IMPACTS OF LEADERSHIP STYLES ON THE PERFORMANCE OF ACCOUNTING FIRMS IN THAILAND

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Abstract -This study examines the impact of transactional and transformational leadership styles on the performance of accounting firms in Thailand. Three components of the transactional leadership style, four elements of the transformational leadership style and four perspectives of performance were adapted for considering the variables of the study. A questionnaire was developed to collect data from 425 respondents who act as leaders of juristic accounting firms in the country. The confirmatory factor analysis method used by this study revealed that the transactional leadership style, including clarification of expected results, compliance with working standards, individual working standards and regular monitoring, had a significant positive impact on performance.

Index Terms - Transformational Leadership,Transactional Leadership,Accounting Firm, Performance

I. INTRODUCTION

Leadership isthe ability of a person to motivate and inspire a group of people to achieve a common goal.It is the art of influencing others to achieve their maximum performances to accomplish any task, objective or project [1] and isa process of interpersonal influencebetween the leader and followersin efforts toward goal achievement [2]-[4]. Effective leadership has been highlighted as one of the driving factors for the success of businesses. Leadership style is the general manner, outlook, attitude and behavior of a leader in relation to followers. In businesses, leadership styles affect employee satisfaction, productivity and organizational performance.

In an organization, it might be necessary to use more than one leadership style at different levels in the organization [5].Telberg andCaragher[6] indicated that leadership style is one of the key factors influencing the success of accounting firms. To improve accounting firms' performance and implementation efficiently, appropriate leadership styles may need to be explored and introduced.

II. LITERATURE REVIEW

Numerous classifications and categories of leadership style exist in contemporary literature. Transactional and transformational leadership styles have received the notable attention of many researchers for decades. This study, therefore, focused on the impactof both leadership styles on the performance.

Transactional Leadership

Transactional leadership is a leadership style based on managing subordinates through a set of specific goals and objectives, followed by the use of a reward or punishment to encourage and motivate their performance. The term "transactional" refers to the fact that this type of leader essentially motivates subordinates by exchanging rewards for expected performance [7]. It was founded upon the idea that leader-follower relationshipsare based on negotiation, exchange and contractual dimensions [8], [9]. Organization with fixed operation and settle environment shall benefit from transactional leaders[5], [10] . Bass and Avolio [11] summarized the main components of the transactional leadership style as:contingent reward; management-by-exception (active); management-by-exception (passive).

Transformational Leadership

According to Burns, transformational leadership is a process in which "leaders and followers help each other to advance to a higher level of morale and motivation" [12]. Transformational leadership influences the fundamental attitudes and assumptions of the organization's members, and createsa common mentality to attain the firm's goals[13]. It is considered that transformational leaders engage in interactions with their followers based on common values, beliefs and goals. Bass [8]identified and proposedbasic elements that underliethe transformational leadershipthat:idealized influence; inspirational motivation; intellectual stimulation; individualized consideration.

A leader can be concurrently transformational and transactional leader and both leadership styles can contribute to beneficial results for the performance of the organization [8]. Both leadership styles are complementary[14]. The leader should combine transactional and transformational leadership behaviors [15].

Performance

Neely [16] explained connotations of the performance and stated that it is: measurable by either a number or an expression that allows communication; to accomplish something with a specific intention; the result of an action; the ability to accomplish or the potential for creating a result (e.g. customer satisfaction, seen as a measure of the potential of the organization for future sales); the comparison of a result with some benchmark or reference selected or imposed. To measure organizational performance, there is no single conceptualization that fits all. The indicator and criteriashould be developed according to the specific purpose of the measurement. The most popular of the performance measurement framework is known as "balanced scorecard", proposed by Kaplan and Norton [17], [18]. Kaplan and Norton identifies and integrates four different perspectives for looking at the performance as: financial perspective; customer perspective; internal process perspective; and learning and growth perspective.

