

**From Leadership to Customer Loyalty:
Reconceptualizing the Service-Profit-Chain**

by

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Abstract

With consumers becoming progressively more sophisticated in their evaluations of their service consumption experiences companies are forced to focus greater attention on the nature and quality of the service provided to customers, making front-line employees of central importance for the customer experience in the service industry. An employee's attitude and actions during the service provision can leave an impression on the customer, contributing to their level of satisfaction, loyalty and, ultimately, financial performance for the firm. This paper examines a well-known framework, the service-profit-chain, which suggests that human resource practices have the ability to effectively impact employee attitudes and behaviors in ways that can improve both service quality for customers and overall performance for the firm. However, this research contributes to the literature by proposing an expanded version of the framework, adding new predictors of customer outcomes through leadership behaviors and employee engagement. The results from two field studies suggest a number of key findings. First, the relationship between employee attitudes and performance may have been underestimated in the past due to the way the relationship has been studied. The inclusion of additional predictors better defines this relationship and equips organizations with a clearer picture in delivering high quality service, and ultimately giving firms a better chance of achieving beneficial customer outcomes. In addition, the use of a daily diary study suggests that in certain service contexts, it may be much more advantageous to study the theorized relationship in its transient form (i.e., daily, weekly, etc.) versus as stable and enduring attitudes. This research indicates that front-line service employees' level of engagement will change from day to day, suggesting to managers that leadership behaviors must be exhibited regularly (i.e., daily) in order to ensure high level customer service is given. Implications for research and practitioners are discussed.

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CHAPTER 1: INTRODUCTION

Due to the accelerated growth in the service sector, marketing researchers are recognizing a paradigmatic shift from the exchange of tangible goods toward a service-based model of exchanges in which the customer plays a pivotal role (Lovelock & Gummesson, 2004; Vargo & Lusch, 2004). With consumers becoming progressively more sophisticated in their evaluations of their service consumption experiences in addition to increased competition among service providers, companies are forced to focus greater attention on the nature and quality of the service provided to customers, making front-line employees of central importance for the customer experience. Results indicate that excellence in service is a necessary element for achieving success in today's highly competitive marketplace (Berry, 1999; Carrillat, Jaramillo, & Mulki, 2009). Ultimately, the success of service organizations often depends on the performance of its front-line employees (Chung & Schneider, 2002; Hartline & Ferrell, 1996; Singh, 2000) as the behaviors of front-line service providers are crucial to customer evaluations of service quality. This can be an important source of competitive advantage as high-performing human resources are harder for competitors to duplicate than any other organizational resource.

For service organizations, front-line employees are organizational representatives as they act in boundary spanning roles (Benoy, 1996), being, in many cases, the only visible human element to consumers during a service encounter. They occupy one of the most demanding roles in the service organization as they are expected to be efficient at executing tasks, while at the same time being friendly and helpful when dealing with

customers. Service employees have the ability to satisfy or dissatisfy customers. An employee's attitude and actions during the service provision can leave an impression on the customer, contributing to their level of satisfaction, loyalty and, ultimately, financial performance for the firm (Ostroff & Bowen, 2000; Rust & Zahorik, 1993). Therefore, from the customer's perspective, the perception of service quality greatly depends on the employee-customer interaction. Unfortunately, many firms, motivated primarily by profitability, fail to see the important link between front-line employees and customers.

This research presents two studies that help to further our understanding of the relationship of the organization, its front-line employees and its subsequent effect on customers in a service-based environment. In the first study, an expanded version of an established framework was proposed to better define the relationship between leadership behaviors and employee attitudes, which will inherently enhance the predictability of beneficial customer outcomes. More specifically, data were collected from university employees in a higher education based environment (i.e., university) to test the hypothesized mediation of transformational leadership behaviors and employee variables (i.e., job satisfaction and employee engagement). In addition, data were collected from students to test the relationship between employee attitudes and behaviors and customer outcomes (i.e., perceptions of service quality and customer satisfaction). In the second study, a daily diary approach was used to collect data from both employees and customers in a restaurant-based environment to examine whether day-level perceptions of transformational leadership behaviors had a positive effect on job satisfaction, whether job satisfaction had a positive effect on employees' level of daily engagement and

whether this level of engagement had a positive effect on customer attitudes and behaviors during that particular service consumption experience. These studies aim to increase our knowledge of the employee-customer interface, better equipping both researchers and practitioners with the knowledge and tools to better understand this relationship.

Almost twenty years ago, a framework was proposed suggesting that various human resource practices (i.e., workplace design, job design, employee selection and development, employee rewards and recognition, tools for serving customers) have the ability to effectively impact employee attitudes and behaviors in ways that can improve service quality for customers and organizational performance, suggesting, for the first time, the critical link between a firm's employees and customers. This is the essence of the model known as the service-profit-chain (Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994). This stems from the notion that if organizations treat their employees well, employees will, in turn, provide a higher level of service to their customers (Grönroos, 1983). Therefore, it is important to understand the aspects of front-line employees' roles that could contribute both to improving work performance and to strengthening the firm's competitive position (Slåtten & Mehmetoglu, 2011).

For a significant period of time, and proposed by the service-profit-chain, organizations measured their employees' level of job satisfaction as a predictor of customer outcomes and bottom-line performance. However, due to the inconsistent predictability of the job satisfaction construct, researchers have been searching for better

indicators of customer attitudes and behaviors in order to help businesses cope in extremely competitive environments. Therefore, additional empirical research is needed to determine how to better predict both customer and business outcomes. In recent years there has been increasing interest in the motivational construct of employee engagement and the role it plays in organizational performance (Kular, Gatenby, Rees, Soan, & Truss, 2008) as it has been suggested that engaged employees have the ability to drive bottom-line results. Motivation has been cited as an important element in predicting the quality of an employee's performance, encouraging managers to pay closer attention to generating such motivation in his/her employees to guarantee future service competitiveness for the firm (Salanova, Agut, & Peiró, 2005). Specifically, a relationship has been noted between employee engagement and profitability through employee retention, higher productivity, customer satisfaction and sales (Hewitt Associates LLC, 2005). However, according to some, employee engagement appears to be on the decline in firms today (Bates, 2004; Sanborn, Malhotra, & Atchison, 2011). Based on a study of more than 3,000 North American employees, it was found that 19% of employees were disengaged, 52% were only moderately engaged and 29% were fully engaged (BlessingWhite, 2008). In addition, it is estimated that disengaged employees are costing U.S. companies as much as \$350 billion a year (Rath & Conchie, 2009; Sanford, 2002), which affords the construct of engagement an important concept for future research.

Engagement represents employees' enthusiasm, passion and commitment to their work and to the organization, the willingness to invest themselves and expand their discretionary effort to help the employer succeed, which goes beyond merely being

satisfied with the job or basic loyalty to the employer (Erickson, 2005; Macey & Schneider, 2008). Although numerous definitions have been presented over the past decade (Saks, 2006), there appears to be agreement that employee engagement has beneficial consequences for the firm. Whereas satisfied employees may be happy with their jobs, engaged employees are believed to care about the success of their organization and possess the motivation needed for higher levels of effort and productivity. Erickson (2005) notes that improving engagement is one of the most critical elements that corporations need to address in order to increase productivity in the future, while other researchers argue that the existence of engaged employees can present a competitive advantage to the firm (Bakker, 2009; Christian, Garza, & Slaughter, 2011; Kular et al., 2008; Macey & Schneider, 2008).

Although employee engagement is beginning to receive a lot of attention in the academic literature, it still represents a relatively new construct. Despite the suggested benefits of engagement to an organization, we still have limited knowledge about what causes employees to become engaged and what its associated outcomes may be. Therefore, the challenge is creating the conditions for the establishment of employee engagement because companies that get these conditions right will have accomplished something that competing firms will find very difficult to imitate. Therefore, there is a need for more research not only on the effects, but also on the antecedents of employee engagement (Saks, 2006; Slåtten & Mehmetoglu, 2011).

A number of authors have suggested that an influential element in the promotion of employee engagement are the behaviors of a transformational leader (Macey &

Schneider, 2008), as transformational leaders, while managing many of the contextual elements that influence a person's work experience (Bhatnagar, 2007; Erickson, 2005; Macey & Schneider, 2008), have the ability to enhance the intrinsic motivation in their followers (Richer & Vallerand, 1995) to achieve organizational goals. Transformational leaders display certain characteristics, such as espousing ideals, acting as role models and showing care and concern for each subordinate and have the potential to effectively influence employees' behaviors and responses in ways that improve service quality for customers. Numerous studies have found transformational leadership behaviors to be positively associated with followers' attitudes, motivation, and individual, group and organizational performance (Judge & Piccolo, 2004). Despite the assumed link between leadership and engagement, organizations know little about how leaders can affect the engagement of their employees as relatively few empirical studies have examined the relationship. As a result, it leaves managers ill equipped without proper knowledge of what leadership behaviors to adopt. Therefore, although various human resource management practices have been found to be significant predictors of job satisfaction (e.g., Allen, Shore, & Griffeth, 2003), empirical research is needed to examine how leadership behaviors affects employee attitudes, including feelings of satisfaction and engagement, and behaviors, ultimately impacting customer and organizational outcomes.

Contributions

This study extends the literature on transformational leadership, engagement and their link to the service-profit-chain in several ways. First, the study presents a well-known

model that links organizational practices, employee attitudes and behaviors, as well as customer and business outcomes. As better predictors of bottom line performance are needed, this study presents an expanded version of the model with the inclusion of employee engagement. Second, it was supported, through the service-profit-chain framework, that human resource management practices contribute to the success of the firm by increasing job satisfaction. However, the role of the leader in fostering engagement has received limited attention (Bakker, Albrecht, & Leiter, 2011). The integration of transformational leadership theory with the theory of employee engagement and satisfaction serves to increase our knowledge about behaviors that are more conducive to the likelihood that employees will become engaged. This study explores the impact of transformational leadership behaviors on job satisfaction and engagement, as a potential mechanism by which leaders may influence its followers, ultimately contributing to perceptions of service quality and increasing satisfaction and loyalty in its customers, which is beneficial not only to the organization but also to the employee and to the customer.

The study also presents a number of methodological contributions. First, there has been much talk in the literature as to whether engagement is a stable and enduring state, or if it represents a momentary or transient state. Therefore, this research presents two studies that examine the effects of each type of engagement. The first study uses a cross-sectional multi-level analysis to test the enduring state of the construct and the second study explores the transient type of engagement using a diary study.

Second, commonly noted as a limitation in the literature is the failure to collect data from multiple sources (i.e., employee and customer) when investigating perceptions of service quality during a service encounter with a front-line employee. In both studies, this issue was addressed as information was collected not only from customers but also from its employees, allowing for more accurate and objective conclusions to be drawn.

Overall, this research attempts to improve our understanding about the service-profit-chain. It shows how employees react to leadership behaviors by way of satisfaction levels, coupled with their affective and motivational responses (i.e., engagement) and its impact on the organization, financial and otherwise.

This research also presents a number of practical contributions for managers in service-based businesses. With a better understanding of both the effects of engagement and the mechanism by which leaders can stimulate employee engagement, the benefits will not only be realized by businesses, but also by employees and customers.

Due to amount of interaction with the end-customer, front-line employees have a direct influence on customer outcomes, which can be an important source of competitive advantage as high-performing human resources are more difficult for competitors to replicate than any other organizational resource. By increasing customer perceptions of service quality through highly engaged employees, a firm can increase its competitive position in a highly saturated market through customer responses such as repeat purchases and advocacy for the business.

The research also suggests potential cost benefits to an organization. Traditionally, the service-profit-chain framework suggested that the implementation of a number of

human resource management practices would increase a company's bottom line performance. However, because the cost of increasing beneficial leadership behaviors is substantially lower than instituting any number of human resource management practices, financially companies will benefit. Therefore, this research has many beneficial consequences, both theoretically, methodologically and practically.

CHAPTER 2: LITERATURE REVIEW

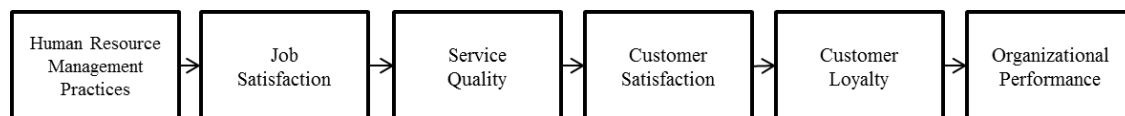
The Service-Profit-Chain

One of the more prominent theories explaining the link between a company's employees, customers and their connection to overall firm performance is the service-profit-chain. This framework, proposed by Heskett et al. (1994), is an integrative framework suggesting that satisfied employees, achieved internally through human resource management practices, can deliver high quality service that will meet or exceed customer expectations, creating satisfied customers; satisfied customers would then, in turn, become loyal to the firm, leading to improved business performance through outcomes such as repurchase and advocacy (see figure 1). This framework, which is particularly well suited for firms within the service sector due to the interaction between a front-line employee and a customer, represents an intersection of research in human resources, organizational behavior and marketing.

The unique nature of services, including the simultaneous production and consumption, intangibility of service processes and outcomes, and customer involvement in service production (Bowen & Schneider, 1988), highlight the importance of the

interaction between front-line employees and customers. Therefore, the performance of front-line employees, or their behaviors of helping and serving customers to address their needs (Liao & Chuang, 2004), directly influences perceptions of service quality and customer satisfaction. This framework renders itself even more important due to the saturation of the service sector worldwide. For instance, services account for 60% of world gross domestic product (GDP) and dominate economies in most countries (e.g., 70% of the GDP in Canada, 78% in the United Kingdom, 72% in Japan, and 80% in the United States) (The World Factbook, 2011).

Figure 1: *The Service-Profit-Chain*



An important premise of Heskett et al.'s (1994) proposition is that there is a causal order in the links within the service-profit-chain. However, there is very little empirical evidence to support this proposition. In order to support the framework in its entirety, it would require data that are collected sequentially from multiple sources (i.e., employees, customers and businesses), which would allow for testing of a lagged effect. However, a small number of exceptions do exist that have attempted to provide support for all of the linkages. Loveman (1998) provided an empirical examination of the entire chain from a banking context and found support for all of the linkages. Similarly, Harter, Schmidt and Hayes (2002) conducted a large scale study on approximately 8,000 business units, which established the link between employee satisfaction and various customer outcomes such

as customer satisfaction-loyalty and firm performance (i.e., profits). However, this was a meta-analytic study, conducted on survey data collected over a wide range of years making it impossible to link units and customer experiences. Finally, Yee, Yeung and Cheng (2011) collected data from over 200 high-contact service shops and found that most of the proposed relationships in the service-profit-chain are highly significant, supporting Heskett et al.'s (1994) original proposition. However, in this study, shop employees provided the information on levels of customer satisfaction and loyalty as opposed to the customers themselves, which limits the accuracy of the conclusions. Therefore, there is a need for a study that tests the linkages in the chain by simultaneously collecting data from employees, customers and businesses.

