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An empirical study of transformational leadership, team performance and service quality in retail banks

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ABSTRACT

The discipline of operations management (OM) has long been offering differing quantitative techniques for improving the efficiency of banking operations. However, there has been a trend in recent years that operations and services of the banking industry are becoming more diverse and unstructured, rendering many traditional OM quantitative techniques less effective in performance improvement. By integrating the literature on banking operations, service quality, leadership style and work teams, we argue that leadership style and team performance are crucial concerns determining the service quality performance of today's banking operations in a team setting. Using data collected from 192 employees from 32 operational teams (a leader and five members in each team) in 15 retail banks in Macau, China, we investigated whether the five dimensions of transformational leadership have an impact on team performance with respect to team cohesion, team leader job satisfaction and team competence; and whether the dimensions of team performance have an impact on such service quality dimensions as reliability and responsiveness. We found that one of the dimensions of transformational leadership and two of the dimensions of team performance have a significant impact on service quality. We discuss the implications of the findings for research and practise.

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1. Introduction

The literature on operations management (OM) has long been contributing to the successful management of banking operations by offering different practical techniques or approaches to help improve operational efficiency (e.g. [1–4]). The usefulness of OM theories in banking operations is partly due to the fact that banking operations traditionally consist of a large number of processes that are routine and could be specified quantitatively. The quantitative techniques of OM, e.g. modelling, have therefore been very effective in improving the cost and efficiency of such processes. However, banking operations in the past decade have been facing an environment characterised by constant changes [5–8]. For instance, deregulation, fierce global competition and heightened customer expectations have forced banks to create and deliver services of greater variety and complexity, develop tailor-made solutions for customers with distinct needs and improve with emphases on not only cost and efficiency, but also reliability and responsiveness. Further, advances in information and process technologies have simplified or automated most of the traditional processes in banking operations. As a result, on the one hand, the unstructured tasks in the banking operations of today are not conducive to the normative modelling techniques of OM [9]. On the other hand, the current expected outcomes (i.e. tailor-made solutions and quality services) from banking operations may not be effectively achieved by merely improving operational efficiency or cost. Indeed, it can be inferred from the task nature and the required outcomes that operational employees and the teams formed by them, who are responsible for creating and delivering a service, should be an important determinant of the performance of today's banking operations. Nonetheless, there has been surprisingly little OM research on the theories or approaches that may have significant influences on the performance of banking operational employees or teams. In this study we argue that transformational leadership could be an effective approach to influence employee behaviours in operational teams in banks, thereby enhancing banks' performance.

The concept of leadership is not new for OM researchers because the importance of quality leadership is often emphasised in different quality management theories [10]. Yet transformational leadership is different from the quality leadership concept in OM literature in that it defines leadership in terms of the style or personality of leaders rather than by function. Its central tenet is that transformational leaders can create an impression that they have high competence and visions to achieve success. Subordinates in turn respond with enthusiasm and commitment

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to the team's objectives [11]. Transformational leaders are able to do this by behaving in charismatic ways to cause subordinates to identify with them, articulating ambitious goals, stimulating subordinates to think creatively and challenge the status quo, and showing concern for the needs of subordinates as individuals [12]. Numerous studies have found transformational leadership to be positively associated with followers' attitudes, motivation, and individual, group and organisational performance [13]. Yet less attention has been given to explore the performance impact of transformational leadership for operational employees and in teams within banking environments. In addition, insights on whether or not the effectiveness of the various dimensions of transformational leadership is different are virtually unavailable in the literature. Further, some researchers have argued that the literature on transformational leadership has generally focused on dyadic leader–subordinate scenarios and called for greater attention to team-based studies [14]. Consequently, this study focuses on examining the effectiveness of transformational leadership dimensions in enhancing the performance of operational banking teams.

