



**RESEARCH PAPER**

**Mediating role of Employee Satisfaction between Transformational, Transactional Leadership Styles and Employee Performance: A Literature Review**

**<sup>1</sup>Bashir Hussain\* and <sup>2</sup>Muhammad Waqas Maharvi**

1. Ph.D. Scholar, Institute of Business Management and Administrative Sciences, IUB, Bahawalpur
2. Assistant Professor, Department of Leadership and Business Management, IUB, Bahawalpur, Punjab, Pakistan

**\*Corresponding Author:** bashir.hussain.baig@gmail.com

**ABSTRACT**

Drawing on the social exchange theory, this study explores the potential association between transformational and transactional leadership on employee performance via employee satisfaction. Employee performance and leadership have been dominant areas in the literature of management over the decades as both fields are crucial for organizational success. In order to achieve the research objective, the current research employed a qualitative exploratory research design and literature review approach was employed to identify the associations among the study variables. After evaluating the prior literature which extensively discussed and examined transformational and transactional leadership styles in relation to employee behavioral outcomes like satisfaction and performance. This study finds that results inconclusive on the leadership styles like transformational and transactional leadership styles and employee behavioral outcomes. Therefore, the current study recommending further empirical examination of the proposed model in future studies to validate if aforementioned leadership styles are significant predictors of employee behavioral outcomes.

**KEYWORDS** Leadership Styles, Employee Satisfaction, Employee Performance

**Introduction**

Effective management of a company's human resources is the most important component for employees to achieve optimal performance for organizations (Mosadegh, 2003). Leaders are those individuals who make substantial contributions to creating a working environment that is more favourable and encouraging for employees (Raelin, 2003). It is essential for a corporation to own a talent map for specific structural positions due to the distinctiveness and varying talents of each leader. Effective leadership has a crucial role in a company's capacity to compete and successfully accomplish its objectives (Keskes, Sallan, Simo, & Fernandez, 2018). Hence, the literature on leadership is abundant and covers several aspects of leadership, beginning with the notion of great men (Persada & Nabella, 2023), who argue that these individuals are responsible for driving societal transformation.

Afterwards, various researchers presented ample theories regarding leadership traits (Adams et al., 2023), which talk about certain qualities that a leader should possess. As an additional point of interest, the theories of "McGregor, Argyris, Likert, Blake and Mouton, Maslow, and Hersey" and Blanchard were all concerned with the "development of the individual within an effective and cohesive organisation" (Bass, 1990, page 43). During the late 1970s and early 1980s, there was a notable movement in leadership theories that moved away from only emphasizing the leader, the context in which leadership takes place, and the followers. Nevertheless, their focus turned to activities that highlighted the interactions between the followers and the leaders (Khan et al., 2016). Both transactional

leadership (TRCL) and transformational (TRLF) theories are commonly considered to be highly influential (Adams et al., 2023).

As a result, the previous literature has focused heavily on two leadership styles: transformational and transactional (Puni, Hilton, & Quao, 2021). Organizational researchers have established a link between transformational and TRLF and TRCL styles and work-related outcomes, positioning them as one of the most discussed leadership theories in recent times (Yahaya & Ebrahim, 2016). These one-of-a-kind leadership styles have attracted much attention over the past two decades because of their distinctive impact on the actions and behaviors of their followers (Judge & Piccolo, 2004). The nature of the connection between these two styles in predicting employee behaviour at work is still a mystery, despite the widespread recognition of their ability to foresee the effectiveness of an organisation.

This is true, even though both styles can accurately predict an organization's effectiveness. In 1978, Burns and Ward were the pioneers in introducing the concepts of TRLF and TRCL. However, Bass (1985) has made significant modifications and expansions to the theory. TRCL is a leadership style that motivates followers to prioritise internal motivations and aspirations, while TRLF emphasizes fulfilling contractual obligations and providing rewards (Haq & Kuchinke, 2016). Unlike TRLF, which focuses on comprehending the requirements of both the leader and the followers, TRCL provides the followers with what they want in exchange for what the leader wants.

In addition, prior study (Caprara et al., 2008) has examined the influence of transactional and transformational leadership on work-related outcomes. However, there is a lack of research on the effects of transactional and transformational leadership on employee work behaviour in developing nations such as Pakistan. The relationship between job satisfaction and performance remains ambiguous; it would be imprudent to presume that elevated job satisfaction directly results in enhanced performance or that top achievers experience contentment in their professions (Minh Loan, 2020). Hoff et al. (2020) discovered a tenuous correlation, while Minh Loan (2020) identified a potential connection between employee satisfaction and performance.

Thus, the prior literature clearly indicates inconclusive and inconsistent findings on association between different leadership styles such TRLF, TRLC and employee performance via employee satisfaction. Therefore, this study aims to identify and explore the deeper connections in previous research between the combined effects of transformational and TRCL styles on employee performance, as measured by employee satisfaction.

