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# **Enhancing Service Performance through Transformational and Transactional Leadership Styles**

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# Enhancing Service Performance through Transformational and Transactional Leadership Styles

## Abstract

This paper is concerned with the effects that leadership styles can have upon service performance of front-line staff. Past literature on services marketing has indicated the importance of leadership but has largely ignored the parallel literature in which leadership styles have been conceptualized and operationalized (e.g., sales management, organizational psychology). Consequently, this paper develops a conceptual framework of the effect of leadership styles on service performance anchored in a cross-disciplinary literature review. Specific hypotheses are proposed and future research directions are presented.

*Keywords:* transactional leadership; transformational leadership; service-oriented behaviors.

## 1. Introduction

In today's business environment, the role of service provision has gained momentum (Slotegraaf, 1997). Lux et al. (1996, p. 65) point out that "in the year 2000, it is estimated that service producing industries will employ 71 percent of those workers engaged in paid employment." In such a context, the issue of enhancing the quality of services offered has been referred to as "one of the most important problems facing management today" (Cronin and Taylor, 1992, p. 55), since "levels of service which may have been tolerated only a generation ago are now regarded as unacceptable" (Donnelly and Shiu, 1999, p. 498).

Much of the current literature available on the topic of service quality deals with its measurement or outcome rather than the ways in which service quality can be enhanced (Farrell and Souchon, 1998). Nevertheless, the role of senior management staff in enhancing the performance of customer contact staff has been observed (e.g., Hartline and Ferrell, 1996).

Leadership styles, in particular, have received a great deal of attention in parallel literature strands such as sales management (Bass, 1997), and organizational psychology (e.g., Yammarino et al., 1994). Surprisingly, however, these styles have seldom, if ever, been studied in relation to service quality enhancement, despite the fact that the major cause of the "service malaise" when this is present, is a lack of service leadership (Stutts, 1999).

Though service leadership has been deemed crucial to the provision of higher levels of service quality delivery, the question of *how* service managers lead, largely remains. In parallel fields of research, leadership has been argued to encompass two main styles, namely transactional and transformational leadership. While a transformational leader will be charismatic, inspirational, intellectually stimulating to followers, and individually considerate (Dubinsky et al., 1995), a transactional leader will be more short-term and instrumentally focused, in that s/he will lead by providing rewards contingent on performance, and manage by exception (Russ et al., 1996). In the words of Bass (1997, p. 19), "by dissecting leadership as transformational and transactional, we have learned a lot about what makes leaders more effective in their efforts to reach mutually satisfying objectives with their followers." Yammarino (1997, p. 43) further states that "the particular leadership style or behavior endorsed by the manager can enhance, neutralize, or inhibit such job-related outcomes and responses of sales subordinates as job satisfaction, motivation, effectiveness, and performance." Given the importance of service leadership on successful service delivery

(Zeithaml and Bitner, 1996), and the role of leadership styles in enhancing staff effectiveness, it follows that the study of leadership in services marketing would benefit from the integration of leadership styles in conceptualizations of service leadership.

The objective of this paper is to conceptualize the effect of leadership styles on the performance of front-line staff in service organizations, drawing both on the “service leadership” definitions provided to date and generic leadership styles conceptualized in sales management. This should allow for the assessment of how different leadership styles can best enhance the customer-oriented performance of front-line service staff. From a theoretical point of view, the conceptual model developed will make two key contributions. Firstly, though the literature has devoted many articles to the conceptualization and measurement of service quality, service quality enhancement literature is still in a state of relative infancy. Secondly, the cross-disciplinary approach to services marketing including sales management literature strands provides a novel approach to investigating service leadership. From a managerial perspective, the model should allow leaders in service organizations to determine which of the selected leadership styles best complement their service-oriented behaviors.

