



## 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.

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.

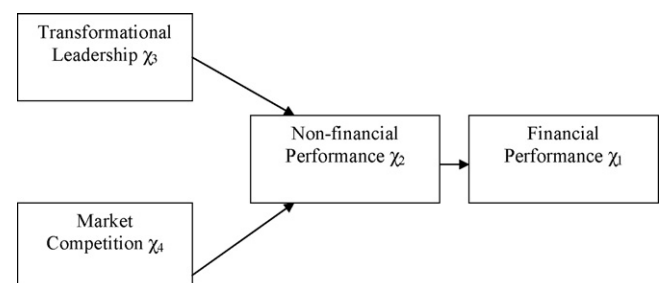


Fig. 1. The effect of transformational leadership and market competition on financial and non-financial performance.

### 3. Theoretical background and hypotheses

The model of the study shown in Fig. 1 indicates the direct as well as indirect relationships of transformational leadership style and market competition with non-financial and financial performance. There are direct relationships between financial and non-financial performance; between non-financial performance and transformational leadership style; and between non-financial performance and market competition. In addition, there are two indirect relationships; one between transformational leadership style and financial performance via non-financial performance; and the other is between market competition and financial performance via non-financial performance. These relationships are discussed in the following section and appropriate hypotheses are developed.

#### 3.1. Relationship between financial and non-financial performance

An appropriate assessment of a hotel department's performance is crucial for the hotel's success. A search of the hospitality literature revealed two main areas of performance evaluation. First, financial performance reflects the manager's ability to effectively manage the operating budget (Patiar and Mia, 2008). Second, non-financial performance, consists of satisfaction both in customers and employees, and plays an important role in ensuring that high standard products and services are delivered, and as a result customer loyalty is achieved (Harris and Brander Brown, 1998; Jones, 1988, 1990; Mia and Patiar, 2001). Furthermore, Patiar and Mia (2008) and Sparrowe (1994) highlight that hotels are 'people oriented businesses', in which an efficient and effective interaction between staff and customer is crucial for achieving customer loyalty, and improved financial performance.

Evans (2005), Eccles (1991), Kaplan (1984), Kaplan and Norton (1992, 1993), McPhail et al. (2008) point out that managers' reliance on financial performance indicators is inadequate, since the measures ignore non-financial indicators like customers and staff satisfaction, which are important for the operation's long-term sustainability. Indeed, Kaplan and Norton's (1992) balanced scorecard (BSC) technique enables assessment of operational performance including financial and non-financial performance indicators. Kaplan and Norton (1993) state that the BSC technique not only forces managers to focus on the organisational vision, strategy, and competitive demands but it also encourages them to be innovative. For instance, BSC includes financial measures, such as profitability and costs that are the consequence of various strategies being implemented. Moreover, non-financial measures like customer satisfaction, internal process efficiency, innovations and improvements build a sound base for the operator, and help to drive the financial performance (Kaplan and Norton, 1992, 1993). In other words, non-financial measures tend to energise the financial performance. Based on the above discussion, the following hypothesis is proposed.

**Hypothesis 1.** There is a positive relationship between hotel departments' non-financial and financial performance.

#### 3.2. Relationship between non-financial performance and transformational leadership style

Transformational leadership style not only succeeds in creating highly motivated employees but also empowers them to make decisions without having first to seek the senior manager's approval. Often, in four- and five-star hotels, considerable attention is paid to customer comfort and lavishness of the products and services (Royal Automobile Club of Queensland, 1999). While, comfort is achieved through tangible items, such as furniture, fittings and furnishings,

high quality service is achieved through intangible elements. For example, employees' attitude, behaviour and interpersonal and technical skills help in delivering the personalised and customised services to customers. Although tangible aspects are relatively easy to manage, intangible aspects involving personalised service pose difficulty in terms of maintaining the quality standards.