Leadership Styles and Performance

Relationships between the leadership styles and performance havebeen observed in many studies and revealed different findings. Previous studies found that the transactional leadership style can have a positive or negative impact on the performance. [19]. In Indonesia, Arsawan et al. [20] concluded that the transactional leadership style was more appropriate than the transformation leadership style in inducing commitment and performance in small and medium enterprises (SMEs). In Spain, Garcia-Molares et al.[13] showed that the transformational leadership affects the dynamic capacities of organizational learning and innovation. The intensity of organizational learning appears to be influenced strongly by transformational leadership. Transformational leadership has the strongest influence on tacitness. Meanwhile, tacitness, organizational learning and innovation affect organizational performance. In China, Wang et al. [21] revealed that charismatic leadership hasa partially positive effect on the performance of an organization of business firms in China and Taiwan. Later,In Malaysia, as job satisfaction links to the performance of an organization,Voon et al. [22]found that the transformational leadership style hasa stronger relationship with job satisfaction than transactional leadership. They implied that transformational leadership is likely to be suitable for managing government organizations in Malaysia. However, Bass and Sleidlmeier [9] found in their studies that it is possible for a person to exhibit characteristics that include both transformational and transactional leadership styles. Both transformational and transactional leadership behaviors are needed to accomplish the broad task of leadership in an organization [23].In another study, Obiwuru et al.[24] found that while the transactional leadership style has a significant positive effect, the transformational leadership style hasan insignificant effect on the performance of SMEs in Nigeria.

III. METHODOLOGY

The objectives of the study were to: 1) examine confirmatory factors and their impacts on the performance of Thaiaccounting firms, and 2) develop measurement and structural equation model of related factors that influence the performance of Thai accounting firms.

Three components ofthe transactional leadership style,summarized by Bass and Avolio[11] andfour elements of the transformational leadership style,identified by Bass [8], were adapted for considering independent variables of the study. Dependent variables were drawn based on the aforesaid four perspectives of performance, proposed by Kaplan and Norton [17], [18]. A questionnaire was developed to collect data from 425 respondents who act as leaders of juristic accounting firms in the country. The Analysis of Moment Structure (AMOS) Program was selected as a tool for statistical analysis.

IV. RESULTS ANALYSIS AND DISCUSSIONS

To elaborate on the findings, the abbreviations used instead of the variables are shown below:

Transaction leadership

ER = Expected Results

IWS = Individual Working Standard

ECS = Encouraging to Compliance with Standard

RM = Regular Monitoring

Transformational leadership

SB = Share Benefit

EMC = Ethic and Moral Code

PD = Participatory Decision Making
TCP = Team Collaboration Promotion
Organization performance
R = Revenue
NP = Net profit
NC = New Client
A = Accuracy
FS = Fast service
OS = Operation skill
T = Teamwork
SC = Client's satisfaction
MIS = Management Information System

Confirmatory Factor Analysis of Independent Variables

The confirmatory factor analysis on the measurement model of latent variables resulted in four significant observed variables under the transactional leadership style: expected result; encouraging to compliance with standard; individual working standard; andregular monitoring. The factor loadingregression coefficients of these variables are: .602,.527, .469, and .444 respectively. According to the measurement model of latent variables under the transformational leadership style, it was found that there are four significant observed variables: team collaboration promotion; participatory decision making; shared benefit;andcompliance with ethics and moral code. The factor loadingregression coefficients of the aforementioned variables are: .608, .596,.532, and .450 respectively.Analysis of the relationship between the measurement model of transactional leadership style and the measurement model of transformational leadership style shows a significant positive correlation (r= .35).

Confirmatory Factor Analysis of Dependent Variables

It was found that the customer and internal process perspective, financial perspective, and learning and growth perspectiveshowfactor loadingregression coefficientsof .881, .819 and .774 respectively. Underthe customer and the internal process perspective, there are five observed variables: new clients; fast services; accuracy; client's satisfaction; andteamwork. These observed variables present the factor loading regression coefficient of .619, .589, .509, .462 and .347 respectively.There aretwo observed variables under the financial perspective including net profit and revenue that show factor loading regression coefficientsof .737 and .619 respectively. Meanwhile, there are two observed variables under the learning and growth perspective including management of the information system and operation skills that show factor loading regression coefficients of .542 and .529 respectively.