Customer Outcomes of the Service-Profit-Chain

Service quality, customer satisfaction, service loyalty and firm performance:

According to Heskett et al. (1994), the service-profit-chain proposes that if customers are provided with high quality service, many beneficial outcomes will result. For instance, after a number of positive service encounters, feelings of satisfaction will be felt by the customer, leading to beneficial outcomes such as repurchase of the service and advocacy by way of referrals and positive word-of-mouth, directly impacting firm performance.

The delivery of high quality service is important for any business but particularly for service-based businesses. Service quality, or perceptions that result from a customer's comparison of their expectations prior to the service encounter with their perceptions of their actual experience (Grönroos, 1990), is one of the most important and widely researched topics in services marketing (Zeithaml, 2000). Customers form service

expectations from many sources, including past experiences, word-of-mouth and company advertising. It has been found that perceptions of high quality service are fundamental for both customer and business outcomes. Continually exceeding customer expectations allows a firm the ability to enhance customer loyalty, thus providing the firm with a competitive advantage (Zeithaml, Bitner, & Gremler, 2006).

Perceptions of service quality are based on both tangible aspects, such as room design or furnishing style and intangible aspects, such as helpful employees, efficient customer service and the individualized attention afforded to its customers (Parasuraman, Zeithaml, & Berry, 1988). Parasuraman et al. (1988) found that customers base their perceptions of service quality along five different dimensions. The dimensions deemed to be important to customers in the assessment of service quality are reliability, responsiveness, assurance, empathy and tangibility. Reliability refers to the trust in the company's ability to perform the service in a proper way, such as acting according to promises made. Responsiveness refers to a service provider's willingness to help customers and provide prompt service. Assurance refers to the knowledge and courtesy of employees and their ability to inspire trust and confidence in their customers. Empathy refers to the caring, individualized attention the service provider gives to its customers. Finally, tangibles refer to the things that are physically observed by customers such as the physical equipment used during the service encounter and the physical surroundings of the establishment. As opposed to the tangible elements of service quality, which can be similar among close competitors, the intangible aspects, which depend entirely on the service encounter, can open up a considerable gap between firms, which have the

potential to become a source of sustainable competitive advantage (Kuei, 1999).

Therefore, if a customer's comparison of their expectations prior to the service encounter meets or exceeds their perceptions of the actual experience (Grönroos, 1990), customer satisfaction is likely to result.

Customer satisfaction, "the consumer's fulfillment response, the degree to which the level of fulfillment is pleasant or unpleasant" (Oliver, 1997, p. 28), has come to represent an important facet for customer-oriented businesses. Although empirical research has supported the relationship between service quality and satisfaction (e.g. Silvestro & Cross, 2000), there is some debate as to whether service quality and customer satisfaction represent the same construct in addition to the causality between the two constructs. However, because service quality represents a cognitive state whereas customer satisfaction represents an affective state (Carrillat et al., 2009), not only has it been shown that they represent different constructs (Carrillat et al., 2009; Parasuraman et al., 1988), based on the notion that cognitions precede emotions in the causal chain of psychological processes, a sound rationale has been provided that service quality indeed predicts customer satisfaction (Oliver, 1997).

Anderson, Fornell and Lehmann (1994) demonstrate that "firms that actually achieve high customer satisfaction also enjoy superior economic returns" (p. 63), through the establishment of service loyalty, with empirical support provided by Anderson, Fornell, and Rust (1997), Reichheld and Sasser (1990), and Reichheld and Rust and Zahorik (1993). Service loyalty is formed from multiple positive experiences with a service provider and from accumulated customer satisfaction (Olsen, 2002), manifesting itself in

many customer behaviors such as repurchases, purchasing in greater volume and making referrals (i.e., advocacy) of the service firm to others, thereby enhancing the long-term profitability of the company (E. W. Anderson et al., 1994; Loveman, 1998; Yee et al., 2011). Piotr (2004) showed that loyal customers that spend more money in purchasing products or services from a company tend to encourage others to purchase from that firm and believe it is valuable to purchase products or services from that establishment.

Service loyalty has been found to have both behavioral and cognitive/attitudinal dimensions (Jones & Taylor, 2007). From an attitudinal or cognitive perspective, customer loyalty is “a deep commitment to the service provider” (Shankar, Smith, & Rangaswamy, 2003, p. 154), expressed in a customer’s willingness to recommend the provider, strength of preference for the provider or their willingness to pay more for the service (Jones & Taylor, 2007). This is considered different than repurchase intent, which is a behavioral intension measured by the likelihood that the customer will return to an establishment (Swan & Oliver, 1989). Although behavioral intensions are important and crucial to a firm’s success, without a genuine commitment to the organization, a customer can choose to repurchase due to convenience (Webster, 1992) or lack of alternatives, which may not be sustainable when additional choices become available. Therefore, both cognitive/attitudinal and behavioral responses are necessary.

A customer’s willingness to maintain a relationship with a firm is contingent on his or her perception of the benefits of a high-quality service that provides a continuous flow of value (Sirdeshmukh, Singh, & Sabol, 2002; Taylor, 1994). Customers develop these value perceptions, or “perceptions of quality given price and inputs versus outputs

relative to the competition” (Johnson, Herrmann, and Huber, 2006 p. 123), based on the quality of their service experience (Cronin, Brady, & Hult, 2000). Therefore, service quality is fundamental in a customer’s perception of value. Consistently delivering high service value to customers explains why customers stay with a service provider even in the presence of low cost alternatives (Cronin et al., 2000).

Multiple studies have provided support for various parts of the customer side of the service-profit-chain. For instance, a large number of studies have identified perceived service quality as one of the key drivers for customer satisfaction and loyalty-based outcomes (e.g. Bloemer, de Ruyter, & Wetzels, 1999; Boulding, Kalra, Staelin, & Zeithaml, 1993; Carrillat et al., 2009; Cronin et al., 2000; Taylor, Nicholson, Milan, & Martinez, 1997; Zeithaml, Berry, & Parasuraman, 1996). Therefore, it is vital that businesses are successful in the production of high quality service.

Service loyalty, versus loyalty to tangible products, is more dependent on the development of interpersonal relationships (Macintosh & Lockshin, 1998), as person-to-person interactions form a crucial element in the marketing of services (Crosby, Evans, & Cowles, 1990; Czepiel & Gilmore, 1987; Surprenant & Solomon, 1987). The interaction between service employees and customers is considered an essential part of both customers’ assessments of service quality and their relationships with the service provider (Bitner, 1990; Gwinner, Gremler, & Bitner, 1998). A recent meta-analysis provides evidence that service quality plays a vital role in helping firms build relationships with customers (Carrillat et al., 2009), which is important because creating positive relationships between employees and customers is thought to increase customer

loyalty (Berry & Parasuraman, 1991). Therefore, those that have direct control over the delivery of customer service are of paramount importance to a service organization. One of the key elements considered in a successful service-based business are its front-line employees (Davidson, 2003; Tsaur & Lin, 2004). Front-line employees, also known as boundary spanners or contact employees, deal directly with the customer during a service encounter. In the human resource management literature, a number of scholars argue that a firm's human capital (i.e., a highly skilled and a highly motivated workforce) has the potential to constitute a source of competitive advantage (e.g., P. M. Wright, McMahan, & McWilliams, 1994). For a service firm, its front-line employees represent a more significant resource due to their extensive interaction with the firm's customers. Previous research supports the idea that front-line employees significantly contribute to service quality and thus to customers' cognitions, attitudes and intentions (i.e., Bitner, Booms, & Tetreault, 1990; Salanova et al., 2005).

Front-line employees are important as they act as the "link" between the organization and its customers (Schneider, White, & Paul, 1998), however, they act as more than simple informants. In this way, because front-line employees are aware of the customer-oriented values of the organization, they play an active role in understanding, filtering and interpreting information and resources to and from the organization (Zeithaml, Bitner, Gremler, Mahaffey, & Hiltz, 2007). They perceive and react to whether or not the communication of a company's values and the delivery of quality service truly match customer needs, ultimately affecting perceptions of service quality. These employees are constantly faced with unique situations, which present a significant challenge as it

reflects that every situation is different as no two customers are exactly alike. Each customer presents a different set of needs and the employee is required to perceive these needs properly and adapt their behavior to react accordingly (Solomon, Surprenant, Czepiel, & Gutman, 1985). For service organizations, this issue is further amplified when a company has several business units. Customer service can vary substantially across units within the same organization, and this variability helps to explain differences in customer loyalty across the organization (Fleming, Coffman, & Harter, 2005).

Front-line employees are also important because they act as organizational representatives. As such, their performance during service encounters represent that of the organization's performance (Ashforth, Kulik, & Tom, 2008). Front-line employees play an active role in service encounters as they act as the face of the organization and for this reason front-line employees' service performance is key to a customer's perception of service quality and ultimately customer outcomes such as satisfaction and loyalty (Dimitriades, 2007; Gracia, Cifre, & Grau, 2010). This is important because happy, long-term customers "buy more, take less of a company's time, are less sensitive to price, and bring in new customers" (Reichheld, 1996). Importantly, it has been found that a modest increase in service quality and customer satisfaction based on interactions with front-line employees is likely to bring about substantial increases in financial performance (Gruca & Rego, 2005), driven by customer retention, loyalty and equity (Reichheld, 1996; Zeithaml, 2000). This motivates firms even further to decipher ways to motivate employees to consistently perform above customer expectations.

Satisfied, motivated and committed front-line employees constitute a powerful engine for the delivery of service quality and customer satisfaction, and such a workforce is considered a valuable asset in developing a loyal customer base (Pfeffer, 1998). Subsequently, it is important to understand the aspects of front-line employees' role in strengthening the firm's competitive advantage that contribute both to improving service performance and ultimately to the success of the firm.

Employees and the Service-Profit-Chain

Employee satisfaction: In their proposition, Heskett et al. (1994) suggested that employees that are satisfied with their job are more likely to provide higher quality service than those that are not. Employee satisfaction, defined as "a pleasurable or positive emotional state resulting from the appraisal of one's job or job experiences" (Locke, 1976, p. 1300), is believed to be achieved through various human resource management practices (P. E. Spector, 1997). For service employees, these practices are designed to enhance employees' competencies, motivation, and performance in providing high-quality service to external customers. Such practices include extensive service training, information sharing, self-management service teams and participation, compensation contingent on service quality, job design for quality work, service-quality-based performance appraisal, internal service, service discretion, selective hiring and employment security (Liao, Toya, Lepak, & Hong, 2009). The logic suggests that if organizations design work systems that ensure that employees have the knowledge, skills and abilities to meet customer needs, they will be happier with their job, they will be less likely to leave (e.g., Gordon & DeNisi, 1995) and will be more likely to provide a good

service experience for customers during subsequent service encounters (Loveman, 1998). Research has supported this claim in whole or in part. It has been found that service employees' perceptions of participation in decision making, fairness of rewards and growth opportunities were positively associated with their development of perceived organizational support, which, in turn, was positively associated with their job satisfaction and organizational commitment, as well as less turnover (Allen et al., 2003). Subsequently, because the organization treats its employees well, its service employees are likely to treat customers better (Schneider & Bowen, 1985). Liao and Chuang (2004) examined three human resource management practices and found that employee involvement in decision making and service training were positively related to restaurant employees' service performance, which in turn was positively related to customer satisfaction and loyalty. Similarly, Batt (2002) found that in call centers, high-involvement practices characterized by high skills, discretion and incentives were associated with lower turnover and subsequently higher sales growth.

Expansion of the Service-Profit-Chain

Despite the proposed links in the service-profit-chain, a number of authors have suggested that job satisfaction is a relatively poor predictor of job performance (e.g., Bond & Bunce, 2003; Iaffaldano & Muchinsky, 1985), which leaves researchers searching for additional or better predictors of employee behavior. From a practical standpoint, this is especially important for service organizations because firm performance is significantly related to the performance of its front-line employees. However, although satisfaction has been inconsistent in its predictive ability, we cannot

negate the importance of employees being satisfied in their jobs. Therefore it may be that the relationship between employee attitudes and their subsequent performance in their job may be more complicated than once thought.

In recent years, employee engagement has emerged as a new construct, identified as being related, but different from an employee's level of job satisfaction (Fernandez, 2007) and considered by some to be a better predictor of overall firm performance (Harter et al., 2002). Similar to job satisfaction, engagement is a positive emotional and attitudinal reaction to personal job-related experiences. However, job satisfaction does not capture the full range of affective responses to one's work (Van Katwyk, Spector, Fox, & Kelloway, 2000). Satisfaction is an employee's evaluation of his or her rate of pay, level of benefits, level of flexibility in one's job, while at the same time being treated fairly. Engagement, on the other hand, represents an employee's enthusiasm, passion and commitment to their work and to the organization, the willingness to invest oneself and expend one's discretionary effort to help the employer succeed, which goes beyond merely being satisfied with the job or basic loyalty to the employer (Erickson, 2005; Macey & Schneider, 2008).

According to Kelloway, Barling, Inness, Francis and Turner (2010), a passion for one's job is comprised of high levels of engagement with, involvement in and excitement originating from the work itself. If an individual is passionate about their job, they will look forward to going to work each day and will engage in their work, voluntarily work longer hours and will be happier and more fulfilled when engaged in their work. Employees with positive attitudes toward their workplace are likely to carry those

attitudes over to customers and to engage in the discretionary effort that is required to serve customers at a high level. For front-line employees, workers are likely to extend themselves during the interactions they have with customers, as engaged workers tend to be more productive and contribute more positively to the financial success of the firm. This makes improving levels of engagement among its workers one of the greatest priorities for organizations (Erickson, 2005). This view is consistent with empirical research identifying the importance of employee engagement for organizational outcomes (Harter et al., 2002), such as employee retention and customer loyalty (Harter, Schmidt, & Asplund, 2010), which can impact financial performance directly through repeat business and word-of-mouth communication. Harter et al. (2002) estimated that business units in the top quartile on engagement conditions realize from one to four percentage points higher profit and 25% to 50% lower turnover than others in the bottom quartile. Work engagement has also been shown to have a positive impact on performance in a variety of different contexts including academic performance (Schaufeli, Martinez, and Marques-Pinto, 2002), group performance (Salanova, Llorens, Cifre, Martinez, & Schaufeli, 2003) and quality of service provided by contact employees (Salanova et al., 2005). For all of these reasons, it is warranted that employee engagement be considered a logical addition to the original conceptualization of the service-profit-chain proposed by Heskett et al. (1994).

Employee Engagement

Employee engagement is a motivational construct that has been of considerable interest, initially with practitioners but more recently with academics. Although gaining more attention recently, it is a concept with a “sparse and diverse theoretical and empirically demonstrated nomological net” (Macey & Schneider, 2008, p. 4), with a modest amount of empirical research that has rigorously tested the theory underlying the construct up to this point.

To date, employee engagement has been conceptualized in many different ways without the emergence of a single, generally accepted definition for the term. One of the earliest theoretical models of engagement was presented by Kahn (1990), who defined the construct as “the harnessing of organization members’ selves to their work-role” (pg. 394). Based on an ethnographic study of camp counselors and employees of an architecture firm, he sought to provide a richer understanding of the concept of *role* engagement and found that there were three psychological conditions associated with engagement, or disengagement, at work: meaningfulness, safety and availability. According to Kahn (1990), “*psychological meaningfulness* is the sense of return on investments of the self-in-role performances, *psychological safety* is the sense of being able to show and employ the self without fear of negative consequences and *psychological availability* in the sense of possessing physical, emotional, and psychological resources for investing the self in role performances” (p.705). People felt their role was meaningful when they perceived that they gained value from undertaking the work and felt a sense of return from investing themselves in the role. Being involved

in challenging work contributed to this sense of meaningfulness. With respect to safety, he suggested that people felt safe when they could present their real selves in their role without fear of negative consequences. Finally, individuals felt available to engage in their roles if they had the appropriate level of resources to meet the demands of the role.