Xenikou and Simosi (2006) and Zetie et al. (1994) state that motivated employees are in a stronger position to respond to customers' needs and provide high level of customer satisfaction. Moreover, hotels and restaurants that are well patronised, tend to attract even more customers, since their popularity provides an assurance of quality and develops confidence among customers to engage in buying behaviour. To encourage repeat business and attract new customers, managers are required to provide excellent and consistent products and customer services (Barsky, 1992; Becker and Murrmann, 1999; Dube et al., 1994). It is envisaged that under the hotel general manager's transformational leadership style, department managers would be motivated and committed to providing higher levels of customer satisfaction (Bass and Avolio, 1994), resulting in customers' repeat purchase behaviour. The extant literature (Feng et al., 2006; Hirtz et al., 2007) suggests that a transformational leadership encourages high levels of innovation, hence assists in achieving continuous improvements in performance.

Previous research on the transformational leadership indicates that for senior managers to adopt such a style creates a work environment conducive to sharing the organisational vision, inspiring and intellectually stimulating and instilling higher order ideals and values among subordinates (Bass and Avolio, 1994, 1997; Burns, 1978). The research also indicates that employees working under a superior with a transformational leadership style are empowered and experience high job satisfaction and organisational commitment, which results in improved performance (Arnold et al., 2001; Conger and Kanungo, 1987; Martin and Bush, 2006; Zwingman-Bagley, 1999). Similar results are reported by researchers in the hospitality field as well (Barsky, 1992; Becker and Olsen, 1995). Hypothesis 2 reflects the discussion.

**Hypothesis 2.** There is a positive relationship between a hotel senior manager's transformational leadership style and non-financial performance of the hotel's departments.

#### 3.3. Relationship between non-financial performance and market competition

In the competitive environment, managers are required to stimulate demand by reducing room rates and offering various extras. While such strategies help in attracting additional customers, it is likely to have a negative effect on the overall performance of the department because other direct competitors are also in the same predicament, and the limited number of available customers is shared by competitors. To sustain profitability, managers have little control over reducing the fixed costs, but they may be tempted to reduce the variable costs by making reductions in personalised customer service and replacing the existing quality materials with inferior substitutes. Indeed, in the short-term such reductions in services and processes would result in improved profitability however, in the long-term, it would put an additional burden on the employees to maintain production and deliver quality products and services.

Several researchers contend that the provision of consistent and superior quality products and services assists in achieving higher levels of customer satisfaction and possibly encouraging repeat visitation (Barsky, 1992; Davidson, 2003; Dube et al., 1994; Kinwin, 1992; Wilkins et al., 2007). Such a level of achievement

ensures a competitive edge based on the quality of products and services, and eventually makes the organisation a market leader. However, Buckhiester (2003) and Kim et al. (2004) point out that most hotels consider short-term gains by reacting to the competitor's actions and making reductions in staffing, and sacrificing the quality of products and services. Any reduction in resources, such as fewer staff or lack of training and development would lead to lower morale among employees and may result in the delivery of lower quality products and services (Brymer et al., 1991; Faulkner and Patiar, 1997). Other researchers support these findings and further add that a well-designed staff development program can assist in raising their morale and organisational commitment, as well as contributing to continuous improvements (Chong and Rundus, 2004; Feng et al., 2006; Hirtz et al., 2007).

It is argued that in the competitive environment, while some hotels discount their products and services, they try to compensate for price reductions with decreased levels of personalised service, cutting back on staff training and development expenditure as well as substituting some of the existing quality materials with cheaper and inferior substitutes. This, in the long-term, can lead to a decline in the overall quality of products and services, particularly the relationship between employees and customers, which may hinder non-financial performance. The above discussion is formally presented in Hypothesis 3.

**Hypothesis 3.** There is a negative relationship between a hotel's market competition and its departments' non-financial performance.

#### *3.4. Linkage between transformational leadership and financial performance existing via non-financial performance*

According to Bass (1985), a leader who practices transformational leadership style promotes a higher level of motivation and organisational commitment among subordinates. They do so by articulating and sharing their vision, ideals and values with their subordinates. In this way transformational leaders satisfy individuals' higher order needs and develop their full potential. Burns (1978) and Tichy and Devanna (1986) argue that transformational leaders delegate decision-making responsibility to subordinates and encourage them to accomplish crucial organisational goals. Tracey and Hinkin (1996) point out that in four- and five-star hotels, the practice of transformational leadership style among senior managers is extremely important, as these hotels are considered to be the best and their success is dependent upon the delivery of quality products and services (i.e., errors free) and ensuring there is a favourable interaction between customers and employee.

