

## Linking leadership styles to customer satisfaction of Palestinian insurance sector: Mediating role of employees' performance



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### ABSTRACT

This study aims to examine the impact of leadership styles on customer satisfaction, in particular, transactional and transformational leadership styles. Furthermore, it examines the mediating role of employees' performance between leadership styles and customer satisfaction in the Palestinian context. Using data from a survey of 258 employees of insurance companies who have direct dealing with customers, this study tests a structural equation model that relates to leadership styles (i.e., transactional, and transformational), employees' performance and customer satisfaction. The evidence suggests that neither transactional, nor transformational leadership style impact customer satisfaction directly. On the other hand, the relationship between leadership styles and customer satisfaction is mediated partially by employees' performance.

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## 1. Introduction

Growing competition in the service sector has motivated the companies to invest all possible resources to improve the service quality in the eyes of customers (Salanova et al., 2005). Customer satisfaction is positively related to the market share of the company; profitability (Williams and Naumann, 2011); and financial performance (Swaminathan et al., 2014). And, the competitive strategic position of the firm (Aaker, 2008).

In spite of vital role of customer satisfaction, the current situation of customer satisfaction in the Palestinian insurance sector is not as wanted, 55% of insurance customers have changed the insurance company in 3 years or less. More than 44% of customers have the intention of switching to other insurance company. 30 % of customers assure that the perceived insurance services are below their expectations.; and 30% of in customers are totally dissatisfied (Asad, 2014).

Furthermore, Palestinian insurance companies have many problems in terms of customer satisfaction, the practices adopted by these companies led to decreasing the level of their service quality (El-Jafari et al., 2003); and there is a lack of

trust between insurers and customers (Quzat, 2009). Traditionally, researchers have focused on different types of service relationships (Guttek, 1995; Guttek et al., 1999). and paid less attention to internal organizational factors contributing to service quality (Colgate and Danaher, 2000). Hence, this study aimed to investigate the relationship between internal organizational functioning and customer satisfaction. More specifically, and based on the recommendations of other scholars to conduct further researches about the role of leadership styles in customer satisfaction (Namasivayam et al., 2014; Sila and Ebrahimpour, 2005). This study focuses on the effect of transactional and transformational leadership styles on customer satisfaction through their impact on employees' performance.

## 2. Literature review and hypotheses development

### 2.1. Transactional leadership style

Transactional leadership style refers to attract followers by their own self-interests and establish an exchange relationships with them (Othman et al., 2012). A transactional leader has the ability to manage the followers' behaviors and company's resources to achieve organizational objectives (Siewiorek et al., 2013). By actualizing predetermined goals and assuring the fulfillment of the followers toward their obligations and monitoring them (Antonakis et al., 2003).

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The philosophy of transactional leadership styles is embodied through 'benefits exchange' principle. In different words, employees get rewards for doing their jobs in a good way while the organization actualizes its objectives (Chaudhry and Husnain, 2012). Transactional leader is the one who motivates employees their self-interests (Othman et al., 2012). Thus, leader and follower represent a major part of the exchange process; both of them seek to meet their benefits. Furthermore, transactional leadership style consists three part: first, contingent rewards; second, active management by exception; and third, passive management by exception (Ali et al., 2014).

Contingent rewards refer to how the leaders clarify what is required and what are the roles of employees in the company's objectives achieving process, it is also facilitating the employees' job by providing the needed materials. And the leaders provide rewards and benefits for followers' fulfillment (Antonakis et al., 2003; Bennett, 2009). Furthermore, management-by-exception (active) - it refers to the continuous focus on standards of performance by the leader to assure goals achievement. Finally, management-by-exception (passive) - according to this part of transactional leadership style, leaders take their actions at the time of mistakes only or when the employees did not follow the meet the contractual obligations (Antonakis et al., 2003; Bennett, 2009).

Theoretically, transactional leadership style and customer satisfaction can be linked through resource based view theory (RBV) (Gurbuz and Mert, 2011; Hassan et al., 2013), and the theoretical framework of leadership for quality (Sakthivel et al., 2005). This linkage takes its place because the transactional leader focuses on implementing firm's strategy and actualizing its objectives. The leader who adopts this style rewards and punishes the followers according to their performance. Thus, this leadership style has a significant contribution in to organization's performance improvement (Birasnav, 2014; Tosi, 1982).

