

Leadership of Service Employees – A Narrative Review

By Friedemann W. Nerdinger and Alexander Pundt

Employees who have customer contact play a crucial role in the success of service organizations. Therefore, leadership of customer contact employees is a core element of service management. In direct customer contact, employees have to act on at least two levels: on the level of solving customers' problems, which is the core service; and on the relational level, on which they have to influence customers' emotions and affect in order to increase customers' satisfaction with the service interaction. While leadership with respect to solving customers' problems can be enacted via well-established management techniques, it requires a more specific approach with regard to the relational level. In this regard, leaders have to establish positive relations to their employees in the same way as to customers. This enables leaders to influence the emotions of employees in a similar way as they influence the emotions of customers. By conducting a narrative review of existing research, we aim to show how leaders can establish positive relations with employees and influence their emotions. Specifically, we show that transformational leadership and establishing leader-member exchange are of particular importance.

1. Research question

Leadership is one of the key factors in working with customer contact employees. Its role for the economic success



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of service organizations becomes particularly clear in the service profit chain (e.g., Heskett et al. 1994; Heskett and Sasser 2010). The core idea of this model is that service employee job satisfaction leads to customer satisfaction, which creates positive economic consequences for the organization in return. The key driver of job satisfaction in this model is the internal service quality, which is the employees' perception of service-oriented human resource practices such as selection of qualified personnel, training in customer-oriented behaviour, job-design, rewards for good service performance, etc. In turn, customer satisfaction is a result of the behaviour of satisfied service employees, and drives customer loyalty, profit, and other positive economic outcomes.

While Heskett et al. (1994) not explicitly specified the role of leadership in relation to internal service quality as the starting point of the chain, a meta-analysis by Hong et al. (2013) provides a first hint regarding this role. Hong et al. used the results of 58 independent samples and distinguished between human resource practices and leadership as two main elements of internal service quality. In this sense, human resource practices such as training, reward systems, and selection methods, with a special focus on improving service quality, aim to increase employees' skills, abilities, and motivation. Leadership, however, encompasses different concepts. On the one hand, there are generic leadership concepts that are generalizable across situations (e.g., transformational leadership; see Yukl 2012); on the other, there are more specific, service-oriented concepts of leadership, such as appreciating good service performance, removing barriers to good service performance, articulating clear standards and expectations with respect to service quality, and appreciating customers (Schneider et al. 2005).

The meta-analysis by Hong et al. (2013) supports the core idea of the service profit chain, as well as the plausible assumption that leadership plays a central role in this model. However, some problems remain. On the one hand, research on the service profit chain has prevailingly addressed one causal direction – the so-called inside-out effect of employee satisfaction leading to customer satisfaction via positively evaluated service behaviour – whereas Heskett et al. (1994), in their original model, also proposed an outside-in effect of customer satisfaction leading to employee satisfaction. Nevertheless, there has been hardly any empirical research on the outside-in effect; therefore, we do not discuss it further here (see Frey et al. 2013; Zablah et al. 2016).

On the other hand, the meta-analysis by Hong et al. (2013) necessarily uses a rather abstract concept of leadership; therefore, we adopt a more differentiated perspective which acknowledges that different leadership behaviours can be differentially effective for various kinds of service work. While meta-analytical reviews use a more integrative approach, we review the existing literature in a narrative way (Baumeister and Leary 1997) in order to circumvent the high level of abstraction and the lack of specific information associated with meta-analytic approaches.

In this paper, we address the following question: Which kinds of leadership are effective in leading service employees, and to which kinds of service work does this apply? Before answering this, we clarify the specific characteristics of service work related to direct contact with customers, and the kind of service work for which specific forms of leadership are needed at all. In so doing, we go beyond the merely empirical approach and contribute to a more theoretical integration of the existing empirical findings.

2. Service work in direct customer contact

The meta-analytic test of the service profit chain by Hong et al. (2013) suggested that the success of service organizations strongly depends on the behaviour of service workers who have direct customer contact. In terms of organization theory, service workers have a boundary-spanning position as they work at the boundaries of the service organization, where they are in constant contact with the organization's environment, personified by the customer. The tasks of employees who are in direct customer contact are associated with various functions (e.g., Bettencourt et al. 2005). Of these, the *quality function* is particularly important: the customers' perception of service quality and their service satisfaction are influenced by the employees' professional competence and – even more importantly – by their social behaviour towards customers (see Nerdinger 2011).

