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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