In the four- and five-star luxury hotels, it is most essential to attain on-going improvements in products and services to attract more customers, and improve occupancy levels, as well as higher average daily room rates. The literature indicates that the senior manager's transformational leadership style is a good predictor of improved performance (Arnold et al., 2001; Boerner et al., 2007; Deluga, 1988; Hinkin and Tracey, 1994; Kirkpatrick and Locke, 1996; Masi and Cooke, 2000; Ristow et al., 1999; Tracey and Hinkin, 1996; Xenikou and Simosi, 2006; Yusaf, 1998). It is expected that transformational leaders would accomplish increased financial performance through improving non-financial performance of a department. Accordingly, the following hypothesis is proposed.

**Hypothesis 4.** There is an indirect and positive relationship between a transformational leadership style and hotel departments' financial performance existing via the non-financial performance.

#### *3.5. Linkage between market competition and financial performance existing via non-financial performance*

The intensity of market competition is felt when competing businesses begin to sell similar or improved quality products and services at competitive prices, and promote those products and services aggressively (Khandwalla, 1972). In the context of hotels, the perception of the intensity of market competition is the result of globalisation, improved information technology and increased customers' awareness of quality (Brander Brown and Atkinson, 2001; Jogaratanam et al., 1999; Wall Street Journal, 2003; Wolff, 2004), and increased supply and decreased demand for hotel facilities (Buckhiester, 2003; Kim et al., 2004).

Hospitality researchers argue that hotels are operating in a highly competitive environment and are also affected by its unique characteristics (i.e., hotel products and services are perishable in nature, their demand fluctuates and their production, delivery and consumption have a short lead time) (Brander Brown and Atkinson, 2001; Harris and Mongiello, 2001; Mia and Patiar, 2001). Furthermore, the job of a hotel department manager is highly departmentalised and involves a high level of interdependence between operations at the front and back of the house, thus increasing complexity and generating uncertainty. Rolfe (1992) argues that intense market competition also increases job complexity and uncertainty, and generates competitive threats, shortens a product or service's life cycle, and results in declined performance.

Anecdotal evidence of the effect of market competition on hotels is apparent from Orbitz, Expedia and Traveocity (web based hotel reservations systems), which has popularised the selling of hotel accommodation. This is because customers are able to check various facilities offered by different competing hotels and compare room rates through their personal computers before finalising the reservation (Wall Street Journal, 2003). To manage the intensity of market competition and the unique characteristics of hotels' products and services effectively, the competing hotels tend to reduce guest bedroom rates (Baum and Haveman, 1997; Buckhiester, 2003; Kim et al., 2004; Roginsky, 1995; Wall Street Journal, 1997).

There are two possible reasons for hotels to reduce room rates. First, because hotel guest bedrooms and food and beverage facilities are highly perishable in nature. In addition, hotel operations involve a high proportion of fixed costs, and regardless of the level of business, fixed costs have to be met. For this reason, many hotel managers are forced to reduce guest bedroom rates to spread the fixed cost among additional guests.

Second, additional guests in a hotel are likely to purchase other products and services, such as food and beverages, recreational activities, telephone and laundry services. All of these purchases contribute towards maximising hotel revenue and the profitability. However, it is only, if customers are highly satisfied with the consumption of different products and services that the likelihood of achieving customer loyalty significantly rises. Buckhiester (2003) points out that indiscriminate reduction in a hotel guest bedroom rates can send new and regular guests wrong signals of inferior quality. This may bring about a lack of trust among customers, eventually resulting in damage to the hotel's reputation and reduced profitability.

A wider search of management literature revealed limited empirical evidence of the effect of market competition on performance. For example, Khandwalla (1972) found no statistically significant relationship between manufacturing firms' profitability and competition with respect to price, product and marketing. However, Mia and Clarke (1999) report an indirect and positive relationship between the intensity of market

competition and business units' performance, existing via the MAS information use. In another study, [Chong and Rundus \(2004\)](#) find a positive and significant effect of high intensity of market competition and extensive use of total quality management practices on organisational performance.