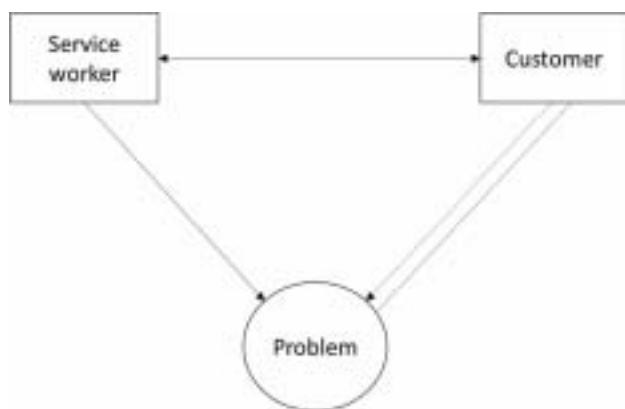


Fig. 1: Model of the interaction between service employee and customer (Nerdinger 2011, p. 28)

Therefore, the quality function directly leads to the process of service creation. The main characteristic of service is that it is created via an interaction between service employee and customer (Nerdinger 2011), as shown in Figure 1.

The core of any service interaction is the solution to a customer's problem – the customer is the owner of this problem (as implied by the connected line from customer to problem in Figure 1). The term *problem* has to be understood in a rather broad sense: the problem could be an object owned by the customer that needs to be repaired, or one whose solution lies in using products offered by the service organization; in addition, both physical and psychological problems are included in the definition. The task of the service employee is to help solve the customer's problem, which is symbolized by the unidirectional arrow in Figure 1. Solving the customer's problem requires professional competence of service employees, as they need to have mastery of the instrumental actions necessary to find a solution. In executing such instrumental actions, the service employee is dependent on cooperation from the customer. This means that the customer is, to varying degrees, involved in creating a particular service, which is symbolized by the dotted line in Figure 1. This cooperative interaction between service employee and customer in the creation of the service is called *co-creation*, which is a constitutive characteristic of service in general.

In order to make co-creation possible, both actors need to forge a mutual relationship with each other. This is symbolized by the bidirectional arrow in Figure 1. Occasionally, the social interactions between employee and customer are limited to rather ritual demonstrations of mutual respect; however, the more important aspect is the communicative coordination between the actors of service co-creation, which usually takes place on the level of social interaction. From the perspective of communication psychology, such actions and interactions define the relational level of communication between employee and customer (Watzlawick et al. 1967).

While the employees' tasks on the level of professional problem solving can be clearly stipulated in job descriptions, organizations cannot easily measure, control, and standardize interactions on the relational level – not least because these interactions are strongly influenced by the attitudes and (expressed) emotions of either employees and customers. Emotional expression by the employee within customer interactions is a main driver of customer satisfaction, as research on emotional labour has consistently shown (e.g., Grandey and Malloy 2017). However, the implications of the specific structure of service creation for leadership of service employees represents an open question, which is addressed in the following paragraph.

3. Leadership and the classification of service work

Leadership is usually defined as any attempt by a leader to intentionally influence employees via communication (Yukl 2012), while the goals of such influence attempts in the context of organizations are derived from the strategic goals of the organization as a whole. The instrumental behaviour of service employees can be influenced by traditional management techniques, such as goal setting, monitoring of processes and results, and reward/punishment of (non-)instrumental, goal-directed behaviour of service employees. Such approaches to leading service employees can also be captured by the term *transactional leadership* (Bass 1985; Yukl 2012).

While leading service employees by reward and punishment is rather clear and straightforward, the question remains as to how leaders can influence the social behaviour of service employees, which requires – in order to lead to customer satisfaction – the authentic, or at least credible, expression of positive emotions. Leadership research has provided some indirect clues in this regard: employees seem to prefer leaders who have a high level of positive affectivity – that is, the dispositional tendency to experience positive emotions – and perceive such leaders as more effective than those with a tendency to experience and express more negative emotions (Bono and Ilies 2006; see also Joseph et al. 2015; see 4.2.1). We therefore assume that some personality traits and related behaviours of leaders are related to emotional experiences and, subsequently, social behaviours of service employees who have customer contact. A potential mediating mechanism to explain this relationship may be emotional contagion (Tee 2015); that is, non-verbally expressed emotions (e.g., via facial expressions, gestures, body language, or paralingual characteristics) by one interaction partner that lead to processes of imitation (mimicry) by the other interaction partner, which in turn impact the emotional experiences of the imitating partner.

However, these considerations are not equally valid for all kinds of service or all jobs involving customer contact. In some sectors that are driven by the production-oriented approach (Bowen and Lawler 1992), such as fast-food restaurants, the behaviour of customer contact employees is reduced to a very detailed service script that can be executed without any mental effort (e.g., Di Mascio 2010). In such service interactions, the level of relationship and social interaction has hardly any impact on the results of a service interaction. This observation necessitates classification of service forms with respect to the social interactional level. In one such classification, Gutek (1995) distinguished between three forms of service interactions: encounters, pseudo-relationships, and relationships.