Empirically, literature review revealed that many researchers examined the effect of the transactional leadership style on customer satisfaction (Ensley et al., 2006; Longe, 2014), and concluded that, transactional leadership style has a positively relationship with firm performance and customer satisfaction. Based on that this study hypothesizes the following:

H1: There is a significant positive relationship between transactional leadership style and customer satisfaction.

## 2.2. Transformational Leadership Style

A transformational leader refers to the leader who can extracts from the employees more than what they think they can do (Basu and Green, 1997; Obiwuru Timothy et al., 2011). A transformational leader motivates the employees to achieve results beyond their expectations (Rafferty and Griffin, 2004). This kind of leaders motivate the soul of the

followers (Labby et al., 2012). Hence, transformational leaders have a critical role in affecting the organizational attitudes and company's outcomes (Kelloway and Barling, 2000; Obiwuru et al., 2011).

Transformational leadership style has five components. First, idealized influence (attributes), which means leader's charisma; she or he is very self-confident and a represents a source of power and focuses on ethics. Second, idealized influence (behavior) - this feature refers to the behaviors of the leader, which is based on clear goals and values, mission and vision. Third, inspirational motivation - it can be represented by how the leader draw their future in a positive way, this can be done through motivating and clarifying the followers to make their objectives achievable (Antonakis et al., 2003; Wang et al., 2014). Transformational leaders use very simple ways in order to communicate the important values and goals, and focus on high level of employees' commitment through continuous motivations (Bass, 1985; Bennett, 2009).

Fourth, intellectual stimulation - it refers to how leaders motivate and encourage the employees to be creative, and to develop their problem solving abilities. This can be done through asking them about assumptions and cases related to the organizational objectives and think to find the solutions in a creative way (Bass, 1985; Hu et al., 2012). Fifth, individualized consideration - this characteristic refers to the ability of the leader to participate in self-actualization of the employees by making them satisfied, and providing a continuous support and needed advices (Antonakis et al., 2003; Bennett, 2009).

Transformational leadership style impacts customer satisfaction, it plays a vital role in empowering the responsive capabilities of followers and the level of service innovativeness. Service responsive capability refers to the ability of the employee to satisfy the needs of customers through an effective and quick response (Avolio and Bass, 1995; Jayachandran et al., 2004). Transformational leader performs this role through her/his unique behavioral components, inspirational motivation, idealized influence, intellectual stimulation, and individualized consideration. Thus transformational leader acts the role of coach and mentor to the employees, and the followers develop the skills and techniques that could help them in several ways such as fulfilling the customer's needs (Chang, 2011).

Besides the theoretical linkages between transformational leadership style and customer satisfaction via RBV theory (Gurbuz and Mert, 2011; Hassan et al., 2013), and the theoretical framework of leadership for quality (Sakthivel et al., 2005), many prior studies examined the relationship between transformational leadership style and customer satisfaction and conclude that transformational leadership style has a positive relationship with customer satisfaction (Avolio and Bass, 1995; Chang, 2011; Jayachandran et al., 2004). And this lead as to the following hypothesis:

H2: there is a significant positive relationship between transformational leadership style and customer satisfaction.

According to literature review, the impact of the leadership styles on customer satisfaction has a long history, and several contradictions (Ekvall and Ryhammar, 1998). Some researchers concluded that there is a positive and significant relationship between leadership style and customer satisfaction (Mohammadi, 2013). And others assured that the relationship between leadership style and customer satisfaction is positive (Hassan et al., 2014; Parzinger and Nath, 2000). While, some studies examined the impact of leadership styles on customer satisfaction by using mediators (indirectly) (Chan et al., 2012); such as salespeople's customer orientation (Stock and Hoyer, 2002); and employees' satisfaction (Namasivayam et al., 2014). Moreover, other researchers concluded that, leadership styles have no relationship with customer satisfaction (Sila and Ebrahimpour, 2005; Wilson and Collier, 2000).