Kahn's original theory was extended to include the concept of *psychological presence*. According to Kahn (1992), the three conditions (meaningfulness, safety and availability) drive the extent to which people are psychologically present and, as a result, personally engage in task situations in the workplace. Therefore, employees will be more engaged at work in situations that offer them more psychological meaningfulness and psychological safety, and when they were more psychologically available.

Since the introduction of the construct, many definitions have emerged (Saks, 2006). However, despite the numerous related definitions documented in the literature, there is strong consensus regarding the motivational nature of the construct (Rothbard, 2001; Saks, 2006). Common to all these definitions is the notion that employee engagement "is a desirable condition, has an organizational purpose, and connotes involvement, commitment, passion, enthusiasm, focused effort and energy, so it has both attitudinal and behavioral components" (Macey & Schneider, 2008, p. 4). An engaged worker expends discretionary effort and is motivated to go above and beyond to help accomplish the goals of the organization (Erickson, 2005).

There has been much debate around the argument that engagement is a simple repackaging of well-researched constructs such as job satisfaction, involvement and commitment. However a number of authors argue that engagement, although related,

encompasses much more (Christian et al., 2011; Hallberg & Schaufeli, 2006; Macey & Schneider, 2008). For instance, although satisfied employees may be content with their job, employees that are engaged care about the success of the company and are motivated to provide higher levels of effort and productivity to achieve it (Linsner, 2009). While engagement has a motivational element and implies activation, satisfaction suggests satiation, or being happy with the facets that you are being afforded, such as rate of pay (Macey & Schneider, 2008). Whereas job satisfaction is a construct that describes job characteristics (e.g., “I like my pay”), which is a feature of a job attitude (Brief & Weiss, 2002; Eagly & Chaiken, 1993), work engagement is a description of an individual’s experiences resulting from the work (e.g., “I feel vigorous when working”). Job satisfaction generally focuses on the conditions that provide *for* engagement, it does not directly assess engagement itself. As Erickson (2005) has described, “engagement is above and beyond simple satisfaction with the employment arrangement or basic loyalty to the employer – characteristics that companies have measured for many years. Engagement, in contrast, is about passion and commitment – the willingness to invest oneself and expend one’s discretionary effort to help the employer succeed” (p. 12). Thus, the extent to which individuals invest their “full selves” in carrying out their work appears to be a different concept from the degree to which individuals are satisfied with their jobs. Therefore, only when described as feelings of energy, enthusiasm and positive affect does job satisfaction become associated with engagement, otherwise it represents a different construct entirely (Macey & Schneider, 2008).

Engagement has also been associated with constructs such as organizational commitment and job involvement. The confusion stems from the constructs all referring to a positive attachment to work (Hallberg & Schaufeli, 2006). However, in their conceptual paper, Macey and Schneider (2008) point out that engagement places much more emphasis on absorption, passion and affect, with a lesser focus on satisfaction, involvement and commitment. Based on a meta-analysis Brown (1996) concludes that a job-involved employee represents someone who finds their job motivating and challenging, is committed, both to their work in general, to the specific job and to the organization, making them less inclined to consider leaving their position and more likely to engage more closely in professional relationships with supervisors. (Affective) organizational commitment, on the other hand, refers to the emotional attachment that employees have to their organization, based on shared values and interests (Meyer & Allen, 1997; Mowday, 1998). However, according to Morrow (1983), affective organizational commitment appears to be more dependent on job characteristics than personal factors, indicating that it has less to do with intrinsic motivation than extrinsic circumstances. Based on an empirical investigation, Hallberg and Schaufeli (2006) conclude that job involvement and organizational commitment are distinct constructs from work engagement, but suggest that engagement and organizational commitment are more closely related than engagement and job involvement. In their interpretation, job involvement should be considered as an independent variable whereas work engagement and organizational commitment should be viewed as dependent variables in work/organizational research models. Others suggest that, based on meta-analytic data,

although engagement is different from these constructs, they do share a conceptual space (Christian et al., 2011). They showed that engagement explained incremental variance beyond job satisfaction, organizational commitment and job involvement in the prediction of task performance. Similarly, a recent study was conducted to assess the relative importance of employee engagement, as a “new” job attitude, compared to other more established constructs, including job involvement and organizational commitment, as predictors of job performance. Dalal, Baysinger, Brummel, and LeBreton (2012) found employee engagement to be among the best predictors of performance versus that of job involvement and organizational commitment.

One of the most widely known conceptualizations of work engagement, and most rigorously tested, was presented by Schaufeli, Salanova, Gonzalez-Roma, and Bakker (2002), defined as a “positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption” (p. 74). Vigor is characterized by high levels of energy and mental resilience while working, reflecting a readiness to devote effort in one’s work and persistence even in the face of difficulties. It represents activation and energy.

Dedication, characterized by a sense of significance, enthusiasm, inspiration, pride and challenge, represents a particularly strong identification with one’s work. Dedication encompasses being committed, persistent and the endeavor to strive for success. Workers that are dedicated believe that they have the ability and required resources to meet the demands of the workplace. It is believed that people who feel a sense of dedication are thought to have positive efficacy beliefs (Erickson, 2005; Macey & Schneider, 2008).

Finally, absorption is characterized by being fully concentrated and immersed in one's work, whereby time passes quickly and one has difficulty disengaging oneself from their work. Being fully absorbed in one's work comes close to what has been called 'flow,' a state where people become totally immersed in an activity and enjoy it intensely. According to Csikszentmihalyi (1990), flow is a state of optimal experience that is characterized by focused attention, clear mind, mind and body union, effortless concentration, complete control, loss of self-consciousness, distortion of time and intrinsic enjoyment. How meaningful one's job is closely associated with how immersed people are in their work as the amount of time put into their role varies based on how meaningful their work is to them (May, Gilson, & Harter, 2004). According to Kahn (1990), "psychological meaningfulness" represents employees' beliefs that they are receiving something of personal value in return for the energy they invest in their work. Flow experiences are intrinsically rewarding because they permit individuals to become fully engrossed in a task and to stretch their abilities toward their maximum potential. However, typically, flow is a more complex concept that is multi-faceted, involving affective, cognitive and motivational components, of which 'absorption' constitutes one, and refers to short-term, momentary or situational experiences instead of a more pervasive and persistent state of mind, by which absorption, in the general context, is generally described. As a facet of flow, absorption in this context refers also to the complete immersion and concentration in a work-related activity (Bakker, 2008). When employees are intrinsically motivated by their work, there is a stronger likelihood that they will immerse themselves to the point of complete absorption.

This definition encompasses both the affective and cognitive aspects of work engagement, which implies that in addition to cognitions, engagement also involves an active utilization of emotions and feelings (Salanova & Schaufeli, 2008b). Several studies have empirically validated the three-factor structure using the Utrecht Work Engagement Scale (UWES) (e.g. Schaufeli & Bakker, 2004; Schaufeli et al., 2002), a popular and the most established and applied scale in measuring engagement.

Practitioners and academics agree that the consequences of employee engagement are positive (Saks, 2006). Although neither Kahn (1990) nor May et al. (2004) included outcomes in their studies, Kahn (1992) proposed that high levels of engagement lead to both positive outcomes for individuals, such as work quality and personal work related experiences.

It is becoming clear that having an engaged workforce produces numerous benefits to organizations (Salanova et al., 2005). Researchers have argued that because engagement is a motivational construct, increasing engagement should lead to high levels of job performance (e.g., Kahn, 1990; Rich, LePine, & Crawford, 2010; Schaufeli et al., 2002). As Kahn (1990) suggested, an engaged employee is one who approaches his or her job-related tasks with a sense of self-investment, energy and passion, which should translate into higher levels of in-role and extra-role performance. Engagement is thought to be an indicator of an employee's willingness to expend discretionary effort to help the employer (Erickson, 2005). The benefits of engagement go beyond employees and extend to positive organizational-level outcomes, such as growth and productivity, which explains the interest in the construct for both academics and practitioners. In a meta-

analysis conducted by the Gallup organization, it was found that having a work environment that promoted positive employee engagement was consistently associated with beneficial business outcomes including employee productivity, customer satisfaction and company profit (Harter, Schmidt, & Keyes, 2003). Relatedly, other studies have shown increases in bottom line performance (Harter et al., 2002), financial returns (Xanthopoulou, Bakker, Demerouti, & Schaufeli, 2009), decreased intention to quit (Hallberg & Schaufeli, 2006; Harter et al., 2003), proactive behavior (Salanova & Schaufeli, 2008a) and day level proactive behavior (personal initiative, pursuit of learning) (Sonnetag, 2003).

Although it has been suggested that employee engagement is a good predictor of customer and business outcomes, very little has been done to examine the relationship. One notable exception was a study conducted by Salanova et al. (2005) who found, in a study of 342 front-line employees, that higher levels of employee engagement was related to a more hospitable service climate, influencing customer loyalty. However, although many practitioners have been measuring employee engagement within their organizations over the past number of years, to date, there is a lack of a good understanding surrounding the factors that predict engagement. Therefore, faced with survey results, managers are unclear as to how to improve engagement levels in their organization. Therefore, there is an immediate need for empirical research on the antecedents of engagement.

Findings have pointed to the importance of the supervisor or the manager and his or her effect on the engagement level of employees (Harter et al., 2002), as leaders manage

many of the contextual features that influence a person's work experience (Bhatnagar, 2007; Erickson, 2005). Demerouti et al. (2001) found that performance feedback, supervisor support and control over one's job predicted engagement. An employee who receives support, inspiration and quality coaching from his or her supervisor is likely to experience work as more challenging, involving and satisfying, consequently becoming more engaged with their job tasks (Bakker et al., 2011). According to one study, although employees agree that their company is a good place to work, only half agreed that their company inspires them to do their best work, suggesting that the area of dissatisfaction was found with various aspects of their work experience, such as overwhelming workloads, distant and non-communicative senior leadership and the lack of developmental opportunities (Towers-Perrin, 2003). Immediate supervisors have a degree of control over work tasks, amount of resources provided, the degree of autonomy afforded in carrying out tasks and the types of recognition and rewards associated with performance (Amabile, Conti, Coon, Lazenby, & Herron, 1996). This suggests the significance of management actions in influencing levels of engagement as the behaviors of leaders can affect employees' attitudes, perceptions, motivation levels and their overall experience at work.

More specifically, it has been suggested that transformational leaders play a key role in the promotion of engagement (Harter et al., 2002; Macey & Schneider, 2008) due to their ability to enhance intrinsic motivation in their followers (Richer & Vallerand, 1995) to achieve organizational goals. This type of leader acts in a way that causes his/her employees to become motivated to work better by instilling a sense of meaning in their

work, gives attention to each employee and is concerned with individual needs, challenges his/her followers in order to increase productivity and innovation and is respected and trusted by his/her followers (Avolio & Bass, 2004). House and Shamir (1993) note that transformational leaders selectively arouse the motives of followers, which in turn enhances their intrinsic value of accomplishing goals, increases intrinsic satisfaction from participating in the leader's mission, increases commitment to the leader's vision and increases engagement in followers. However, to date, the relationship is unclear as there has been very little empirical research that has directly examined the link.

Transformational Leadership

Leadership behaviors can be broadly categorized as transformational or transactional. The transactional leadership style builds upon exchange and is comprised of three different behaviors. First, laissez-faire is a style of non-management or non-leadership. These behaviors include avoiding and denying responsibility and neglecting to take any action even in dire situations. Second, when leaders focus on followers' mistakes and failure to meet standards, they are participating in active management-by-exception. These managers consistently look for mistakes at the expense of, rather than in addition to, a focus on positive occurrences. When mistakes are detected, managers are likely to embarrass, punish or discipline followers. Conversely, but relatedly, passive management-by-exception also focuses on mistakes. However, rather than actively monitoring for mistakes, these managers will passively wait until mistakes can no longer

be ignored (Avolio, 1999; Yukl, 1999). Finally, contingent reward reflects “good” management. It is characterized by the exchange of one thing of value for another between leader and follower. It involves managers setting goals, providing feedback and ensuring that employee behaviors have consequences, both positive and negative.

Transformational leadership theory, on the other hand, first proposed by Burns (1978), but later extended by Bass (1985), focuses on exceptional leaders who have profound effects on their followers. These leaders are crucial to the management of their workforce as they can influence how individuals view their work. Empirical research has shown that leaders who engage in transformational behaviors receive higher performance ratings, have more satisfied and motivated employees and are viewed as more effective by their followers (Shamir, House, & Arthur, 1993).

It is generally accepted that four different behaviors characterize transformational leaders – idealized influence, inspirational motivation, intellectual stimulation and individual consideration. Idealized influence, a term that Bass (1985) used to describe the leader’s charismatic qualities, refers to the degree to which the leader behaves admirably that cause followers to identify with the leader. It is the leader’s ability to develop a vision and to influence others to accept and share that vision (Jung & Avolio, 2000).

Inspirational motivation refers to the degree to which the leader articulates a vision that is appealing and inspiring to followers. It describes a leader’s ability to motivate followers around a particular vision by displaying enthusiasm for this vision and demonstrating optimism about goal attainment (Bass, 1998). Inspirational leaders establish and convey high expectations (Bass, 1998) that challenge and inspire employees

to achieve more than they thought possible. Leaders who display inspirational motivation are enthusiastic and optimistic, which raises the employee's sense of self-efficacy, inspiring individuals to give more effort. By communicating high expectations, transformational leaders are likely to make followers feel that they have something valuable to contribute (Judge & Piccolo, 2004). Although seen as a stressful demand (Cavanaugh, Boswell, Roehling, & Boudreau, 2000), challenge within a job (i.e., high workload, time pressure) has the potential to promote mastery, personal growth and personal gains (Crawford, LePine, & Rich, 2010).

Intellectual stimulation is the degree to which a leader encourages his/her subordinates to think of old problems in new ways, to question their own values and beliefs and, when appropriate, those of their leader (Bass, Waldman, Avolio, & Bebb, 1987). Transformational leaders directly encourage followers to challenge accepted methods and answer their own questions when doing their work (Arnold, Turner, Barling, Kelloway, & McKee, 2007). Intellectual stimulation is displayed when the leader helps followers to become more innovative and creative.

The last dimension of a transformational leader is individualized consideration, the degree to which the leader attends to each follower's needs, "acting as a coach, mentor, teacher, facilitator, confidant and counselor" (Avolio, 1999, p. 47). The concept of individualized consideration has focused on the notion of supportive leadership (Avolio & Bass, 1995). Supportive leaders demonstrate concern for their followers (Rafferty & Griffin, 2004), suggesting to employees that they respect them and care about their personal situations (Podsakoff, Moorman, & Fetter, 1990).