Service encounters are isolated interactions between a service employee and a customer. The employee and customer do not have any common history, and neither customer nor employee expect to see each other ever again. *Pseudo-relationships* are characterized by repeated contact between a customer and employees of a service organization, where these employees do not have to be the same in all interactions between customer and service organization. In contrast, *service relationships* exist if the service employee and customer are already familiar with each other and also expect more service contact in the future. Therefore, relationships are characterized by trust in the provider, mutual knowledge, and the expectation of future interaction.

Most encounters are easily standardized in the sense of the production-oriented approach. Thus, according to Gutek's classification, leadership in the context of service encounters is similar to leadership in industrial production. However, this is not the case for all service encounters. While Gutek's (1995) definition implies that it is only the duration and frequency of encounters that matter, other service characteristics, which are usually described according to their degree of intangibility, as well as their degree of co-creation, also need to be acknowledged in order to understand leadership of employees acting in certain encounters (Schneider and Lundby 2012). In the example of fast-food restaurants, intangibility and co-creation are rather low – the interaction between employee and customer is focused on the tangible product, which in turn has been produced by other employees of the organization. Therefore, the interaction between employee and customer is completely controlled by a service script and can be processed in an extremely routinized way, which is why emotional relationships do usually not develop between customer and employee. Similar to leadership in industrial production, leadership in such services can be limited to controlling the instrumental behaviour of employees.

Besides these routinized encounters, other service encounters may have a higher degree of intangibility and co-creation. Such encounters can be found, for example, in call centres, in which agents and customers usually try to solve a problem via communication only – in this sense, intangibility and co-creation are rather high. In such encounters, stronger emotions are not unlikely to occur, as has been shown in plenty of empirical studies on the consequences of call centre work for emotional exhaustion and burnout of employees (Wegge et al. 2010; Zhan et al. 2015). Therefore, service encounters with high levels of intangibility and co-creation need to be included in our analysis of leadership.

Pseudo-relationships are characterized by contact between customers and alternating employees of the same

service organization, wherein customers only develop a relationship with the organization and not with individual service employees. Single interactions with a rather anonymous employee do not substantially contribute to customer satisfaction; thus, we exclude these cases from our analysis of leadership. Instead, we focus on (real) service relationships. Based on social exchange theory (e.g., Cropanzano and Mitchell 2005), in such relationships, an emotionally grounded mutual obligation between customer and employee is likely to develop: if partner A increases partner B's well-being in any way, partner B is likely to feel obliged to reciprocally increase partner A's well-being in exchange. Such exchange can result in an experience of fairness, which is the (emotional) core of exchange relationships in general, and of employee-customer service relationships in particular.

With respect to leadership of service employees, we conclude that services allowing for the development of service relationships in Gutek's (1995) sense require forms of leadership that acknowledge the importance of the relationship aspect for success. Such relationships can be found, for example, in health services, in all kinds of consulting, as well as in other kinds of services that imply continuous interactions between the customer and one particular service employee. The following analysis is therefore limited to forms of service work in which service relationships can develop and occur with affectively toned encounters between employee and customer.

4. Models of leadership of service employees

In leadership research, success has traditionally been assessed via criteria such as employee performance and satisfaction, which represent more economic, output-oriented outcomes on the one hand and more psychological, employee-oriented outcomes on the other. Applied to the field of service work, performance in terms of results of the service interaction is usually assessed via perceived service quality and customer satisfaction. In contrast, "hard" economic indicators of performance are much less common. Sometimes, performance ratings are provided by leaders who assess their followers' performance; at other times, researchers themselves try to directly assess employees' service behaviour in customer interactions.

The employee-oriented (psychological) effects can be differentiated by attitudinal effects and more personal consequences of leadership behaviour for the employee. Job satisfaction as one such criterion is usually used as a proxy for the employee's attitude toward their job. Often, other attitudes are also measured, such as affective commitment (the employees' emotional attachment to the organization) or customer orientation (the employees' atti-

tude toward customers and service behaviour). Self-efficacy – that is, in this case, an employees' belief that they are able to successfully conduct interactions with customers (see Bandura 1997) – can be seen as another employee-oriented outcome of leadership; stress-related symptoms such as emotional exhaustion or burnout as a result of emotional labour (Grandey and Malloy 2017) also fall into the category of employee-related leadership outcomes. Additionally, role conflicts in the sense of contradictions between role expectations of leaders and of customers have been discussed as outcome variables, with role ambiguity (i.e., service employees' uncertainty about what exactly is expected of them) having the strongest impact on employees' stress experiences. Employees usually experience this uncertainty as particularly straining (Nerdinger 2011).

These outcome variables are usually related to leadership variables of two different kinds. On the one hand, leadership variables are derived from generic leadership models; i.e., from models that attempt to describe and explain leadership phenomena independently of the particular situation in which leadership takes place (e.g., the concept of transformational leadership; see Yukl 2012). In this approach, leadership behaviour has been assessed using broad measurement instruments that have not been adapted to the service sector. On the other hand, service-specific leadership behaviours, operationalized by the leaders' emphasis of the importance of service quality, are used as predictors of service-related outcomes (Schneider et al. 2005).

