



Transformational Leadership in a Changing World

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1. Introduction

In this white paper, we will explore the nuances and applications of Transformational and Transactional Leadership within businesses. By delving into the historical context, key characteristics, and theoretical foundations of these leadership styles, we aim to provide a comprehensive understanding of how they operate and complement each other.

Transformational Leadership, a concept popularised by James MacGregor Burns and further refined by Bernard Bass, emphasises **inspiring and motivating followers to achieve a shared vision, fostering creativity, and driving long-term growth**. Conversely, *Transactional* Leadership focuses on the exchange between leaders and followers, emphasising clear structures, rewards, and short-term objectives.

This paper will examine the practical implications of both leadership styles, highlighting their strengths, limitations, and the circumstances under which each is most effective. We will also discuss how the best leaders blend these approaches to navigate the complexities of today's networked, interdependent, and culturally diverse organisations. By understanding the interplay between Transformational and Transactional Leadership, we can better appreciate the skills and adaptability required to lead successfully in an ever-changing business landscape.

2. What is Transformational Leadership?

Historian and political scientist James MacGregor Burns coined the term Transformational Leadership (TL) in 1978 to describe a style of leadership where **“leaders [induce] followers to act for certain goals that represent the values and the motivations - the wants and needs, the aspirations and expectations - of both leaders and followers.”** In this sense, leaders motivate ‘followers’ (and not ‘subordinates’) to action by appealing to a common goal and shared sense of



purpose, which simultaneously satisfies the higher order needs (i.e. aspirations and expectations) of those who are led.

In Transformational Leadership, the leader is not merely holding power, but appealing to what matters to the follower. In Burns' words "**transforming leadership ultimately becomes moral in that it raises the level of human conduct and ethical aspiration of both leader and the led, and thus it has a transforming effect on both. [...] Their purposes, which might have started out as separate but related, as in the case of transactional leadership, become fused.**"

In his further research and development of the concept of Transformational Leadership, Bernard Bass (1985) points out that, as a leadership style, Transformational Leadership is key to leaders displaying creative behaviours, serving as role models for innovation and providing intellectual stimulation that may positively influence their followers to think differently (Jung et al., 2003).

As a result, the theory of Transformational Leadership focuses on the crucial role that leaders play in encouraging both personal and organisational change, and in supporting followers to meet and exceed expectations around their performance (Avolio et al., 2005).

For this reason, several authors such as Nemanich and Keller (2007) and Gumusluoglu and Ilsev (2009) note the direct role that Transformational Leadership can play in contributing to innovative behaviour within organisations and their culture. Transformational Leadership is therefore a "**Style of leadership in which the leader identifies the needed change, creates a vision to guide the change through inspiration, and executes the change with the commitment of the members of the group**" (Jung et al., 2003).

3. Transformational Leadership - characteristics and behaviours of leaders

In 1985 Bass, a disciple of Burns, elaborates on the concept of Transformational Leadership by creating the so-called '**4is model**' describing four interrelated



components that he sees as essential for leaders to move followers into the Transformational Leadership style. These are:

- › **Idealised influence** - Bass maintains that for genuine trust to be built between leaders and followers, Transformational Leaders need to be seen as engaging in high standards of ethical behaviours that followers identify with and want to emulate. Leaders need to be seen as ‘doing the right thing’ and ‘walking the walk’ in order to be rewarded with followers’ trust. In so doing, they also provide followers with a sense of vision and mission.
- › **Inspirational motivation** - Transformational Leaders must be able to articulate a vision that inspires and motivates followers to perform beyond expectations. They are optimistic about followers’ ability to meet goals and openly value all duties and responsibilities. They spur followers who are motivated by a strong sense of purpose to drive the rest of the team forward, creating a virtuous circle by strengthening followers’ own sense of purpose further and motivating them to put more effort into their tasks, investing in their own abilities and being optimistic about the future.
- › **Intellectual stimulation** - Transformational Leaders challenge assumptions, take risks, and welcome followers’ ideas and points of view. They support and collaborate with followers as they try new approaches and develop innovative ways of dealing with organisational issues. They encourage followers to think and operate independently.
- › **Individual consideration** - Transformational Leaders attend to each of their followers’ needs by mentoring, coaching and guiding them. They listen to their concerns and show empathy for their circumstances. They are aware of followers’ unique talents and support them in developing and demonstrating these skills and behaviours.