Transformational leadership and engagement

The elements found to be fundamental for engagement are “strong leadership, accountability, autonomy, a sense of control over one’s environment and opportunities for development” (Kular et al., 2008, p. 11). In line with the arguments presented by Kahn (1990), Macey and Schneider (2008) argue that when leaders have clear expectations, are fair and recognize good performance, they will have positive effects on employee engagement. Employees who are personally engaged in their roles are more likely to express themselves physically, cognitively and emotionally when carrying out their roles (Kahn, 1990). As important as pay and benefits are in attracting and retaining people, it was found they play a less important role in engaging people in their work, suggesting that it is not likely that the transactional leadership style substantially contribute to an employee’s work engagement because they lack motivational power and inspirational appeal (Bakker et al., 2011). However, although little empirical research has been conducted to date, transformational leadership theory, on the other hand, is particularly well suited to predicting employee engagement (Macey & Schneider, 2008). For instance, engagement is said to be higher when the goals of the organization (or leader) and the goals of the employee are consistent (Macey & Schneider, 2008) (i.e., idealized influence) and when employees tend to perceive challenges within the workplace as opportunities to learn and grow (Crawford et al., 2010) (i.e., inspirational motivation).

Engagement has also been seen to be higher when supervisors behave in a supportive manner, likely producing feelings of safety at work (May et al., 2004), allowing

employees to feel safe to challenge accepted methods and to try new ideas (i.e., intellectual stimulation). This is consistent with Kahn's (1990) work where he identified management style as a component of psychological safety, cited as one factor that drives employee engagement. In his study, he found that supportive, resilient and clarifying management approaches increased feelings of psychological safety in employees. Put another way, employees would be more engaged if an organization's leaders created supportive environments that gave them the ability to try new things without fear of failure, hence having a higher sense of psychological safety.

Finally, engagement is said to be higher when the workplace is customized for each individual employee (Erickson, 2005), because what energizes one employee may be de-energizing to another (Spreitzer, Lam, & Fritz, 2010). It is a leader's job to find innovative ways to understand and respond to these differing needs. Creating higher engagement levels is all about recognizing individual strengths, needs, preferences and values (Erickson, 2005) (i.e., individualized attention).

Empirical research has repeatedly demonstrated that transformational leaders have a positive and motivating effect on employees' behaviors, as well as their attitudes and perceptions towards their work (see Judge & Piccolo, 2004, for a meta-analytical review). A number of positive employee outcomes that have been empirically linked to transformational leaders include performance (Barling, Weber, & Kelloway, 1996; Bass, Avolio, Jung, & Berson, 2003; Charbonneau, Barling, & Kelloway, 2001; Dvir, Eden, Avolio, & Shamir, 2002; Lim & Ployhart, 2004; Podsakoff, MacKenzie, & Bommer, 1996b), follower motivation (Charbonneau et al., 2001; Yukl, 2002), extra effort (Bass,

1985), job satisfaction (Podsakoff et al., 1996b), psychological safety (Detert & Burris, 2007) and commitment (Barling et al., 1996; Bycio, Hackett, & Allen, 1995).

Transformational leaders move beyond a simple exchange relationship and can be defined as leaders that transform the norms and values of their employees, motivating them to perform beyond their own expectations (Bass, 1998; Bass & Riggio, 2006). Rather than motivating extrinsically, such is the case with transactional leaders, this type of leadership focuses its efforts on motivating its followers intrinsically, “the motivational state in which one is interested in working on a task mainly for its own sake instead of solely for the purpose of obtaining an external reward or avoiding punishment” (Zhou, 2003, p. 414). This type of leadership behavior works by attracting and energizing people to a vision of the future and motivating by identification rather than through rewards and punishment (Bennis & Nanus, 1985). The effort increases the chance that followers will attribute their behavior to internal self-related causes, inherently adding to followers' commitment to the task (Shamir et al., 1993).

Various aspects of leadership, characterized more commonly in transformational leaders, play a motivational role for followers. Bass (1985) suggested that followers' extra effort shows how much a leader motivates them to perform beyond what is expected of them. Numerous authors suggest that transformational leaders are able to bring about feelings of passion and identification within a follower's work (Bass & Avolio, 1990; Macey & Schneider, 2008). Conger and Kanungo (1988) note that there is a significant difference in the energy exhibited by followers of charismatic and non-charismatic leaders. These leaders offer a purpose that surpasses short-term goals and

focuses on higher order intrinsic needs (Burns, 1978), ultimately energizing its employees, fostering follower creativity and ingenuity (e.g., Shin & Zhou, 2003).

One key resource that has been shown to encourage a follower's willingness to dedicate their efforts and abilities to the task at hand is that of supervisor feedback. Valleand (1983) has shown the importance of positive verbal feedback on intrinsic motivation and increasing the likelihood of being successful in achieving one's work goals. Considerate leaders promote two-way communication through active listening (Avolio & Bass, 2002; Bass, 1998), providing an open dialogue between subordinates and managers and an environment that is uninhibited for the exchange of ideas and information. For example, information in the form of constructive and positive feedback from supervisors not only helps employees to work more efficiently but also enhances communication and understanding between supervisors and employees (Bakker & Demerouti, 2007). According to Bakker and Demerouti (2007), appropriate feedback from supervisors is considered a resource for employees, which enhances job competence, resulting in greater intrinsic motivation, key to the existence of employee engagement.

Authors have shown that people who work in meaningful roles gained a sense of fulfillment and satisfaction, which was associated with feelings of efficacy and being able to meet the needs of the job. Meaningfulness is the degree to which workers feel self-fulfilled in their performance of their job roles (Freeney & Tiernan, 2006). These feelings of fulfillment and efficacy have a motivational element, which in turn promotes an attachment to one's work (Freeney & Tiernan, 2006; Langelaan, Bakker, van Doornen, &

Schaufeli, 2006). Transformational leaders engage in inspirational type behaviors that increase motivation, building subordinate self-confidence in goal-attainment as a result (Bass & Avolio, 1993). They have the ability to enhance self-esteem by communicating high expectations to their followers and instilling confidence in their followers' ability to meet such expectations (Eden, 1992; Yukl, 1989), ultimately influencing their effort and performance. By so doing, they enhance followers' perceived self-efficacy, considered to be a developmental effect of transformational leadership (Avolio & Gibbons, 1988; Shamir et al., 1993). Transformational leaders also increase followers' self-worth by emphasizing the relationships between efforts and important values. A general sense of self-worth increases self-efficacy, which is seen as a source of strength and confidence (Shamir et al., 1993). Recent research suggests that engagement is positively related to efficacy beliefs (Llorens, Schaufeli, Bakker, & Salanova, 2007; Salanova et al., 2003; Xanthopoulou, Bakker, Demerouti, & Schaufeli, 2007), suggesting that engaged employees tend to have higher self-efficacy, defined as a judgment of one's capability to accomplish a certain level of performance (Bandura 1986, p. 351) than those that are less engaged.

The promotion of job autonomy, found to be significantly related to engagement (Bakker, 2008), is characteristic of transformational leaders as they are known to empower rather than control their followers (Mendonca & Kanungo, 1998).

Transformational leaders enhance followers' capacity to think on their own, develop new ideas and question the norm (Bass & Avolio, 1990). Nanus (1992) notes that once employees buy into the vision of their leader, they assume the authority to take actions to

enhance the vision, knowing that such actions will be highly valued and considered legitimate by all those who share that vision. That is, they become empowered to do what is necessary to carry out what needs to be done to fulfill the vision. Visionary leaders can create a participative environment and a more empowered condition that allow employees to respond rapidly and with flexibility to changing organizational and environmental demands (Lawler, 1994).

These feelings of autonomy, or the freedom and independence that people performing tasks have in determining how to execute their duties (Zhou & Shalley, 2008), are considered by some to be a facet of engagement (Macey & Schneider, 2008), and have been cited in the literature for enhancing motivation (Hackman and Oldham, 1975) in followers. Unique to service organizations, front-line employees are faced with a many customers on a daily basis with differing needs. This presents a significant challenge for front-line employees as it requires workers to not only perceive the needs of the customer properly but also to react accordingly (Solomon et al., 1985). Serving customers properly and appropriately becomes more difficult when front-line employees have less control over their jobs.

Although different constructs (Hallberg & Schaufeli, 2006), engagement has been associated with commitment (Macey & Schneider, 2008) (being engrossed and attached to one's work) and involvement (Harter et al., 2002; Schaufeli et al., 2002) (being dedicated, enthusiastic, and inspired by one's work), both suggested to be facets of engagement, which are said to be enhanced by transformational leaders (Bass, 1998; Shamir et al., 1993). Transformational leaders cause followers to become highly

committed to the leader's vision, to make significant personal sacrifices in the interest of these goals (Shamir et al., 1993), to work longer hours and to perform above and beyond what is expected of them (Bass, 1985). Barling et al. (1996) found that levels of organizational commitment among followers were significantly higher when lead by a transformational leader versus other leadership styles. Relatedly, Barling, Christie, and Hopton (2011) noted a relationship between transformational leadership and employees' positive perceptions of their leaders and argued that these followers feel a greater sense of commitment to their leader, demonstrating a willingness to exert effort that ultimately benefits the organization.

Job involvement, defined as the “cognitive or belief state of psychological identification” with work (Kanungo, 1982, p. 342), is seen in contemporary definitions of engagement as a facet of engagement, but not equivalent to it (Salanova et al., 2005). The literature suggests that being more involved in one's work generally results in higher levels of both productivity and well-being (Barling, Kelloway, & Iverson, 2003; Harter et al., 2002), and has been shown to be enhanced by transformational leaders (Bass, 1998).

As discussed, transformational leadership behaviors have been directly linked to many beneficial employee and organizational outcomes, which are commonly associated with employee engagement. However, to date, very little has been done to examine the relationship between leadership style and employee engagement. To note one exception, Tims, Bakker and Xanthopoulou (2011), through the use of a diary study, found that transformational leaders fostered followers' optimism and indirectly contributed to daily levels of engagement (i.e., vigor, dedication and absorption). However, currently no

study has looked at this relationship between the two constructs and its effect on customer and organizational outcomes. Therefore, two studies will be conducted in order to fill this gap in the literature.

CHAPTER 3 - METHODOLOGY

Study 1

Service managers are challenged to effectively manage their followers and shape the work environment so that their customer-contact employees willingly deliver outstanding service to their customers. Front-line employees have the ability to affect their customers as an employee's attitude and actions during the service provision can leave an impression on the customer, contributing to their level of satisfaction, loyalty and, ultimately, financial performance for the firm (Rust & Zahorik, 1993).

Despite the original conceptualization of the service-profit-chain (Heskett et al., 1994), there has been a continuous debate as to whether happy workers are productive workers (Saari & Judge, 2004) with various meta-analyses showing inconsistent levels of predictability (Iaffaldano & Muchinsky, 1985; Judge & Piccolo, 2004). Although additional constructs have been proposed as being potentially better predictors of job performance and customer outcomes in this study (i.e., transformational leadership behaviors and employee engagement), it is not clear what role job satisfaction plays in this conceptualization. The role that job satisfaction plays and its relationship with other important organizational constructs must be more accurately defined as the resources that human resource professionals contribute to increasing job satisfaction is substantial,

while they are continually under pressure to reduce costs. Deeper insight into this relationship can offer organizations vital information with which to properly distribute their limited resources.

It has been widely documented that job satisfaction is positively related to managers that exhibit transformational leadership behaviors (Judge & Piccolo, 2004; Podsakoff et al., 1996b; Podsakoff et al., 1990). This may be explained by the individualized consideration that transformational leaders show for their followers and are able to recognize and respond “to each individual’s abilities, aspirations and needs” (Walumbwa, Orwa, Wang, & Lawler, 2005, p. 238). They adjust their inspirational motivation and idealized influence behavior to the specific goals and interests of individual employees (Chun, Yammarino, Dionne, Sosik, & Moon, 2009), and ensure that each follower is able to voice concerns through intellectually stimulating behavior (Liu, Siu, & Shi, 2010). Therefore, because leaders provide for the appropriate environment that encourages satisfaction in one’s job, and consistent with previous research, followers’ job satisfaction will in part rely on transformational behaviors from their direct supervisor. Therefore,

H1: Transformational leadership behaviors are positively associated with employees’ job satisfaction.

In their original conceptualization of the service-profit-chain, Heskett et al. (1994) proposed that employees that were satisfied with their jobs exhibited many positive behaviors, such as more effectively using their time at work, minimizing their sick leave and having lower turnover intentions (P. E. Spector, 1994), which subsequently

enhanced a variety of customer outcomes including higher perceptions of service quality, customer satisfaction and loyalty. However, due to the inconsistent predictability of that relationship and the suggested benefits of employee engagement, there is a need to further explore this expanded relationship.

Organizational behavior researchers have argued that a person's positive emotion toward their job may motivate the likelihood that their efforts will lead to a desired level of productivity (George & Brief, 1996). This implies that employees with positive dispositions toward their job are more motivated to exert greater work effort to ensure task completion. Specifically, employees that encounter greater affective states at work have a higher likelihood to engage in behaviors likened to employee engagement such as dedication and involvement (T. A. Wright & Staw, 1999). This implies that satisfaction with various aspects of one's job, including benefits and training and development, promotes engagement via task completion and work goal attainment (Pitt-Catsouphes & Matz-Costa, 2009). For instance, authors have shown that people who work in meaningful roles, the degree to which workers feel self-fulfilled in their performance of their job roles (Freeney & Tiernan, 2006), gained a sense of satisfaction, which was associated with feelings of efficacy and being able to meet the needs of the job. These feelings have a motivational element, which in turn promotes an attachment to one's work (Freeney & Tiernan, 2006; Langelaan et al., 2006). One study in particular demonstrated that job satisfaction predicts police officers engagement at work, work that is highly ambiguous due to the nature and variety of people they encounter during a work shift (Brunetto, Teo, Shacklock, & Farr-Wharton, 2012). Similarly, in a study

investigating the linkages between internal marketing and employee patronage, Anaza and Rutherford (2012) found that job satisfaction predicted employee engagement. Put another way, while engagement has a motivational element and implies activation, satisfaction implies satiation, or that an employee is happy with the facets of the job (Macey & Schneider, 2008). Therefore, job satisfaction generally focuses on the conditions that provide for engagement. Therefore,

Hypothesis 2: Job satisfaction is positively associated with employee engagement

Despite the supposed link between engagement and higher levels of job performance (e.g., Kahn, 1990; Rich et al., 2010; Schaufeli et al., 2002) we are only beginning to understand what causes employees to become engaged (Demerouti & Bakker, 2006). Although little research has been conducted to date, transformational leadership theory is particularly well suited to predicting employee engagement (Macey & Schneider, 2008). This is true because engagement is said to be higher when the goals of the leader and the employee are consistent (Macey & Schneider, 2008) (i.e., idealized influence), when employees perceive challenges within the workplace as opportunities to learn and grow (Crawford et al., 2010) (i.e., inspirational motivation), when supervisors behave in a supportive manner, allowing employees to feel safe to try new ideas (i.e., intellectual stimulation) and when leaders create work environments customized for individual employees (Erickson, 2005) (i.e., individual consideration). Therefore, as discussed, because transformational leaders have the ability to both create the conditions that increase an individual's level of job satisfaction (Judge & Piccolo, 2004) and to motivate

his/her employees, increasing their level of engagement (Macey & Schneider, 2008; Tims et al., 2011), it is plausible to suggest that:

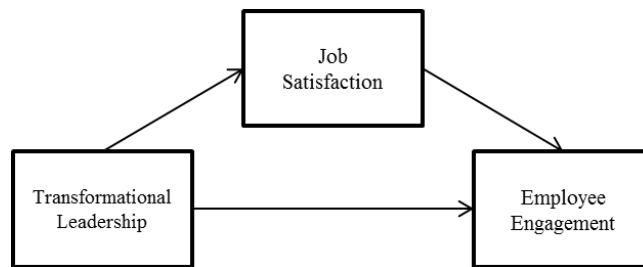
Hypothesis 3: Job satisfaction mediates the relationship between transformational leadership and employee engagement

Revised goals of Study 1

Although the original aim of this study was 1.) to test the hypothesized mediation of transformational leadership behaviors and employee variables (i.e., job satisfaction and employee engagement) in order to better define the relationship and 2.) to test the relationship between employee attitudes and behaviors and customer outcomes (i.e., perceptions of service quality and customer satisfaction), data collected prevented the matching of customer and employee data reliably. More specifically, the nature of data collection prevented the researcher from determining specifically which employee served which student. Because there was multiple supervisors managing employees from the same general unit (i.e., library), it was difficult to determine which employee, and subsequently the associated leader, the customer was rating. In addition, after the study had concluded, it was determined that many of the academic units had failed to participate (i.e., collect student data), which reduced the number of overall units available for analysis. Due to the lack of confidence in matching employee and customer data, the goals of this study were revised. Therefore, in order to adequately make use of the data collected, the new goals of this study are to test the hypothesized mediation of transformational leadership behaviors and employee variables (note: no change from the

original goal) (see Figure 2 for study model) and to test the customer scales to contribute to the debate regarding the distinctness of the two constructs under study (i.e., service quality and customer satisfaction) in order to better inform Study 2.

