



## Transformational leadership style, market competition and departmental performance: Evidence from luxury hotels in Australia

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### ABSTRACT

This study examined the relationship between hotel departments' financial and non-financial performance, market competition, and transformational leadership style. A self-administered postal survey was used to collect the data. Completed and usable questionnaires were received from rooms and food and beverage department managers of 56 hotels and resorts. The transformational leadership style, market competition, and departmental performance were measured using instruments adapted from previous studies [Bass, B., Avolio, B., 1994. Improving organisational effectiveness through transformational leadership. Sage Publication, Thousand Oaks, CA; Gupta, A., Govindarajan, V., 1984. Business unit strategy, managerial characteristics and business unit effectiveness at strategy implementation. *Academy of Management Journal*, 27 (1), 25–41; Khandwalla, P., 1972. The effects of different types of competition on the use of management control. *Journal of Accounting Research*, Autumn, 275–285]. The results of the study indicated that transformational leadership style was positively associated with the non-financial performance, which, in turn, was positively associated with the financial performance of the departments. However, no such relationship was found between market competition and the non-financial, and financial performance.

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### 1. Introduction

All businesses today, including hotels, operate under intense market competition. This is due to rapidly changing technology, heightened customer awareness of quality and availability of a wide range of products and services (Atkinson and Brander Brown, 2001; Brander Brown and Atkinson, 2001; Harris and Mongiello, 2001; Sanchez, 1997). It is argued that one way to manage intense market competition is for senior managers to focus on practicing transformational leadership (Boerner et al., 2007; Hinkin and Tracey, 1994; Lockwood and Jones, 1989; Tracey and Hinkin, 1996; Xenikou and Simosi, 2006; Zetie et al., 1994; Zohar, 1994). According to Bass (1985) transformational leaders possess clear vision and have the flair to effectively convey it to their employees. These leaders act as role models and inspire employees to put the good of the organisation above self-interest. Bass (1985) pointed out that transformational leaders exhibit five main characteristics: idealised attributes (i.e., having a high level of trust in employees); idealised behaviour (i.e., having the ability to communicate a sense

of purpose); inspirational motivation (i.e., having the ability to communicate important purpose in simple ways); intellectual stimulation (i.e., having the ability to promote intelligence, stimulation and problem solving); and individualised consideration (i.e., having the ability to promote individuality among employees).

The above characteristics of transformational leadership have had particular success in motivating employees who, in turn, make better decisions and achieve improved performance. For instance, Xenikou and Simosi (2006) reported that the effect of transformational leadership and the organisations' performance is positively influenced by the subordinates' high level of motivation. Similarly, Boerner et al. (2007) found that the organizational behaviour of subordinates had some influence on the relationship between transformational leadership and performance. However, subordinates' ability to communicate task-oriented behaviour influences the relationship between transformational leadership and improvements in job processes. Davidson (2003), Wilkins et al. (2007) and Zetie et al. (1994) argue that motivated employees are more likely to deliver superior quality products and customer services.

Hinkin and Tracey (1994) and Tracey and Hinkin (1996) highlight that, despite the intense market competition, senior managers in hotels have traditionally shown a tendency to practice a transactional leadership. Bass (1985) describes transactional

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leadership style as being focused on clarifying roles and guiding subordinates to achieve pre-determined goals based on rewards. Indeed, transactional leadership offers employees only limited (if any) participation in decision-making or even none at all. Hinkin and Tracey (1994) and Tracey and Hinkin (1996) contend that, while transactional leadership style is likely to provide favourable results in a stable environment, its continual use under intense market competition is somewhat questionable. Research indicates that in people-oriented industries like hotels, the reliance of senior managers on a transactional leadership style can cause employees to develop lower job satisfaction and organisational commitment, leading to the delivery of poor customer service and a declining overall performance (Lockwood and Jones, 1989; Zohar, 1994). This is because a transactional leadership style restricts the employee development in terms of innovative and creative skills, and hinders self and organisational growth (Banker et al., 1998; Boerner et al., 2007). In contrast, transformational leadership style has been shown to succeed in effectively communicating the organisational vision, and inspiring and stimulating employees. These, in turn, encourage employees to become more innovative, and devote their energy for the benefit of the organisation (Boerner et al., 2007; Xenikou and Simosi, 2006; Zetie et al., 1994).

Moreover, performance assessment is an essential control mechanism that assists in improving the success of different management practices (Eccles, 1991; Evans, 2005; McPhail et al., 2008; Fitzgerald et al., 1991). According to Evans (2005) and Kaplan and Norton (1992), a comprehensive performance assessment system offers constructive feedback to both superiors and subordinates concerning the use of different resources, processes and strategies. Given the people oriented nature and the competitive environment of hotels, the significance of transformational leadership cannot be emphasised enough.