Based on the above debate about the relationship between leadership styles and customer satisfaction, this paper uses employees' performance as a mediator in the relationship between leadership styles and customer satisfaction, as it has not been used in this situation according to literature review, and this represent the major contribution of the present paper. Next paragraphs shows the employees' performance

### 2.3. Employees' performance

Employees' performance performs a vital role in the success of a firm's brand. Also, it is the reason behind its failure (Wallace and De Chernatony, 2009). The reason behind this is the role of employee's behaviors in attaining organizational objectives (Liao and Chuang, 2004; Šikýř, 2013). Employees' performance is defined as the way that the employees behave to actualize the objectives and aims that determined by the management of the organization (Abdullah and Rashid, 2013). Service employees perform a strategic role. They translate the concept of customer orientation into facts through service providing process and service quality (Gountas et al., 2014; Hartline et al., 2000). Usually, the first contact of the customers is with the employee who is providing the service; thus, the customer's perception is created after this dealing (Hunt and Davis, 2012). Employees' performance is embodied through the interaction between the employee (service provider) and the customers of the firm. It can be seen as a mediator between the process of employment and customer satisfaction. In other words, customers have assured that employees' performance has a significant impact on customers' perceptions (Nguyen and Leclerc, 2011); and customers' evaluation of services (Zhang et al., 2011). Thus, employees' performance is a critical factor in determining the perceived value of the service (Gagić et al., 2013; Mittal and Lassar, 1996).

In the service sector, the satisfaction of customers depends on the face-to-face interaction between customers and employees (Bitner et al., 1994; Walsh et al., 2012); and as a result of the intangible and interactive nature of services, customers often rely on the behavior of service employees when judging the quality of a service (Hennig, 2004). Besides, employees' performance affects the work quality and service (Griffin et al., 2012).

Furthermore, this study uses employees' performance as a mediator between leadership styles and customer satisfaction. According to Baron and Kenny (1986), a mediator is used to explain why or how the IVs impact the DV. A variable acts as a mediator when it meets three conditions:

1. Variations in levels of the independent variable significantly account for variations in the mediator;
2. Variations in the mediator significantly account for variations in the dependent variable;
3. When conditions 1 and 2 above are controlled, a previously significant relation between the independent and dependent variables is no longer significant.

Theoretically speaking, Leadership styles and employees' performance are linked through the Path-Goal theory, and one of the most important strategic role of the leaders is to empower the psychological situation of their employees to keep them highly motivated towards their jobs (House, 1971; Stinson and Johnson, 1975). Many studies examined the impact of leadership styles on employees' performance (Abbas and Yaqoob, 2009; Purvanova et al., 2006). Leadership styles represent critical factors that affect employees' performance (Garg and Rastogi, 2006). In the same time, the third factor of the Three-Factor theory of customer satisfaction is the performance of service employees (Füller and Matzler, 2008; Matzler et al., 2003).

Along the same line, empirical studies in prior literature revealed that employees' performance is a critical factor in shaping the perceived value of the service quality and customer satisfaction (Abbasi and Alvi, 2013; Roy, 2012). In the same time, leadership styles affect employees' performance positively (Abbas and Yaqoob, 2009; Bono and Judge, 2003; Lu and Yang, 2010; Purvanova et al., 2006). This study uses extra-role and in-role performance as the dimensions of the employees' performance.

#### 2.3.1. In-role performance

In-role refers to behaviors that are consistent with formal job descriptions (Varela and Landis, 2010). It is defined as the formal requirements or activities that the employee is expected to fulfill it contributes indirectly or directly to the technical core of the organization (Wu et al., 2012). So, it is a compulsory requirement for the employees to get the compensation and any other benefits from the organization (Chen et al., 2014).

Previous studies revealed that there is a relationship between leadership styles and in-role performance, leadership styles aiming to clarify the tasks for the employees (Pieterse et al., 2010). And many researchers examined the impact of leadership styles on in-role performance and the outcomes was positive (Chen et al., 2014; Peterson et al., 2012). Similarly, The relationship between in-role performance and customer satisfaction was studied by many scholars and they conclude that in-role performance has a positive effect on customer satisfaction (Namasivayam et al., 2014; Yavas et al., 2013).

### 2.3.2. Extra-role performance

Extra-role performance refers to employees' performance that go beyond the formal task requirements (Lam et al., 2013). Also, it can be called organizational citizenship behaviors (OCB), it is defined as discretionary behaviors on the part of an employee that are thought to directly promote the effective functioning of an organization without necessarily directly influencing the productivity of the employee (Bakker et al., 2012).