## **2. Conceptualization**

Customer-contact employees play a crucial role in the development of customers’ perceptions of service quality (Hartline and Ferrell, 1996). Employees’ behavioral efforts during the service encounter are evaluated by customers, who in turn, derive a certain satisfaction with the encounter based upon these perceptions of effort (Mohr and Bitner, 1995). The performance of front-line staff (or the extent to which they maximize effort through demonstrating adaptability, for example) is dependent upon a number of employee work factors such as job satisfaction, organizational commitment, role conflict, ambiguity and stress (c.f., Singh, 1998). The role of service managers is therefore dual in that it is firstly to optimize employee work “perceptions” such as job satisfaction, and secondly to encourage service-oriented efforts on the part of service staff. In this context, service managers can exhibit a number of service-oriented behaviors directed at service staff, which are designed to enhance staff’s service performance. These behaviors can include, for example, sharing a service vision (Zeithaml and Bitner, 1996), motivating service staff (Lewis and Gabrielsen, 1998), providing performance feedback to employees (e.g., Schneider, 1994), careful selection and training of front-line staff (Lashley, 1998), providing organizational support systems (Dienhart et al., 1993), internal marketing efforts (Varey, 1995), and empowering front-line staff (Bowen and Lawler, 1992).

Two questions arise at this stage. Which type of manager is likely to implement these behaviors? And how can the effectiveness of these behaviors be maximized? In their recent study of sales managers, Dubinsky et al. (1995) uncovered that staff managed by transformational leaders, were more committed, more satisfied, and less stressed than those under transactional leadership. Thus, a service manager who is also a transformational leader<sup>1</sup> will optimize his/her staff’s work perceptions (H<sub>1</sub>). In a service context, however, an additional beneficial side to transformational leadership can be postulated. Indeed, the effectiveness of leaders’ service-oriented behaviors (in terms of achieving optimization of employee work perceptions and maximizing employees’ service-oriented efforts) is likely to be enhanced by the charisma, inspirational motivation, individualized consideration, and intellectual stimulation (Bass, 1997) demonstrated by the leader. Without these “inspiring” leadership characteristics, service managers’ service-oriented behaviors, while useful and

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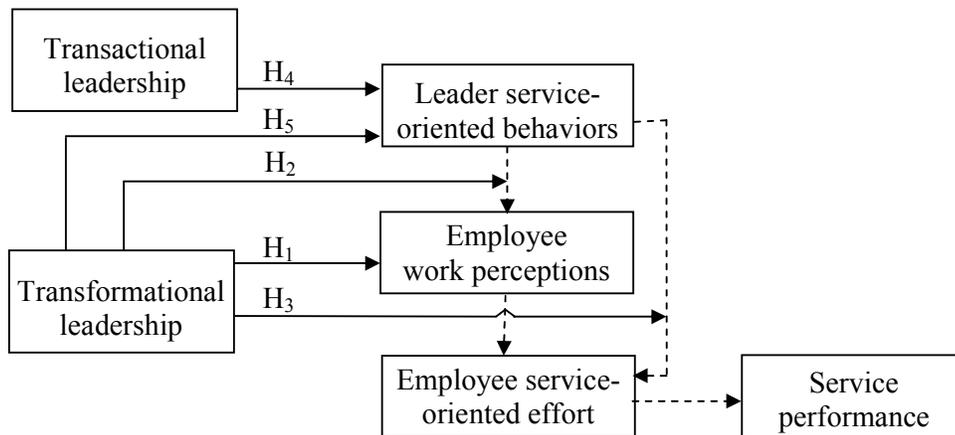
<sup>1</sup> It is important to point out that managing and leading are distinct activities (Zaleznik, 1977; Kotter, 1990). Indeed, some managers may consciously or unconsciously not lead (*laissez-faire* leadership, Bass, 1997).

beneficial, may not be as conducive to staff, say, job satisfaction. In addition, staff service-oriented efforts may be exhibited with less conviction. In the words of Russ et al. (1996, p. 4) “transformational leaders secure compliance through a shift in the beliefs, needs, and values of the followers”. Thus, a transformational leadership style is likely to enhance the relationships between the leader’s service-oriented behaviors and a) staff’s work “perceptions” (H<sub>2</sub>), and b) staff’s service-oriented efforts (H<sub>3</sub>).

