

Daily practice of transformational leadership helps companies earn customer loyalty



WHAT WAS THE RESEARCH QUESTION?

How do daily leadership behaviours in a service-based business affect employee engagement and, consequently, customer satisfaction and loyalty?

Customer perceptions of service quality don't just determine customer satisfaction; they also influence customer loyalty, which ultimately drives revenue growth and profitability.

But it's hard to maintain a consistently high level of customer service in a service environment because so many aspects of the environment change from day to day, even minute to minute. Could daily leadership practices make a difference?

WHY IS THIS STUDY IMPORTANT?

It's long been understood that the employee experience impacts the customer experience through the service-profit chain¹:



But the traditional service-profit chain model is due for an update because it:

- Lacks two potentially significant elements: employee engagement and leadership.
- Does not recognize that elements of the chain, especially employee job satisfaction, fluctuate from day to day.

- Assumes that employee job satisfaction correlates with service quality, a connection recent research has brought into doubt.

HOW DID THE RESEARCHERS CONDUCT THE STUDY?

The researchers created a new version of the service-profit chain and then ran a study at two family restaurants.

THE NEW MODEL

The researchers made two main changes:

1. Replaced the HR element with **transformational leadership**. Managers who practice this style of leadership fulfill four criteria. They:
 - Provide an inspirational role model
 - Articulate a compelling vision
 - Encourage questioning and creative problem-solving
 - Show care for each employee as an individual

Susan Myrden and Kevin Kelloway, "Leading to customer loyalty: a daily test of the service-profit chain," *Journal of Services Marketing* 29, no.6/7 (2015): 585-98.



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2. Added a new link, **employee engagement**. Employee engagement is enthusiastic commitment, a willingness to exceed basic expectations, and it can strongly influence service quality.



THE STUDY

Twenty-nine servers at two family restaurants participated in the study. The average age was 23 years, and the average time with the restaurant was 14 months.

The study ran over five days. Each day, customer feedback cards were placed on each table. The cards contained brief measures of service quality, customer satisfaction, and customer loyalty. Customers were asked to complete the cards and drop them in a box on their way out of the restaurant.

At the end of each day, the servers were also asked for information. They completed a survey measuring their leaders' transformational leadership behaviours on that day, their job satisfaction on that day, and their engagement on that day.

WHAT WERE THE MAIN FINDINGS?

The data from the employees and the customers validated the revised model of the service-profit chain. The study showed that:

- Daily transformational leadership practices spark the chain reaction that starts with employee job satisfaction and results in customer loyalty.
- Employee engagement reliably predicts service quality.



HOW CAN YOU APPLY THE FINDINGS IN YOUR BUSINESS?

- Pay attention to employee engagement, which drives high performance.
- Make transformational leadership a daily practice. Think daily motivation rather than a weekly or monthly pep talk.
- Invest in transformational leadership training, which provides a cost-effective way to improve employee attitudes and performance.

1 The service-profit chain model was first described in a 1994 *Harvard Business Review* article by Heskett et al. You can check it out at <https://hbr.org/2008/07/putting-the-service-profit-chain-to-work>.