According to prior literature extra-role performance affects customer satisfaction, many researchers concluded that extra-role performance has a positive relationship with customer satisfaction (Kane et al., 2012; Schaufeli, 2013). This effect could be justified because extra-role performance plays a vital role in translating the climate of service companies into customer satisfaction and other components of organization's performance (Yavas et al., 2013). Similarly, leadership styles affect extra-role performance, several studies concluded that leadership styles have a positive relationship with extra-role performance (Biswas and Varma, 2011; Lam and O'Higgins, 2012).

Based on the previous discussion the present study hypothesizes the following:

H3: Employees' performance mediates the relationship between leadership styles and customer satisfaction.

H3a: In-role performance mediates the relationship between Leadership styles and customer satisfaction.

H3b: Extra-role performance mediates the relationship between Leadership styles and customer satisfaction.

The previous paragraphs clarified the literature review and the hypotheses of the present study. Furthermore, the proposed theoretical framework is illustrated in Fig. 1.

### 3. Research methodology

Survey questionnaire with a cover letter was personally distributed to the employees who have direct dealing with customers. We chose these employees as a source of information for this study because they are knowledgeable about the customer

satisfaction and we followed the same logic of several previous studies (Cantarello et al., 2012; Rogg et al., 2001). A total of 358 questionnaires were distributed in April to June 2015. A total of 259 questionnaires were returned. 11 of the returned questionnaire had major missing answers. Consequently, a total of 258 completed questionnaires, which represent a response rate of 75.1%, were used to perform data analysis. For the purpose of testing response bias, we perform t-test for early and late response as suggested by (Armstrong and Overton, 1977). No statically significant differences were found in the mean score on the transactional leadership style, transformational leadership style, employees' performance, and customer satisfaction between the early and late respondents.

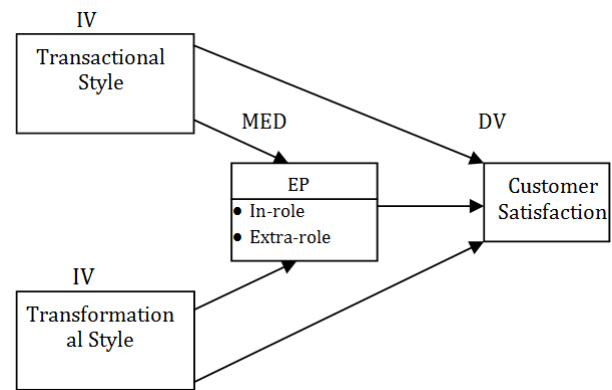


Fig. 1: Theoretical framework

### 4. Variables measurements

This study is based the framework that clarified in Fig. 1 above, customer satisfaction (DV) was measured by using the instrument of Tan and Tracey, Respondents were asked to choose their preference from a five point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) (Tan and Tracey, 2007). Transformational and transactional leadership styles (IVs) were measured by using items adopted from Amitay and others, Respondents were asked to choose their preference from a five point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) (Amitay et al., 2005). Similarly, employees' performance (mediator) was measured by using the items adopted from Tjosvold and Yu, Respondents were asked to choose their preference from a five point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) (Tjosvold and Yu, 2004).

### 5. Data analysis and research results

Using SmartPLS 2, we analyzed the collected data. Table 1 provides outer convergent validity statistics for all items with respect to its variables. All factor loading of the research measurements exceed the cut-off 0.70, which reflect the consistency between construct items (Hair et al., 2010). Similar, reliability test of this study was confirmed as all value of

composite reliability exceed the recommended cut-off 0.70 and range between 0.930 to 0.973 as presented in Table 1. In addition, the recommended standard value of average variance extracted (AVE) was found to be greater than 0.50, in order to ensure that the latent variable has the ability to explain more than half of the variance of its indicator on average (Fornell and Bookstein, 1982). Latent

variable correlation which examining the correlations between the measures of potentially overlapping constructs appear in Table 2. The table clearly shows that the values of all square root of AVE (Bold values) exceed the correlation with other constructs (elements in the rows and columns), which manifest the discriminant validity of this study.