[Banker et al. \(1998\)](#) add that in a competitive environment, the long-term growth is dependent upon hotel managers' ability to deliver a high degree of customer care. [Barsky \(1992\)](#), [Hirst \(1992\)](#), [Martin and Bush \(2006\)](#), [Oh and Parks \(1997\)](#), [Voss et al. \(1998\)](#) and [Xenikou and Simosi \(2006\)](#) found that motivated staff were able to provide superior quality customer services and achieve customer loyalty, and thereby encourage customers' repeat buying behaviour.

Thus, in the provision of hotel products and services, department managers are required to coordinate a relatively large number of activities and achieve diverse objectives related to high customer satisfaction, occupancy and average room rate, and costs in a highly competitive environment. According to [Govindarajan and Fisher \(1990\)](#), [Gupta and Govindarajan \(1984\)](#), [Kaplan and Norton \(1992\)](#) and [Scott and Tiessen \(1999\)](#), a performance measurement system that incorporates financial as well as non-financial indicators truly reflect the overall health of the business, and assist in achieving long-term success. Based on the above discussion, the following hypothesis is formulated.

**Hypothesis 5.** There is a negative indirect relationship between the intensity of market competition and the financial performance of hotel departments, existing via non-financial performance.

## 4. Method

### 4.1. Data collection

In total, 140 four- and five-star hotels and resorts with 160 or more bedrooms in Australia were included in the study. Each hotel's general manager was sent a cover letter seeking their approval to involve rooms, and food and beverage department managers in the study, and stating the purpose of the study. Similarly, each department manager was sent a package consisting: cover letter stating the purpose of the study and outlining the details on how to complete the questionnaire, the questionnaire and reply paid envelope. A usable questionnaire from 56 hotels and resorts (i.e., 112 department managers) was received, giving a response rate of 40%, which is considered to be acceptable for self-administered mail-out survey ([Emory, 1985](#); [Wallace and Mellor, 1988](#)).

### 4.2. The sample

Only large hotels and resorts were selected for this study as their products and services range and operational sophistication was considered to be high ([Jones, 1998](#)). The unit of analysis was food and beverage and rooms departments, since these have significantly more operational responsibility for developing and managing budgets (i.e., these two departments tend to generate most of the total revenue and employ most of the employees) and coordinating operational and managerial activities.

### 4.3. Measures

#### 4.3.1. Departmental performance

An adapted version of [Gupta and Govindarajan's \(1984\)](#) performance evaluation instrument was used for the hotel environment. Each department manager was asked to evaluate their departmental performance by comparing it with the assessment of their general manager's expectations on eight

**Table 1**  
Descriptive statistics and correlation matrix.

Variables	Mean	Std. dev	$\chi_1$	$\chi_2$	$\chi_3$	$\chi_4$
$\chi_1$ Financial performance	5.21	.99	1			
$\chi_2$ Non-fin performance	5.11	.89	.505**	1		
$\chi_3$ Transformational leadership	3.80	.66	.170	.327**	1	
$\chi_4$ Market competition	5.11	.89	-.216*	-.167	-.153	1

\*  $p < .05$ .

\*\*  $p < .01$ .

performance indicators. Department managers responded to each of the eight items of performance on a seven-point Likert scale anchored at both ends. On the scale, 1 indicated, "not at all satisfied" and 7 indicated, "highly satisfied".

The results of factor analysis extracted two factors with Eigenvalues greater than one and accounting for 65.4% of the total variance. See [Appendix A](#) for the results of the factor analysis. The average of performance items that loaded on the same factor was calculated to determine a single scale for financial and non-financial performance. The reliability of the scale was tested using Cronbach alpha to estimate the internal consistency of the scales, where .81 for financial performance and .82 for non-financial performance was found and is judged to be acceptable ([Nunnally, 1978](#)). [Table 1](#) illustrates the descriptive statistics for the two dimensions of departmental performance.