In the following review of empirical findings, we focus on studies that have investigated the effects of leadership behaviour on service employees within the limits of the kinds of service interactions discussed above. Furthermore, the selection of studies was led by methodological considerations. Hence, the studies reviewed here had to have a high level of methodological rigor, which means that data were collected using various sources (e.g., leader and employee ratings). In cases where there was only one source of variance, dependent and independent variables had to be measured at separated points in time in order to reduce the likelihood of artificially increased correlations between variables.

4.1 Service leadership

Schneider et al. (2005) introduced the concept of service leadership and defined it as a form of leadership that is focused on acknowledging and appreciating service quality, removing barriers to high-quality service performance, setting clear standards of quality service, and appreciating customer input. In line with this definition, Schneider et al. (2005) developed a scale that can be used to reliably measure service leadership in this sense.

It can be questioned whether service leadership actually is a unique form of leadership. Specifically, besides all the other things leaders do, service-oriented leaders emphasize the importance of service quality. The consequences of this particular aspect of leadership have been investigated in several studies. Schneider et al. (2005) examined the aggregated effects of service leadership in a study of 56 departments of a supermarket chain. They used data provided by employees, leaders, and customers, which varied for each department of the chain. On the department level, Schneider et al. (2005) found evidence for the following causal chain: service leadership is related to the service climate of the department (both rated by employees), which in turn is related to the average level of customer-related organizational citizenship behaviour (OCB) (rated by leaders), which drives the average customer satisfaction (rated by customers) and, subsequently, the objectively assessed sales performance.

The relationship between service leadership and service climate, as the main mediator of the relationship between leadership and its consequences, has been demonstrated in other studies as well (e.g., Salvaggio et al. 2007; Ehrhart et al. 2011). These studies are included in the meta-analysis by Hong et al. (2013) referred to above, wherein service leadership, mediated via service climate, was found to impact service behaviours of employees. Therefore, we do not elaborate further on the mediated effect of service leadership, and refer to only two studies that have focused on one particular aspect: the setting of service standards.

Susskind et al. (2003) investigated the effects of setting service standards, and included leaders' appreciation of employees' work. They studied 354 service employees and 269 of their customers, finding a positive relationship between setting service standards (including aspects of appreciation) and employees' perception of leader support. Leader support, in turn, was related to the employees' service orientation as an attitude towards customers. Service orientation was subsequently related to customer satisfaction. Therefore, setting service standards seems to increase perceptions of support from leaders in implementing such service standards, and, hence, to decrease the particularly straining aspect of role ambiguity.

In a sample of 940 call centre agents, Wilk and Moynihan (2005) showed emotional exhaustion, as the core element of burnout (which is a specific consequence of strain in service jobs), to vary within the same job depending on the respective leader. Therefore, emotional exhaustion may be attributed to varying leadership behaviours. In an additional study of 429 call centre agents and their 215 immediate leaders, Wilk and Moynihan (2005) showed so-called display rules (i.e., the degree to which leaders prescribe the emotional expression employees have to dis-

play in customer contact; see Grandey and Malloy 2015) to be positively related to emotional exhaustion. Therefore, the setting of service standards as described in the concept of service leadership may also have negative consequences if it attempts to control employees' emotional display within employee-customer interactions.

To sum up, in extant research, service leadership does not seem to have been sufficiently developed as a theoretical concept, or with respect to its operationalization. The concept has prevailingly been used in order to explain service climate, and the measure of service leadership has not been explicitly validated. To date, only indirect effects of service leadership via service climate have been empirically proven; however, service climate is also influenced by human resource management practices and by top management behaviour. Therefore, it is difficult to determine the actual portion of direct leadership that influences service employees' behaviour. This requires examination via further empirical studies using validated measurement instruments.

4.2 Generic leadership models

Most empirical studies in this context have used established concepts and models of leadership, and investigated their effects on several facets of service jobs. Such models capture generic leadership behaviour, which can be generalized across several situations and outcomes. With respect to the research question outlined in this article, it often remains unclear as to whether individual studies aim to contribute to leadership research in general (e.g., in examining core assumptions of the respective approach), or to an understanding of the particular situation of service work. In the following, we exemplify the findings derived from such generic leadership approaches by focusing on two well-established leadership models: transformational leadership and leader-member exchange (LMX) (see Yukl 2012). We narrowed our review to these two models for two reasons. First, transformational leadership and LMX can be regarded as the dominant leadership models within leadership research in the last three decades (e.g., Fischer et al. 2017), and have also dominated the aspect of research on service work focused on here. Second, it is also theoretically plausible that either transformational leadership or LMX contributes to service-related outcomes – which may also be a reason for researchers choosing these approaches when studying leadership in the service sector.

