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link: Evidence from a B2B environment

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Exploring the role of leadership style on the service quality-customer satisfaction link

Evidence from a B2B environment

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Abstract

Purpose – The purpose of this paper is to explore the influence of the leadership style on the service quality–customer satisfaction link.

Design/methodology/approach – A special survey instrument was developed and tested with the use of exploratory factor and regression analyses.

Findings – Data from 118 small enterprises were collected through personal interviews, and results supported that the level of leadership style moderates the relationship between service quality and customer satisfaction despite what is commonly believed that leadership actually is a prerequisite of service quality.

Practical/implications – Based on the fact that there is no literature connecting quality and satisfaction with leadership style, practitioners may be interested in finding out that executives' behavior can influence the service provided to customers.

Originality/value – Leadership style is a concept which has been associated with many variables such as service quality, performance and job satisfaction. In the marketing literature, it has been widely accepted that service quality is positively related to customer satisfaction. This work is the first trying to examine the effect of leadership style on service quality–customer satisfaction linkage under conditions of environmental uncertainty and instability.

Keywords Satisfaction, Service quality, Leadership style

Paper type Research paper

1. Introduction

In the highly competitive global business environment, service industries strive to attract and maintain satisfied customers. Nowadays, customers have the opportunity to choose from a vast amount of products and services offered by numerous firms around the world. This actually constitutes the reason of why service companies face the challenge of continuously responding to their clients' increasing demands and wants. A common goal for service providers is to satisfy the continuously increasing demands of their customers and offer to them high-quality products or services. Based on the relative marketing literature, it is common that service quality and customer satisfaction have been widely studied, in many sectors and by many academics. Of particular interest are these academic efforts which try to connect service quality and customer satisfaction with new variables. Moreover, a significant number of studies have been performed and new variables have been introduced as moderators of the relationship between service quality and customer satisfaction. For example, [Caruana et al. \(2000\)](#) reported that the effect of quality on satisfaction is not just direct but is also



moderated by value. [Jiang and Wang \(2006\)](#) proved that service context moderates the effect of pleasure and arousal on satisfaction. [Ryu and Han \(2010\)](#) mentioned that perceived price acted as a moderator in the satisfaction formation process, and [Ha and Jang \(2010\)](#) – in a research they performed – mentioned that atmospherics moderate the relationship between service quality and customer satisfaction. All these academic efforts took place under normal environmental conditions. But when business environment is uncertain or unstable, what are companies forced to do to keep their customers satisfied by offering to them high-quality products or services? Environmental uncertainty constitutes a key factor for the operation and the strategy of all companies. According to the relevant literature, environmental uncertainty refers to “[...] the degree to which firms’ external environment is characterized by an absence of pattern, unpredictability, and unexpected change [...]” ([Fynes et al., 2004](#)). [Banerjee \(2001\)](#), referring to environmental uncertainty, said that it has the potential to change existing ways of thinking within companies, while [Jugde and Elenkov \(2005\)](#) argued that uncertainty can lead organizations to change. [López-Gamero et al. \(2011\)](#) mentioned that the recognition of uncertainty depends mainly on how it is finally perceived and evaluated by the decision-makers, while [Barnard \(1938\)](#) linked the decision-maker with the leader. Based on [Barnard’s \(1938\)](#) point of view, the main question arising is if today, in the highly competitive but volatile business environment, the leader can play a significant, influential and innovative role within a company. The concept of leadership style constitutes a point of interest for researchers for many years and it has been widely studied since the beginning of the twentieth century. [Barnard \(1938\)](#) said that a leader consists of both managerial and emotional functions, named cognitive and cathectic. The most well-known framework about leadership is that of [Bass and Avolio \(1993\)](#) about transactional and transformational leadership. Transactional leaders tend to gain employees’ compliance through offering rewards or threatening with punishment, while transformational leaders prefer to act more influentially. They try to motivate employees to achieve higher goals through four main ways named: Charisma, inspirational motivation, intellectual stimulation and finally individualized consideration ([Bass and Avolio, 1993](#)).

It is generally accepted that when companies offer high service quality to their customers, they have the ability to generate satisfaction and subsequently can increase their market share and improve their organizational results. However, the degree to which leadership style affects the service quality–customer satisfaction liaison remains unexplored. This paper aims to fill this gap in the literature by investigating the degree and the nature of leadership’s influence on the service quality–customer satisfaction relationship.