Therefore, as the 4is model suggests, Transformational Leaders focus on nurturing and positively motivating their employees. Rather than micromanage, they foster an independent workplace that promotes creativity, strives for innovative thinking, and empowers employees to make their own decisions. Moreover, Transformational



Leaders emphasise personal and professional growth and encourage employees to think creatively in developing solutions to longstanding and long-term challenges.

4. What is Transactional Leadership?

In contrast to the concept of *Transformational Leadership*, Burns also developed the idea of **Transactional Leadership**, a leadership style where the relationship between leaders and subordinates is based on a transaction or exchange of something of value, that the leader possesses or controls, that the follower wants in return for his/her services. “***The relations of most leaders and followers are transactional-leaders approach followers with an eye to exchanging one thing for another: jobs for votes, or subsidies for campaign contributions.***” In this sense, transactional leaders focus on how to enforce rules, in exchange for which employees will be rewarded by extrinsic motivators (e.g. money, promotions etc). They also focus on praising good performance as work is expected to be a mere transaction of tasks and money.

Compared to *Transformational Leaders*, Transactional Leaders can display a more controlling, **top-down approach**, often promoting followers’ dependency rather than openness to change. Notably, while Transformational Leaders treat employees as ‘followers’, Transactional Leaders treat them as ‘**subordinates**’. Bass notes that the notion of ‘unquestioning’ (i.e. not challenging authority) inherent within workplaces in the 1960s became obsolete in the 1990s, an important contributing factor to the rise of Transformational Leadership.

Another characteristic of Transactional Leadership when compared to Transformational Leadership is its **focus on tasks, rather than on people**. Indeed, Transactional Leadership tends to be more practical in nature because of its emphasis on meeting specific targets or objectives. For example, Transactional Leaders are often found in manufacturing, where line workers are expected to reach a set production quota per shift.



5. Transformational Leadership vs Transactional Leadership - which approach is best?

Contrary to what one might think, Transformational Leadership and Transactional Leadership are not at odds with one another, but they complement each other based on circumstances. As military researcher Homrig (2001) eloquently puts it, there is no magic formula or checklist that dictates when one is more relevant than the other in any given situation. When to make the transition is an art borne of experience and education.

As a matter of fact “***The best leadership is both transformational and transactional. Transformational leadership augments the effectiveness of transactional leadership; it does not replace transactional leadership***” (Waldman, Bass, & Yammarino, 1990). The notion of a “transaction” can remain a powerful and necessary tool for leaders at all levels. Transformational leaders themselves, whose choice would be to gain agreement by appealing to the values of the followers or peers, may resort to Transactional Leadership in certain situations. “***When the transformational leader sees himself/herself in a win-lose negotiation he tries to convert it into a win-win problem solving situation. If this is not possible, then he or she can display the transactional skills necessary as an effective negotiator***” (Waldman, Bass, & Yammarino, 1990).

In this sense, it is possible to refer to a ‘**continuum**’ of leadership styles with Transformational and Transactional Leadership at each end of the spectrum, with a blended approach across styles often optimal.

Broadly speaking, while **Transactional Leadership tends to be appropriate for managing tasks and short-term objectives**, **Transformational Leadership tends to work best for achieving long-term growth, change and innovation**.