#### 4.3.2. Transformational leadership style

[Bass and Avolio's \(1997\)](#) revised Multifactor Leadership Questionnaire (MLQ-Form 5X) was used to assess department managers' perception of their general manager's transformational leadership style. MLQ-Form 5X includes 20 items related to superiors transformational leadership style and are represented by five theoretical sub-dimensions: idealised attributes, idealised behaviour, inspirational motivation, intellectual stimulation and individualised consideration.

All 20 transformational leadership items were measured using a five point Likert scale where department managers were asked to indicate the extent to which the 20 transformational leadership behaviours represent their general manager. Here, 1 indicated "not at all" and 5 indicated "frequently if not always". Consistent with the approach of [Avolio et al. \(1999\)](#), [Banerji and Krishnan \(2000\)](#), [Chen \(2004\)](#), [Deluga \(1988\)](#), [Madzar \(2001\)](#) and [Tracey and Hinkin \(1996\)](#), the mean of 20 items was taken to reflect the global score representing hotel department managers' perceptions of their general manager's transformational leadership style.

The internal consistency reliability Cronbach coefficient alpha of 0.93 was achieved, and was in line with Cronbach alpha between .87 and .96 reported by other researchers ([Arnold et al., 2001](#); [Avolio et al., 1999](#); [Madzar, 2001](#)). The reliability alpha for transformational leadership style indicates a satisfactory level, as it is well above the expected level of .70, recommended by [Nunnally \(1978\)](#). [Table 1](#) illustrates the descriptive statistics for transformational leadership style.

#### 4.3.3. Market competition

To assess the intensity of market competition, [Khandawalla's \(1972\)](#) instrument was adapted for the hotel environment. The three aspects of market competition caused by price, product and promotions were measured on a seven point Likert scale ranging from 1 to 7. Each department manager was asked to indicate their perceptions of the intensity of market competition faced by their department, (i.e., "how difficult would you say it is for your department to compete on price, products and service, and marketing efforts"), where 1 indicated "not at all difficult" and 7 indicated "very difficult".

A factor analysis was performed to test construct validity for the three-items assessing market competition. The factor analysis extracted a single factor with an Eigen-value greater than one and accounting for 75.5% of the total variance. The average of the three items was taken to represent the hotel department manager's perception of the intensity of market competition. Reliability alpha for market competition of .82 was found, which is judged to be acceptable (Nunnally, 1978). Table 1 presents mean and standard deviation scores.

**5. Results**

According to Asher (1976), Green (1977) and Lewis-Beck (1980), a path analysis technique allows researchers to observe the direct, indirect as well as spurious effects of the variables used in the study. The hypotheses were tested using a path analysis procedure that involved two equations outlined below

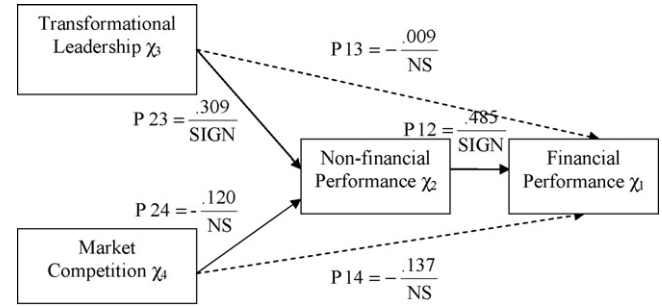
$$\chi_1 = P_{12}\chi_2 + P_{13}\chi_3 + P_{14}\chi_4 + P_{1a}R_a \tag{1}$$

$$\chi_2 = P_{23}\chi_3 + P_{24}\chi_4 + P_{2b}R_b \tag{2}$$

where  $\chi_i$  is the variable measured,  $P_{ij}$  is the standardised partial regression coefficients (path coefficients) and  $R_j$  is the standardised residuals.

The descriptive statistics and correlation between the variables in the model (Fig. 1) are presented in Table 1. According to Tabachnick and Fidell (2007), there should be no significant correlation between the independent variables. The correlation between the two independent variables (transformational leadership style and market competition) in the study as presented in Table 1 is not significant, which reveals a lack of multi-collinearity between the variables. Therefore, use of the path analysis (regression) technique to test the hypotheses is considered to be appropriate.