**Table 1:** Outer model, convergent validity and composite reliability

Construct	Items	Loading	CR	AVE	
CS	Customers are satisfied with the service quality.	0.903	0.956	0.785	
	Customers are satisfied with service features.	0.917			
	Customers are loyal.	0.881			
	Customers refer new customers to purchase.	0.842			
	Customers feel we offer high value services.	0.918			
	Customers perceive the value of their money	0.851			
TAL	Makes clear expectations.	0.868	0.930	0.729	
	Takes action before problems become chronic.	0.879			
	Tells us standards to carry out work.	0.892			
	Works out agreements with me.	0.860			
	Monitors performance and keeps track of mistakes.	0.765			
TFL	Instills pride in me.	0.896	0.971	0.806	
	Spends time teaching and coaching.	0.873			
	Considers moral and ethical consequences.	0.874			
	Views me as having different needs, abilities and aspirations.	0.913			
	Listens to my concerns.	0.893			
	Encourages me to perform.	0.923			
	Increases motivation.	0.911			
	Encourages me to think more creatively.	0.901			
In-role	I achieve Job objectives	0.887	0.970	0.786	
	I meet criteria for performance.	0.870			
	I demonstrate expertise in all job-related tasks.	0.910			
	I fulfill all job requirements	0.898			
	I manage more responsibility than assigned.	0.865			
	I appear suitable for a higher level role.	0.857			
	I am competent in all areas of the job.	0.904			
	I perform well and do tasks as expected.	0.901			
	I plan and organizes to achieve objectives of the job and meet deadlines.	0.883			
Extra role	I help other employees with their work when they have been absent.	0.801	0.949	0.628	
	I exhibit punctuality arriving at work on time.	0.797			
	I volunteer to do things not formally required by the job.	0.803			
	I take initiative to orient new employees to the department	0.680			
		I help others when their work load increases.	0.678		
		I coast toward the end of the day.	0.772		
		I give advance notice if unable to come to work.	0.754		
		I assist my supervisor to accomplish his duties.	0.724		
		I make innovative suggestions to improve the department quality.	0.745		
		I do not take extra breaks.	0.811		
	I willingly attend functions not required by the organization, but helps in its overall image.	0.804			

**Table 2:** Discriminant validity- square root of AVE

Constructs	CS	Extra	Tal	TFL	In-role
CS	<b>0.886</b>				
Extra	0.634	<b>0.792</b>			
TAL	0.510	0.610	<b>0.854</b>		
TFL	0.544	0.556	0.834	<b>0.898</b>	
In-role	0.588	0.751	0.556	0.508	<b>0.786</b>

As this study assured its measurements validity and reliability, we preceded the bootstrapping approach to test research hypotheses. Path coefficient of the research hypotheses illustrated in Table 3. The first set of research hypotheses (H1-H2) predicted that, transactional and transformational

leadership styles are positively associated with customer satisfaction. The coefficient on the path from each of leadership styles to customer satisfaction (H1, H2) was rejected as the p-value is greater than 0.05. in particularly, (P = 0.1.101), (P = 0.365) respectively. This concludes that

transactional and transformational leadership styles have no direct effect on customer satisfaction at

Palestinian insurance sector.

**Table 3:** Path coefficient of the research hypotheses

Relationships	Std. Beta	Std. Error	P-value	Decision
TAL ->CS	0.097	0.088	1.101	Rejected
TFL -> CS	0.038	0.103	0.365	Rejected

Significant at P\* <0.01

Similarly, bootstrapping was run to test the mediating role of employees' performance between

leadership styles and customer satisfaction H3. The result is illustrated in Table 4 and Table 5.

**Table 4:** Mediating role of EP between TAL and CS

Relationships	Std. Beta	Std. Error	P-value	Decision
TAL → EP (Path a)	0.594	0.065	0.000	Accepted
EP → CS (Path b)	0.477	0.084	0.000	Accepted
TAL → CS (Path c')	0.267	0.081	0.000	Accepted

Significant at P\* <0.01

Furthermore, the three conditions of mediating have been met. Thus, it can be concluded that Employees' performance mediates the relationship between transactional leadership style and customer satisfaction at t value > 1.96. Consequently, the mediating role of in-role and extra role performance

between transactional leadership style and customer satisfaction have been examined and the outcomes revealed that also the dimensions of employees' performance mediate the link between transactional leadership style and customer satisfaction.