Although it has been well acknowledged that service employees are an essential element in the provision of services, there have been very few empirical studies in the services literature on the effects of managerial behaviors on service quality from the employee's perspective (For exceptions, see Ashill, Carruthers, & Krisjanous, 2006; Chebat, Babin, & Kollias, 2003; Hartline & Ferrell, 1996; Slåtten, 2009). Researchers often rely on self-reported perceptual measures of performance. The use of such measures, while appropriate and/or necessary in many cases, brings with it the potential for inaccuracy and bias (Ailawadi, Dant, & Grewal, 2004). Past research has shown that managers are not very accurate in their judgments (i.e., Mezas & Starbuck, 2003). More serious is the bias that can occur due to common method variance when perceptions of performance and other variables of interest to the researcher are obtained from the same respondents using the same measurement method (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). Although most studies have been conducted from the manager's point of view, Babakus et al. (2003) note that, "management desires and good intentions do not mean much unless employees perceived them as such" (p. 275). Therefore, it is reasonable to assume that taking an employee's perspective is both important and necessary (Slåtten, 2009). Therefore, the present research will not only take the perspective of the customer, but also of the employee.

Figure 2: Study 1 model***Participants and setting***

Participants in the current study included employees from a medium-sized Canadian university. In the highly competitive environment that academic institutions are currently operating within, universities, much like many private sector service enterprises, are instituting quality programs to ensure success in the recruitment and retention of high quality candidates. Accordingly, in September 2011, this university instituted a campus-wide “Service Excellence Program,” an initiative that aims to continuously improve and provide better service to students. Coinciding with the start of this effort, co-operation from university administrators was established in order for the efficient collection of data from all areas of the university, which included staff members and students. Therefore, the participant pool came from two separate sources. First, staff members from across the university working within various units (i.e., Registrar’s office, Facilities Management) were given the opportunity to participate in the study. Ultimately, data were received from 270 participants, but after removing those participants with incomplete data using listwise deletion, the study rendered a total of 219 respondents, representing a response rate of 50%. The participants had an average age of 45 (65% female), had been working

at the university for an average of 12.5 years, and had been working at their respective departments for an average of 10 years.

Second, approximately 7,500 students that were registered for classes on campus at the time of the study were invited to participate. However, although the study rendered 1,785 responses, due to the nature of study (i.e., allowing students to participate more than once), the response rate could not be determined.

Procedure

Employees: A survey was administered to employees assessing their perceptions of their direct supervisors' transformational leadership behaviors as well as self-ratings of job satisfaction and employee engagement.

Students: Students were asked to fill out a short survey each time they visited a unit on campus (i.e., Registrar's Office, Facilities Management). Service quality and customer satisfaction ratings were collected in one of two ways. First, students could fill out a survey in-person using a feedback card (i.e., questionnaire) located next to the unit that they visited. They were then asked to deposit the feedback card into a collection box located next to the unit. Second, students had the option to complete an online questionnaire, whereby participants could fill out the exact same questionnaire online that was administered in-person.

On numerous occasions prior to the commencement of the study and during the administration period of the study, e-mails were sent out to inform and remind students that the study was ongoing. In addition to instructions for in-person completion, students were provided with a link that they could click on and subsequently fill out the

questionnaire online. Surveys completed in-person were stored in a locked cabinet in the researcher's office and online surveys were stored in a secure database, accessible only to the researcher.

As an incentive for participating in the study, students were offered a chance to win an iPad 2. For the in-person survey, participants were asked to fill out the contact information portion of the feedback card, which could then be torn off and deposited in the box. Similarly, for the online version, students had the option to fill out their contact information at the end of the survey directly online. Students were assured that their contact information would not be stored in the same location as their questionnaire, ensuring that their contact information could not be matched with their survey data.

Measures

Employee measures:

Transformational leadership: To assess subordinates' perceptions of their managers' transformational leadership behaviors, items were taken from those used in Rubin, Munz, and Bommer's (2005) study of antecedents to transformational leadership based on the work of Podsakoff, MacKenzie, and Bommer (1996a). This scale consisted of 22-items to capture the extent to which employees of a particular work unit generally view their leader's behavior as transformational in nature. The lead-in for all items was "I believe my leader . . ." with sample items being, "paints an interesting picture of the future of our work group," "provides a good role model," and "shows respect for individual feelings." All questions were rated on a 5-point scale ranging from 1 (*strongly disagree*) to 5 (*strongly agree*). Since the single factor model is most parsimonious and the

dimensions tend to be highly correlated and lack discriminant validity (Bycio et al., 1995), this study measured each of the dimensions of the scale and then averaged the items to form an overall transformational leadership score. The scale had a Cronbach's alpha of .95.

Job satisfaction: A single item was used to measure overall job satisfaction (i.e., Overall, I am satisfied with my job). Despite the criticism, there is evidence that single-item attitudinal measures can yield adequate validity (Wanous, Reichers, & Hudy, 1997).

Employee engagement: Work engagement was measured using the Utrecht Work Engagement Scale (UWES; Schaufeli et al., 2002). The UWES consists of 17-items reflecting three underlying dimensions: vigor – 6 items (e.g., “At my work, I feel bursting with energy”); dedication – 5 items (e.g. “I am enthusiastic about my job”); and absorption – 6 items (e.g. “I get carried away when I am working”). All items were scored on a scale ranging from 1 (*strongly disagree*) to 7 (*strongly agree*). Similar to the discussion on the measurement of transformational leadership, employee engagement, as assessed by the UWES, may be considered a one-dimensional as well as a three-dimensional construct. Due to the high correlations found between the three dimensions and the high values for Cronbach's α for the total scale, there is support for a one-dimensional model (Schaufeli & Bakker, 2003). Therefore, in this study the three dimensions of the scale were measured and then averaged to form an overall employee engagement score. The scale had a Cronbach's alpha of .93.

Customer measures:

Service quality: An adapted version of SERVQUAL, created by Parasuraman et al. (1988), was used to measure service quality. The instrument suggests that five dimensions make up the construct of perceived serviced quality, namely tangibles, reliability, responsiveness, assurance and empathy. Due to the context of the data collection site and consistent with previous research on service quality (Yee et al., 2011), only one-item from each of the five dimensions that were most relevant to the service sector were used, instead of using all 22-items. The measure was based on a 7-point Likert scale (1 = strongly disagree; 7 = strongly agree). The scale had a Cronbach's alpha of .91.

Customer satisfaction: Customer satisfaction was measured using a 3-item scale adapted from Oliver and Swan (1989) and Maxham and Netemeyer (2002). The measure was based on a 7-point Likert scale (1 = strongly disagree; 7 = strongly agree). The scale had a Cronbach's alpha of .98.

Results***Descriptive statistics - Employees***

Table 1 presents mean scores, standard deviations and correlations among the study variables.

Employee data

The proposed model was estimated as a multi-level observed variable path analysis based on the 219 cases with complete data on all study variables. Initial inspection of the

data indicated the presence of 64 clusters (leaders) in the data with an average cluster size of 3.44. Leadership had substantial amounts of between group variance (ICC = .43) with smaller amounts of between group variance in employee engagement (ICC = .16) and job satisfaction (ICC = .05). Within-group and between-group correlations of the study variables are presented in Table 1.

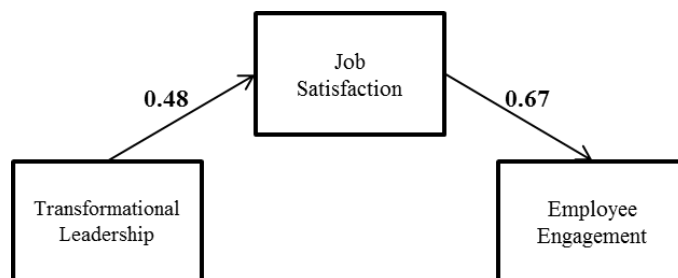
Table 1: Means, standard deviations and correlations of the study variables

Construct	M	SD	1	2	3
1. Job Satisfaction	5.40	1.60	-	.63	.81
2. Employee Engagement	5.12	1.04	.69	-	.09
3. Transformational Leadership	3.49	1.02	.49	.44	-

Note: Within-group below the diagonal; between-group above the diagonal.

Two models were estimated in this analysis at the within-group level. First, the fully mediated model provided an excellent fit to the data $\chi^2 (1, N = 212) = .01$, ns, CFI = 1.00, RMSEA = 0.0. A partially mediated model was fully-saturated and as a result provided a perfect fit to the data, $\chi^2 (1, N = 212) = .00$, ns, CFI = 1.00, RMSEA = 0.0. However, the additional path from transformational leadership to employee engagement was not significant and, therefore, the fully mediated model was retained for analysis. As hypothesized, employee engagement was predicted by job satisfaction ($\beta = .67$, $p < .01$) and job satisfaction was predicted by transformational leadership ($\beta = .48$, $p < .01$). The indirect effect of transformational leadership on employee engagement was estimated at .33 ($p < .01$) (see figure 3) with the 95% confidence interval around the effect ranging from .23 to .45.

Figure 3: Study 1 - Standardized parameter estimates for the fully mediated model



Descriptive statistics - Customers

Table 2 presents mean scores, standard deviations and correlations among the study variables.

Table 2: Means, standard deviations and correlations of the study variables

	Construct	M	SD	1	2
1.	Service Quality	5.80	1.49	-	
2.	Customer Satisfaction	5.83	1.22	.89	-

Customer data

Two multi-level confirmatory factor analysis models were estimated based on data from 62 departmental collection sites with an average of 28.79 responses per site. The two-factor model ($\chi^2(19, N = 1,785) = 86.33, p < .01, CFI = .99, RMSEA = 0.04$) provided a better fit to the data than did a one-factor model ($\chi^2(20, N = 1,785) = 309.52, p < .01, CFI = .94, RMSEA = 0.09$), $\Delta\chi^2(1, N = 1785) = 223.19$.¹ Standardized parameters for the two-factor model are presented in Table 3. The disattenuated correlation between the two factors was .94.

¹ There was a significant difference between data collected via feedback cards (in-person) and the electronic surveys (online). Despite these differences, similar results were obtained within each sub-sample with no significant differences in loadings and, therefore, only the full sample results are reported.

Table 3: Standardized parameters for the two-factor model

Variable	F1	F2	R²
1. The physical facilities were visually appealing (SQ)	.58		.34
2. Services were provided at the time that they were promised (SQ)	.79		.62
3. Employees in this department were willing help me (SQ)	.93		.86
4. Employees in this department had the knowledge to answer my questions (SQ)	.89		.78
5. Employees in this department gave personal attention to me (SQ)	.88		.77
6. I am satisfied with my overall experience with this department (CS)		.96	.93
7. On a whole, I am happy with this department (CS)		.96	.93
8. Overall, I am pleased with the service experience with this department (CS)		.97	.94

Discussion

The primary goal of this study was to examine an expanded version of a widely known framework known as the service-profit-chain (Heskett et al., 1994). More specifically, the study had two main objectives. First, on the employee side, the study was designed to better define the construct relationships suggested by the expanded framework, namely that of transformational leadership behaviors, job satisfaction and employee engagement. The main hypotheses were supported by the data showing that job satisfaction mediates the relationship between transformational leadership and employee engagement. This study has extended previous research by introducing new predictors (i.e., transformational leadership and employee engagement) into an established framework and helping to better explain the relationship between transformational leadership behaviors and employee attitudes in an attempt to improve the predictive value on job performance and subsequently customer attitudes and behaviors.

Second, this study's original goal was to examine all of the links in the service-profit-chain, namely the relationship between leadership behaviors, employee attitudes and customer outcomes within a service-based context. However, based on the data collected, matching of customer and employee data reliably was not possible; therefore the goals of Study 1 were revised. Subsequently, the new goal for the use of the customer data was to test the customer scales (i.e., service quality and customer satisfaction) in an effort to inform the debate as to whether or not these constructs are the same or distinct, in order to better inform Study 2. Based on the results, it was found that the constructs are distinct but highly correlated.

The present study makes two important contributions. First, this research informs the literature regarding three important organizational constructs. The logic suggests that in order for front-line employees to provide high-quality service, organizations need to design work systems (using human resource management practices) that ensure that employees have the knowledge, skills and abilities to meet customer needs. Job satisfaction is an employee's evaluation of his or her rate of pay, level of benefits, level of flexibility in one's job, while at the same time being treated fairly. Engagement, on the other hand, represents an employee's enthusiasm, passion and commitment to their work and to the organization, the willingness to invest oneself and expend one's discretionary effort to help the employer succeed, which goes beyond merely being satisfied with the job or basic loyalty to the employer (Erickson, 2005; Macey & Schneider, 2008). Past studies have shown that service employees' perceptions of human resource practices were positively associated with their level of job satisfaction and other beneficial

outcomes important to the organization such as commitment to the organization, as well as a lower turnover rate (Allen et al., 2003). However, for service organizations in particular, the role of the customer-contact employee renders itself so important that less than consistent predictability, which influences beneficial customer outcomes, raise some concerns. Subsequently, because job satisfaction does not capture the full range of affective responses to one's work (Van Katwyk et al., 2000), the inclusion of employee engagement makes intuitive theoretical sense. Consistent with this argument, this study provides support for the argument that the relationship between the employee and customer may be more complex than once thought as there appears to be a need to evaluate both the job satisfaction and the employee engagement constructs in order to provide a stronger likelihood for beneficial customer outcomes.

