Superior Service Performance through Transformational Leadership: A Cross-level Study of a Large Taiwanese Commercial Bank

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Abstract

A multi-level theoretical framework is proposed in this study, within which we identify transformational leadership behavior as the primary source of the positive influence on service performance through the underlying mechanism of leader-member exchange (LMX). The data for this study are obtained from 23 branches of a large commercial bank in Taiwan, with the samples collected from both managers and employees forming 228 manager-employee dyads, and thereby avoiding common method variance. Our results reveal that both transformational leadership and LMX have significantly positive effects on service performance, with the LMX relationship also playing a mediating role between transformational leadership and service performance. Of further considerable interest is our finding that group cohesiveness appears to be an important moderator enhancing the relationship between transformational leadership and service performance, as well as LMX and service performance. We conclude with a discussion of the theoretical and practical implications of our findings.

Keywords: Transformational leadership, Leader-member exchange, Group cohesiveness, Hierarchical linear modeling

1. Introduction

In the current competitive environment, the provision of superior customer services is an extremely important strategic aim for all firms seeking to achieve or retain their competitive advantage (Hitt et al., 2009). This is particularly true for firms within the service industry, of which banks are a typical example. Given the severity of modern day global economic challenges, improvements in service performance have become critical to survival within this particular industry.

While Amazon is exemplary on-line retailing companies of superior customer service, Charles Schwab is customer service champs in the banking industry, whose employees go above and beyond to make customers happy (McGregor, 2009). Given that experience of superior customer services arises from direct interactions between customers and employees (for example, bank tellers), we adopt a theoretical framework to discuss the organizational and individual factors which may influence employee service performance.

Transformational leadership behavior is identified in the present study as a critical factor in motivating employees to strive to deliver superior service performance. Such behavior

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comprises of the four distinct dimensions of “charismatic leadership”, “inspirational motivation”, “intellectual stimulation” and “individualized considerations” (Bass, 1985; Bass and Avolio, 1990). Leaders who are described as “transformational” will invariably concentrate their efforts on developing an appropriate vision for the firm, and on persistence with regard to its long-term goals, with the aims of inspiring followers to pursue this vision and to mobilize all of their available resources to achieve such persistence.

Leadership researchers have also called for both behavior- and relationship-based research (Gestner and Day, 1997; Wang et al., 2005) and further investigations of effects of LMX (Graen and Uhl-Bien, 1995), since employees need not only for meaningful tasks at work but also for meaningful relationships (Grant, 2008).

Given the context of the service sector, managers tend to place significant emphasis on the importance of internal relationships with employees, and external relationships with customers. When employees succeed in developing good relationships with their leaders, there is obvious scope for improvements in trust and respect; as a result, employees are likely to respond to their leaders by establishing more meaningful relationships with customers, thereby further enhancing their service performance.

A multi-level approach has long been advocated by organizational development scholars as the means of unveiling the richness and dynamics of social behavior across different organizational levels (Hitt et al. 2007). However, there appears to be a distinct lack of studies in which both leader- and relationship-based perspectives on organizational outcomes are considered, along with the cross-level influences of group-level factors (Scott and Walker, 1995) on transformational leadership.

We set out in this study to respond to this gap in the literature by examining the ways in which the service performance of individuals is influenced by transformational leadership, as well as the extent to which the LMX relationship succeeds in translating the effects of transformational leadership behavior into employee motivation, which ultimately leads to superior service performance. In the overall relationship between LMX and service performance, we also examine the moderating role of group cohesiveness, a group-level phenomenon within which group members are drawn towards remaining in the group and actively participating in group activities (Shaw, 1981; George and Bettenhausen, 1990).

We begin by developing our theoretical model in the next section, establishing transformational leadership as one of the primary determinants of employee service performance, and then go on to discuss the role of the LMX relationship in linking these two variables, with further discussion being provided on the moderating role of group cohesiveness.

2. Theoretical background and hypotheses

2.1 Transformational leadership behavior and service performance

There is a general tendency within the prior studies on transformational leadership to focus primarily on the behavior of leaders (Wang et al., 2005). Based upon “self-concept” theory, scholars of organizational development argue that the ways in which we see ourselves and our relationships with others are formed through our various interactions within the working environment; self-concept theory is therefore often used as the means of identifying how transformational leadership behavior can inspire followers through the processes of “social identification” and the “internalization of values” (Shamir et al., 1993).