**Table 5:** Mediating role of EP between TFL and CS

Relationships	Std. Beta	Std. Error	P-value	Decision
TFL → EP (Path a)	0.607	0.062	0.000	Accepted
EP → CS (Path b)	0.361	0.070	0.000	Accepted
TF → CS (Path c')	0.454	0.059	0.001	Accepted

Significant at P\* <0.01

As shown in Table 5, employees' performance mediates the relationship between transformational leadership style and customer satisfaction at t value > 1.96. Moreover, in-role and extra-role performance mediate the relationship between transformational leadership style and customer satisfaction. Based on that, H3 has been accepted.

**6. Discussion and conclusion**

This paper sought to examine the effect of transactional and transformational leadership styles on customer satisfaction of Palestinian insurance sector, and then to examine the mediating role of employees' performance between leadership styles and customer satisfaction. The first hypothesis of this study hypothesized that there is a significant positive relationship between transactional leadership style and customer satisfaction. The coefficient on this path was rejected at (P = 0.097). This concludes there is no direct relationship between transactional leadership style and customer satisfaction. Moreover, the second hypothesis of this study hypothesized that there is a significant positive relationship between transformational leadership style and customer satisfaction. The coefficient on this path was rejected at (P = 0.038). This concludes there is no direct relationship between transformational leadership style and customer satisfaction.

Along the same line, literature review revealed that very few researches tested the direct relationships between transactional and transformational leadership styles and customer satisfaction and found these relationships positive and significant. For instance, Mohammadi (2013) and Hassan et al. (2014), the earlier study examined the impact of leadership as a TQM critical factor on customer satisfaction in Iranian context and concluded that the result is positive and significant. The second study also examined the role of leadership styles as a TQM critical factor on customer satisfaction in Pakistan, and the result was positive. On the other hand, large number of previous studies concluded that the relationship between Leadership styles and customer satisfaction is indirect relationship, and tested it through other variables (Mediators). Based on that, this study considers its results as a logical finding; in other words, the main role of leadership of the company is to make decisions, support the employees and work processes with the necessary needs for achieving the best outcomes, provide the appropriate environment for working. So, behaviors and decisions of the leadership have no direct results, unless these decisions interact with other aspects in the organization, which leads to develop the level of customer satisfaction. The leaders of insurance companies in Palestine have to give more attention to the role of leadership styles and focus to use this

tool in order to empower the level of customer satisfaction.

Determine whether Employees' Performance play a mediating role the relationship between Leadership Styles (transactional and transformational) and customer satisfaction in Palestinian insurance sector. For that, Hypothesis 3 states that "Employees' performance mediates the relationship between leadership styles and customer satisfaction", was examined using PLS-SEM path modeling analysis. The finding shows that relationship between leadership styles and customer satisfaction is mediated partially employees' performance plays partial mediating role in the relationship between leadership styles and CS.

According to the results of this study, transactional and transformational leadership styles within insurance companies generate and develop the level of customer satisfaction. No previous studies tested the mediating role of employees' performance between leadership styles and customer satisfaction according to literature review and this is the major contribution of the present study. The findings of this study come in line with other scholars who concluded that, leadership styles have a positive impact on employees' performance. Also, employees; performance has a positive impact on customer satisfaction (Abbas and Yaqoob, 2009; Lu and Yang, 2010). Leaders play a critical role, they formulate the values of the organizational such as quality orientation; customer orientation. Thus, the functional values of the organization are affected by leaders' motivation (Auh et al., 2014). Leaders motivate their employees through their daily behaviors. They show them how to do the job (management by example). Moreover, the present study tested the mediation role of in-role performance and extra-role performance (the dimension of employees' performance) on the relationship between leadership styles and customer satisfaction (H3a, H3b). This finding was that all the conditions of mediating have been met by this relationship.

Based on that, the leaders of insurance sector in Palestine must adopt the both leadership styles, since these styles represent the good way toward developing the performance of insurance sector employees in Palestine and then achieving the targeted level of customer satisfaction.

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