Second, the study provides support for the argument that service quality and customer satisfaction are separate constructs, as there has been some debate to date. However, the argument remains that because service quality represents a cognitive state whereas customer satisfaction represents an affective state (Carrillat et al., 2009), not only has it been shown that they represent different constructs (Carrillat et al., 2009; Parasuraman et al., 1988), based on the notion that cognitions precede emotions in the causal chain of psychological processes, a sound rationale has been provided that service quality indeed predicts customer satisfaction (Oliver, 1997). After testing a one-factor and a two-factor model, the present study provides support that service quality and customer satisfaction, although highly correlated, are distinct constructs and should be treated that way in future research.

Managerial Implications

Pressure is being applied to human resource professionals to cut costs in organizations. Therefore, if the resources that are being spent in an attempt to improve employee attitudes that does not consistently translate into performance, then the argument exists that resources should be put elsewhere, especially in a service-based context. However, the study shows that the cause for job satisfaction not translating into increased performance may be due to the relationship being more complex than once thought. Therefore, what organizations can learn from this research is that taking the appropriate steps and devoting the appropriate amount of resources to increasing both job satisfaction, by instituting various human resource management practices such as service training, compensation contingent on service quality and job design for quality work, and employee engagement, through various job characteristics and organizational support (Saks, 2006), are very important to the success of a service-based organization. More specifically, similar to other studies (e.g., Tims et al., 2011), the results from the current study demonstrate that the behaviors of a transformational leader are an important prerequisite for both job satisfaction and employee engagement. The behavioral style of the leader is highly influential because it not only allows for the institution of conditions that increase satisfaction, it also raises the employee's motivation, subsequently enhancing their level of engagement. Therefore, it would be beneficial for organizations to invest in transformational leadership training. Past research has shown that it is possible to train leaders in the transformational leadership style, with multiple authors finding statistically significant changes in transformational leadership behavior, directly

resulting from the training (Barling et al., 1996; Dvir et al., 2002; Kelloway, Barling, & Helleur, 2000; Morhart, Herzog, & Tomczak, 2009; Mullen & Kelloway, 2009).

Despite the efforts to link the customer and employee data in this study, it is still conceivable that the beneficial effects of a transformational leader do not stop with engagement, as it also has the ability to increase performance of the front-line employee. Since transformational leaders encourage employees to perform beyond their own expectations, it is likely that their employees will perform better. A number of studies have shown support for the link between transformational leadership and employee performance (Harter et al., 2002; Howell & Avolio, 1993; McColl-Kennedy & Anderson, 2002). Recently, Xanthopoulou et al. (2009) showed evidence for the relationship between engagement and objective performance on a daily basis. Taken together, findings suggest that by motivating your employees through transformational leadership behaviors, managers have the ability to enhance job performance and customer outcomes as a result.

Potential Limitations and Future Research

Several limitations to the present research call for attention in interpreting the results. First, all data were collected at one point in time. Therefore, despite the theoretical justification regarding the causality of the constructs, directionality in this study cannot be inferred. Therefore, further evidence based on an experimental or longitudinal design is needed before definitive conclusions can be drawn regarding causality of the relationship.

Second, as mentioned in the results section of this paper, the employee data could not be reliably matched to the customer data. Upon review, it appeared as though leaders in this organization played a very indirect role in the delivery of service to customers. This may have been the case due to the context of the study (i.e., university). In addition, the university environment presented a very low interaction type service, providing very little time for the student to give an accurate perception of service quality provided by front-line employees. Similarly, the generalizability of the findings is limited because the participant organization was limited to one, and it represented a very unorthodox service setting. Therefore, the study should be replicated in a more orthodox service organization to further test the framework.

Third, all employee data were collected from front-line employees. This presents the possibility of common method variance. However, although this introduces a potential limitation in the current study, the following study (i.e., Study 2) does address the issue by collecting data from multiple sources.

Summary

To conclude, the present study examined how perceptions of a leader's transformational behaviors affect an employee's level of job satisfaction and engagement. Satisfied, motivated and committed front-line employees constitute a powerful engine in the delivery of service quality and customer satisfaction, and such a workforce is considered a valuable asset in developing a loyal customer base (Pfeffer, 1998). Based on some inconsistencies in the literature, this study provided additional information as to not

only how to conceptualize the relationship between the three constructs, but also provided evidence that suggests that all constructs should be measured in organizations.

Additionally, this research examined two widely measured customer constructs, service quality and customer satisfaction. Considering the debate that exists with respect to the distinctness of the two constructs, this study provided evidence that, despite the high correlation, they are indeed separate and distinct. Therefore, measuring both constructs in the practitioner and academic realm is important.

Study 2

Although much of the research undertaken to date conceptualizes engagement as a relatively stable construct that varies between persons (e.g., Schaufeli & Salanova, 2007; Schaufeli et al., 2002), recent research has indicated that engagement is subject to moderate day-level fluctuations (Sonnentag, 2003). This is consistent with Kahn's (1990) conceptualization, proposing that work engagement ebbs and flows - a condition that may vary both between and within individuals. His theory addresses individuals' decisions to momentarily bring themselves into their work roles and will vary from one situation to the next. Unlike the more popular conceptualization of the construct, the transient form of engagement is thought to vary according to aspects of an employee's current work situation (Kahn, 1990; Macey & Schneider, 2008). This type of research is generally well suited to service organizations and to front-line service employees in particular, as their work situations are known to change frequently based on varying customer demands. According to Beal, Weiss, Barros, and MacDermid (2005), fluctuating environmental

factors may determine employees' transient (affective) states (i.e., engagement), which in turn affects performance. Therefore, for certain work contexts momentary changes in engagement may not have a significant impact, making it perfectly reasonable to measure a general level of engagement. However, front-line employees in a service-based environment are dealing with many different customers throughout a workday. Therefore, managers will be much more interested in how to consistently engage their employees throughout the day as it has a direct impact on the business' customers and ultimately the bottom line of the organization. Therefore, there is a need for further research into the more transient state of engagement.

Daily engagement research is beginning to get some attention in the academic realm. For instance, Xanthopoulou et al. (2009) found that daily fluctuations in job resources occur in service-based environments as employees interact with different types and amounts of customers and tend to work with different colleagues and supervisors, which affected their level of engagement. Therefore, employees have different levels of autonomy, receive different types of coaching and experience a different working atmosphere from one day to another, which consequently resulted in higher returns for the restaurant on days that employees were more engaged. Xanthopoulou, Bakker, Heuven, Demerouti and Schaufeli (2008) found that, among flight attendants, social support that built up with the crew during the outbound flight had a positive impact on flight attendants' sense of self-efficacy before the inbound flight. Self-efficacy, in turn, determined flight attendants' performance during the inbound flight through work engagement. Finally, in a study of 147 public service employees working in six different

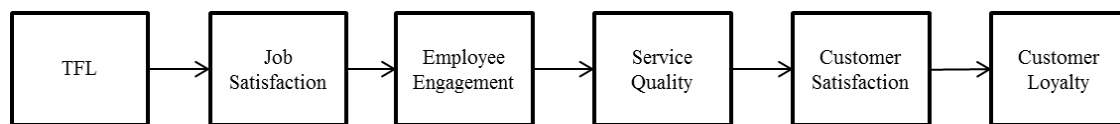
organizations, Sonnentag (2003) found that day-level recovery was positively related to engagement and personal initiative during the subsequent work day.

Daily fluctuations can also be seen at the management level within an organization, ultimately affecting subordinates. Leaders have influence over many of the daily work conditions under which employees operate and it has been found that leadership outcomes are not necessarily static (Hopton, Barling, & Kelloway, 2011). For example, Avolio (1999) argued that “in the long run, intellectual stimulation may produce the desirable outcome that is beneficial to the organization. However, in the short run, leaders who continually urge followers to challenge the norm and search for better ways of doing things may create ambiguity, conflict or other forms of stress in the minds of followers” (p. 937). Subsequently, it would be unwise to assume that either positive or negative effects will surface immediately, or be enduring. To date, only one study has examined the relationship between transformational leadership behaviors and daily work engagement. Based on a sample of 42 employees, Tims et al. (2011) looked at how leadership style influenced followers' daily work engagement, and found that daily transformational leadership behaviors related positively to employees' daily engagement, while day-levels of optimism fully mediated this relationship. Although this presents informative results, much more research in this area is needed.

Due to the dynamic nature in a service-based environment, predictability of the customer environment is questionable. Therefore, it makes intuitive sense to suggest that there would be changes in an individual's level of engagement based on the environment that is presented. Leaders have the ability to monitor and react to that environment,

ultimately influencing front-line employees. Additionally, according to the service-profit-chain, there is a need to understand the contribution that employees make to the overall financial performance of the firm. To date, very little research has examined all of the links in the chain because of the multi-source data that is necessary to investigate the relationship. Therefore, this study will investigate, through the use of a diary study, the impact of daily levels of engagement of front-line employees on perceptions of service quality and its subsequent impact on customer satisfaction and projections of bottom line performance (see Figure 4 for the study model). Data will be collected from both front-line employees and customers.

Figure 4: Study 2 model



Hypotheses

Hypothesis 1: Employee perceptions of daily leadership behaviors will be positively associated with job satisfaction

Hypothesis 2: Daily employee job satisfaction will be positively associated with employee engagement

Hypothesis 3: Daily employee engagement will be positively associated with customer perceptions of service quality

Hypothesis 4: Customer perceptions of service quality will be positively associated with customer satisfaction

Hypothesis 5: Customer satisfaction will be positively associated with customer loyalty

Participants and procedure

Employees: Twenty-nine employees participated in this study, representing a response rate of 70 percent, completing up to five daily surveys. After removing incomplete data using listwise deletion, the study retained 126 responses, which represents an average of 4.34 completed surveys per participant. The study was conducted at two medium-end restaurants which were a part of the same franchise. These restaurants accounted for a significant amount of customer turnover during the run of the day, with each employee serving, on average, 35 customers during each shift. Each restaurant had their own personal store manager but had a common general manager for both franchise locations. The participants had an average age of 23, had been working at their respective restaurants for an average of 14 months, and worked for an average of 24 hours per week (50% full-time/50% part-time).

Each participant was provided with a package, which included a letter from the researcher with instructions regarding the completion of the daily survey, five identical surveys (apart from Day 1, which collected demographic data), together with return envelopes. Employees were asked to fill in one questionnaire at the end of their shift over five consecutive work shifts before leaving the workplace. Employees were asked to include their Employee ID on each survey in order to guarantee participants' anonymity

and ensure that the researcher could match all questionnaires for the individual participant at the end of the study.

In order to encourage completion of all five surveys, each participant was offered an incentive of \$10 per completed questionnaire with a bonus of \$10 if all five questionnaires were completed. This helped to minimize missing data.

Customers: A total of 592 customer comment cards were returned over the duration of the study, which represents an average of 4.5 returned questionnaires per server, per shift.

Customers were encouraged to fill out a short questionnaire at the end of their dining experience. A feedback card (i.e., questionnaire) was placed on each table prior to customers being seated directly next to a tent card that explained the nature of the study and instructions for completion. Customers were asked to drop the completed feedback card into a secure sealed box on their way out of the restaurant. Participants were guaranteed anonymity and confidentiality. As an incentive, participants were provided with a chance to win an iPad 2 for their participation. If interested in participating in the draw, respondents filled out a detachable portion of the feedback card, which was placed separately into the same sealed box at the front of the restaurant. At no time did the server handle the completed feedback cards.

Measures

In this study, employees reported on the study variables for the specific workday. Customers were asked to report on their current dining experience at the restaurant.

Transformational Leadership: Employees' perception of their leader's daily transformational leadership behaviors were measured using a 22-item scale, taken from those used in Rubin et al.'s (2005) study of the antecedents to transformational leadership based on the work of Podsakoff et al. (1996a). The lead-in for all of the items was "I believe my leader . . .," with sample items being, "paints an interesting picture of the future of our work group," "provides a good role model," and "shows respect for individual feelings." All questions were rated on a 5-point scale ranging from 1 (*strongly disagree*) to 5 (*strongly agree*). The scale had a Cronbach's alpha of .92.

Daily Employee Engagement: Day-level employee engagement was measured using the state 9-item day-level version of the UWES (Schaufeli, Bakker, & Salanova, 2006). Examples of questions include, "Today during work, I felt fit and strong" (vigor), "Today, I was very enthusiastic about my work" (dedication) and "Today, I completely lost myself in my work" (absorption). Scales ranged from 1 (*completely disagree*) to 7 (*completely agree*). The scale had a Cronbach's alpha of .91.

Job Satisfaction: A single item was used to measure overall job satisfaction (i.e., Overall, I am satisfied with my job). Despite the criticism, there is evidence that single-item attitudinal measures can yield adequate validity (Wanous et al., 1997).

Service Quality: Service quality was measured using an adapted version of SERVQUAL (Parasuraman et al., 1988), measuring its five dimensions: tangibles, reliability, responsiveness, assurance and empathy. Due to the nature of data collection and consistent with previous research on service quality (i.e., Yee et al., 2011), one item from each of the five dimensions that were most relevant to the service sector were used,

instead of using all 22-items. The measure was based on a 7-point Likert scale (1 = strongly disagree; 7 = strongly agree). This scale had a Cronbach's alpha of .91.

Customer Satisfaction: Customer satisfaction was measured using a 3-item scale adapted from Oliver and Swan (1989) and Maxham and Netemeyer (2002). The measure was based on a 7-point Likert scale (1 = strongly disagree; 7 = strongly agree). This scale had a Cronbach's alpha of .95.

Customer Loyalty: Loyalty intentions were measured using an adapted version of Zeithaml et al.'s (1996) behavioral intention battery. Six items were measured using a 7-point scale ranging from 1 (*not at all likely*) to 7 (*extremely likely*) to measure both an attitudinal component (word-of-mouth advocacy, i.e., "I would recommend this restaurant to someone who asks for my advice") and a behavioral component (repurchase intention, i.e., "I will come back to this restaurant again"). Small adaptations to the scale were made to accommodate the specific service setting. This scale had a Cronbach's alpha of .85.

Results

Descriptive statistics

Table 4 presents mean scores, standard deviations and correlations among the study variables.

Supporting the use of multi-level modeling

Before proceeding with hypotheses testing, it is important to provide statistical evidence for the use of multi-level modeling. It is important to show that the study

variables (i.e., transformational leadership, job satisfaction, employee engagement, service quality, customer satisfaction and customer loyalty) exhibit sufficient variability at both levels of analysis (between- and within-person; Dierdorff & Ellington, 2008). On the basis of the intercept-only model, the intra-class correlation (ICC) (ρ) was calculated. The ICC explains how much of the variance may be attributed to the different levels of analysis. If the amount of within-person variance is very low, it would mean that the study variable does not vary significantly from one day to another.