Hypotheses 1–3 were tested respectively by examining the relationships (i) between the financial and non-financial performance; (ii) between the non-financial performance and transformational leadership; and (iii) between the non-financial performance and market competition. The results of the analysis are presented in Table 2 (Panels A) indicated that a positive and significant relationship existed between the financial and non-financial performance ( $P_{12} = 0.485$ ;  $T$ -value = 5.541;  $p < .001$ ). Also, the results presented in Table 2 (panel B) indicated that the relationship between the non-financial performance and transformational leadership was positive and significant ( $P_{23} = 0.309$ ;  $T$ -value = 3.399;  $p < .001$ ). These results supported Hypotheses 1 and 2. However, no significant relationship was found between market competition and the non-financial performance, therefore Hypothesis 3 was not supported. Fig. 2 presents the path coefficients and their significance level for the relationships identified in the model.



**Fig. 2.** The effect of transformational leadership and market competition on financial and non-financial performance.

Figure 2 presents the path coefficients and their significance level for the relationships identified in the model.

The detail analysis of the data for each of the four dimensions (customer satisfaction, repeat business, staff development, and staff morale as revealed by the factor analysis presented in Appendix A) of the non-financial performance revealed two aspects of the relationship as shown in Appendix B (Panels A, B, C, and D). First, there was no relationship between transformational leadership and repeat business (Panel B ( $\beta_1 = 0.13$ ;  $p = NS$ )). Second, the relationships between transformational leadership and the other three dimensions of the non-financial performance (customer satisfaction (Panel A ( $\beta_1 = 0.20$ ;  $p < .05$ ), staff development, (Panel C ( $\beta_1 = 0.42$ ;  $p < .01$ )) and staff morale (Panel D ( $\beta_1 = 0.25$ ;  $p < .01$ )) were significant. However, while the amount of variance ( $R^2$ ) explained for customer satisfaction was significant ( $F = 3.88$ ;  $p < .05$ ), it was relatively weak ( $R^2 = 0.066$ ). Similarly, while the amount of variance ( $R^2$ ) explained for staff development was significant ( $R^2 = 0.172$ ;  $F = 11.30$ ;  $p < .01$ ), and it was considered to be moderate, and for staff morale also was significant ( $R^2 = 0.10$ ;  $F = 6.09$ ;  $p < .01$ ), and it was considered to be moderate, at best. Taken together, we believe these results offer an in-depth explanation for the relationship between transformational leadership and non-financial performance.

Hypotheses 4 and 5 were examined using the results presented in Table 2 and the decomposition of the zero-order correlation coefficients (presented in Table 3) between (i) transformational leadership style and hotel departments' financial performance linkage and (ii) between market competition and hotel departments' financial performance linkage. Since the relationships between financial and non-financial performance ( $H_1$ ) and between non-financial performance and transformational leadership ( $H_2$ ) were significant and positive, we conclude that there was an indirect and positive relationship between transformational leadership and

**Table 2**  
Results of regression—a path analysis.

Variables	Path coefficient	Coefficient value	T value	P
<b>Panel A</b>				
Equation (1): $\chi_1 = P_{12}\chi_2 + P_{13}\chi_3 + P_{14}\chi_4 + P_{1a}R_a$				
$\chi_2$ Non-financial performance	$P_{12}$	.485	5.541	.000
$\chi_3$ Transformational leadership	$P_{13}$	-.009	-.108	NS
$\chi_4$ Market competition	$P_{14}$	-.137	-1.637	NS
Adj. $R^2 = 25.3\%$ ; $R^2 = 27.3\%$ ; $F = 13.506$ ; $p < .001$ ; $n = 112$				
<b>Panel B</b>				
Equation (2): $\chi_2 = P_{23}\chi_3 + P_{24}\chi_4 + P_{2b}R_b$				
$\chi_3$ Transformational leadership style	$P_{23}$	.309	3.399	.001
$\chi_4$ Market competition	$P_{24}$	-.120	-1.316	NS
Adj. $R^2 = 10.5\%$ ; $R^2 = 12.1\%$ ; $F = 7.500$ ; $p < .001$ ; $n = 112$				

**Table 3**

Computation of direct, indirect, spurious and unanalysed relations.

