Leadership Style and Employee Turnover Intention

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Abstract

The trend of employees leaving a company and recruiting of new employees has become a global issue in many organizations worldwide. This recurring situation, known as employee turnover, has brought to the concern of human resource managers, especially in Asia and Malaysia is no exception to this perturbing situation. High turnover rate is considered a major disadvantage to any organization considering the cost of replacement and work disruption. Losing good employees can negatively affect an organization’s competitive advantage, lowering the morale of other staff, as well as reducing productivity and work quality. Several factors contribute to the employee’s decision to leave a job. They include management, organizational configuration, an employee’s attitude and potential, external job demands, employee’s own assessment of job related organizational decision, pay, job satisfaction, experience in the organization, job enrichment, job stability, job prospects, pay compensation, social support of the supervisor and organizational politics. These strong factors may cause behavioural inclination that influences the evaluation of one’s job satisfaction to remain in the organization hence. Thus, this paper tries to explore a possible factor that can give significant impact to turnover intention of employees in an organization. Based on a review of the literature, majority of the studies had identified a negative relationship between leadership style and employees’ turnover intention in various fields of industries. The objective of this study is therefore, to investigate the implication of transformational and transactional leadership styles on turnover intention.

Keywords

Leadership style, Transformational leadership, Transactional leadership, Employees’ Turnover Intention.

1. Introduction

High turnover rate in private sectors in Malaysia has become a common unhealthy trend in the work setting nowadays. High turnover rate is considered a major disadvantage to any organization considering the cost of replacement and work disruption (Cao et al., 2013, Rahman and Nas, 2013). According to Low et al., (2001) it is highly important to prejudge the employees’ turnover intention in order to minimize its negative impact on organization’s performance. This is crucial as it can highly affect both the organisation and employees in many negative ways. The most significant impact of employee turnover is visible in the financial sector because overhead
cost like compensation pay and administrative tasks such as exit interviews are involved when employees leave the
an organisation (Berrios-Ortiz, 2012). Subsequently, the organisation has to repeat the entire recruitment and selection
process before shortlisting potential candidates who again has to be trained and guided; thus increasing the expenses.
In addition, the rate of a new employee in delivering their sales or production results which is unequal to the former
employee may result in opportunity cost (Obiero, 2011).

On the other hand, work performance or productivity level of other employees are hindered or hit a low when
the key person who is highly reliant quits the organization, leaving their subordinates without guidance. These key
employees are equipped with the adequate knowledge of managing their respective subordinates hence influencing
the latter’s working ability. The loss of capable experts significantly contributes to the decline of competitive
sustainability and productivity, which may affect the performance of organisations. It also adds to the existing
workload of supervisors and colleagues who have to provisionally substitute the position until a new employee
commences work. The greatest challenge in employee turnover for any organisation is the increase in costs which
causes a decline in production and negatively affect the morale of the workforce (Kabungaidze and Mahlatshana,
2013). Consequently, the high turnover that causes general decline in productivity led to several studies globally to
examine the relationship between various variables with employee turnover. Some of the variables are training (Jeved
et al., 2012, Ahmad, 2011); job satisfaction (Leppel, 2012; AlBattat and Mad Som, 2013), procedural justice (Flint
et al., 2013) and work engagement (Agarwal, et al., 2012 and Rai, 2012).

Malaysia sees a substantial growth in employee turnover rate since 1991 due to high demand and vast
opportunities which existed in the local market (Keni et al., 2013). According to Randstad World of Work Report
(2013/2014), as cited by Malaysian Insiders (2014), Malaysians frequently switch jobs to advance their career ladder.
Nevertheless, other relevant reasons for them to switch their jobs are “uncompetitive salary” (55%), “lack of
recognition at the workplace” (35%) and “lack of trust in senior leaders” (21%).