For transformational leadership, results indicate that 21% of the variance is between employees with the remaining 79% within employees. For job satisfaction, findings showed that 9% of the variance is between-person with the remaining 91% within-person. For employee engagement, the findings showed that 20% of the variance is between-person with the remaining 80% within-person. These results imply that there is enough variance attributed at both between- and within-person variance in day-level transformational leadership, job satisfaction and employee engagement, thus supporting the use of multi-level modeling in this study. Analysis of the customer data suggested that most of the variance in service quality (98%) and customer satisfaction (96%) was within-person or daily variance. For customer loyalty: $\rho=.11$, suggesting that 89% of the variation is attributable to within-person factors.

Hypotheses Testing

Testing Hypothesis 1 – Predicting job satisfaction: Hypothesis 1 proposes that perceptions of day-level transformational leadership behaviors are positively related to employees' job satisfaction after controlling for age and gender (note that these variables

were controlled for in all subsequent analyses). As shown in Table 5, results supported the significant positive relationship between day-level transformational leadership behavior and job satisfaction ($\gamma = .38$, $SE = .16$, $t = 2.43$, $p < .05$).

Testing Hypothesis 2 – Predicting employee engagement: Hypothesis 2 proposes that day-level job satisfaction is positively related to employee engagement. As shown in Table 6, results supported the significant positive relationship between day-level job satisfaction and employee engagement ($\gamma = .54$, $SE = .05$, $t = 10.96$, $p < .01$).

Testing Hypothesis 3 – Predicting service quality: Hypothesis 3 proposes that perceptions of day-level employee engagement are positively related to customers' perceptions of service quality. As shown in Table 7, results supported the significant positive relationship ($\gamma = .13$, $SE = .04$, $t = 3.04$, $p < .05$).

Testing Hypothesis 4 – Predicting customer satisfaction: Hypothesis 4 proposes that perceptions day-level service quality is positively related to customer satisfaction. As shown in Table 8, results supported the significant positive relationship ($\gamma = .96$, $SE = .03$, $t = 37.13$, $p < .01$).

Testing Hypothesis 5 – Predicting customer loyalty: Hypothesis 5 proposes that day-level customer satisfaction is positively related to customer loyalty. As shown in Table 9, results supported the significant positive relationship ($\gamma = .78$, $SE = .07$, $t = 11.88$, $p < .01$).

Table 4: Means, standard deviations and correlations among study variables

	M	SD	1 ^h	2 ^h	3	4	5	6	7	8
1 Age	23.03	2.33	--	-.503**	.176*	.092	.107	.053	-.027	-.195*
2 Gender	1.91	0.29	-.503**	--	-.244**	-.050	.117	.033	.094	.211**
3 TL	3.20	0.55	--	--	--	.544**	.587**	.357**	.259**	.203*
4 JS	5.26	1.25	--	--	.219*	--	.762	.324**	.247**	.142
5 EE	4.29	1.13	--	--	.232*	.692**	--	.211**	.133	.154
6 SQ	6.26	0.56	--	--	.145	-.014	.225*	--	.905**	.455**
7 CS	6.30	0.61	--	--	.210*	-.015	.181	.933**	--	.567**
8 LOY	6.09	0.61	--	--	.188	-.033	.089	.450**	.497**	--

^h - Variables were centered with means of zero, therefore within-group variables could not be calculated.

Notes:

a.) Within-group below the diagonal; between-group above the diagonal

b.) Day-level variables were averages across 5 days; TL = Transformational leadership, JS = Job satisfaction, EE = Employee engagement, SQ = Service quality, CS = Customer satisfaction, LOY = Customer loyalty

c.) Age: Male = 1, Female = 2

d.) * $p < .05$, ** $p < .01$

Table 5: Multi-level estimates of models predicting job satisfaction

Variables	Null			Conditional		
	Estimate	SE	t	Estimate	SE	t
Intercept	5.44	0.11	53.79	1.16	1.24	0.94
Day				0.05	0.49	1.05
TL (w/in)				0.35	0.16	2.14*
TL (bwn)				0.95	0.24	3.87**
Age				0.05	0.04	1.22
Gender				-1.05	0.35	-2.98**
-2LL			389.14			383.17
Δ -2LL						5.97

Notes:

a.) w/in = within-person, bwn = between-person;

b.) Study variable: TL = Transformational leadership

c.) Restaurant location has been controlled for in this analysis

d.) * $p < .05$, ** $p < .01$

Table 6: Multi-level estimates of models predicting employee engagement

Variables	Null			Conditional		
	Estimate	SE	t	Estimate	SE	t
Intercept	4.44	0.11	40.04	-0.33	0.90	-0.37
Day				0.12	0.03	3.86**
JS (w/in)				0.54	0.05	10.96**
JS (bwn)				0.73	0.10	7.08**
Age				0.03	0.04	0.70
Gender				-0.47	0.29	-1.61
-2LL			375.74			289.88
Δ -2LL						86.86

Notes:

a.) w/in = within-person, bwn = between-person;

b.) Study variable: JS = Job satisfaction

c.) Restaurant location has been controlled for in this analysis

d.) * $p < .05$, ** $p < .01$

Table 7: Multi-level estimates of models predicting service quality

Variables	Null			Conditional		
	Estimate	SE	t	Estimate	SE	t
Intercept	6.30	.03	185.50	5.60	.43	13.16
Day				0.27	0.04	0.75
EE (w/in)				0.13	0.04	3.04*
EE (bwn)				-0.09	0.05	-1.63
Age				0.04	0.02	2.22*
Gender				-0.13	0.17	-0.75
-2LL			157.56			169.04
Δ -2LL						11.48

Notes:

a.) w/in = within-person, bwn = between-person;

b.) Study variable: EE = Employee engagement

c.) Restaurant location has been controlled for in this analysis

d.) * $p < .05$, ** $p < .01$

Table 8: Multi-level estimates of models predicting customer satisfaction

Variables	Null			Conditional		
	Estimate	SE	t	Estimate	SE	t
Intercept	6.37	0.05	121.30	-0.62	0.57	-1.12
Day				0.03	0.04	0.75
SQ (w/in)				0.96	0.03	37.13**
SQ (bwn)				1.13	0.08	13.49**
Age				-0.01	0.01	-0.58
Gender				0.00	0.09	0.01
-2LL			178.99			-10.75
Δ-2LL						189.74

Notes:

a.) w/in = within-person, bwn = between-person;

b.) Study variable: SQ = Service quality

c.) Restaurant location has been controlled for in this analysis

d.) * $p < .05$, ** $p < .01$

Table 9: Multi-level estimates of models predicting customer loyalty

Variables	Null			Conditional		
	Estimate	SE	t	Estimate	SE	t
Intercept	6.16	.06	104.34	1.68	1.18	1.42
Day				0.02	0.02	0.76
CS (w/in)				0.78	0.07	11.88**
CS (bwn)				0.80	0.15	5.20**
Age				-0.02	0.03	-0.95
Gender				-0.24	0.21	-1.12
-2LL			182.01			156.62
Δ-2LL						25.39

Notes:

a.) w/in = within-person, bwn = between-person;

b.) Study variable: CS = Customer satisfaction

c.) Restaurant location has been controlled for in this analysis

d.) * $p < .05$, ** $p < .01$

Model Testing

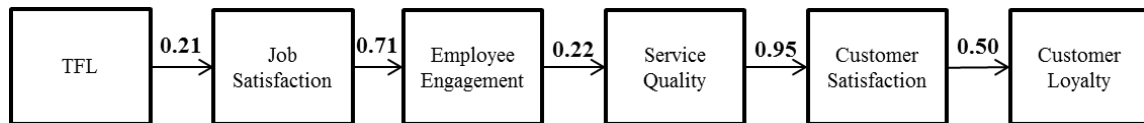
The proposed model was operationalized as a multi-level observed variable path analysis with days nested within individuals. Random intercepts were allowed to accommodate individual differences (i.e., between-person differences) on the study

variables. Two alternative models were estimated to provide a basis for comparison. First, a model was estimated that added direct effects from transformational leadership to all other variables in the service-profit-chain model (i.e., job satisfaction, employee engagement, service quality, customer satisfaction and loyalty). Second, a model was estimated that incorporated all the service-profit-chain predictions and also allowed direct effects from employee engagement to customer satisfaction and customer loyalty.

The original model provided an acceptable fit to the data, $\chi^2(10, N = 126) = 16.75$, ns, CFI = .98, RMSEA = .07. The first alternative model also provided a good fit to the data, $\chi^2(6, N = 126) = 7.96$, ns, CFI = .99, RMSEA = .06, but did not offer a significant improvement over the original model ($\Delta\chi^2(4, N = 126) = 8.79$, ns). Moreover, none of the additional paths attained significance. The second alternative model provided a worse absolute fit to the data $\chi^2(8, N = 126) = 17.06$, $p < .01$, CFI = .94, RMSEA = .09 and, similar to the first alternative model, none of the additional paths attained significance. Accordingly, the original model was retained for further analysis.

Results for the original model are presented in Figure 5. As shown, customer loyalty was predicted by customer satisfaction ($\beta = .50$, $p < .01$) and customer satisfaction was predicted by customers' perceptions of service quality ($\beta = .95$, $p < .01$). Perceptions of service quality were predicted by employee engagement ($\beta = .22$, $p < .05$) which, in turn, was predicted by job satisfaction ($\beta = .71$, $p < .01$). Finally, employee perceptions of job satisfaction were predicted by perceptions of transformational leadership ($\beta = .21$, $p < .05$).

Figure 5: Study 2 - Standardized parameter estimates for the multi-level observed path analysis model



Discussion

The purpose of this study was to test an expanded version of the service-profit-chain using a daily diary approach. More specifically, this study examined whether day-level perceptions of transformational leadership behaviors had a positive effect on job satisfaction, whether job satisfaction had a positive effect on employees' level of engagement and whether this level of engagement had a positive effect on customer attitudes and behaviors during that particular service consumption experience. The main hypotheses were supported by the data, showing how the behaviors of leaders affect their direct reports' level of job satisfaction and subsequently how that affected their level of engagement during a work shift (reported by employees) and how this level of engagement affects a customer's perception of service quality, customer satisfaction and subsequent behavioral intentions (reported by customers). Similar to Study 1, this study has extended previous research in this field by introducing better predictors of both employee and customer outcomes into an established model known as the service-profit chain (Heskett et al., 1994).

The present study makes a number of important contributions. First, this study introduced two new predictors into the organizational side of an established model in order to better predict customer outcomes (i.e., transformational leadership behaviors and

employee engagement). The original conceptualization of the service-profit-chain (Heskett et al., 1994) examines the relationship between various human resource management practices and their effect on employee job satisfaction. However, for quite some time, authors have suggested that job satisfaction is a relatively inconsistent predictor of job performance (e.g., Bond & Bunce, 2003; Iaffaldano & Muchinsky, 1985) as job satisfaction does not capture the full range of affective responses of one's work (Van Katwyk et al., 2000). As a result, this study included employee engagement in addition to job satisfaction. Furthermore, although it has been argued that human resource management practices contribute to the success of the firm by increasing job satisfaction, the role of the leader in fostering engagement has received limited attention (Bakker et al., 2011). Despite the fact that little empirical research has been conducted to date, transformational leadership theory is particularly well suited to predicting employee engagement (Macey & Schneider, 2008). Therefore, an employee's perception of transformational leadership behavior was added as a replacement construct into the model in lieu of human resource management practices.

To date, only one study has examined the relationship between transformational leadership behaviors and employee engagement from a daily context (i.e., changes within the employee versus from one employee to the next). Tims et al. (2011) looked at how leadership style influenced followers' daily work engagement. Based on a sample of 42 employees, it was found that daily transformational leadership behaviors related positively to employees' daily engagement. Similarly, and consistent with Study 1, results from the current study indicate that leaders that are seen as exhibiting behaviors that are

more transformational had employees that were more satisfied with their job during that work shift and were subsequently more engaged as a result. It demonstrates that daily fluctuations in transformational leadership behaviors influence employees' work experiences. In other words, employees are happier and become more engaged in their work when their supervisor is able to motivate them through his/her transformational leadership style. Coupled with the inclusion of job satisfaction in the current study, Tims et al.'s (2011) study differed in a number of other ways. For instance, in the previous study transformational leadership style was rated by only one subordinate. However, in the current study data from multiple employees were collected on a daily basis for each leader. In addition, the study contexts were quite different. In Tims et al.'s (2011) study, data were collected from one European country, whose participants were employed as either consultants at an agency for temporary work or at an industrial consultancy agency. In the current study, two Canadian franchised restaurants were used thereby providing an important replication of the original finding, which speaks to the generalizability of the link between leadership behaviors and employee attitudes (job satisfaction and employee engagement).

Next, the inclusion of employee engagement allowed for the examination of this construct and important customer outcomes. Employee engagement is an employee's enthusiasm, passion and commitment to their work and to the organization, their willingness to invest oneself and expend one's discretionary effort to help the employer succeed, which goes beyond merely being satisfied with the job or basic loyalty to the employer (Erickson, 2005; Macey & Schneider, 2008). This study provides support for

the positive relationship between an employee's daily level of work engagement and a customer's perception of service quality. In addition, similar to other studies (e.g. Silvestro & Cross, 2000), a higher level of service quality was positively associated with customer satisfaction, which was subsequently related to customer outcomes including repurchase intention and customer advocacy. Other authors have demonstrated a link between customer outcomes and subsequent financial firm performance. Anderson, Fornell and Lehmann (1994) showed that "firms that actually achieve high customer satisfaction also enjoy superior economic returns" (p. 63), through the establishment of service loyalty, with empirical support provided by Anderson, Fornell, and Rust (1997), Reichheld and Sasser (1990), and Reichheld and Rust and Zahorik (1993). Although the current study does not provide a direct reflection of future financial returns, it does provide support for increased *projected* financial performance, as indicated by customer advocacy (i.e., positive word-of-mouth) and repurchase intent.

On the whole these results imply that transformational leadership behaviors can help to explain the employee performance-customer evaluation link, considering the strong positive link between work engagement and customer perceptions of the service experience. Little research has been done on the interface between an employee's level of engagement and its effect on customer outcomes. One notable exception is a study conducted by Salanova et al. (2005), who found that, in a study of 342 front-line employees, higher levels of employee engagement was related to a more hospitable service climate, influencing customer loyalty. However, Salanova et al. (2005) looked at mean values of engagement and loyalty at the unit level, whereas the present study took a

dyadic approach, matching individual employee data with their associated customer data, giving a true sense of the effect that employee engagement has on various customer outcomes. In addition, Salanova et al. (2005) conducted a cross-sectional study whereas the present research used a diary approach whereby data were collected from employees and their customers over five consecutive work shifts, allowing for a longitudinal effect, which enhances causal inference. Another notable exception was a study conducted by Xanthopoulou et al. (2009), who found that daily fluctuations in job resources occur in service-based environments as employees interact with different types and amounts of customers and tend to work with different colleagues and supervisors, which affected their level of engagement. Employees had different levels of autonomy, received different types of coaching and experienced different working atmospheres from one day to another, which consequently resulted in higher returns for the restaurant on days that employees were more engaged (Xanthopoulou et al., 2009). However, data were not collected from the customer, limiting the accuracy of the conclusions that can be drawn about customer attitudes and intentions. Whereas in the current study, this was not a limitation as data were collected on customer perceptions of service quality, satisfaction with the dining experience and behavioral intentions from the actual customer.