Analysis of Structural Equation Model

Table 1: Goodness-of-Fit indices of the research model

Measures		Fit Indices	
Absolute Fit Level	RMSEA	.023	Below 0.08
	GFI	.979	.90 and above
	P-value	.152	P-value ≥0.05
Incremental Fit Level	AGFI	.967	0.90 and more
	CFI	.982	0.90 and more
	TLI	.975	0.90 and more
	NFI	.910	0.90 and more
Parsimonious Fit Level	CMIN/df	1.226	Less than 20
	SMC(R^2)	.14	Bigger better

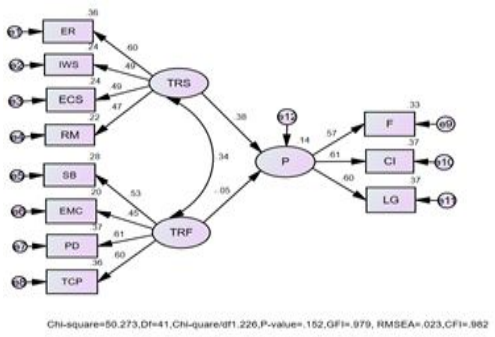


Figure 1: Structure equation model

As shown in table 1,itwas found that, by considering the goodness of fit indices,the model has overall goodness of fit with the empirical collected data.Referring to Figure 1, the structural equation model analysis explained that the transactional leadership style, including clarification of expected results, compliance with working standards, individual working standard, and regular monitoring,showsfactor loading regression coefficientsof: .599, .492, .489, and .467respectively, while the transformational leadership styleincludingparticipatory decision making, team collaboration promotion, shared benefits, and compliance with professional ethics and moral

code,presentedfactor loading regression coefficientsof: .608, .597, .532, and .450 respectively. According to performance, customer and internal process, learning and growth, and financial perspective,they showed factor loading regression coefficientsof:.605, .605, and .572 respectively.The study found that the transactional leadership style had a significant positive impact on the performance ($p<.001$, Estimate = .382) while the transformational leadership style had a negative impact, insignificantly, on the performance of the accounting firms ($p>.05$, Estimate = -.047). As the results shown above, transactional leadership style tends to impact positively on the organizational performance of accounting firms in Thailand.

CONCLUSION

The study showed that the transactional leadership style, including clarification of expected results, compliancewith working standards, individual working standards and regular monitoring, had a significant positive impact on the performance in accordance with the customer and internal process, learning and growth, and financial perspective. The findings of the study are similar to previous studies, which found that the transactional leadership style was more appropriate in inducing commitment and performance in small and medium enterprises (SMEs) [24], [20] and suitable for the private sector [19]. Most accounting firms in Thailand are SME businesses that comprise of only a few fulltime employees (less than ten staff). Decision making and policy formulations are principally in the hands of the owner or manager. These firms provide general services such as bookkeeping, auditing and taxation that must be served in compliance with accounting laws and regulations through a simple and uncomplicated organizational structure. The services of the firms can be observed as routine tasks that require a little ongoing change in their implementation. The nature of accounting firms, as SME businesses, is likely to benefit from the transactional leadership style because the style seems to be best suited in a settled working environment that consists of simple, clear and easy conditions to follow [5], requires only one leader, and tends to be a bureaucratic control system [10].

It may be concluded that the transactional leadership style can assist accounting firms in Thailand inachieving a higher performance and be more efficient.As the firms' leader, the owner or the manager of the accounting firm needs to motivate, encourage and engage withemployees constructively and responsibly in order to provide professional services in compliance with relevant laws and regulations as well as professional accounting ethics. The leaders are also expected to become sustainable change-makers of the firms, therefore, they need to continuouslyenhance their competencies and deepen their understanding of effective leadership concepts as well as current situation and upcoming environmental changes of the accounting firms in Thailand.

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