Besides these approaches, other studies in the service context have used concepts such as servant leadership (e.g., Chen et al. 2015), shared and self-leadership (e.g., Manz et al. 2015), or negative forms of leadership, such as abusive supervision (e.g., Carlson et al. 2012). Meta-analyses have shown that there are very large (positive or negative) cor-

relations between these approaches and transformational leadership in particular (e.g., Hoch et al. 2018). Therefore, these studies lead to little incremental enhancement of knowledge, which is why we do not include them in this review.

4.2.1 Transformational leadership

The concept of transformational leadership represents an attempt to explain how leaders communicate the meaning of work to employees. As the behaviour of service employees can be neither immediately controlled nor evaluated in terms of “hard” numbers, the approach of transformational leadership seems to be promising with respect to its ability to explain social behaviour of service employees. The concept of transformational leadership can be traced to Burns (1978), who distinguished between transformational and transactional leadership as two distinct forms.

While transactional leadership can be seen as a category that captures rather traditional management techniques, transformational leadership starts with the normal effort of employees and increases it to extra effort by changing (i.e., “transforming”) the employees’ values and attitudes and raising them beyond mere self-interest. Transformational leadership consists of four types of leadership behaviour:

- *Idealized influence*: The leader is highly credible and trustworthy, and acts as an exemplary role model for employees in a professional, as well as human, way.
- *Inspirational motivation*: Transformational leaders provide and communicate attractive and inspiring visions, which increase employees’ intrinsic motivation, give meaning to work, and make clear why it may be worth investing huge amounts of time and energy to meet a particular goal.
- *Intellectual stimulation*: Leaders try to set free the creative and innovative potentials of their employees by provoking them (in a positive sense) to challenge and optimize established processes within the organization.
- *Individualized consideration*: The leader acts as a “consultant, coach, teacher and mother figure” (Bass 1985, p. 27), considers the individual needs of each employee, and helps them develop their strengths and abilities.

How does such transformational leadership influence followers? In analysing common operationalizations of the concept, Küpers and Weibler (2005) argued that intellectual stimulation incites primarily cognitive aspects, whereas the other elements of transformational leadership are more directed toward affective or emotional states of employees. Hence, idealized influence is directly focused on employees’ pride; inspirational motivation emphasizes

enthusiasm and optimism; and individualized consideration fosters employees’ emotions by fulfilling individual needs.

Extant empirical research has supported the role of follower emotions as a mediator of the effects of transformational leadership. In a diary study, Bono et al. (2007) showed that employees experience positive emotions less frequently in interactions with their leaders than in interactions with colleagues or customers (for the consequences of this on employees’ emotions, see Johnson 2008). Additionally, Bono et al. (2007) found that employees who have direct contact with customers experience more positive emotions across the whole workday – including in customer interactions – and have higher levels of job satisfaction when they are led by a transformational leader. This is primarily due to the emotional impact of transformational leadership. In a study by Jin et al. (2016), leaders rated their momentary emotional experience (operationalized by the pleasure dimension in the affective circumplex; see Russell 1980) at several points in time during the workday, while their employees rated transformational leadership. Jin et al. (2016) found leaders to be rated higher in transformational leadership if these leaders reported positive emotional states during the workday. Such experience of positive emotional states is strongly related to personality traits. In a meta-analysis, Joseph et al. (2015) showed that positive affectivity as a personality trait was related to leadership outcomes, and this effect was mediated by transformational leadership (see also Bono and Ilies 2006).

We now discuss the effect of transformational leadership on service employees with customer contact, in particular on their performance, attitudes, and on perception and behaviour of customers by referring to three important recent studies.

MacKenzie et al. (2001) surveyed sales agents working for a large insurance company regarding their leaders’ behaviour, while their leaders rated their employees’ OCB. Additionally, MacKenzie et al. (2001) used objective sales numbers. They found that direct, as well as indirect, effects mediated via role ambiguity. Hence, role ambiguity is negatively related to sales numbers, whereas trust has a positive impact on OCB. Overall, transformational leadership better predicts sales success compared to transactional leadership, which has no direct impact but seems to decrease role ambiguity via contingent punishment. Moreover, MacKenzie et al. (2001) found transformational leadership to be more strongly related to OCB. Trust in the leader, and also contingent reward, had a strong positive effect on OCB; however, the effect of emotion-focused elements of transformational leadership was much stronger. Based on these findings, transformational leadership actually explains sales performance and OCB beyond transac-

tional leadership. This effect is seemingly driven by the emotion-focused elements of transformational leadership, whereas leaders' cognitive intervention (i.e., intellectual stimulation) had a rather negative impact in this study. In contrast, transactional leadership seems to clarify leaders' expectations and to (additionally) foster employees' trust in them.