Through “social identification”, followers identify themselves as members of an honorable group, with their leaders invariably using meaningful symbols, slogans, rites and rituals to strengthen the collective identity of such followers (Shamir et al., 1998). Through the “internalization of values”, followers who feel inspired by the leader’s vision and values
will identify with the organizational goals created by the leader, since they will essentially regard their work as an inseparable and meaningful part of the work of the whole group (Deluga, 1994). As a result, these followers will tend to generate high levels of commitment which then further enhances their self-concept and self-efficacy (Shamir et al., 1993).

When the need for the provision of superior service performance is communicated as an important element of the company’s vision, and one which is advocated by the leader as an important organizational goal, the members of the organization are likely to pursue it with vigor (MacKenzie et al., 2001). Thus, when transformational leaders succeed in implanting such vision, values and beliefs into their employees, such employees will feel far more motivated to produce high-level commitment, make positive changes in their attitude towards their work, and intensify their efforts to improve overall service performance (Liao and Chuang, 2007).

In summary, the combination of inspiration, identification and internalization creates the overall process by which transformational leadership behavior has direct effects on service performance. We therefore hypothesize that:

**Hypothesis 1:** Transformational leadership is positively associated with employee service performance.

### 2.2 The mediating role of leader-member exchange

The theoretical foundation for LMX is grounded in social exchange theory (Graen and Uhl-Bien, 1995), which highlights the importance of motivating employee performance, whilst also postulating that social exchanges are the foundation for the construction and maintenance of reciprocal relationships (Blau, 1964). Social exchanges differ from economic exchanges in three specific ways, the first of which is essentially from a perspective of time. In an economic exchange, payment and returns invariably occur at virtually the same time, whereas the “payment” and “return” in a social exchange will undoubtedly occur at different points in time, with the former invariably preceding the latter.

Secondly, such exchanges differ from a motivational perspective. Within an economic exchange, members are motivated merely by economic rewards (Dienesch and Liden, 1986); however, it is a combination of loyalty, trust and commitment which forms the basis of relational ties. Together, these elements can help to motivate the greater devotion of effort amongst group members (Rousseau and Parks, 1993).

Thirdly, social and economic exchanges differ from the aspect of value. In a social exchange, there is a belief by the initiating party that the counterparty will provide some reciprocal return in the future; such returns are invariably based upon trust, as opposed to any formal contracts that may be agreed in advance (Konovsky and Pugh, 1994). Given that the parties to an economic exchange decide between them exactly what the value of the exchange should be, an economic exchange essentially reflects their perceived quid pro quo. Hence, according to social exchange theory, differences in the nature of the LMX relationship will be largely dependent upon the nature of such exchanges; that is, whether they are social or economic.

Relationship building amongst group members is a time-consuming process, and one which is heavily reliant upon mutual learning and accommodation. Transformational leaders tend to establish high quality social exchange relationships with their subordinates (Wang et al., 2005), largely because their vision, inspiration, motivation and individualized considerations are likely to induce the endorsement of such values and goals amongst subordinates; thus, the very nature of such relationships points more to a social exchange than an economic exchange.

Consequently, relational contracts may be formed between leaders and followers (Rousseau, 1995), with the escalation of such contracts being achieved through a reciprocal
process; that is, the better the social exchange relationship, the better the performance exhibited by the subordinates (Liden et al., 1997). In the context of a service organization within which the value of superior customer service is strongly advocated, subordinates are likely to exhibit superior performance to ensure the maintenance of the high-quality relationships which they share with their leaders, and to reciprocate the trust in them which the leader clearly demonstrates (Wang et al., 2005); this is achieved by the transference of such trust to the successful establishment of meaningful relationships with customers.

In summary, this combination of inspiration, relationship and reciprocity gives rise to the underlying process by which transformational leadership behavior has indirect effects on service performance through the mechanism of the LMX relationship. We therefore hypothesize that:

Hypothesis 2: LMX mediates the relationship between transformational leadership and employee service performance.

2.3 The cross-level moderation effects of group cohesiveness

Group cohesiveness encourages group members to place effort into the pursuit of collective organizational goals (Widmeyer et al., 1992). If the atmosphere within a particular group is characterized as warm, caring, friendly, supportive, cooperative and reciprocal, then the members of that group are likely to demonstrate strong commitment to the goals of the organization. High group cohesiveness stimulates the desire amongst group members to create strong social exchange relationships between themselves and their leaders and to actively assist each other whenever possible.