## 2. Study rationale

Kaplan and Norton (1992, 1993) argue that performance assessment needs to be holistic to include both financial (i.e., achieving profitability) as well as non-financial (i.e., achieving higher customer satisfaction) performance indicators. Indeed, the use of transformational leadership style by senior managers assists in continuous improvements in performance in the long-term (Feng et al., 2006; Hirtz et al., 2007). For this reason, it is important to examine the relationship between transformational leadership, market competition and performance, as this is likely to offer additional insight both for researchers and practising hotel managers.

Furthermore, despite the growing economic importance of the tourism and hotel industries around the world and significant expansion in the service industry (World Tourism Organisation, 2004), there is limited research evidence of the effect of the transformational leadership and market competition on the departmental performance in luxury hotels. It is crucial for senior hotel managers to understand the role that different factors play in improving hotels' departmental performance. In this paper it is argued that transformational leadership and market competition are two of these factors. This study aimed at providing empirical evidence for the relationship between senior managers' practice of transformational leadership style, and department managers' perception of market competition and departmental performance. It is anticipated that evidence of such a relationship will significantly assist hotel department managers in more effectively managing staff and achieving business objectives.

A further reason for this research is that an extensive examination of the literature revealed that there has been no empirical study in the hotel industry that investigated the

relationships highlighted above. While there have been several studies on transformational leadership style in the armed services, sports, education and a few in hotels, most of these studies have examined bi-variate relationships. For instance, Gellis (2001), Hater and Bass (1988), Hinkin and Tracey (1994), Parry and Sarros (1994) observed the effect of differences in transformational leadership style; Banerji and Krishnan (2000) assessed the effect of transformational leadership style on ethical preferences; Dubinslay et al. (1995) observed links between transformational leadership style and personality traits in individuals; Arnold et al. (2001), Masi and Cooke (2000), Yusaf (1998) assessed the effect of transformational leadership on job satisfaction, motivation, empowerment, trust, commitment and team efficacy, and Boerner et al. (2007), Garcia (1995), Keller (1995), Ristow et al. (1999), Tracey and Hinkin (1996) and Xenikou and Simosi (2006) assessed the effect of transformational leadership style on organisational effectiveness. This study aimed to make a significant contribution to the literature by examining multiple relationships related to the effect of transformational leadership, and market competition on performance.

Finally, research relating to market competition in the hotel industry tends to be anecdotal (Baum and Haveman, 1997; Buckhiester, 2003; Kim et al., 2004; Roginsky, 1995; Wall Street Journal, 1997, 2003). Moreover, relevant studies of market competition in the manufacturing industry are also limited (Chong and Rundus, 2004; Khandwalla, 1972; Mia and Clarke, 1999). The drawback of studies undertaken in the manufacturing industry is that their results can be taken as a guide only, and not be generalised to the hotel industry, due to the unique characteristics of hotel industry's products and services. Harris and Brander Brown (1998) and Mia and Patiar (2001) state that hotel products are perishable and services are intangible, for instance, for a dish in a restaurant the lead time from acquisition of raw materials, preparation, delivery and consumption of a dish in a restaurant, is very short. As such, in the competitive environment hotel managers may find it difficult to manage their respective departments effectively. Due to the lack of similar research in this area, it is expected that testing the transformational leadership, competition and performance model (Fig. 1) in the hotel industry would provide additional insight for researchers and practicing hotel managers into the relevant links shown in the model.

As such this study examined the relationship between transformational leadership style, market competition and hotel departments' non-financial as well as financial performance. The following section outlines a theoretical framework by discussing direct and indirect relationships of transformational leadership and market competition with the hotel departments' performance in order to develop appropriate hypotheses. This is followed by an explanation of the method used in collecting the data, a presentation of results and a discussion of the major findings. The final section provides research implications and limitations of the study.

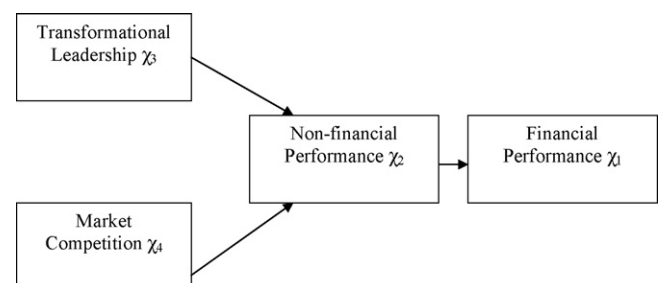


Fig. 1. The effect of transformational leadership and market competition on financial and non-financial performance.

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