Liao and Chuang (2007) investigated the effect of transformational leadership on service behaviour in a study of 420 hairdressers, 110 of their leaders, and 715 of their customers. The employees rated the transformational leadership of their immediate leaders, along with their own affective commitment, job satisfaction, and self-efficacy in the sense of a task-specific trust in their own abilities. The leaders rated the hairdressers' service behaviour, and the hairdressers' customers rated their loyalty towards the organization and their repurchase intention nine months later. The results of this study showed the impact of transformational leadership on the hairdressers' self-efficacy, affective commitment, and job satisfaction. These states, in turn, were positively related to the hairdressers' service behaviour, which was subsequently positively related to the outcome criteria rated by customers, and the repurchase intention in particular.

Finally, Chuang et al. (2012) showed that transformational leadership has an impact on service employees' emotion regulation, which is the amplification of positive emotions regardless of whether this has been done by emotional labour (i.e., by surface acting or deep acting; see Grandey and Malloy 2017). Chuang et al.'s (2012) survey comprised 204 triads of leaders, employees, and customers in various jobs with direct customer contact that require employees to express positive emotions; for example, insurance broker, bank consultant, or hairdresser. The employees rated their leaders' transformational leadership behaviour, job satisfaction, and amplification of pleasant emotions. They indicated amplification by rating the extent to which they increased their expression of enthusiasm, happiness, and joy when customers were around. The leaders rated the service behaviour of their employees, while the customers rated their service satisfaction, repurchase intention, and intention to spread positive word of mouth.

The results of this study revealed an impact of transformational leadership on employees' amplification of positive emotions in customer interactions. This form of emotion regulation led to higher levels of job satisfaction and service behaviour, which in turn had a positive impact on customer reactions. However, this causal chain only occurred for employees with high levels of negative affectivity (i.e., a personality trait that describes employees' disposition to experience negative emotions) (Chuang et al. 2012).

The abovementioned studies have shown that transformational leadership seems to impact affective states, and

even emotion regulation, of service employees who are in direct customer contact, but that this impact does not seem to be equal for all service employees. Instead, the impact of transformational leadership seems to be stronger for employees with a strong tendency to experience negative emotions. However, these people are less suited to service jobs that involve direct customer contact anyway. Therefore, an important leadership task is to select employees with high levels of positive affectivity. However, as employee selection can only be partly successful, it should be complemented by transformational leadership of those employees who are less suited to the service job due to their negative affectivity.

Similar results have been found in studies on transformational leadership, which show it to:

- be directly, as well as indirectly, related to employees' customer orientation via perceived leader support (Liaw et al. 2010);
- moderate the relationship between deviant customer behaviour (also called customer misbehaviour or customer incivility; e.g., verbally aggressive behaviour of customers) and employee well-being, such that transformational leadership buffers the negative effect of deviant customer behaviour on stress experiences of employees (Arnold and Walsh 2015);
- be a strong way to establish value congruence between leaders and employees (Mullins and Syam 2014). Employees who perceive their transformational leaders as highly customer oriented also rate themselves as more customer oriented. However, employees who perceive their transformational leaders as not being customer oriented also rate themselves lower in customer orientation. Obviously, one of the core mechanisms of transformational leadership – identification with the leader (e.g., Kark et al. 2003) – is responsible for a crossover of high or low levels of customer orientation from leader to employee.

To sum up, transformational leadership seems to have mainly positive effects on the emotional well-being of service employees who have customer contact. Transformational leadership increases these employees' self-efficacy, job satisfaction, affective commitment, and affective attitude towards customers, and seems to have a stress-buffering effect. All this, together with its impact on emotion regulation (amplification of positive emotions and their expression in customer interactions), leads to an improvement in service behaviour, which has positive consequences for customers and leads to customer reactions that are desirable for service organizations as well. Besides these positive effects, transformational leadership seems to have some negative consequences (e.g., Diebig et al. 2016). For example, intellectual stimulation in particular can increase role ambiguity and decrease trust in the

leader (MacKenzie et al. 2001). Moreover, transformational leadership – when combined with leaders' low levels of customer orientation – can even decrease employees' customer orientation (Mullins and Syam 2014). These positive, as well as negative, effects may be due to the strong effect of transformational leadership on employees' identification with the leader, which potentially leads to a certain amount of dependency on the leader, and can be explained by the positive emotional impact of transformational leadership on employees (e.g., Bono et al. 2007; Johnson 2008). Such potentially dysfunctional effects of transformational leadership on identification with the leader should be acknowledged through practical recommendations.