Group members are also very likely to demonstrate a willingness to accept the influences of group cohesiveness, essentially as a result of their desire to maintain a ‘homeostatic balance’ between the organizational atmosphere and their own psychological environment (Brief and Motowidlo, 1986). Homeostatic balance theory postulates that it is important for individuals to maintain their psychological well-being by controlling their own resources, such as dignity (Gorgievska-Duijvesteijn et al., 2005).

Meaningful LMX, the essential elements of which are trust, respect, loyalty and mutual understanding, is of considerable help to managers, in terms of motivating employees; such motivation is provided through, for example, the provision of good career track opportunities or special assignments, and also by providing access to essential “inside” information (Wang et al., 2005). Hence, where subordinates recognize that their managers have a strong attitude of commitment towards them, they will invariably exhibit a desire to reciprocate, so as to fulfill their obligations, deliver the values of the organization, foster long-term relationships with customers, and ultimately achieve superior service performance.

The achievement of solid group cohesiveness leads to increases in the interactions, communication and mutual understanding which occur between group members, whilst also enhancing relationships between managers and employees, and further strengthening the willingness amongst employees to provide superior customer services (Schriesheim, 1980). Group cohesiveness is thus regarded as a moderator between LMX and employee service performance. We therefore hypothesize that:

Hypothesis 3: Group cohesiveness moderates the relationship between LMX and employee service performance; the higher the level of group cohesiveness, the stronger the positive relationship between LMX and employee service performance.

Transformational leadership behavior focuses on the cultivation of vision through strong values and beliefs, which inspires group members to strive for, and to commit effort into, achieving such vision. Transformational leaders have the desire and ability to empower and
motivate their subordinates to achieve organizational goals by means of constant communication amongst members of the group, thereby establishing the social identification of all group members, leading to changes in their previously established behavior (Bennis and Nanus, 1985). This is seen as a crucially important element of the overall process of stimulating group members to fully commit all of their available resources.

Group identification is achieved when the group members demonstrate that they are prepared to identify themselves as members of the group, and that they are also proud of such membership (Henry et al., 1999). Since social categorization, interpersonal attraction and interdependence are already recognized as the leading sources of group identification (Henry et al., 1999), such identification can be improved and strengthened by means of constant interaction, discussion and communication between such group members.

A cohesive group, which features high levels of interaction, cooperation and mutual interdependence between all of the members of the group, will invariably demonstrate a stronger transformational leadership/service performance relationship (Schriesheim, 1980). Group cohesiveness facilitates the transference of the effects of transformational leadership to superior service performance by employees, essentially because the everyday interdependence and interactions that occur within organizations assist leaders to establish the social identification of all group members. Thus, in those groups which exhibit high levels of cohesiveness, transformational leadership behavior can succeed in eliciting strong social identification amongst all group members, thereby leading to enhanced employee service performance. We therefore hypothesize that:

Hypothesis 4: Group cohesiveness moderates the relationship between transformational leadership and employee service performance; the higher the level of group cohesiveness, the stronger the positive relationship between transformational leadership and employee service performance.

3. Method

3.1 Participants and procedures

The participants in this study are banking clerks recruited from 23 branches of a large commercial bank in Taiwan. Each branch is regarded in our evaluation as a separate group, essentially because performance evaluation is undertaken at branch level. At the time when the empirical evidence for our study was gathered, the banking industry in Taiwan, as well as throughout the world, was going through a severe economic downturn; thus, bank managers tended to have a very strong focus on improving customer service performance through transformational leadership. The sample obtained for our study therefore provides very strong relevance and a good match with our overall purpose (Sackett and Larson, 1990).

As noted by Podsakoff et al. (2003), where a sample is obtained from a single source, there is considerable potential for ‘common method bias’; we therefore follow Scott and Bruce (1994) in this study by dividing the questionnaire into two separate instruments, in order to collect information from multiple sources. Two types of questionnaires, a manager questionnaire and an employee questionnaire, were distributed and collected amongst the study sample; the procedure is described as follows.

Firstly, the branch managers were asked to distribute the questionnaires either by telephone calls or e-mails. Secondly, each branch was provided with a single pre-prepared package of questionnaires, containing one copy of the manager questionnaire and twelve copies of the employee questionnaire. Each of the managers was then asked to evaluate twelve employees using these questionnaires. The two different questionnaires were printed on different colored paper, with a “matched pair” ultimately including one manager questionnaire and one member questionnaire.
Based upon our strong concern for anonymity, a number code was allocated to each employee so that they were unaware of which manager was evaluating them, and vice versa. Finally, two telephone reminders were made; the first one after three weeks and the second one after four weeks. In an attempt to encourage participation, every participant was sent a small souvenir as a token of our appreciation.