The jobs of operational banking teams in general are to provide services to internal or external customers. Therefore, one crucial performance outcome of operational banking teams should be service quality, which is widely touted as a critical prerequisite for satisfying and retaining valued customers [15]. Indeed, a number of researchers have offered empirical evidence to indicate the positive effects of service quality on customer loyalty, demand responsiveness, productivity and market share (e.g. [16–20]). In this exploratory study, we selected two relevant service quality dimensions, namely reliability and responsiveness, to reflect the performance of operational banking teams. However, many frameworks of quality management assert that leadership and quality performance are not directly related but are mediated by such factors as people results, and learning and teamwork (e.g. [21]). Within the context of operational banking teams, one key mediating factor between leadership style and service quality performance is likely to be the performance of the team. In order to obtain more detailed insights on the mediating role of team performance, we employed three commonly used team performance indicators namely team cohesion, team leader job satisfaction and team competence, to reflect the performance of the sample teams in this study (e.g. [22–25]). Consequently, the purpose of this study is to explore whether the dimensions of transformational leadership have a direct impact on team performance with respect to team cohesion, team leader job satisfaction and team competence, as well as an indirect impact on the service quality dimensions of reliability and responsiveness through the three dimensions of team performance in operational banking teams. Overall, we make two key contributions in this study. First, we offer a unique integration of three distinct domains of the management literature, namely banking operations, transformational leadership and quality management. Second, we provide leaders of operational banking teams with practical insights on how to better manage their team performance and service quality.

2. Literature review

2.1. Banking operations and leadership

Forces such as globalisation, technological change, deregulation and growing competition have brought evolutionary changes in the banking industry. More specifically, deregulation in some countries, e.g. the U.S., has allowed banks to expand into neighbouring cities, states or provinces to offer financial products and services that were previously reserved for non-bank financial institutions, and to set deposit interest rates according to market forces. In response to growing competition, banks have diversified into non-interest earning activities such as insurance and mutual fund sales, private banking and asset management. At the same time, non-bank institutions such as supermarkets, post offices and telecommunications firms now compete in the financial services market. In addition, advances in information and process technologies have dramatically altered banking operations by automating many activities such as assessing the creditworthiness of loan customers, serving deposit customers, processing payments and many of those daily routine operations [6,7]. Indeed, changes occurred not only in operational activities, but also strategic issues. DeYoung [8] commented that the business strategies of banks were relatively homogeneous prior to the 1990s. However, he further argued that the industry recently has become more diverse in that distinct business strategies based on differences in product mix, location, production techniques and other characteristics across organisations are pursued by different banks. These recent operational and strategic changes in banks necessitate a re-examination of the theories that are effective for banks to achieve superior performance under today's environments.

Since the traditional tasks and processes involved in banking operations are generally routine and repetitive, they fulfil exactly the requirements for the application of many quantitative OM techniques. Indeed, many OM researchers consider banking operations as a relevant research context and have been successful in developing approaches that are effective for banks to improve their operational efficiency (e.g. [1–4]). Nonetheless, while much of the extant OM literature on banking operations mainly focus on achieving traditional OM outcomes such as cost and efficiency, many researchers from the perspective of service management have contended that the success of today's service organisations relies on excellence in broader dimensions including reliability, responsiveness, assurance, tangibles and empathy [26]. As discussed earlier, many of the operational banking processes have been automated and banking products and services in general are either custom-made or highly diverse, making the tasks of current banking operations unstructured and complicated. Together with heightening customer expectations of product knowledge and service quality in various dimensions, the normative modelling techniques of OM may no longer be adequate for banking managers to manage their operations. Instead of focusing on the operations processes, banking operations managers and researchers may need to explore approaches that are effective in influencing employees to perform unstructured and complicated tasks well. Consequently, we argue that leadership, which pertains primarily to the styles and skills in influencing the behaviours of followers, should be a critical concern for banking operations. Leadership in organisations has long been a very important research area in the management literature, producing a rich array of theories and empirical findings (e.g. [14,27,28]). Indeed, these theories and studies have revealed that leadership styles can have significant impacts on performance outcomes in different cultures and organisational settings, including financial institutes in the Asian context (e.g. [29,30]).

2.2. Transformational leadership and team performance

One of the most influential leadership theories in the management literature, transformational leadership is theorised to enhance organisational or term performance through motivating employees to transcend individual goals for the sake of the team

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