2. Literature review

2.1 *Service quality and customer satisfaction*

The research on service quality–customer satisfaction link is bountiful, as many authors have confirmed the relationship between these two concepts. Some researchers consider the two concepts to be synonymous because they exhibit a high degree of correlation ([Oliva et al., 1992](#)), while others have found remarkable distinctions between customer satisfaction and service quality ([Sureshchandar et al., 2002](#); [Bitner and Hubbert, 1994](#)). In an early study, [Oliver \(1999\)](#) proved that service quality precedes customer satisfaction and that these concepts are inextricably related to each other.

Moreover, according to Grönroos (1984), customer perceptions determine service quality, which in turn acts as an antecedent to satisfaction (Ltifi and Ghardi, 2012; Nam *et al.*, 2011; Anderson *et al.*, 1994). Although the in-depth investigation of the relationships between service quality and customer satisfaction has been extensively conducted in the past decades, there is still ongoing interest towards this direction. This is reflected in the amount of recent studies dealing with this issue in various industries, such as in the hospitality sector (Zaibaf *et al.*, 2013; Liat *et al.*, 2014; Dortyol *et al.*, 2014) or the transport industry (Namukasa, 2013; Chow, 2014). In the link between service quality and customers' satisfaction, the two main moderators are perceived value (Ryu and Han, 2010) and perceived price (Chen *et al.*, 1994; Ryu and Han, 2010). The authors in their studies found corroborating evidence for the positive impact that service quality exerts on customer satisfaction.

2.2 Leadership style

It is widely acknowledged in the literature that leadership style can affect employees' attitudes and behaviors. There are various theories which deal with the conceptualization of the different leadership styles' dimensions. The first theory was developed by University of Michigan and Ohio State University. These studies constitute two of the most famous behavioral leadership studies, in which it is stated that leadership style is a broad concept comprising many different factors (Senior *et al.*, 2012). Second, according to transformational leadership, leaders use various means to motivate their followers and achieve the desired results. They are capable of adapting to the arising situations and proceeding to necessary changes (Senior *et al.*, 2012). Also, transformational leaders are competent and visionary. The transformational leadership plays a significant role in employee engagement (Xu and Thomas, 2011). On the other hand, transactional leadership is characterized as being autocratic, in which rewarding takes place after the goals have been accomplished. Its three dimensions include contingent reward leadership, management-by-exception active and management-by-exception passive. Furthermore, according to Papalexandris and Galanaki (2009), shared leadership is the most effective leadership style, as it has a participative character. Entrepreneurial leadership has a lot in common with the previously mentioned leadership styles, whereas nontransactional laissez – faire leadership is considered to be the less efficient style, as the leader avoids taking an active role inside an organization (Antonakis *et al.*, 2003).

Various factors can have an influence on the results of the various leadership styles, such as the culture of the country (Lee *et al.*, 2011), as differences occur between individualistic and collectivist cultures (Jogulu, 2010). Other factors can include the personal characteristics of the leader (Cavazotte *et al.*, 2012).

2.3 Relations among service quality, customer satisfaction, leadership style and environmental uncertainty

The concepts of leadership style, service quality and customer satisfaction have not been simultaneously investigated in the marketing literature. Actually, few studies have attempted to somehow link these notions. Leadership style was linked to total quality management and performance (Ehigie and Akpan, 2004), but there has been no effort so far to investigate the degree to which a manager or a leader influences his employees to offer higher service quality to the customers. Regarding the relationship between

service quality and leadership style, Jabnoun and Rasasi (2005) investigated how the dimensions of service quality and those of transformational and transactional leadership relate to each other in the hospital industry. They concluded that service quality was positively associated with all dimensions of transformational leadership, while the other two dimensions of active exception and passive avoidant leadership were negatively related to service quality. Moreover, Clark *et al.* (2009) examined how leadership style affects hotel employees' commitment to service quality. The main implication of their study is that leaders who follow an empowering leadership style have the ability to communicate their commitment to quality service to frontline employees, who in turn are more eager to deliver high service quality to hotel clients. More recently, Lee *et al.* (2011), using data from the Chinese banking sector, investigated the relationship between transformational leadership, team performance and service quality. They concluded that only one transformational leadership dimension has an impact on service quality.

Sahaya (2012) investigated that leadership style has clear effects on financial performance, while Carter *et al.* (2012) revealed that the quality of relationships between leaders and employees mediated the level of influence of transformational leadership on employee task performance. Omar and Hussin (2013) tried to investigate the relationship between leadership and job satisfaction. The findings determined that a positive and significant relationship exists between the three out of five dimensions of transformational leadership and employees' job satisfaction. Moreover, Namukasa (2013) reported that leadership style is a partial mediator between all four organizational culture types and organizational effectiveness. A common point for all the above research endeavors is that they took place on either stable or developing environments.