A transactional leader is much more instrumental than a transformational leader in the way s/he leads. Specifically, the focus of a transactional leader is on the exchange process whereby s/he will secure the work effort of followers through the use of implied incentives (Bass and Avolio, 1990). These incentives are usually offered as contingent-reinforcement and/or management-by-exception (see Avolio et al., 1991). Logically, a transactional leader is more likely to implement only those service-oriented behaviors that are in the spirit of the activities one would expect a transactional leader to undertake (e.g., providing performance feedback to employees), and to undertake them in a purely transactional way. For example, motivating front-line staff can be done through reward systems (Hartline and Ferrell, 1996). Thus, a transactional leader is more likely to implement service-oriented behaviors towards his/her front-line staff than non-leading managers (those who adopt a laissez-faire leadership style, see Kotter, 1990) (H<sub>4</sub>). Motivation can also be achieved, however, by “inspiring” workers to perform well (Dubinsky et al., 1995). Transformational leaders will be more likely to motivate customer-contact staff by providing inspiration, but will also be more likely to empower staff, an important element of service management (Bowen and Lawler, 1995). The reason for this is that transformational leaders “emphasize the use of intelligence and creativity” in their staff (Bass, 1997, p. 22), suggesting trust and leeway (and thereby empowerment) given. Thus, transformational leaders are likely to implement service-oriented behaviors towards his/her front-line staff (H<sub>5</sub>). However, while this may be the case, the focus of service-oriented behaviors will differ between transformational and transactional leaders, and the activities will tend to be undertaken differently.

Finally, though both transactional and transformation leadership styles ultimately are postulated to enhance service performance, the impact of transformational leadership is likely to be greater and stronger than its counterpart. The reasons for this proposition are first that *in addition* to affecting employee service-oriented efforts, transformational leadership is likely to optimize employees’ work “perceptions” (such as job satisfaction) – see H<sub>1</sub>. Thus its combined effects on service performance will be greater. Secondly, the types of service-oriented behaviors exhibited by transformational leaders are more likely to be received well by front-line staff than those adopted by transactional leaders, as often postulated in a sales management setting (e.g., Russ et al., 1996). The reason advanced for this is that a transformational leader providing has the ability to increase his or her followers’ optimism and enthusiasm (Bass 1997). In turn, in a service encounter setting, optimism and enthusiasm are likely to be more conducive to service personnel exhibiting the kinds of service-oriented behaviors beneficial to customers’ positive perceptions.

Figure 1 summarizes the above discussion.



**Fig. 1:** A Model of Transactional and Transformational Leadership Effects on Ultimate Service Performance.

The dotted lines in the figure represent linkages already established in the services marketing literature and not core components of this particular study.

### 3. Conclusions

With the increased importance placed upon the management of marketing activities in a services context, it is critical to gain an understanding of the (direct and indirect) effects that leadership can have upon the quality of service provision. The conceptualization presented in this paper builds upon existing leadership theory, by applying the construct of leadership styles to a services context, providing relevance to both business and academic arenas. More specifically, the model has highlighted the importance of transformational and transactional leadership styles in fostering increased service performance. This should be achieved through improving managers' as well as employees' service-oriented behaviors. The conceptual model also bridges a gap in the existing services marketing literature in that it is, to the authors' best knowledge, the first article to have drawn from the "leadership style" literature to provide guidelines on enhancing service performance. Finally, the framework provides a platform for future research in the area of transformational and transactional service leadership.

Research is needed to test whether the conceptual model can be empirically validated. To this end, a triadic survey of service managers, front-line staff, and customers appears the most promising way forwards. A qualitative approach could also be employed due to the relative infancy of this particular research topic. Additional work could seek to look at the effects of leadership styles based upon the dependency that the organization studied has upon services. Indeed, a greater reliance upon products (i.e. less focus being placed upon personnel selling) may well result in a lesser need for service leadership within an organization.

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