Our final sample comprised of 228 respondents from 23 branches of the Taiwanese commercial bank; the demographic characteristics of our study sample were as follows. The average group size in this study was ten persons (S.D. = 2.20), which was well above the minimum criterion of three (Carron and Spink, 1995). Most of the study participants were female (65.4 %), with a mean age of 40.64 (S.D. = 8.12) and mean working experience of 75.75 months (S.D. = 52.35).

3.2 Measures

Service performance. Service performance is assessed in this study using the employee service performance scale of Liao and Chuang (2004), with minor modifications being made in order to accommodate our measures. Each of the managers was asked to rate the service performance of twelve employees based upon a seven-item scale. Examples of the statements included are “being friendly and helpful to customers” and “asking good questions and listening to find out what a customer wants”. The response options for this scale ranged from 1 (strongly disagree) to 6 (strongly agree), with a Cronbach’s α (reliability) of 0.92.

Transformational leadership. This study adopts the Bass and Avolio (1990) “multi-factor leadership” questionnaire (MLQ-form 5R) as the measure of transformational leadership, using the Chinese version with minor revisions being made for considerations of relevance. The measure of transformational leadership comprises of the four dimensions of “idealized influence”, “inspirational motivation”, “intellectual stimulation” and “individualized considerations”, using a six-item scale for each dimension. The individual transformational leadership scale in this study therefore comprises of 24 items, and includes statements such as “talks to us about his/her most important values and beliefs” and “spends time teaching and coaching me”. The response options for this scale ranged from 1 (strongly disagree) to 6 (strongly agree), with a Cronbach’s α of 0.97.

Leader-member exchange. LMX is assessed in this study using the Graen and Uhl-Bien (1995) LMX scale; this is a seven-item scale (LMX-7), which includes questions such as “how well does your leader understand your job problems and needs?” and “how well does your leader recognize your potential?”; the response options for this scale ranged from 1 (strongly disagree) to 6 (strongly agree), and the Cronbach’s α was 0.93.

Group cohesiveness. Group cohesiveness, is a referent-shift consensus construct (Chan, 1998; Kozlowski and Klein, 2000) which is measured in the present study using the Dobbins and Zaccaro (1986) eight-item scale; this includes statements such as “the members of my group get along well together” and “there is little dissention in the group”. The response options for this scale ranged from 1 (strongly disagree) to 6 (strongly agree), and the Cronbach’s α was 0.92.

The lower-level (individual) evaluations obtained in this study were based upon prior consensus to either form, or shift to, a new construct, which was distinct from a construct originally derived at individual level (Chan, 1998). However, as noted by Bliese (2000), prior to such cross-level analysis, there is a need to check the presence of group-level effects. The rwg score for group cohesiveness in the present study was found to be 0.71, whilst the ICC(1) score was 0.29 and the ICC(2) score was 0.80. Since all of these values are consistent with the acceptable range of values suggested within the extant literature, these are applied as the measures of group cohesiveness in the present study.
Control variables. Controls are provided in this study for gender (0 = female; 1 = male), age, tenure within the organization (months) and tenure with the current supervisor (months). The last two controls, organizational tenure and tenure with the current supervisor, are calculated in order to avoid any potential confounding effects on the dependent variables (Van Dyne and LePine, 1998; Kamdar and Van Dyne, 2007).

4. Results

The means, standard deviations and variable correlations for the study sample are presented in Table 1, from which we can see that most of the correlations are within 0.00 to 0.55; the correlations between the variables are therefore acceptable.

4.1 Confirmatory factor analyses

Various confirmatory factor analyses (CFAs) are carried out in this study in order to determine whether our multi-item variables of transformational leadership, LMX and group cohesiveness are sufficiently distinct from each other. As we can see from Table 2, these analyses reveal that the fit displayed by the proposed three-factor model is perfectly acceptable ($\chi^2 = 1282.05$, $df = 699$, $p < 0.001$, RMSEA = 0.08, CFI = 0.94, NNFI = 0.93).