Row number	Path linkages	Zero-order correlation	Direct effects	Indirect effects	Spurious effects	Unanalysed relation	Total relation
1.	From $\chi_1$ to $\chi_2$	.505	.485	–	.02	–	.505
2.	From $\chi_2$ to $\chi_3$	.327	.309	–	–	.018	.327
3.	From $\chi_2$ to $\chi_4$	–.167	–.120	–	–	–.047	–.167
4.	From $\chi_3$ to $\chi_1$	.170	–.009	.149	–	.03	.170
5.	From $\chi_4$ to $\chi_1$	–.216	–.137	–.058	–	–.021	–.216

financial performance existing via non-financial performance. Therefore Hypothesis H<sub>4</sub> was supported. But, since Hypothesis H<sub>3</sub> was not supported (that is relationship between market competition and non-financial performance was not significant), Hypothesis H<sub>5</sub> also could not be supported. The explanation is consistent with the results presented in Table 3 which revealed that the zero-order correlation between market competition and non-financial performance (from  $\chi_2$  to  $\chi_4$ ). Consistent with the results, the model (Fig. 2) shows that the indirect effect of only transformational leadership style was significant in explaining the financial performance through the non-financial performance.

## 6. Discussion and conclusion

This study was designed to examine the relationship between hotel general managers transformational leadership style, department managers perception of market competition and their department's non-financial and financial performance. The results provided a partial support for the study's hypotheses. The results revealed that a hotel's rooms and food and beverage departments' financial performance is influenced by the departments' non-financial performance, which in turn is influenced by the hotel general manager's practice of transformational leadership style. The results presented in Table 2 (Panel A) indicated that the overall model of the study was significant ( $F = 13.51$ ;  $p < .001$ ) and explained a reasonable amount of variance in the financial performance of the hotels and resorts in the study.

The findings of this study are consistent with Brewer (2002), Evans (2005) and Kaplan and Norton's (1992, 1993) findings that non-financial performance drives the financial performance. For instance, the Marriott Hotel and Hilton Hotel Corporations found that the BSC allowed them to assess the performance in more comprehensive manner and assisted in identifying operational deficiencies well before a negative effect on financial performance was felt (Denton and White, 2000).

Indeed, the relevant literature (Bass and Avolio, 1994, 1997; Burns, 1978) suggests that general managers' practice of transformational leadership style creates a work environment conducive to sharing the organisational vision, inspiring and intellectually stimulating and instilling higher order ideals and values among subordinates. Much of the literature reports that empowered employees experience high job satisfaction, greater organisational commitment and increased levels of performance (Arnold et al., 2001; Boerner et al., 2007; Conger and Kanungo, 1987; Xenikou and Simosi, 2006; Zwingman-Bagley, 1999). In particular, transformational leadership style is only effective in terms of improving the performance when subordinates are motivated (Xenikou and Simosi, 2006) by senior manager's display of fairness, cooperativeness and conscientiousness within the organization (Boerner et al., 2007).

In the context of the hotel industry, Davidson (2003), Hinkin and Tracey (1994) and Tracey and Hinkin (1996) highlight that customers in luxury hotels expect highly personalised customer service, because these hotels and resorts are supposed to be the

best. According to Hirst (1992), Martin and Bush (2006), Oh and Parks (1997), Voss et al. (1998) and Xenikou and Simosi (2006), employees who are highly satisfied and motivated, tend to better respond to customers' needs and avert service quality breakdown. As a result, empowered subordinates are able to achieve higher level of motivation and job commitment. Barsky (1992), Becker and Olsen (1995), Davidson (2003) and Wilkins et al. (2007) support this view, adding that excellent customer service is the key to sustaining customer loyalty, which then translates into improved financial performance. The findings of this study are consistent with those reported in the broader transformational leadership literature as well as in BSC literature. Therefore, we contend that this study supports and extends the body of knowledge in these areas.