In particular, **Transactional Leadership often goes hand-in-hand with maintaining a status quo** of actions and processes that have proven successful, maximising productivity and ensuring the day-to-day running of the business flows smoothly. Transactional Leadership can also be **most effective where teams are working under binding time and/or financial constraints to deliver on a project**. When it comes to long-term plans involving significant change, Transactional Leadership



may not be an appropriate approach as leaders may be prone to micromanaging while not affording employees trust and autonomy, as well as not accepting responsibility when things go wrong. Indeed, risk aversion and, in some cases, blame can become significant issues when Transactional Leadership is applied to situations where long-term change and innovation are required.

Transformational Leadership, on the other hand, may be the preferred approach in an environment where a product or service is new, or in an industry where innovation is crucial to survival. Many of the constraints may still be present (limited financial resources, strict deadlines, specified quotas) but processes may not yet be established, and open and innovative thinking may be key to surviving and, eventually, thriving. Transformational leaders also devote more time to developing a strategy for the future of their team or organisation, thereby motivating and inspiring employees to buy into that vision. Therefore, as a leadership style **Transformational Leadership is most effective in organisations that need a leader to guide them towards positive change.**

Moreover, with its focus on employees' personal and professional growth and creativity, this means that Transformational Leaders may be best suited in developing the workforce and, in particular, nurturing young talent by integrating them into company culture and ensuring they feel part of something bigger than themselves.

In sum, the most effective leaders recognise when and how to apply elements of both leadership styles, adapting to each situation. For example, while sales may be transactional at its core, driving towards specific and continuous targets, it is also about people, with developing and managing customer relationships at its heart.

6. Disadvantages of Transformational Leadership

While Transformational Leadership has several positive connotations, existing literature on leadership highlights a number of **critiques of the concept** and its practical applications which are important to note.



When leaders are not abiding to high ethical standards in their intention and vision, the notion of Transformational Leadership becomes inherently problematic.

It has been argued that while Bass' perception of a transformational leader is flawless, perfect, idealised, and hero-like, this may not always hold true in practice (Lee, 2014). Indeed 'pseudo-transformational leaders' as defined by Bass who exploit their emotional appeal on followers in a negative way (e.g. Hitler) are more common than the theory initially suggested. In particular, Bass fails to specify how to identify and deal with pseudo-transformational leaders (Lee, 2014). This, in turn, may have detrimental consequences such as blind trust from followers (Shamir, 1995) and autocratic behaviour by leaders (Northouse, 2013).

On a similar note, Yukl (1999) highlights how the fact that a Transformational Leader influences followers to exert exceptional efforts over and beyond what is normally expected in order to achieve a common goal creates a **'unidirectional' flow of influence which 'makes followers more susceptible to deception'** (Mullins, 2007). In addition, it has been argued that there is a danger that Transformational Leaders put themselves and the common goal above their followers' needs, thereby acting in an 'antidemocratic' way (Northouse, 2013).

When it comes to the model of Transformational Leadership, it has been criticised as lacking in 'conceptual clarity' (Northouse, 2013) which in its turn leads to **ambiguity in measuring and explaining the effectiveness of transformational leadership** (MacKenzie et al., 2005; Northouse, 2013; Pawar, 2003; Yukl, 1999). In particular, the four components of transformational leadership as advocated by Bass are not well defined and show substantial overlap (Northouse, 2013; Rickards and Clark, 2005; Yukl, 1999); and although Bass refers to the 4is as crucial of transformational leaders' behaviour, he fails to explain how leaders can make use of the four components. Therefore, the ambiguity in defining the four components of transformational leadership and their employment creates doubts about the validity of Transformational Leadership as a construct (Yukl, 1999).

Finally, some practical limitations of Transformational Leadership have been highlighted. While the focus of Transformational Leadership on inspiration and vision is key, the **operational details of a business might be overlooked and attention to detail may be missing**. Followers of a transformative leader might lack focus, disrupt the normal ways of approaching work, and suffer from burnout. This is



in contrast with transaction based leaders who, on the other hand, may be better at ensuring clear progress toward achieving goals, enforcing rules, and setting clear expectations.