In a separate study conducted by Qureshi et al., 2013, it is found that there is a positive relationship between
workload and turnover intentions whereby increased workload influenced the employees’ intention to leave an
organization. In an international survey by Deloitte (2014), on 2,500 business leaders revealed that employee retention
stands at a peak among the challenges faced by business owners. These studies suggest that employee turnover is a
global phenomenon that obstructs an organizations’ progress and goal achievement.

The objective of this research is to study the transformational and transactional leadership styles of managers
working in Manufacturing Industries in Malaysia. It is intended that the results of the study could provide valuable
information or guidelines concerning the most effective leadership for organizational success of the Manufacturing
industry.

2. Literature Review

2.1 Leadership Styles

Leadership is always paramount as one of the most widely researched topics in every area of organizational
disciplines due to the fact that it is interdependent. According to Kelloway et al., (2012), by having certain leadership
capabilities and skills, a leader should positively implement his/her leadership styles and behaviors to achieve
organizational goals and objectives. The Transformational Leadership was first introduced in 1960 by James
Macgregor Burns, and later developed by Bass and Avolio (Bass, 1985a) as Burns’ (1978) ideas and innovatively
transformed the formal concept of transformational leadership (Tims et al., 2010). Today, in the field of Leadership,
Transformational Leadership model is the most sought after model among researchers (Avolio, 2003; Barnes 2013
and Hytter 2014). Bass (1985) defined transformational leaders as leaders who cultivate positive values in their
followers for exceptional accomplishment by initiating followers’ high order needs, fostering a climate of trust, and
inducing followers to sacrifice self-interest for the sake of the organization. Rao (2014) defined Transformational
leadership as “a motivational leadership style which involves presenting a clear organizational vision and inspiring

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employees to work towards this vision through establishing connections with employees, understanding employees’ needs, and helping employees reach their potential, contributes to good outcomes for an organization”. Transformational leadership is divided into four components: Idealized influence, Inspirational Motivation, Intellectual stimulation, and individualized consideration (Avolio and Bass, 2004). Idealized Influence - is the compelling feature of Transformational leadership in which leaders are looked up upon in admiration, respect, and imitated by followers. Inspirational Motivation – in this element of Transformational leadership followers are given positive reinforcement and motivation by their leaders to excel in their work with pronounced commitment and loyalty to achieve organizational goals. Intellectual Stimulation - transformational leaders stimulate their followers’ efforts to be innovative and creative by questioning assumptions, reframing problems, and approaching old situations in new ways. Lastly, Individualized Consideration – a transformational leader compassionately attends to each subordinate’s needs as a mentor or coach to develop them in a conducive work setting for achieving higher levels of potential.

Similarly, Bass (1985) defined Transactional leadership as “an exchange leadership style which motivates employees to produce the desired results by explaining the target that employees must achieve, showing employees how to achieve the target, clarifying the performance evaluation, providing feedback on job outcomes, and providing contingent rewards if employees meet the target”. The transactional leadership style defines leadership behaviors from three viewpoints: contingency reward and management by exception – further split into two: passive and active: Contingent Reward – subordinates are assured with appropriate rewards by their leaders if a task is successfully completed. Employees will be remunerated for their achievement but will be approached with criticism or penalized for failure of performance or lack of achievement. Active Management by-Exception - leaders set objectives and performance standards and actively monitor employees’ work progress. When errors and unconventionalities are identified, they are immediately corrected and reinforce rules and procedures. Passive Management by-Exception - leaders are inactive observers who only involuntarily intervene when errors occur in their employees’ work performance.

2.2 Turnover Intention

By definition, turnover is when an employee permanently leaves an organization for various reasons. According to Griffeth et al. (2000) the term turnover intentions refer to three specific elements in the withdrawal cognition process (i.e. thoughts of quitting the job, the intention to search for a different job, and then intention to quit). Turnover Intention on the other hand is defined as “employees’ consideration, desire, wish or behavioural intention to leave or quit their particular organization (Zimmerman, 2008). Turnover can be classified into two categories: voluntary and involuntary turnover. Voluntary turnover occurs when the employee willingly dismisses the employment relationship in an organisation, while, Involuntary turnover is when the employer terminates the employment relationship against the wish of the employee (Dess and Shaw, 2001). Price (2001) discovered that most turnover is voluntary and is, therefore stands a significant chance to be avoided and regulated, costly, and upsetting an organization.