The fit statistics for our hypothesized model are found to be significantly better than those for a two-factor model (grouping transformational leadership and LMX: $\chi^2 = 1676.42$, $df = 701$, $p < 0.001$, RMSEA = 0.11, CFI = 0.93, NNFI = 0.92; $\Delta \chi^2 = 394.37$, $df = 2$, $p < 0.001$) or a single-factor model ($\chi^2 = 2014.62$, $df = 702$, $p < 0.001$, RMSEA = 0.13, CFI = 0.92, NNFI = 0.91; $\Delta \chi^2 = 338.2$, $df = 1$, $p < 0.001$).

“Hierarchical linear modelling” (HLM) analysis is adopted in this study to test our hypothesized relationships, with controls also being included for the employees’ gender, age, tenure within the organization and tenure with the current supervisor (Raudenbush et al., 2004). The results of Model 1, which is the baseline model, are presented in Table 2, whilst the results of Model 2 show that transformational leadership has a significantly positive influence on service performance ($\gamma = 0.13$, $p < 0.1$); thus, support is provided for Hypothesis 1.

The test results for the mediation effect of LMX, which follows the three-stage process proposed by Baron and Kenny (1986), are presented in Model 2 of Table 2. The results reveal that in the first stage, transformational leadership is found to have a significantly positive correlation with service performance, whilst in the second stage, as shown in Model 7, transformational leadership is also found to have a significantly positive association with LMX ($\gamma = 0.12$, $p < 0.05$).

Model 4 shows that both transformational leadership and LMX are included within the third stage of the mediation effect test, with the results revealing the significant mediating role of LMX in the relationship between transformational leadership and service performance ($\gamma = 0.27$, $p < 0.01$), whilst also showing that the effect of transformational leadership on service performance is no longer significant ($\gamma = 0.09$). Support is therefore provided for Hypothesis 3.

Further tests are carried out on the cross-level moderation effects, with our results (reported in Model 5 of Table 2) revealing that group cohesiveness has a significant moderating effect between LMX and service performance ($\gamma = 0.32$, $p < 0.05$), and thereby providing further support for Hypothesis 3. The results reported in Model 6 of Table 2 also reveal the insignificant moderating effect of group cohesiveness on the relationship that exists between transformational leadership and service performance ($\gamma = 0.19$, $p < 0.01$); thus, no support is provided for Hypothesis 4.
Table 1. Means, Standard Deviations, and Correlations.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>S.D.</th>
<th>Age</th>
<th>Tenure within organization</th>
<th>Tenure with current supervisor</th>
<th>Group cohesiveness</th>
<th>Transformational leadership</th>
<th>LMX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>40.64</td>
<td>8.12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tenure within organization</td>
<td>75.75</td>
<td>52.35</td>
<td>0.77**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tenure with current supervisor</td>
<td>50.95</td>
<td>47.52</td>
<td>0.46**</td>
<td>0.55**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group cohesiveness</td>
<td>4.66</td>
<td>0.67</td>
<td>-0.14*</td>
<td>-0.11</td>
<td>0.08</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transformational leadership</td>
<td>4.38</td>
<td>0.83</td>
<td>-0.22**</td>
<td>-0.21**</td>
<td>-0.01</td>
<td>0.36**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LMX</td>
<td>4.71</td>
<td>0.80</td>
<td>-0.05</td>
<td>-0.08</td>
<td>0.07</td>
<td>0.33**</td>
<td>0.32**</td>
<td></td>
</tr>
<tr>
<td>Service performance</td>
<td>4.50</td>
<td>0.72</td>
<td>-0.02</td>
<td>0.02</td>
<td>-0.01</td>
<td>0.37**</td>
<td>0.37**</td>
<td>0.30**</td>
</tr>
</tbody>
</table>