A substantial contribution made by the current study is the support provided for the expanded version of the service-profit-chain as a whole. In order to support the framework in its entirety, it would require data that are collected sequentially from multiple sources (i.e., employees and customers), which would allow for testing of a lagged effect. Although a small number of exceptions do exist that have attempted to

provide support for all of the linkages (e.g., Harter et al., 2002; Loveman, 1998; Yee et al., 2011), a variety of significant limitations existed including the lack of data collected from both customers and employees and the inability to match customer and employee data. In the current study, both of these issues were addressed and the proposed model was tested using an omnibus test with the results supporting the model as it was originally hypothesized.

From a methodological perspective, the diary approach used in this study afforded the researcher the ability to examine fluctuations of the study variables over the course of five consecutive work shifts. Although a number of studies to date conceptualize engagement as a relatively stable construct that varies between persons (e.g., Salanova & Schaufeli, 2008b; Schaufeli et al., 2002), recent research has indicated that engagement is subject to moderate day-level fluctuations (Sonnentag, 2003), which is why a diary approach was used. Such a design offers the ability to capture experiences as they unfold in the work environment (Ilies, Schwind, & Heller, 2007). In addition, by using this design response bias is reduced, which may be cited as a limitation, because self-reported data are collected in close proximity to the actual experiences and behaviors (Bolger, Davis, & Rafaeli, 2003). Thus, the present results enhance our understanding of the service-profit-chain in real-time. We are able to gain better insight into the role of the leader in a daily work context on an employee's daily level of engagement and its associated effect on the firm's patrons.

Potential Limitations

There are a number of limitations that need to be addressed. The use of multiple data sources (e.g., customers and employees) minimizes the potential for the current results to be a function of common method variance. Nonetheless, it is possible that specific relationships (e.g., transformational leadership predicting job satisfaction and subsequently predicting engagement) are affected by common method variance. However, the use of diary data, which minimizes the effects of recall bias (Scollon, Kim-Prieto, & Diener, 2003), further minimizes the potential for relationships to be affected by extraneous variables.

Second, it may be argued that there is a restriction of the generalizability of the results because data were collected from only two restaurants within the same franchise organization. However, it is important to note that the main purpose of the present study was to examine the potential behaviors that influence employee engagement and behaviors that ultimately affect customers' attitudes and behaviors, not to compare samples or mean scores, where the use of representative samples is of crucial importance.

Third, little is known about the effects of a diary study design on participants' responses (Bolger et al., 2003). In the current study, participants had to complete the same survey over five consecutive work shifts. Although the survey was quite short, it is possible that participants filled out the survey in a habitual way after a few days. Nevertheless, if this was the case, significant within-person fluctuations in the day-level variables would not have been found because participants would answer in the same way every day. As explained in the results section, the intra-class correlations for day-level

transformational leadership style, job satisfaction and employee engagement were all below 22%, indicating significant amounts of within-person variation in the answers across the five work shifts. Thus, habituation effects are important to consider in diary studies, but do not seem to affect the results of the present study. This is also not an issue with the customer data, as different patrons made up the customer sample on each workday.

Finally, the five dimensions of service quality were measured with one-item per dimension versus the original 22-items in the original scale (i.e., three to four items per dimension). Although single-item measures are easier and take less time to complete (especially in a restaurant context which was used in this study), they are usually more susceptible to errors than multi-item measures. However, because the items were aggregated into a single measure (i.e., service quality) this was not seen as an issue. Relatedly, because the study contained such a small sample size, the diary approach did not allow for the breakdown of the transformational leadership, employee engagement, service quality and loyalty into dimensions in order to examine more specific effects. This remains a task for future research.

Implications for Future Research

Although a within-person approach was taken in this study, without a manipulation one cannot speak to the causality of the relationship. Therefore, future research should look at manipulating the behaviors of the leader to determine if, indeed, the behaviors of

the leader do in fact cause job satisfaction and engagement levels in employees to change.

The present study looked at two restaurants in one franchised organization. In order to increase the generalizability of the results, future research could be carried out in other service contexts (e.g., hospitals, banks, hotels) to test the invariance of the proposed model.

The present study looked only at transformational leadership behaviors as a predictor of job satisfaction and employee engagement. However, since the original conceptualization of the service-profit-chain proposed that human resource management practices were good predictors of employee attitudes and the predictive power of these practices have not been called into question, it would be important for a future study to include various human resource management practices to determine their predictive ability with employee engagement. Along a similar vein, in their original model Heskett et al. (1994) proposed that employees that were satisfied with their jobs exhibited many positive behaviors, such as having lower turnover intentions (P. E. Spector, 1994). Therefore, it would be useful for a future study to include this construct in the expanded conceptualization of the model.

In the current study, the results only had the ability to speak to projected financial performance, which is considered quite subjective as intension (i.e., repurchase intent and customer advocacy) does not always equate to behavior. Therefore, future research should collect data that can provide for a more objective indicator of financial performance as it relates to the service-profit-chain.

Finally, as mentioned in the limitations section, due to the nature of this diary study (i.e., aggregation of the customer data to the employee level), the study contained such a small sample size. Therefore, this study did not allow for the breakdown of a number of the dimensional constructs (i.e., transformational leadership, employee engagement, service quality and customer loyalty). Therefore, a future study should be designed to achieve a larger sample size in order to better understand the dimensional effects of the proposed relationship.

Managerial Implications

The findings in this study offer three important implications for service-oriented organizations. First, from the current study context, restaurant servers are faced with a variable environment during a work shift as servers encounter many different types of customers. Therefore, measuring these constructs on a daily basis makes sense to gain better insight into the effect of both leader and employee behaviors. Motivation has been cited as an important element in predicting the quality of an employee's performance. Based on the results of this study, encouraging managers to pay closer attention to generating such motivation in its employees to guarantee future service competitiveness for the firm (Salanova et al., 2005) is important. Leaders should promote strategies that aim to achieve daily re-enforcements of behavior, and not rely solely on general strategies. In other words, transformational leadership behaviors should be applied in time proximity to the task that needs to be performed in order to be successful.

Second, the enhancement of employee engagement in service organizations in particular is incredibly important. From a practical standpoint, firm performance is significantly related to the performance of its front-line employees. This is true because for many service organizations production and consumption of that service is performed at the same time by that front-line employee. Employees with positive attitudes toward their leader are likely to carry those attitudes over to customers and to engage in the discretionary effort that is required to serve customers at a high level. Front-line employees are likely to extend themselves during the interactions they have with customers, as engaged workers tend to be more productive and contribute more positively to the financial success of the firm.

Finally, based on the original framework of the service-profit-chain, various human resources management practices (i.e., rate of pay, rewards and recognition) were proposed as being good predictors of employee attitudes. However, the current study introduced the behavior of the transformational leader as also being a good predictor. For organizations, this can create positive financial implications. For the most part, it is quite costly to institute many institution wide practices that will help to improve employee attitudes. It can be much more cost effective to develop and institute transformational leadership training programs for the leaders within the firm in order to increase satisfaction and engagement within its employees.

Summary

To conclude, the present study examined how a leader's day-level transformational leadership behaviors affect an employee's level of job satisfaction and engagement, and consequently how this affected relevant customer outcomes during that particular work shift. It was suggested that by integrating different theoretical and methodological approaches researchers will be able to better understand the interface between the employee and the customer. Such insight may be then used to influence leadership training that aims to create and maintain an engaged and productive workforce, ultimately providing increased bottom-line performance for the organization.

General Summary

The two studies presented in this paper extend the literature on transformational leadership, job satisfaction, engagement and their link to customer attitudes and behaviors suggested by the service-profit-chain in several ways. First, as better organizational predictors of bottom line performance are needed, this study presents an expanded version of the model with the inclusion of employee engagement. Second, it was supported, through the service-profit-chain framework, that human resource management practices contribute to the success of the firm by increasing job satisfaction. However, the role of the leader in fostering engagement has received limited attention (Bakker et al., 2011). The integration of transformational leadership theory with the theory of employee engagement and satisfaction serves to increase our knowledge about behaviors that are more conducive to the likelihood that employees will become engaged.

These studies show the impact of transformational leadership behaviors on job satisfaction and engagement, as a mechanism by which leaders may influence their followers, ultimately contributing to perceptions of service quality and increasing satisfaction and loyalty in its customers, which is beneficial not only to the organization but also to the employee and the customer. From a practical standpoint, with a better understanding of both the effects of engagement and the mechanism by which leaders can stimulate employee engagement, the benefits will not only be experienced in organizations via bottom line performance, but the benefits will also be realized in the firm's employees and also in its customers. In addition, this contribution suggests potential cost benefits to an organization. Traditionally, service-profit-chain framework suggested that the implementation of a number of human resource management practices would increase a company's bottom line performance. However, because the cost of increasing beneficial leadership behaviors through training is substantially less than instituting any number of human resource management practices, financially companies would benefit. Therefore, this research has many beneficial consequences, both theoretically and practically.

From a methodological perspective, a number of authors have suggested that there is merit in measuring employee engagement as a momentary or transient state, versus that of an enduring construct. Therefore, this research used two studies in order to examine the effects of both forms of engagement. The results revealed that there is merit to both types, bringing context to the forefront. In an environment that changes frequently (i.e., restaurant) with many different types of customers and needs, it may be necessary to

actively engage your employees throughout the day. However, in other service contexts where there is either low interaction with the customer (i.e., university, dry-cleaning), taking the appropriate steps to increase engagement in a general sense may suffice.

Second, as the lack of data collection from multiple sources (i.e., employee and customer) when investigating perceptions of service quality during a service encounter with a front-line employee is commonly noted as a limitation in the literature, both studies in this paper addressed this issue. Data were collected not only from customers but also from the company and its employees, allowing for more accurate and objective conclusions to be drawn.

Overall, this research attempts to improve our understanding about the service-profit-chain. It shows how employees react to leadership behaviors by way of satisfaction levels, coupled with their affective and motivational responses (i.e., work engagement) and its impact on the organization, financial and otherwise.

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APPENDIX

Study 1 - Scales

Employee Measures

Transformational Leadership (Podsakoff et al., 1996a; Rubin et al., 2005)

I believe my leader . . .

1. seeks new opportunities for our organization
2. paints an interesting picture of the future for our work group
3. leads by “doing” rather than simply by “telling”
4. fosters collaboration among work groups
5. shows subordinates that he/she expects a lot from them
6. acts without considering individuals’ feelings (reverse)
7. provides individuals with new ways of looking at things which are puzzling to them
8. has a clear understanding of where we are going
9. provides a good model to follow
10. encourages employees to be “team players”
11. insists on only the best performance from us
12. shows respect for individuals’ feelings
13. has ideas that have forced individuals to rethink some of their own ideas
14. inspires others with his/her plans for the future
15. leads by example
16. gets the group to work together toward the same goal
17. does not settle for second best from subordinates
18. behaves in a manner that is thoughtful of individuals’ personal needs
19. stimulates individuals to think about old problems in new ways
20. is able to get others to commit to his/her dream(s) for the future
21. develops a team attitude and spirit among his/her employees
22. treats people without considering their personal feelings (reverse)

Employee Engagement (Schaufeli et al., 2002)

Vigor (VI)

1. When I get up in the morning, I feel like going to work
2. At my work, I feel bursting with energy
3. At my work I always persevere, even when things do not go well
4. I can continue working for very long periods at a time
5. At my job, I am very resilient, mentally
6. At my job I feel strong and vigorous

Dedication (DE)

1. To me, my job is challenging
2. My job inspires me
3. I am enthusiastic about my job
4. I am proud on the work that I do
5. I find the work that I do full of meaning and purpose

Absorption (AB)

1. When I am working, I forget everything else around me
2. Time flies when I am working
3. I get carried away when I am working
4. It is difficult to detach myself from my job
5. I am immersed in my work
6. I feel happy when I am working intensely

Job Satisfaction

1. Overall, I am satisfied with my job

Customer (Student) Measures

Service Quality (Parasuraman et al., 1988)

1. *Tangibles*: Employees are neat-appearing
2. *Reliability*: When the department promises to do something by a certain time, it does so
3. *Responsiveness*: Employees give prompt service to students
4. *Assurance*: Employees have the knowledge to answer students' questions
5. *Empathy*: Employees give personal attention to students

Customer Satisfaction (Maxham & Netemeyer, 2002; Oliver & Swan, 1989)

1. I am satisfied with my overall experience at this restaurant
2. On a whole, I am happy with this restaurant
3. Overall, I am pleased with the service experience at this restaurant

Study 2 - Scales

Employee Measures

Transformational Leadership (Podsakoff et al., 1996a; Rubin et al., 2005)

Today, I believe my leader . . .

1. seeks new opportunities for our organization
2. paints an interesting picture of the future for our work group
3. leads by “doing” rather than simply by “telling”
4. fosters collaboration among work groups
5. shows subordinates that he/she expects a lot from them
6. acts without considering individuals’ feelings (reverse)
7. provides individuals with new ways of looking at things which are puzzling to them
8. has a clear understanding of where we are going
9. provides a good model to follow
10. encourages employees to be “team players”
11. insists on only the best performance from us
12. shows respect for individuals’ feelings
13. has ideas that have forced individuals to rethink some of their own ideas
14. inspires others with his/her plans for the future
15. leads by example
16. gets the group to work together toward the same goal
17. does not settle for second best from subordinates
18. behaves in a manner that is thoughtful of individuals’ personal needs
19. stimulates individuals to think about old problems in new ways
20. is able to get others to commit to his/her dream(s) for the future
21. develops a team attitude and spirit among his/her employees
22. treats people without considering their personal feelings (reverse)

Job Satisfaction

1. Overall, I am satisfied with my job today

Daily Employee Engagement (Schaufeli et al., 2006)

1. At work today, I feel bursting with energy (VI1)
2. At my job today, I feel strong and vigorous (VI2)
3. Today, I am enthusiastic about my job (DE2)
4. Today, my job inspires me (DE3)
5. When I got up this morning, I felt like going to work (VI3)
6. Today, I felt happy when I was working intensely (AB3)
7. I was proud of the work that I did today (DE4)
8. I was immersed in my work today (AB4)
9. I got carried away when I am working today (AB5)

Customer Measures

Service Quality (Parasuraman et al., 1988)

1. *Tangibles*: Employees are neat-appearing
2. *Reliability*: When the restaurant promises to do something by a certain time, it does so
3. *Responsiveness*: Employees give prompt service to customers
4. *Assurance*: Employees have the knowledge to answer customers' questions
5. *Empathy*: Employees give personal attention to customers

Customer Satisfaction (Maxham & Netemeyer, 2002; Oliver & Swan, 1989)

1. I am satisfied with my overall experience at this restaurant
2. On a whole, I am happy with this restaurant
3. Overall, I am pleased with the service experience at this restaurant

Customer Loyalty (Zeithaml et al., 1996)

Word-of-mouth communications

1. I will say positive things about this restaurant to other people
2. I would recommend this restaurant to someone who asks for my advice
3. Encourage friends and relatives to eat at this restaurant

Purchase intentions

1. I consider this establishment as my first choice among restaurants
2. I will visit this restaurant again in the future.
3. I will not visit this restaurant in the future