Conflict may occur due to short-term exchange relationships (negotiations) due to the differing objectives, needs and bargaining positions adopted by the leader and the followers;

- Little consideration may be given to the influence of the organisation's situation and external factors.

Burns (1978) noted that it is possible for a leader to use a transformational or transactional style or combine them to achieve their organisational vision, goals and intended change.

Transformational leadership and transactional leadership in context

Figure 1. shows an organisational context for transformational and transactional leadership. Here the leader is the chief executive officer (CEO) who communicates their vision to employees with the expectation that the employees will emotionally connect with their vision and give their full commitment to make the vision happen through intended change. The CEO may also engage in transactional leadership and offer rewards



and remuneration as incentives to motivate employees and encourage desired work behaviours.

The time taken to achieve the vision could possibly range from one to five years or even longer. The time available for a leader to execute a change programme is an important resource and thus, the timescale applied to a change programme can influence its perceived level of success. If the impact of a transformational leader's and / or transactional leader's success (based upon their vision and goals) is to be assessed then the timeline (start - finish) chosen can be a critical factor.

The CEO's expectation is that their intended change will be successfully achieved, in part, through the raised performance of employees. The results of the intended change may mean that: employees' jobs are more secure; customers receive a better service / product (more features and more reliable); the community receives support from the organisation (funding or employees offer advice and help on a local project) Ultimately the organisation may benefit through: increased revenue; better return on investments; higher profits; increased market share.

Transformational leadership application

Many CEOs have transformed their organisations but very few CEOs refer to themselves as transformational leaders. If an outside-in perspective is taken, it may be possible to relate the elements of transformational leadership to the actions and activities in an organisation.

For example, organisation transformations are referenced by IBM in its Annual Reports (2006; 2011; 2012; 2016; 2017). While it is not possible to say definitively that IBM transformations are implemented by transactional leadership, it is possible to relate elements of transactional leadership to activities within

IBM. Vision, goals, employee engagement, time, conviction, and performance will be employed to illustrate aspects of transactional leadership in IBM.

Vision

This transformation process is typified by Ginni Rometty who was appointed as Chief Executive Officer at IBM in 2011 and subsequently developed and implemented her own transformation programme based upon the vision which was noted in the Annual Report (2012, p. 21).

'Smarter Planet is IBM's vision of a technology-enabled world that is more instrumented, interconnected and intelligent than ever before, enabling people and organisations to tackle significant business and societal challenges. At the heart of this vision is the opportunity for meaningful innovation—exploring and extending the boundaries of businesses, industries and communities.'

Goals

Two key goals stated in the Annual Report (2012) were to help clients become more innovative, efficient and competitive through the application of business insight and develop IT solutions to provide long-term value to shareholders.

Rometty (2014) gave a presentation on what her leadership had delivered after three years. A key change she implemented was to remove low margin products from IBM's product mix and introduce high margin products related to cloud and analytics.

Employee engagement

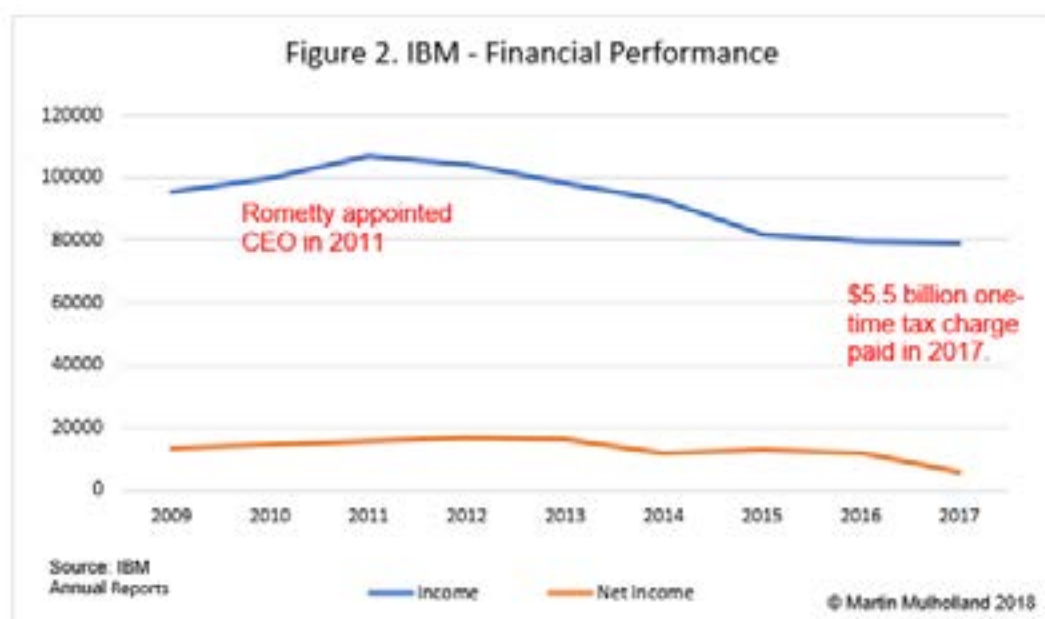
It was not until 2015 that IBM clarified what transformational leadership meant. IBM noted their commitment in their Corporate Responsibility Report (2015, p.43), to implementing a Transformational Leadership Framework:

'The types of behaviours described in the Transformational Leadership Framework (TLF) are essential to building an agile culture and pivoting our company to cloud and cognitive solutions. We launched the TLF with IBM's top executives so that they could lead by example and then instil these behaviours within their organizations and across IBM.'