4.2.2 Leader-member exchange

Due to the positive effects of transformational leadership on employees' emotional experiences, it can be conceptualized as an antecedent to a positively evaluated professional relationship between leader and follower. The relationship aspect of successful leadership has been investigated within the LMX model for several decades, with particular interest in explaining the behaviour of service employees who have customer contact (e.g., Martin et al. 2010). The idea of transformational leadership being an antecedent of LMX has been supported by meta-analytic findings regarding high correlations between transformational leadership and the leader-follower relationship (e.g., Dulebohn et al. 2012). Moreover, LMX generally seems to be an important mediator in the relationship between several kinds of leadership behaviour (such as transformational leadership, but also other leadership behaviours) and employee performance (Gottfredson and Aguinis 2017), and this can be expected to also hold true for service employees.

LMX theory proposes that successful leadership requires a high-quality dyadic relationship between leader and the individual employee (Graen and Uhl-Bien 1995; see also Yukl 2012). The basis of this relationship is built by exchange processes that vary between the several employees led by the same leader, on a continuum from positive to negative. From the leader's point of view, these processes include the exchange of resources such as information, along with social support, the fulfilment of certain tasks, or attention; employees, on the other hand, are expected to reciprocate via commitment, loyalty, and effort. In case of a positive or high-quality relationship, both exchange partners feel trust, respect, and mutual obligation towards each other.

For service employees, who are confronted with the influence of customers on a daily basis and who have to decide on the actions to be taken, a positive relationship between leader and employee can – so we propose – be the source

of emotional safety necessary for dealing with the service task. This proposition is supported by several studies on the role of LMX in leading service employees – the most important of which are reviewed in the following paragraphs.

Huang et al. (2010) investigated 493 leader-employee dyads in call centres. The employees rated LMX and their own burnout experiences, while the leaders rated the employees' performance and their own emotional intelligence (in the sense of a personality trait). The findings showed that the level of LMX was negatively related to burnout. However, the authors found neither a direct relationship between LMX and objective performance, nor an indirect relationship mediated via burnout. One dimension of the leaders' emotional intelligence, however, increased performance via a decreased level of burnout. This dimension of emotional intelligence is called "regulation of emotions", which means that leaders are able to handle their emotions in a situationally appropriate way without dramatizing or downplaying them. This includes the ability to calm down; to attenuate feelings of anxiety, anger, disappointment, or humiliation; and to amplify positive emotions. This ability helps them to overcome stressful situations or setbacks. Leaders with this ability seem to protect service employees who have customer contact, and to increase their performance.

Medler-Liraz and Kark (2012) investigated LMX in 95 call centre agents and analysed five customer interactions of each agent with respect to negative emotions displayed during these interactions. LMX was negatively related to employees' hostility displayed during the interactions. Employee hostility, in turn, was negatively related to finding a solution to customers' problems, while it was positively related to the customers' hostility during the interaction. Hence, LMX seems to prevent employees' display of negative (hostile) emotions in customer interactions, which in turn has a positive impact on the customers' emotions and their reactions towards the employees; such positive reactions are associated with solving the customers' problem.

Little et al. (2016) investigated antecedents of LMX in more detail. They suggested that leadership *per se* is a form of emotion management in an interpersonal sense, meaning that it is directed to other peoples' (employees') emotions, and not to the leaders' own emotions in the sense of emotional intelligence or emotional labour. Such interpersonal emotion management encompasses behaviours that are stable over time, that are directed to the employees' emotions, and that are perceived as consistent by employees. In stress research, such strategies are called coping, which is defined as any attempt to deal with stressful emotions (e.g., Lazarus and Folkman 1984). Coping has two distinct functions. First, it aims to control

stressful emotions and their consequences (*emotion-focused coping*) and second it aims to change the problematic person-environment relationship, which is perceived as the cause of stress (*problem-focused coping*). Research has shown that only problem-focused coping has stress-reducing effects. However, these findings have been derived from studies on intrapersonal coping, whereas the effects of comparable interpersonal coping strategies have not yet been investigated.

Little et al. (2016) investigated the relationship between interpersonal emotion management strategies of 163 leaders and LMX perceived by their employees, as well as the subsequent consequences of LMX on job satisfaction and interpersonal OCB of the employees. At time 1, employees rated the emotion management strategies of their leaders. Two weeks later, at time 2, they rated LMX and job satisfaction. The leaders rated the OCB of the respective employee. The results showed that three out of four emotion management strategies were related to perceived LMX, while the fourth – attention deployment – had neutral effects. The strategies used included:

- *Situation modification*: This entails modification of situations in order to change their emotional impact (e.g., job design, to attenuate insecurity – for example by offering support, clarifying expectations, etc.).
- *Cognitive change*: Involves reappraising or reinterpreting the situation in order to decrease the perceptions of threat – the leader helps the employee to see the situation in a more positive light. For example, if an employee is pressured by a customer, the leader may take the employees' perspective and show that the threat is not as strong as the employee thought it was.
- *Modulating the emotional response*: This entails leaders supporting employees in not displaying negative emotional reactions – this strategy is typically mediated via communication.