## **Literature Review**

### **Social Exchange Theory**

In accordance with Blau's 1964 social exchange theory, leaders exchange resources with their followers in the form of knowledge and assistance, which the followers eventually give back. Blau contends that social interactions between followers and leaders are two-way highways (Babalola et al. 2020). Through the process of mutual reciprocity, the theory also explains how followers react favourably or unfavourably depending on the actions and behaviours of their superiors towards them (Cropanzano and Mitchell, 2005). The social interactions that form the basis of the relationships that exist between superiors and those who report to them are a product of the shared history that exists between the two parties, and the reciprocal advantages that result from these exchanges are what drive the development of these relationships (Blau, 1964). Aboramadan & Kundi (2020) conducted an extensive body of research to study the underlying process by which effective leadership generates favourable work-related outcomes. Because of this, and building on the

arguments presented, when employees have a favourable perception of the behaviours of their leaders, they have a tendency to reciprocate with positive outcomes such as commitment, work engagement, job satisfaction, and motivation, all of which may lead to improved employee performance.

### **Transformational Leadership and Employee Performance**

Researchers have found that TRLF predicts employees' success in their jobs. This finding pertains to the relationship between TRLF and the performance of individuals on the job (Lai et al., 2020). Borman and Motowidlo (1997; Tondok & Andarika., 2004) defined employee performance (EP) as "the effectiveness with which job incumbents perform activities that contribute to the organization's technical core, either directly by implementing a part of its technological process or indirectly by providing it with needed materials or services." Borman and Motowidlo (1997) provided a definition of EP on page 99. Intellectual stimulation is just one example of a TRLF behavior that can assist employees in becoming more tenacious and purposeful in their work, improving their overall EP. This leadership behavior can also assist employees in becoming more self-directed in their work (Buil et al., 2019). In addition to this, transformational leaders have the potential to improve the morale of their team, which in turn results in a rise in the total productivity of their workforce (Ghafoor et al., 2011). Following is the related proposition:

Proposition 1: TRLF has a positive impact EP

### **Transactional Leadership and Employee Performance**

Transactional leadership (TRCL) affects the performance of the employees. This aligns with the notion proposed by Burns and Bass (2005) that in TRCL, subordinates are required to fulfil tasks for the leader, which in this case takes the shape of a transaction. In return, the employer offers both intangible rewards (such as trust, commitment, and respect) and concrete incentives. It could be regarded as a charge or remuneration. Leaders and subordinates supervise the transaction process in order to attain good results. It aligns with Bass and Avolio's (2003) argument, positing that TRCL styles have an impact on employee performance. TRCL styles can have both advantageous and detrimental effects on performance. It relies on the evaluation of the employee. Employees may experience a good impact when they assess TRCL favourably. Conversely, employees may experience a negative impact when they see TRCL styles as untrustworthy due to broken promises, dishonesty, or lack of transparency. Haryadi (2003), Andarika (2004), and Ahn et al. (2021) found that TRCL had a favourable and substantial influence on employee performance. Relevant proposition is derived below:

Proposition 2: TRCL has a positive impact EP

### **Employee Satisfaction as a Mediator Transformational Leadership and Employee Performance**

Effective implementation of the proper leadership style significantly contributes to enhancing staff morale, discipline, and performance, with employee satisfaction (ES) playing a vital role in this process (Thamrin, 2012). Competent leaders possess the capacity to improve employee performance by skillfully exerting influence on ES (Shahab & Nisa, 2014; Avolio, 2007). Transformational leaders commonly place a high priority on the demands of their subordinates and acknowledge their significance (Rattanaborworn, 2015). Fulfilling the needs and desires of followers has a significant impact on their performance, motivating them to exceed expectations and put in extra effort (Rawashdeh et al., 2020). Prior research in the scientific domain has repeatedly demonstrated a beneficial association between transformative leadership and both workforce performance and ES. Braun et al. (2013) conducted research that established TRLF as a reliable indicator of employee

success. Similarly, some scholars have contended that transformative leadership has a significant influence on improving employees' performance by promoting ES. Thus, drawing pertinent hypothesis below:

Proposition 3: ES mediates the relationship between TRLF and EP

### Employee Satisfaction as a Mediator between Transactional Leadership and Employee Performance

According to Arenas et al. (2018), transactional leaders exhibit a larger spectrum of leadership activities beyond basic transactions and agreements with subordinates. The objective of this research is to examine how work satisfaction influences the connection between TRCL and the effectiveness of an organisation. Multiple research have demonstrated that TRCL enhances both ES and organisational performance (Lok and Crawford, 2011, 2014; Sari et al., 2018). Ilardi et al. (2013) found that there is a positive correlation between ES and the mental and physical well-being of employees. Moreover, research has demonstrated that it enhances ES (Porac et al., 2013). Mosadegh-Rad and Yarmohammadian (2014) discovered that many organisational contextual factors, such as remuneration, employment independence, job stability, workplace adaptability, and leadership, have an impact on ES. Effective leadership styles have a direct impact on employee work satisfaction, providing business leaders with a means to exert influence. Despite extensive study investigating the correlation between TRCL and ES and employee performance, no conclusive findings have been reached. Prior research has examined the correlation between TRCL and both employee performance and ES in various contexts, such as healthcare, the military, education, and business organisations (Puni et al., 2018). Based on the aforementioned discussion, below is the related proposition:

Proposition 4: ES mediates the relationship between TRCL and employee performance

Based on the above discussion in the introduction and the literature, following is the proposed framework of the current study:

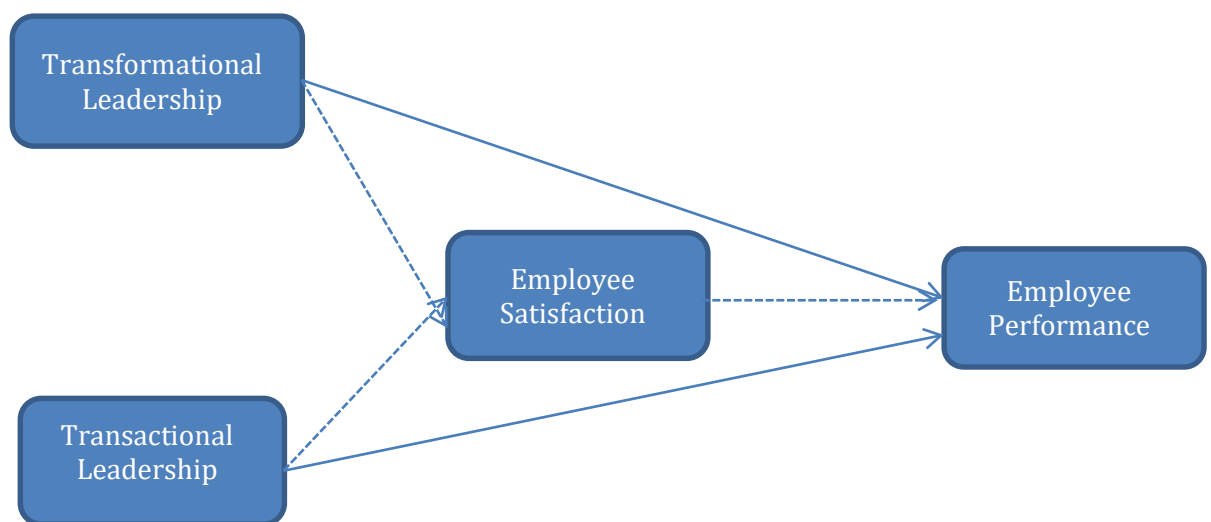


Figure 1: Proposed Framework

### Material and Methods

To attain the research objective, this study adopts the literature review approach as it gives a deeper understanding of the nature of variables, the relationships between them, and how they evolved. The leadership literature predominantly employs this approach to uncover any hidden constructs. We searched various sources such as Google Scholar, the

Web of Sciences, and Scopus journals for relevant literature. We used key terms like leadership styles, employee performance, and employee satisfaction to find relevant research papers. We included research papers with these key terms in the study and discarded the rest. Additionally, we discarded unpublished research papers, reports, and research papers without journal listings in the Web of Sciences, Scopus, and Google Scholars.

### **Conclusion**

The study aims to explore the potential impact of TRLF and TRCL on employee performance through employee satisfaction. Prior literature reveals an inconsistent and inconclusive relationship between leadership styles and various employee behavioral outcomes that impact employee performance in the workplace. Therefore, it is imperative to explore further associations between leadership styles and employee behavioral outcomes, such as employee satisfaction, which in turn influence employee performance. The study utilized a literature review approach, which helps to analyse latent constructs deeper and unfold various crucial insights related to leadership styles and employee behavioral outcomes. The study's findings also confirm the inconsistent relationship between leadership styles and employee behavioral outcomes found in previous research.

### **Recommendations**

Based on the qualitative insights taken from the prior literature, this study put forwards various recommendations. Firstly, it recommends that future studies should conduct an empirical analysis of the proposed framework, focusing on the relationship between leadership styles and employee behavior outcomes, in the context of developing countries like Pakistan. Secondly, it is recommended that other employee related variables may be added as mediators to examine various underlying mechanisms. Thirdly, it is also recommended that to utilize a moderating variable such pro-active personality between leadership styles and employee performance to observe the modified causal relationship. Lastly, it is recommended that sample for future studies may be drawn from the top leadership of any industry (i.e higher education institutions) to scrutinize the proposed framework, revealing crucial insights about the outcomes within these institutions.

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