Moreover, studies have shown that **Transformational Leadership may not work as well with teams that are geographically dispersed** and highlight the need for Transformational Leaders to identify effective ways to communicate with and engage their followers. An empirical study of 53 innovation teams by Eisenberg et al. (2019) assessed the relationship between geographically dispersed teams and team performance. They found that Transformational Leadership is less effective at improving performance when teams are dispersed. This is a result of team members doubting a leader's authenticity due to an inability to establish personal relationships with the leader. In particular, the study found that a leader's influence on communication decreases as geographical dispersion increases, resulting in lower team performance.

7. Strengths of Transformational Leadership

There is an established body of research which points at the numerous strengths of Transformational Leadership. In general, as argued in earlier sections, Transformational Leadership is a long-term style of leadership where leaders create and uphold a vision for the future and motivate followers to make it a reality. They create systems which are flexible and adopt a constructive approach which encourages followers to grow in confidence and empowerment, and be intrinsically motivated. In a fast-paced, volatile, and ever-changing world, Transformational Leadership is likely to be the answer for businesses to thrive.

Therefore **Transformational Leadership is tightly linked to the idea of change.** Transformational leaders transform their followers by inducing them to go beyond their own self interest, by increasing their awareness of particular issues and by encouraging them to develop themselves (Yukl, 2012). Transformational leadership is concerned with changing or modifying organisational systems to accommodate the vision, rather than working within the limitations of the existing system (Howell and Avolio, 1993).



As well as this, there is evidence that **the inherent strengths of Transformational Leadership translate into positive business outcomes**. A number of studies have demonstrated that Transformational Leadership is positively correlated with improved organisational performance in terms of productivity, profit, and customer satisfaction. Further research on Transformational Leadership indicates that there is a positive correlation with organisational innovation, job satisfaction, and staff retention.

A recent study conducted on a sample of SMEs in the Middle East has highlighted the impact of Transformational Leadership on competitive advantage, a business' ability to generate products and/or services better than its own competitors, thereby positively impacting on profitability (Ashoor, 2021). In particular, the study shows the mediating role of employee creativity between Transformational Leadership and innovation, and organisational competitive advantage.

Another study by Lin et al. (2020) found that there is a **positive correlation between transformational leadership and employees' thriving at work**, as well as between transformational leadership and challenge stressors (i.e. 'healthy' stressors). Additionally, supervisors' developmental feedback positively moderates the relationship between challenge stressors and employees' thriving at work (i.e. when feedback is present, challenge stressors become significant in explaining the relationship between Transformational Leadership and thriving at work, indicating that **constructive feedback is an essential element in the process**).

Furthermore, some studies highlight the importance of **trust in governing the positive relationship between Transformational Leadership and business outcomes**. Gundersen et al. (2012) examined Transformational Leadership in the context of international project teams in the oil and gas sector and its relationship to team performance, work adjustment, and job satisfaction. The mediating influence of trust in the team was investigated. Results revealed a positive relationship between transformational leadership and the outcomes, and trust in the team was found to be an important factor in mediating the relationship between transformational leadership and team performance.

Finally, **Transformational Leadership can help bring together diverse teams**. According to Conger (1991), the core of transformational leadership is the ability to



craft an inspiring vision. This vision goes beyond mere goals; it connects with followers on a deeper level, fostering a sense of identity and purpose among the followers within the organisation. While pursuing the vision, followers learn how they fit in with the organisation or society in general (Northouse, 2013). This aspect of leadership is crucial as it enables people from diverse backgrounds to work productively together towards a shared goal, while effectively carrying out various, sometimes conflicting, roles and functions within an organisation.

8. Examples of Transformational Leadership

There are numerous examples of Transformational Leadership within the business world and beyond which are worth pointing out, each embodying key aspects of Transformational Leadership, particularly innovation, long-term vision, and attention to organisational culture.

Henry Ford ranks as one of the all-time great transformational leaders who operated on the business theory that "doing more for the world than the world does for you" is a definition of success. Ford transformed the world in ways that even he could not have predicted by creating and commercialising the vehicle, a process he envisioned while watching a moving assembly line at a meat-packing facility.

