The Effect of the Carrot and Stick Transactional Leadership style in Motivating Employees in SMEs

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Abstract

Nowadays, where everything in the business world looks like collapsing, leaders stand out by efficiently exploiting resources, especially human capital. They acknowledge the vital role employees play in realizing objectives. They are also aware that, in order to get the best employee performance, they should identify the needs that motivate each one. Therefore, the purpose of the paper is to highlight the effects of the carrot and stick transactional leadership style on employee motivation. The quantitative approach was adopted. Primary and secondary data were used. Primary data was collected via a small survey conducted at three dairy manufacturing Lebanese SMEs, and was analyzed using SPSS. The reason behind selecting this sector was that its operating activities had not ceased during the financial crisis and the covid-19 lockdown. The survey depended on a small, structured, six-sections questionnaire sent to employees occupying managerial positions. In total, 15 questionnaires were sent. Only 12 were returned and analyzed. This article's results claps hands to the theories in literature that indicate the existence of a positive relationship between the carrot and stick approach and motivation.

Keywords: *Carrot and Stick Approach, Human Capital, Leadership, Motivation, SMEs, Strategy, Transactional Leadership*

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1. Introduction

Covid-19 pandemic emerged a year ago without prior notice, leaving the whole world in a wonder about what to do, what will happen next, and how to measure subsequent losses. Companies enormously suffered and still suffering with absolutely no manual on hand about how to deal with this crisis. The most important mission now is to cut off losses, achieve goals, and ultimately, survival. To do so, they must be aware of their resources to exploit them in an efficient manner. To survive this chaos, Small and Medium Enterprises (SMEs) must draw feasible and effective strategies, which, if executed, would definitely lead to a good performance securing its competitive position and its survival.

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The importance of SMEs stems from the fact that they are drivers of the economic growth (Lanvin & Evans, 2015). They are vital in creating jobs and developing and innovating products and services (Karanja et al., 2013). By representing the majority of enterprises, they increase the country's gross domestic product (Bush, 2016). Nowadays, where everything in the world looks like tumbling down, SMEs are under the survival challenge. Consequently, SMEs' competitive position is influenced by their capability to obtain and retain resources (Chesbrough, 2003). Thus, upon setting strategies, many resources should be taken into consideration. One of the most treasured assets, yet the most delicate to deal with, is the human capital (Long et al., 2013). Studies in literature recognized the human capital's role in gaining competitive advantage (Pfeffer, 1994; Mutua et al., 2012; Tiwari & Saxena, 2012).

As a matter of fact, Human Resource is perceived as a vital constituent of competitive advantage (Albrecht et al., 2015). Therefore, to fully exploit employees' proficiencies, strategic human resource management had come up with many techniques regarding recruitment and selection, training and development, and strategic compensation (Bamberger et al., 2014). These techniques allow the company to realize its business strategy by encouraging employees to constantly perform better (Guest, 1997).

Employees' performance is defined as their aptitude to proficiently achieve the enterprises' goals (Kreitner & Kinicki, 2007) and is elaborated in two dimensions. The first one refers to the employees' task performance, or the technical job performance, where they deliver services to implement the company's tasks (Yiing & Ahmad, 2009). The second one refers to the employees' contextual performance, or the interpersonal job performance, where they use interpersonal expertise and know-how for the benefit of the broader communal environment (Yiing & Ahmad, 2009). Committed employees perform their best task and contextual performances to increase profits (Luthans & Peterson, 2002). An enjoyable and satisfying workplace increase their motivation, which will help in realizing the overall goals (Kinicki & Kreitner, 2007). Many researches proved a positive linkage between the managers' style of leadership and employees' performance (Yousef, 2000). Thus, leaders play a vital role in influencing subordinates' motivation and performance (Seibert et al., 2011). As a result, leadership imposes itself as a primary managerial feature that is highly required, and that, if effectively exercised, would surely promises business success (Nahavandi, 2002).