*p < 0.05, **p < 0.001
Table 2. Results of hierarchical linear modelling for service performance.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Service performance</th>
<th>LMX</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
</tr>
<tr>
<td>Intercept</td>
<td>γ₀₀</td>
<td>4.56**</td>
</tr>
<tr>
<td>Group cohesiveness</td>
<td>γ₀₁</td>
<td>0.77**</td>
</tr>
<tr>
<td>Gender</td>
<td>γ₁₀</td>
<td>-0.12</td>
</tr>
<tr>
<td>Age</td>
<td>γ₂₀</td>
<td>0.00</td>
</tr>
<tr>
<td>Tenure within organization</td>
<td>γ₃₀</td>
<td>0.00</td>
</tr>
<tr>
<td>Tenure with current supervisor</td>
<td>γ₄₀</td>
<td>-0.00</td>
</tr>
<tr>
<td>Transformational leadership</td>
<td>γ₅₀</td>
<td>0.13**</td>
</tr>
<tr>
<td>Leader-member exchange (LMX)</td>
<td>γ₆₀</td>
<td>0.29**</td>
</tr>
<tr>
<td>Transformational leadership × group cohesiveness</td>
<td>γ₅₁</td>
<td>0.19†</td>
</tr>
<tr>
<td>Leader-member exchange × group cohesiveness</td>
<td>γ₆₁</td>
<td>0.32*</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Model Deviance</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>476.25</td>
<td>472.72</td>
<td>450.65</td>
<td>462.87</td>
<td>459.73</td>
<td>475.03</td>
<td>551.23</td>
</tr>
</tbody>
</table>

*a* _n = 228 at individual level, _n = 23 at group level.

† _p < .1, * _p < .05, ** _p < .01, *** _p < .001

In all models, level 1 variables were grand-mean centered, except Gender.

*Deviance is the measurement of model fit. The smaller, the better the model fits.

We go on to follow the suggestion of Aiken and West (1991) to observe the interaction effect as illustrated in Figure 1, which shows that the relationship between LMX and service performance is stronger for higher levels of group cohesiveness (γ = 0.60, _p < 0.01) than for lower levels (γ = 0.11, _p < 0.10). The test of the two betas is also found to be significant (F = 13.39, _p < 0.001). The relationship between transformational leadership and service performance, as shown in Figure 2, is again stronger at higher levels of group cohesiveness (γ = 0.26, _p < 0.001) than at lower levels (γ = 0.14, _p < 0.10), with the test of the two betas again being found to be significant (F = 3.74, _p < 0.05).
5. Discussion and conclusions

Three notable findings arise from the present study, each of which contributes to the extant literature on employee service performance and transformational leadership. Firstly, transformational leadership is found to have significantly positive effects on employee service performance. Secondly, as a result of the leader-member exchange (LMX) relationship, transformational leadership is effectively translated into employee service performance. Thirdly, the facilitating role of group cohesiveness is found to strengthen the relationship between LMX and employee service performance, as well as the relationship between transformational leadership and employee service performance. It should be noted that the relationships between LMX and employee service performance and between transformational leadership and employee service performance are found to be significantly stronger in those cases where higher levels of group cohesiveness are discernible.

We now go on to discuss the theoretical and practical implications of our three main conclusions. As discussed earlier, there have been strong calls amongst leadership research scholars for a mix of behavior- and relationship-based research (Wang et al., 2005), as well as the examination of the cross-level effects of group-level factors (Scott and Walker, 1995).
study extends the contributions of the prior studies by showing that both behavior- and relationship-based transformational leadership are not only meaningful constructs which have positive effects on group service performance in their own right, but also that LMX plays a mediating role in the relationship between transformational leadership and the achievement of superior service performance by individuals.

Given the obvious importance of ensuring the provision of superior customer services, by demonstrating the influence which relationship-based transformational leadership has on the quality of individual service performance, we provide a first step towards the development of a more comprehensive model capable of effectively identifying the underlying mechanisms of such influences. For example, our findings suggest that, through the effects of creating meaningful social exchange relationships, transformational leadership behavior can lead to the promotion of superior customer services, which could conceivably facilitate a desire amongst group members to engage in greater reciprocity and cooperation.

Whilst significant evidence has already been presented in the prior studies to show that transformational leadership can inspire organizational citizenship behavior amongst employees (Podsakoff et al., 1996), to the best of our knowledge, the present study is amongst the first to show the positive effects of transformational leadership on employee service performance. Our main contributions to the extant literature on leadership are essentially based upon our focus on the effects of both transformational leadership and the LMX relationship. Our finding of the leadership effect in the leader-member exchange relationship translating into service performance indicates a reciprocal process which may occur when employees are suitably inspired by the vision, motivation and individualized considerations of their leader.

Furthermore, our finding of group cohesiveness playing a moderating role in the relationship between LMX and employee service performance – which thereby suggests that it has the effect of strengthening this relationship – adds yet another valuable piece to the theoretical puzzle of the way in which transformational leadership influences employee service performance whilst also providing suggestions with regard to the circumstances under which the positive effects of LMX might be augmented.