During his time as South Africa's leader, **Nelson Mandela** successfully exploited the country's love of sports in the 1995 Rugby World Cup to promote reconciliation efforts, instilling a sense of nationalistic pride amongst people. Through this event, he promoted all citizens' rights, a vital process in raising public awareness of equality.

More recently, **Steve Jobs** from Apple revolutionised our relationship with technology, bringing innovations such as a more user-friendly computer experience with the introduction of a graphical user interface (GUI), and the ubiquitous iPhone to the general public. Jobs had a vision of creating valuable products that the public loves and encouraged employees to be creative and actively engage in designing Apple's gadgets.



Reed Hastings, co-founder of Netflix, launched the service in 1997 as a DVD rental-by-mail service, later transforming it into the world's leading streaming platform for films and television series. Hastings achieved this by ensuring that Netflix continuously evolved and adapted to changing consumer preferences and technological advancements (e.g. transitioning from DVD rentals to streaming services and eventually producing original content). His focus on innovation, long-term vision, and strong company culture has played a significant role in Netflix's success and transformed the way people consume entertainment worldwide.

Jeff Bezos, the founder of Amazon, has revolutionised the e-commerce industry through innovative thinking and a relentless pursuit of customer satisfaction. From pioneering work with the creation of the Kindle, to expanding Amazon's product offerings, Bezos propelled Amazon to become the world's largest online retailer.

Richard Branson built Virgin on his management philosophy, which states that for a business to succeed in the long run, executives must appropriately encourage employees. He believes that if leaders can motivate their teams, employees will use their creativity to overcome obstacles and strengthen their bonds.

9. Conclusions

In today's networked, interdependent, and culturally diverse business world, the importance of Transformational Leadership is paramount. The analysis of Transformational Leadership and its complementary counterpart, *Transactional Leadership*, in this white paper reveals that these two styles are not mutually exclusive, rather that they enhance each other based on situational demands.

Transformational Leadership, as articulated by James MacGregor Burns and further developed by Bernard Bass, focuses on inspiring and motivating followers to achieve a shared vision, fostering creativity, innovation, and personal growth. The 4is model - Idealized Influence, Inspirational Motivation, Intellectual Stimulation, and Individual Consideration - highlights the approach Transformational Leadership style leaders take to engage and develop their followers. This leadership style is particularly effective in environments where innovation and long-term growth are critical.



Conversely, *Transactional Leadership* is more suited to managing short-term objectives and maintaining the status quo through clear exchanges and rewards. This transactional style is effective in contexts that require adherence to established processes and achieving specific targets, such as manufacturing and sales.

The best leaders recognise the need to adapt their approach, blending elements of both a transformational style and transactional style. This adaptability is crucial in navigating the complex and dynamic nature of modern organisations. As Walsman, Bass, and Yammarino (1990) emphasise, "**today's networked, interdependent, culturally diverse organisations require transformational leadership to bring out in followers their creativity, imagination, and best efforts.**"

Ultimately, the most effective leaders are those who can seamlessly integrate transformational and transactional elements, leveraging the strengths of each style to meet the diverse and evolving needs of their organisations.

10. The Hive's Transformational Workshops and Programs

Whether it's a small-scale team support program, leadership training, or a culture change initiative, The Hive has the powerful insight, inspirational team, and intelligent approach to set you up for lasting success.

The Hive uses a powerful transformational tool called The STORM Process which helps leaders to align their teams, inspire innovation, unlock real motivation and build momentum toward shared goals.

STORM is our core methodology, enabling teams to align around a shared sense of purpose and direction, using empathy to understand each others' needs and perspectives, and working better together to deliver results by unlocking collective intelligence that drives cohesive teamwork and collaborative solution building.

If you are leading a team and you're struggling to unlock their potential, you can try our [free Leading Transformation Workshop](#) to see what The Hive can do to help you and your team rise to the challenge.



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