The lack of a relationship between market competition and the hotel departments' financial performance through non-financial performance is in line with the relevant literature. Duncan (1972) for instance, pointed out that intense market competition reduces managers' ability to accurately predict market behaviour and warned that under such conditions, managers often end up making wrong decisions. Particularly in hotels, during intense competition times, competitors offer price reductions for their products and services to maintain and or secure a share of the market (Baum and Haveman, 1997; Buckhiester, 2003; Roginsky, 1995; Wall Street Journal, 1997). This is because, as previously noted in this paper, that the hotel's products and services are highly perishable in nature; if a hotel room is not sold on a particular night or a restaurant seat is not occupied during a particular meal service, the possibility of selling the same is lost. Hence, managers are under significant pressure to reduce their rates, leading to declined sales revenue.

Another plausible explanation for lack of the relation in the current study is that while the managers have little or no control over reducing the fixed costs in the short-term, the literature suggests that it is a common practice among hotel managers to cut back on the level of services (i.e., introducing lower staffing levels) to effectively manage financial resources (Buckhiester, 2003; Kim et al., 2004). We contend that by doing so the managers effectively neutralise the effect of market competition on performance, at least in the short-run.

## 7. Implications

The findings of the study have implications for practising managers and future research. First, the findings support previous literature suggesting that employees who perceive that they are involved in decision-making and organisational affairs are more likely to provide superior quality customer services than employees who do not hold a similar perception. On the whole senior manager's transformational leadership style plays an important role in contributing to the employee satisfaction, as such leaders are able to successfully motivate subordinates and develop high levels of job commitment among employees. As a result of superior customer service, hotels can achieve a competitive edge over their competitors and in the long-term experience repeat business and improved

financial performance. In other words, hotel managers ought to concentrate on improving customer service and financial performance would follow itself. Second, these research findings make a modest contribution to the hospitality literature and offers further opportunity to expand this research in other areas of the hospitality industry.

**8. Limitations**

There are four noteworthy limitations to this study, so readers are cautioned to interpret results with care. First, the effect of transformational leadership style and market competition on financial performance through non-financial performance needs to be observed over a long period of time in a longitudinal study. In this way, improvements and deterioration in performance could be meaningfully assessed. Second, there are several other variables that may impact on the relationships investigated in this study. For example, the effect of national culture, objective customer feedback, and sales revenue and profitability figures could also have an impact on the model. Third, simply relying on quantitative research does not allow for a complete understanding of the complex relationships. It is important to supplement the quantitative research with qualitative research such as inclusion of in-depth case studies or face-to-face interviews with selected hotel managers. Fourth, to generalise the results of the present study it is essential to replicate the study in other sectors of the hospitality industry.

**Appendix A**

Factor analysis results for departmental performance

Items	Factor 1	Factor 2
Achieving occupancy	0.104	0.834
Achieving ADR	0.259	0.600
Customer satisfaction	0.801	0.170
Repeat business	0.795	0.174
Staff development	0.786	0.205
Staff morale	0.721	0.296
Meeting operating budget	0.178	0.864
Cost reduction	0.337	0.779
Eigen-values	3.93	1.31
Explained variance (%)	49.06	16.38

**Appendix B**

Variable	Coefficient	Panel A (customer satisfaction)			Panel B (repeat business)		
		B	SEB	$\beta$	B	SEB	$\beta$
Constant	$\beta_0$	4.61	.77		4.80	.73	
Transformational	$\beta_1$	.20	.15	.20*	.20	.15	.13
$R^2$		.066			.028		
F-value		3.88*			1.59		
Variable	Coefficient	Panel C (staff development)			Panel D (staff morale)		
		B	SEB	$\beta$	B	SEB	$\beta$
Constant	$\beta_0$	2.21	.71		4.06	.78	
Transformational	$\beta_1$	.69	.15	.42**	.43	.16	.25**
$R^2$		.172			.100		
F-value		11.30**			6.09**		

\*  $p < .05$ .  
 \*\*  $p < .01$ .

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