We have also found that group cohesiveness plays a moderating role in the relationship between transformational leadership and employee service performance, which indicates its effect of facilitating such transformational leadership behavior. The cross-level effect of group cohesiveness adds complexity to the phenomenon of such cohesiveness at the individual level, thereby providing a more comprehensive illustration and understanding of the dynamics relating to the ways in which individual- and group-level factors interact to influence the emergence of important employee outcomes.

There are certain methodical merits of the present study which should be taken into consideration. Firstly, in response to the call for more multi-level research, we have adopted hierarchical linear regression analyses to examine the cross-level effects of group cohesiveness. Secondly, we obtain the data used in this study from many different sources in order to avoid the potential effects of common method variance, as recommended by Podsakoff et al. (2003) and Tsai and Chi (2008).

5.1 Managerial implications

The findings of this study have potentially valuable implications for general management practice. Firstly, it is clear that in addition to showing respect for subordinates and inspiring them to achieve their full potential, effective leaders must also be capable of forming good-quality social exchange relationships with them (behavior-based approach). If they are to succeed in building up such relationships, transformational leaders will need to be able to
sketch out the organizational vision for their subordinates and to provide them with an effective link with their own conception of self through personalized role assignments.

As a result of such tasks and relationships, subordinates can obtain their perceived equity within the organization (Dienesch and Liden, 1986); they can then go on to further identify with the vision and values of their transformational leader. Thus, mutual exchange relationships, which are characterized by trust, loyalty and commitment, are effectively established, representing a form of social currency which is circulated within these social exchanges, with subordinates feeling some obligation to reciprocate through enhanced performance (Wang et al., 2005).

Secondly, group cohesiveness is an environment which is shared by all group members; within this environment, there is increased knowledge sharing and cooperation amongst the members, which ultimately strengthens the LMX-employee service performance relationship. A higher level of cohesiveness enhances the willingness of employees to leverage their resources in order to develop a strong commitment to their job. Many different activities can be used to improve this cohesion, such as annual business group travel programs, cross-cultural training experiences for employees or corporate adventure team-building programs (Tsai and Chi, 2008).

Thirdly, group cohesiveness is characterized by warmth, friendship and reciprocity, all of which can strengthen the effects of transformational leadership behavior. Given that transformational leadership behavior is highly individualized, and that comprehension of such behavior differs across different group members, group cohesiveness can help to facilitate the willingness amongst individuals to engage in mutually supportive activities, including the greater sharing of information and strong identification with the vision and goals of their leader, all of which will ultimately lead to superior employee service performance.

5.2 Limitations and future research

We conclude with a few limitations and suggestions for future research. Firstly, in order to control for undesirable environmental factors, such as industry or organizational structure, our sample was obtained from several branches of a large commercial bank (Chen et al., 2005; Tsai and Chi, 2008). However, there may well be other factors, such as antecedents, mediators and moderators, all of which can have potential influences on service performance, but which are not included in the present study; therefore, future studies should attempt to explore these.

Secondly, our examination of service performance reflects the evaluation of such performance from a managerial perspective, whereas it is suggested that such performance evaluations should also be obtained directly from customers (Liao and Chuang, 2007). The study by Liao and Chuang (2007), which focused on a franchised hair salon in Taiwan, involved a sample of customers, all of whom were regular visitors to the salon; thus, this made them very accessible. A managerial perspective is adopted in the present study essentially because bank customers do not attend on a regular basis, which makes access to such a sample very costly. Nevertheless, future studies should make some attempt to collect data on service performance from the perspective of bank customers.

Finally, although the data collected for this study comprises of information obtained from multiple sources, it was still examined using a cross-sectional design; this clearly limits our ability to identify any causal influences. Future studies may elect to adopt a longitudinal design in order to examine the ways in which the relationship dynamics between transformational leadership, leader-member exchange and group cohesiveness change over time, and to try to trace their causal links.
6. Conclusions

This study contributes to the literature on employee service performance and transformational leadership by examining the mediating role of the leader-member exchange relationship using cross-sectional, multi-sourced, multi-level data. Our study extends both the theoretical and empirical literature on leadership by demonstrating the existence and effects of both behavior- and relationship-based transformational leadership, and by further proposing and testing a model which provides support for the integration of transformational leadership literature and social exchange theory. Finally, we also identify the strengthening effects of group cohesiveness in the relationship between leader-member exchange and employee service performance, as well as the relationship between transformational leadership and employee service performance.

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References