2. Transactional Leadership

Leadership is defined through a multitude of theories and styles. The majority of these definitions rotate around the concept of adopting a process to influence individuals to realize the company's goals (Bass, 1990; Goleman, 2000; Hersey et al., 2008; Armstrong, 2009; Kim, 2012; Daft, 2014). To increase employees' productivity, managers must motivate them through adopting an appropriate leadership style. A key success factor is the ability to motivate employees and convince them to achieve the tasks needed to achieve the general goals (House & Aditya, 1997; Northouse, 2007). The best practiced style depends on the organization’s culture, context, and the situation (Shahin & Wright, 2004). It was demonstrated that both transformational and transactional styles resonate the most with achieving a good performance (Avolio et al. 1999; Lowe et al., 1996; Kirkman et al., 2009; Rowold & Roahmann, 2009).

This article takes into consideration the role of transactional leadership style in increasing employees’ motivation, a relationship that was proven to exist positively in many researches (Deluga, 1992; Medley & Larochelle, 1995; Masi & Cooke, 2000; Sparks & Schenk, 2001).

The transactional leadership style is described as a “favor-for-favor” or a “give and take” social interchange where managers rely on rewards or punishments in exchange for desirable or undesirable performances, (Howell & Hall-Merenda, 1999; Burns, 2010; Robbins, 2005). Manager identify employees’ needs and, accordingly, grant them rewards for outstanding performance or punish them for weak performance (Bass & Riggio, 2006). A proper identification of needs is necessary but not enough by itself: it should be accompanied with promising appropriate rewards, otherwise, it will not tackle employees’ interests nor motivate them (Pearce & Sims, 2002). In other terms, the ground rule for manager-employee relationships are established through specifying expectations, clarifying roles, explaining job requirements, and granting rewards in exchange for a good performance (Bass, 1985; Dubrin, 2004; Miller, 2011). The rationale behind that stands from the fact that managers need to make sure that all tasks will be completed on time and within budget (Burns, 1978). The power, thus, is given to managers: it is up to them to evaluate and to reward effective employees when desired goals are met (Couto 2007). Transactional leaders are described as being responsive, respecting the company’s culture, setting a reward-punishment system, implementing management by exception, and most importantly motivating subordinates by pleasing their own interests (Burns, 1978). This style of leadership is characterized by two major dimensions: contingent rewards and management by exception (Bass & Stogdills, 1990). There are two types of contingent rewards: contingent positive reinforcement and contingent negative reinforcement. The first type is utilized as a praise or a reward whenever the required tasks are successfully performed in due time. The second type is used in a form of punishment whenever tasks are not well performed (Bass & Avolio,1994). Management by exception exists in two types, active and passive (Antonakis et al., 2003). Active management by exception arises when managers actively observe employees’ performance, anticipate deviations, and correct them (Antonakis et al., 2003). Passive management by exception occurs when managers do not anticipate problems. Rather, they are sure that employees are able to properly handle tasks even in the hardest times. This is why, they stay aside and wait until the situation critically gets worse to intervene (Antonakis et al., 2003).

It was demonstrated by Judge and Piccolo (2004) that contingent reward is positively related to employee motivation, while management by exception is negatively connected to it. It is in the light of this research that this article was elaborated. Consequently, in the next step, contingent rewards otherwise referred to as the carrot and stick approach will be described in a more thorough manner.

The carrot and stick is a social exchange by which managers rely on rewards and punishments to intensify subordinates' performance (Burns, 1978). This approach is a convenient instrument to motivate subordinates and increasing their commitment (Jansen et al. 2009). It is the "foundation for specifying expectations, negotiating contracts, clarifying responsibilities, and providing rewards and recognitions to achieve objectives" (Bass, 1985). It is a commonly strategic style that secures a performance necessary to achieve the overall organizational goals. This style is described as a reactive comportment where managers react to employees' behavior by either rewarding or punishing them (Koh et al., 1995). It is a win-win agreement where a promise to realize needs is given in exchange of a well performed assigned task (Hussain et al., 2017).