On the other hand, the importance of the relationship between leadership style and environmental uncertainty has been clearly presented in a research performed by De Hoogh *et al.* (2005), in which the authors studied leadership style in a period of mild recession. The results of their study indicated that leadership style depends on the degree to which the environment is perceived as dynamic. Moreover, Keats and Hitt (1988) referred to the main dimensions of environmental uncertainty which affect a company's strategy. They named them as munificence, complexity and dynamism. Mitrovic *et al.* (2011) also linked leadership style to job satisfaction by arguing that leadership style is moderated by job satisfaction (autocratic/democratic leadership and people/task-oriented leadership) in an unstable business environment. They concluded that leadership style in a volatile business environment includes an adequate combination of management principles, methods and functions.

To the authors' knowledge, there is a gap in the literature regarding the joint examination of all three constructs namely service quality, leadership style and customer satisfaction in the today's uncertain and volatile business environment. This highlights the need for the creation of further bridges between these concepts.

Based on the above, the research question is formulated as follows (Figure 1):

RQ1. Can leadership style moderate the relationship between service quality and customer satisfaction?

3. Research methodology

This paper aims to investigate the relationships among the three basic constructs mentioned in the theoretical section and particularly how leadership style can influence

the relationship between service quality and customer satisfaction. The methodology that was followed for the examination of the relationships among service quality, customer satisfaction and leadership style in SME in Greece was based on already established and generally accepted models in various business sectors. This choice of research procedure was based on the fact that the present study is the first trying to connect the three basic theoretical constructs. The sector selected was the courier service in Greece.

Many researchers have validated the strong and positive relationship between service quality and customer satisfaction. It is widely accepted that service quality leads to customer satisfaction. A question is if this link between quality and satisfaction can be affected by leadership style. Are there any leadership special characteristics than can change the level of customers' satisfaction?

4. Questionnaire

A special survey instrument was developed for the present survey. To measure service quality, the nine-item instrument, developed by Pantouvakis (2006), was adopted. The measurement of customer satisfaction was based on the work of Lam *et al.* (2004) and finally the items referring to leadership style on Lu *et al.* (2006). A seven-point Likert type was used for all questions. Each item was measured on a seven-point Likert type scale ranging from 1 – “strongly disagree” to 7 – “strongly agree”.

5. Data collection

The data collection method selected was the personal interview. Through personal interviews, it was requested that the questionnaire should be completed by the company's executive responsible for quality issues. Finally, a sample of 118 SME enterprises in the mail delivery sector was used for further study. Exploratory factor analysis was applied to refine the dimensions of service quality, customer satisfaction and leadership style. Multiple linear regression analysis was also performed to examine all the relationships among the above-mentioned constructs.

6. Data analysis and results

6.1 The companies' profiles

The questionnaires were completed by 118 SME companies 45 of which operate in Athens and 73 all over Greece, rates representing the 38.1 per cent and the 61.9 per cent of the sample, respectively.

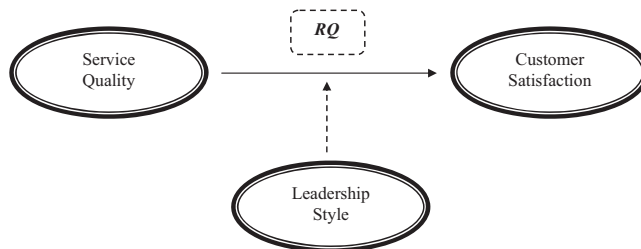


Figure 1.
The proposed model

6.2 Exploratory factor analysis results

First of all, to test the reliability of the research instrument, the authors calculated Cronbach's alpha. The reliability estimate for the whole set of questions was high (0.847), demonstrating a very good scaling of the instrument. An exploratory factor analysis was performed to examine whether all items load highly on each factor. The results of the principal components analysis with varimax rotation indicate that the eight quality items exhibit high loadings on two factors named services and environment and finally, a two-factor model explaining service quality emerges (Table I). As displayed in the Appendix, the factor analysis of customer satisfaction and leadership style revealed a one-dimensional factor.

6.3 Testing the proposed model

To test the relations among the constructs, Pearson's correlation was first performed. The results indicated positive and strong relationship between the two dimensions of service quality (services and environment) and customer satisfaction. On the other hand, leadership style was very lowly correlated with the other two constructs.

The relationships among service quality, customer satisfaction and leadership style are determined through multiple regression analysis. Based on Baron and Kenny's (1986) influential work about moderating and mediating effects, regression analyses were realized to examine if leadership style mediates or moderates the relationship between service quality (independent variable) and customer satisfaction (dependent variable). Baron and Kenny (1986) proposed four steps through which a mediating effect can be tested:

- *Step 1:* In the first step, a correlation between service quality (independent variable) and leadership style (mediator) has to be tested. The results indicated low correlation and no significance between the two constructs (0.208).