A number of aspects influence an employee’s decision to quit. For instance, an employee’s attitude and potential, external compatible job demands, compensation, job satisfaction, job enrichment and job stability and management. HR managers face unexpected circumstances when the best talents leave, and Turnover intention is found to be strongly associated with leadership.

3. Findings - Leadership style and Turnover Intention

In the past, transformational leadership and turnover intention were considered as two different field of study until recently, when harmonising the two separate concepts has become widespread and is based on the assumption that employees are more likely to be influenced by the leadership behaviour of their immediate supervisors (Purcell and Hutchinson, 2007) There is a growing body of literature focusing on the influence of leadership style on employees’ turnover intention. Likewise, Transformational leadership has been reported in the leadership literature to be significantly related to turnover intention. As highlighted by Den Hartog et al., (1997), transformational leadership mainly focuses on inspiring followers to complete a task beyond expectation, while transactional leadership aims to encourage followers to perform their job within the expectation. Odumuru and Ifenyi (2013) argued transactional leadership is different by concept from transformational leadership, but is contained in and supports transformational
leadership. Transactional leaders practiced in current state of expected effort through feedback reward, direct followers, and allocate resources to get job done to expected performance and extra effort (Bass, 1985; Bass and Avolio, 1994).

As a summary, both transformational and transactional leadership have positive relations to expected performance and also performance which exceeds expectations (Aragon, 2013). A prior study by Voon et al., (2011) indicated that the employees have positive attitude on their job which offers them reward for their accountability. The employees feel a sense of belonging and emotional attachment with their organization when they are paid a remunerating wage at higher position (Hussain Haider and Riaz, 2010).

Hamstra et al., 2011, in a quantitative study on how leadership styles and followers’ regulatory focus will mitigate followers’ turnover intention, found that transformational leadership was unfavourably related to turnover intention. Similarly, Pieterse-Landman (2012) in a non-experimental quantitative study examined the relationship between leadership and employee turnover intention. Deriving results from a sample of 185 managers in local JSE-listed manufacturing companies in South Africa, the author found a significant negative relationship between transformational leadership and intention to quit. Furthermore, Long et al., (2012) in an exploratory study examined the relationship between leadership styles and employee turnover intention among academic staff in a community college in Malaysia also found that transformational leadership was negatively related to turnover intention.

As indicated by Vance (2006), undervaluing the employee turnover issue can unintentionally overshadow an organization’s financial cost incurred by this problem. Extant literature (e.g. Najm, 2010; Kahumuza & Schlechter, 2008), however, suggests that employee turnover may be considerably reduced if leaders display virtues of a great leader that fulfill the expectations of employees. Finally, Wells and Pearchey (2011) undertook a study on 200 participants from National Collegiate Athletic Association Division I softball and volleyball assistant coaches in the USA to investigate the relationship between leadership behaviours (transformational and transactional), satisfaction with the leaders, and voluntary turnover intention. The result of their study showed substantially negative correlation between transformational leadership style and voluntary turnover intention as well as the relationship between transactional leadership behaviour and voluntary organisational turnover intention. Based on the foregoing review, it was inferred that transformational and transactional leadership behaviour would have a significant inverse relationship with employees’ turnover intention. Therefore, it is benefitting to understanding the effect of transformational and transactional leadership for continual employment.