Naturally, this approach is mostly successful in companies where managers possess the ability to control everything (Hsu et al., 2006). Consequently, it works the best in SMEs, in which the majority are family owned with the owner being the manager. Under the realm of these enterprises, the managers are mostly interested in getting the work done as required. Therefore, they do not pay great attention to employees' creativity or personal development (Howell & Avolio, 1993). As its title suggests, this approach is formed by "the carrots" and "the stick" which, definitely, are not to be looked at literally. Rather, they transcend their dictionary meanings to refer to two motivational concepts: rewards and punishments. Carrots designate the financial and non-financial paybacks offered by managers to employees as inducements to achieve required tasks. While financial incentives may take the form of commissions, bonuses, and paid holidays, non-financial ones may be more challenging tasks, presents, and appreciation (Yavuz, 2004). Managers will keep on guiding and motivating employees until the latter are no longer satisfied with the rewards presented. This marks the time when a new contract should be validated (Howell & Avolio, 1993) because simply the carrot is no longer appealing to employees, or the effort required to perform tasks surpasses that carrot's value (Udo et al 2019). On the other hand, sticks refer to the fear of being punished or blamed which is an effective stimulus in certain situations (Hussain et al, 2017). To sum up with, the carrot and stick approach motivates employees to give the best they can do to realize the company's goals under appropriate managers 'guidance. This highly increase the company's chances of achieving efficiency (Amabile, 1983).

3. Employee Motivation

Employee motivation is the extent to which employees are involved passionately in achieving organizational goals (Anitha, 2014). It is defined as the association between human capital's needs and the company's needs (Nicolescu & Verboncu, 2007). Motivation is thus a compilation of all the whys and wherefores managers use to stimulate employees (Vagu et al., 2007). Effective leaders are often referred to as those who know how to exploit employees' capacity through motivating them (Boboc, 2003). To understand the best motivation techniques, managers should first understand the motivation types. they are identified as:

intrinsic and extrinsic (Deac et al., 2012). Intrinsic motivation occurs when employees exhibit too much efforts to accomplish a task because, when it is done, they will feel accomplished and satisfied. They work to earn intangible benefits such as autonomy and know-how, and they consider the fulfillment of those needs as the primary work outcome (Deac et al, 2012). On the other hand, extrinsic motivation relies on external influences that incite employees to exercise efforts while performing a task for the sole purpose of gaining rewards or fearing a punishment (Aniţei, 2010).

The carrot and stick constituent of the transactional leadership style gratifies the employees' extrinsic needs (Sergiovanni, 1990). Many theories highlight the link between the carrot and stick approach and employees' motivation.

Abraham Maslow's hierarchy of needs theory is based on five types of needs. They are the physiological needs, safety needs, love and belonging needs, esteem needs, and self-actualization needs. This theory assumes that people tend to fulfill their needs by priority, ranging from the very basics to the higher level ones (Maslow, 1939).

In the same attempt to understand motivation, Mcgregor (1960) developed theory X and theory Y, where theory X is linked to the carrot and stick leadership style. It implies that managers must continually observe, guide, and control employees while performing a task. This stems from the fact that the majority of employees are not ambitious and tend to avoid responsibilities because they do not like their work. Consequently, managers should stimulate them to better perform through money, position, or punishment.

Adam (1963) built the equity theory on the fact that employees' motivation is determined according to what they perceive as fair. They relate their effort-compensation ratio to their colleagues' in an attempt to know if they are being treated fairly or no. They are motivated and satisfied as long as they notice that they are being treated in the same way. When they observe a difference, they become depressed and demotivated.

In the expectancy theory, Vroum (1964) identified three motivational forces at work: expectancy, instrumentality, and valence. Expectancy refers to the employees' belief that efforts exerted will lead to performing the objectives set. This is primarily due to past experience and self-confidence and rhymes with competence, goal difficulty, and control. Instrumentality refers to the employees' belief that they will obtain a desired reward once the goal is achieved. This reward may be a pay increase, promotion, recognition, or sense of accomplishment. Valence refers to the employees' perception of the outcome once goals are achieved. The difference in personalities and aspirations renders a reward extremely valuable for an individual while leaving another one completely neutral.

Herzberg (1968) came up with the two-factor theory that includes low level or hygiene factors and high levels or development factors. The first factors comprise the company's policy regarding salary, work conditions and security, supervision, and interpersonal relationships in the workplace. The more they are fulfilled, the greater the employees' motivation. Development factors seek motivation from success, appreciation, accountability, and progress.

In his ERG theory, Adelfer (1969) re-classified Maslow's hierarchy of needs into three main categories: existence (wages, fringe benefits, and working conditions), relationship (workplace bonds), and development needs (personal development through active assistance at workplace). Contrary to Maslow, Adelfer stated that employees may be motivated to fulfill more than one type of these needs at the same time.