The introduction of TLF showed that Rometty recognised that top executives need to engage with their employees by displaying the right behaviours.

Time

Rometty (2015) argued that 'Transforming a \$90 billion business takes some time'. Her argument for time to be extended to her highlights the challenge in transforming a global business. This element of time



also underscores the difficulty in assessing the success of a perceived transformational leader as different timelines that are chosen by different assessors will probably generate different results.

Conviction

Rometty was asked by Ignatius (2017) whether she was on the right strategic path and, if she was making changes along the way. Rometty answered by highlighting the importance of having a vision and believing that this was the right view of the future when she said...

'It's important to have deeply held beliefs about the vision. But then you have to look at the results. I'm confident about where we are at this point. Our new businesses around cloud, data, and security add up to almost \$34 billion in revenue.'

Performance

Figure 2. maps out elements of IBM's financial performance before and during Rometty's tenure as CEO AND Chairman. Income fell at a steady rate between 2011 and 2015 and has levelled-off up to 2017. Net income (profit) has been at a fairly constant level up to 2016 when it fell from \$11872 billion to \$5753 billion in 2017. However, this Net Income drop can be explained by IBM paying a \$5.5 billion one-time tax charge in 2017. It is important to note that the product mix changes have had a positive impact on revenue streams and these new product markets offer opportunities to increase revenues further.

While Transformational leadership elements can be related to Ginni Rometty it is not possible to say categorically that she is a transformational leader. However, there is clearly a commitment at IBM to use transactional leadership as demonstrated by the introduction of their Transformational Leadership Framework in 2015.

Rometty interview

Jim Cramer, CNBC (2017), interviewed Ginni Rometty on how she has changed IBM since she was appointed CEO in 2011. Rometty talked about the importance of cloud and artificial intelligence to IBM's revenue growth.

Transactional leadership application

Many leaders have different forms of reward and remuneration available that can be bundled into incentives packages. These packages can be tailored to suit the expectations of employees and encourage them to engage with the organisation's goals and objectives and their job. The type of packages used in the transactions between the leader and their employees depend on the size and nature of the business and the type of job employees perform. Large global businesses such as Ford, use a range of rewards including base salary, annual bonus, and share scheme, pension contribution, healthcare plan. Ford (2015, p. 40 - 41) emphasise the importance of compensation in their Securities and Exchange documentation where they state...

'Pay for performance is fundamental to our compensation philosophy. We reward individuals for performance and contributions to business success. Our compensation and benefits package in total will be competitive with leading companies in each country...'

Compensation programs should support and reinforce a pay-for-performance culture. They should motivate and reward employees for achieving desired business results. Benefit programs should provide income security and support/protect for catastrophic loss...

Compensation and benefit programs should support the Company's business performance objectives and promote desired behaviours.'

Dolan (2017) reported that Ford workers were to receive bonuses up to \$9,000 in 2017. While Reindl (2018) stated that Ford's CEO, Jim Hackett, received a compensation package of \$16.7 million in 2017. Boeing (2018) announced that it was going to pay employees almost \$600 million of bonuses for helping produce a record number of commercial airplanes and performing well in other categories in 2017. The CEO at Boeing, Dennis Muilenburg, was to receive \$16.9 million in total compensation. Clearly Ford and Boeing use their compensation packages throughout their businesses to engage employees and reward them for achieving business objectives.

Adair (1973) published The Action Centred Leadership (ACL) model in 1973. The model consists of three overlapping circles (Adair International, 2018) which are:

1. Achieve the Task;
2. Build and Maintain the Team; and
3. Develop the Individual.

Each of the circles is interdependent so if a change occurs in one circle it will affect the other two circles. For example, if the task were to change, then the individual(s) would be required to undertake differing job roles and work. The team would also be affected as team members would be consulted about the new task and how the team would subsequently adjust its member roles. Training may also be provided for individuals / the team. The factor that influences the nature and degree of interactions among the circles is the leader.

Adair based his ACL model on the works of authors including: Fayol; Maslow; Tannenbaum and Schmidt. Adair noted that the situation (context) has an influence on the type of leader needed to ensure the task is completed. Adair referred to Tannenbaum and Schmidt's Continuum of Leadership Behavior model (discussed in fact file on Leadership Styles) where the manager's style differs at points along the horizontal axis. Adair reflects on how a leader's style will influence the degree of control that is given to individuals (followers) and the team in relation to aspects such as planning, individual roles, team roles, and objective setting. The ACL model provides three areas where the style of leadership can be assessed in the way that actions are completed. For example, the task may entail setting a vision, confirming aims and conferring responsibilities. Team standards are agreed and the team's cultural characteristics are established. Individuals are given: a degree of control over decision-making; feedback on performance; training. While the leader may communicate what needs to happen and why, the level of control given to individuals and the team as to how the task is completed will reflect the style of the leader.



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