Some studies believe that transformational leadership style can potentially in decrease the turnover rate (Chang et al., 2013; Simosi and Xenikou, 2010) as they largely believe in psychologically facilitating the employees through reliance. This can cause the employees to have a strong lasting relationship with their organization. According to Bass (1985), the followers consider the transformational leaders as their role models hence, willing to relentlessly contribute to the advancement of their organization to achieve its objectives. In this sense, the researcher propose that transformational leaders play a vital role in influencing the followers to possibly reject the idea of developing intentional dismissal from their jobs and leaving the organization.

Transactional theories focus on the role of supervision, organization and group performance and they base leadership on a system of rewards and punishments for meeting particular objectives (Ivey and Kline, 2010). Followers willfully satisfy the conditions laid by the leader in order to receive admiration and rewards or refrain from penalties due to nonperformance or lack of goal achievement. Transactional leaders give the assurance to their followers to provide liable rewards if outstanding performance is shown in their jobs. Likewise, criticism or equivalent penalties will be imposed for non-performance or lack of achievement. Both the leader and follower preset the task outcomes to be accomplished by the follower in order to receive the rewards or to avoid penalty (Dai et al., 2013). This exchange relationship will increase the psychological state of loyalty that connects employees to their organization (Meyer and Allen, 1997). More specifically, with the commitment nurtured by the transactional leaders, the employees exhibit their loyalty to the organization and remain in employment due to their satisfaction in the job. (Allen and Meyer, 1990). Tumwesigye (2010) for example, also found that employees who claim to receive poor support from their leaders or organization are less committed to their job and prefer to leave the job, and thus, lead to intentional turnover.

Base on the above literature review, a conceptual framework is developed (Figure. 1).
The findings of this study will provide some new insights into how Transformational and Transactional leadership styles can help to understand the factors that influence the employees’ turnover intention and then act on those influencers to suppress the Turnover Intention. This study focuses on the rapidly growing Manufacturing industry in Malaysia, where employees get opportunities to switch between companies frequently thus increasing turnover. One potential contribution of this study is to enhance the factors such as Transformational and Transactional leadership in the process of reducing employee Turnover Intention. The finding is expected to be useful to managers, human resource managers and organizations. It will be helpful to the managing body of the manufacturing companies while framing strategies to develop a competent and committed workforce that will eradicate turnover intention of the employees. Furthermore, results of this study will add to the body of knowledge concerned with the Leadership framework.

4. Methods

Articles for this review were searched from various databases such as Emerald, Scopus, Sage Journals, Google Scholar, Web of Science, Masters and PhD thesis from various universities. Articles cited were between 2000 to 2017. However, articles published pre-2000 were also considered important. Only articles in English Language were reviewed, whereby, articles in other languages were excluded. Additionally, all studies with uninterpreted data were excluded from this review. Lastly, only Empirical research, which is typically involve systematic collection and analysis of data is used in this review whereby non-empirical research has been excluded.

Finally, to validate the conceptual model of the linkage between Leadership Styles and Turnover Intention, a quantitative survey analysis will be conducted in real study in future. A valid and reliable self-administered questionnaire will be used for data collection purposes. The Multifactor Leadership Questionnaire (MLQ) will be used to measurement transactional and transformational leadership behaviors. The MLQ contains 72 items covering nine leadership dimensions of the Full Range Leadership Model. However, in this study, only 66 items are selected to test transformational and transactional leadership. The other 6 items testing laissez faire have been removed. As to measure turnover intention, Mobley’s scales which comprise three items that measures turnover intention using 5 points Likert scale will be used. The Structural Equation Models (SEM) method will be used to assess the reliability and validity of the model measures and to hypothesize relationships among variables.

5. Reference


6. Biography

Geeta Ann is a PhD student at Universiti Teknologi Malaysia (UTM). She is currently a fulltime senior lecturer in Sunway College Johor Bahru, Malaysia. Geeta Ann holds a Bachelor of Science degree in Real Estate Management and a Master of Science degree in Human Resource Development from Universiti Teknologi Malaysia (UTM). She has completed a research project as part of her Master degree project on Leadership and Learning Organization. Her research interests include leadership and human resource development.