In the achievement need theory developed by McClelland (1971), there are three types of needs: to establish relationships, to gain strength, and to become successful. According to McClelland, it is illogic to generalize a common hierarchical chain since personality and aspirations differ from one person to another. Employees motivated by the desire to achieve strength and become successful are inclined to work whatever the resulting rewards will be.

The theory of the road to goals developed by House (1976) explains how managers can help employees along the path to their goals by choosing particular deeds that best conform to their needs and to the situation on hand

In the same talking, Locke and Latham (1990) created the goal setting theory which assumes that employees are motivated by goals they dream to achieve. According to this theory, three levels of goal-directed actions exist: The lowest level refers to plants that are controlled by physiological factors. The second level refers to animals that intentionally adjust themselves. The third level refers to human beings who are able to commit themselves to actions they intentionally perform to realize their goals.

4. Research

To demonstrate the importance of the carrot and stick approach style in increasing employee motivation, a small survey was conducted in three dairy enterprises in Lebanon. The reason why this sector was chosen is that, despite the covid-19 lockdown and the unprecedented financial crisis, this sector had not closed its doors a single time because its value chain does not allow a shut down. From milk suppliers who cannot throw away milk, to clients who need food, the value chain survived against all odds. However, somewhere between satisfying suppliers' and customers' needs, much of employees' needs was ignored. Sometimes on purpose and sometimes not. This article aims at detecting the main carrots and sticks used by managers to motivate employees so that organizational goals are met. Accordingly, seven questions were sent to 15 employees in managerial position in this sector aiming at identifying:

- their age, status, and experience
- the most annoying and hurtful measures taken during the crisis
- the most pleasant and beneficial measures they are receiving or wish to receive during the crisis
- Their biggest fear

- Their will to quit

The questionnaire was written in English and was sent via WhatsApp as a google form link. Only 12 questionnaires were validated. Data was collected and analyzed using SPSS. Results showed that 80% were married, between 35 and 45 years old, and had been occupying a managerial position in their respective companies for more than 15 years, which is the same years of experience they had accumulated. This proves that the majority handled their jobs at a young age and remained there because either it was satisfying at a certain time or because of a lack of job opportunity. This proves also that the majority are engaged in family responsibilities and need a steady income to support their duties. Furthermore, there was an almost unanimous agreement that what annoyed them the most at workplace since the beginning of the crisis was their salary cut-offs. The management took a decision that forced them to take unpaid leaves, coming to work only three days per week, in order to decrease their salaries. Reduction in salaries during severe inflation is very harmful and stressful, and does not cover the basic needs from food, medication, rent, transportation costs, and domestic expenses. Their wish that the management cancels this measure comes with no surprise at all. As a matter of fact, 69% wished that the company compensates them in US dollar especially that they know that the company's revenues were stable or even increasing. They are satisfied with being registered in the national security fund and still earning a salary, even a tinier version of what they used to earn in normal conditions. Their biggest fear was the management's readiness to fire them without prior notice. Predictably, and in harmony with the enormous stress feeling commonly shared with all Lebanese in the time being, 90% are willing to leave their job but on a condition that they find another better one. Employee motivation is best highlighted in the contradiction between being laid off and quitting. This proves that in awful times, all employees require the satisfaction of basic needs. Living with the fear of losing that is their only motivation.

5. Conclusions

Many factors contribute in achieving organizational performance, urgently needed in today's competitive world. However, this cannot be accomplished without the human capital consent, who needs to be motivated in order to perform their daily tasks. Several motivation theories were elaborated, and they are in harmony with the carrots and stick transactional leadership style. This style proves to be more efficient when it takes into consideration the situation on hand. It is particularly in time of crisis that management must be aware of its personnel's needs by prioritizing their basic needs. The satisfaction of these needs cast away stress and anxiety which hinders task performance and transform the daily job into a burden. Demotivated employees, even the most loyal ones, are ready to fly away whenever the opportunity presents itself. High risk may be derived from these situations such as losses from sabotage or strikes. Despite the fact that the results reflected an overall human behavior, they cannot be overgeneralized, due to the intentional selection of a small sample constrained by time lack. A future, more detailed, survey would help more in making scientifically sweeping conclusions.

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