Exploratory factor analysis for service quality (KMO measure and factor loadings)

KMO measure of sampling adequacy	0.732
<i>Bartlett's test of sphericity</i>	
Approximate chi square	288.611
df	21
Significance	0.000

Rotated component matrix

Factors	1	2	
	Services	Environment	
The availability and willingness to assist of the company's personnel	0.873		
The time taken to answer your requests	0.819		
The politeness of the company's contact personnel	0.771		
The ability to keep to time schedules and promises	0.752		
The information provided by the company	0.512		
The general "feeling" of the company's area		0.828	
The feeling of security and surveillance inside the company		0.775	
The feeling of cleanliness inside the company		0.618	

Table I.
Exploratory factor
analysis for service
quality

- *Step 2:* The second step investigates if the dependent variable (customer satisfaction) is correlated with the mediator (leadership style) and the results also indicated very low correlation and no significance between the two constructs (0.187).
- *Steps 3 and 4:* In the third and fourth step (the effects in both steps are estimated in the same equation, [Baron and Kenny, 1986](#)), correlation is not high enough so regression analysis among the three constructs has to be used. For the regression analysis, the dependent variable is customer satisfaction, the independent variable is service quality and the mediator is leadership style. Regression analysis' results showed a very low adjusted $R^2 = 0.035$, and there is no evidence that a statistically significant relationship exists between service quality and customer satisfaction when leadership style enters the analysis and consequently leadership style is not a mediator of service quality–customer satisfaction link.

Considering that leadership style is not a mediator between service quality and customer satisfaction, the next step is the examination of possible moderating effects of leadership style on the quality–satisfaction relationship, as mentioned in the research question. The test for moderating effects needs two regression analyses to be performed. For the first regression, the dependent variable is total satisfaction and the independent variables are services and environment. The results for the first regression ([Table II](#)) showed that both factors/ independent variables of service quality named services and environment are statistically significant for the dependent variable total satisfaction (adjusted $R^2 = 0.423$).

For the second regression, when leadership style enters the analysis, two clusters were developed, named transactional leadership style and transformational leadership style. The results show that for transactional leadership style, services and environment dimensions are statistically significant for the dependent variable total satisfaction ([Table III](#), adjusted $R^2 = 0.627$), while for transformational leadership style, only the

Table II.
Total satisfaction = f
(Services,
Environment)

Service quality factors on total satisfaction	b
Services → total satisfaction	0.634**
Environment → total satisfaction	0.176*

Notes: Adjusted $R^2 = 0.42$; **show statistical significance at the 0.000 level; *shows significance at the 0.05 level

Table III.
Selection variable:
leadership style
(dependent: total
satisfaction,
independents:
services,
environment)

Service quality factors	b	Adjusted R^2
<i>Group 1: Transactional leadership style</i>		
Services → total satisfaction	0.746**	0.627
Environment → total satisfaction	0.270*	
<i>Group 2: Transformational leadership style</i>		
Services	0.797**	0.538
Environment	N/S	

Notes: **show statistical significance at the 0.000 level; *shows significance at the 0.05 level

factor services is statistically significant for total satisfaction (Table III, adjusted $R^2 = 0.538$).

7. Conclusions and implications

The concept of leadership style has been an important research subject for many years now, concerning all kinds of companies including product and service ones. However, it will be an important research topic in the future because in the literature, leadership style is continuously related to new variables.

The present study contributes to the existing literature by investigating the possible effects of leadership style in service quality–customer satisfaction link. In the existing marketing literature, leadership style has been related to job satisfaction, total quality management, performance, effectiveness and culture as shown. After an extended literature review, it has been observed that leadership style has been studied from a more process-oriented perspective. This is the reason justifying why leadership is associated to some extent to X theory of management or to International Organization for Standardization (ISO) processes. All ISO principles include strict procedures such as excessive documentation, strict control of all processes, internal auditing, prevention of nonconformities and implementation of corrective actions (Oke and Charles-Owaba, 2007). In the study of Shenawy *et al.* (2007), the authors related total quality management to leadership, as they proposed a model for TQM that incorporates five components: top management’s commitment and leadership, teamwork, culture, training and education, and process efficiency. They concluded that all these constructs lead to competitive advantage.

On the other hand, this is the very first study attempting to investigate the impact of the manager’s/leader’s behavior on the service quality offered to the customer in an unstable and volatile business environment. This constitutes a more human-oriented approach. A human-oriented approach tends to motivate employees, as the key leading to high job performance is that they can feel appreciated. One of the biggest benefits of human-oriented leadership is that the focus on employees’ relationships makes them feel more motivated and also makes them try harder and finally perform better. This approach is not only human oriented but relationship oriented too, as its main emphasis is placed on innovation and motivation, relationships development and communication of the employees within the organization. The results of the study indicated that leadership style moderates the relationship between service quality and customer satisfaction despite what previous studies have indicated that leadership style leads to service quality. The results also revealed that transactional leaders contribute towards customer satisfaction through both the services provided by the company to the final customers and the environment in which the interaction takes place. This can be explained to some extent by the fact that the study took place in an uncertain business environment. For transformational leaders, only the service provided is important in leading to satisfaction.

Leadership style is a parameter that needs to receive more attention in the future because so far in the marketing literature, leadership was seen as a way to reach customers’ satisfaction. The innovative part of the present study concentrates on the importance of leadership style and concludes with its decisive role on the service quality–customer satisfaction link. Another interesting part of the present research is that leadership style substantively operates as a catalyst of this link. More specifically,

the present research proposes that employees' participation in decision-making process can help a company offer higher service quality to customers. Theory Y is close to this argument, as the main implication of this theory is that job satisfaction and employee engagement will finally lead to (customer) commitment to the company. Transformational leadership styles focus on team success, motivation and collaboration with employees. That kind of leaders set goals to make their employees work harder and achieve better performance levels while providing opportunities not only for themselves but for the whole company.

Transformational leaders target on their employees' motivation, feelings, mobilization and innovation. This is the reason that the present study focuses on the style a manager/leader performs inside the organization.

The main implications that arise from the present research are that leadership style is a new variable which relates service quality to customer satisfaction. This variable can differentiate the way organizations used to operate so far as it is directly related to concepts such as service quality, customer satisfaction, environmental uncertainty and human attitude. The findings of the present research can be really helpful for both academics and practitioners. Academics will be able to detect the dominant role of leadership style on the link between service quality and customers' satisfaction, and practitioners will discover in depth which profile is of a satisfied employee. If they are willing to identify the ways to satisfy their employees, it is easier for them to satisfy their final customers. The profile of a satisfied customer can be described as a person interested in the service provided itself and in environmental factors (servicescape) in which service is provided. These parameters can affect his level of satisfaction. Service providers have to take into consideration that more qualitative service can increase the level of customers' intention to buy, the level of their satisfaction, a point that finally leads to higher companies' profitability. Based on the assessment that environmental uncertainty plays a prominent role in companies' operation, all decisions that a manager or a leader is required to adopt seem to be crucial for the company. In times of environmental stability, companies act based on what procedures require (Albino *et al.*, 2009), while in times of environmental instability and volatility, companies act on the basis of their peoples' personality and leadership profile (Swamidass and Newell, 1987). In areas where environmental instability has been expressed through the economic crisis, this instability has led many companies to turn to other forms of management, more human oriented. Leadership style is a concept that is directly related to the mobilization of employees and needs to be further investigated in the future. It is of great academic interest the relation of leadership style with other variables and across more business sectors.

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Appendix

KMO and Bartlett's test	
KMO measure of sampling adequacy	0.821
<i>Bartlett's test of sphericity</i>	
Approximate chi square	261.826
df	10
Significance	0.000
Component matrix	
Factor	1
Overall, the service of the company comes up to customers' expectations	0.880
Overall, this is a good company for customers to do business with	0.855
Overall, customers are very satisfied with their relationship with the company	0.845
Overall, the company treats its customers very fairly	0.730
In general, the customers are very satisfied with the services offered by the company	0.610

Table AI.
Exploratory factor analysis for customers' satisfaction (KMO measure and factor loadings)

KMO and Bartlett's test		Service quality- customer satisfaction link
KMO measure of sampling adequacy	0.901	
<i>Bartlett's test of sphericity</i>		
Approximate chi square	482.979	101
df	21	
Significance	0.000	
Component matrix		
Factor	1	
My manager tells us how to share my personal knowledge within the organization	0.864	Table AII. Exploratory factor analysis for leadership style (KMO measure and factor loadings)
My manager supports me in sharing knowledge with colleagues in other departments	0.845	
My manager always behaves as a good example in sharing his knowledge to others	0.810	
My manager often encourages me to share my knowledge by means of interpersonal chats or group meetings	0.803	
My manager encourages us to provide useful information and knowledge to the company	0.797	
My manager tells us where to find knowledge needed at work	0.784	
My manager allows me to share my knowledge with my colleagues though it may influence the present job process	0.746	

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