Situation modification and cognitive change – both of which are problem-focused strategies of interpersonal emotion management – are positively related to LMX, whereas modulation of emotional reactions is negatively related to LMX. LMX, in turn, is positively related to job satisfaction and OCB. This means that leaders should first try to influence employees' negative emotions in order to have employees perceive LMX as positive and to help them act in an emotionally positive manner during customer contact situations. The employees perceive these emotion management strategies used by the leader as cues for the quality of the relationship between leader and employee. Similar to individual stress management, problem-focused strategies seem to be useful in interpersonal emotion management, whereas emotion-focused strategies are rather non-beneficial. These results, together with the findings from Medler-Liraz and Kark's (2012) study,

point at a psychological mechanism that can explain the link between leadership behaviour and customers' emotional reactions. At the same time, these studies have suggested that the main effect of leadership or positive leader-employee relationships seems to be avoidance of the expression of negative emotions toward customers.

To sum up, existing studies have demonstrated the positive effect of LMX on emotional expression of employees who are in customer contact (and the buffering effect of LMX on stress and burnout; see Huang et al. 2010). The studies have also revealed the effect of LMX on employee performance in the sense of being able to find solutions to customer problems. The extant studies have consistently shown that the effect of the leader-employee relationship is primarily mediated via an affective-emotional pathway – albeit indirectly via leaders' emotional expression, or directly via influencing employees' emotions through emotion management strategies. The employees, in turn – and this is the most important point in service work – influence customers' emotions via expressing and regulating their own emotions, and thus even have an impact on economic performance.

Overall, the generic leadership models focused on in this review have largely contributed to explaining experiences and behaviours of service employees and the outcomes of service interactions. The effect of transformational leadership on employees' emotions may be rather short term, though it influences the leader-employee relationship in the long run. Overall, the pathway from transformational leadership via employee emotions or the leader-employee relationship can continue to create positive outcomes for the employee and, ultimately, to positive service performance and positive customer experiences.

5. Discussion

5.1 Summary and theoretical integration

In order to have a positive impact on performance in the sense of service behaviour and, subsequently, on customers' evaluations of service quality, leaders should try to foster employees' feelings of self-efficacy, job satisfaction, affective commitment, and organizational identification, and their positive attitude toward customers. Moreover, leaders should try to diminish role ambiguity, stress, and emotional exhaustion. By reviewing empirical studies, we tried to answer the question as to how leaders can do this.

First, some empirical studies have pointed to the role of service leadership in the sense of emphasizing the role of high-quality service (Schneider et al. 2005) as part of the service climate, which in turn impacts service employees' attitudes and behaviour. These findings are in line with the meta-analysis by Hong et al. (2013), in which leader-

ship was found to be one major determinant of service climate, which mediates the effects of leadership on employees' attitudes and behaviours. However, emphasizing high-quality service can also have ambivalent consequences: the degree to which leaders emphasize the interpersonal requirements by setting rules for emotional display seems to contribute to the emotional exhaustion of service employees (Wilk and Moynihan 2005). The mediating role of service climate in the relationship between leadership and employee behaviour is an important finding as it shows that leadership is not the only way to influence the behaviour of service employees in customer contact. Instead, for employee behaviour to be effective, it should be supported by human resource management practices.

Moreover, the empirical studies in this review have shown that transformational leadership and LMX are also directly related to employee attitudes and behaviours; they have an impact on job satisfaction, affective commitment to the organization, task-specific self-efficacy, emotion regulation, and stress experiences of service employees. Taking a closer look at these empirical findings leads to the proposition that the traditional craft of management, which is exemplarily described by the concept of transactional leadership, has first and foremost an impact on problem solving in interactions with customers as one aspect of service performance. By using such leadership behaviour, leaders communicate the organizations' expectations to service employees, along with how they are required to solve customer problems, and what rewards they can expect from successful service performance. If leaders are able to clearly communicate expectations, service employees will experience lower levels of role ambiguity, which will in turn positively influence their emotional well-being. In contrast to merely transactional leadership, transformational leadership and LMX influence service employees' behaviour via a rather affective-emotional pathway, which also has an impact on the perceptions, evaluations, and emotions of customers via the emotions displayed by employees within the service interaction.

Transformational leadership has an effect on the employees' emotions – here, the nonverbal rather than the verbal aspects of leaders' communication seem to be the crucial element of impact; it can be assumed that the emotional effects of transformational leadership are mainly driven by emotional contagion (Tee 2015). Therefore, the mechanism that is responsible for the development of employee satisfaction is the same as the one responsible for the development of customer satisfaction. With respect to emotions, the concept of transformational leadership primarily describes short-term effects within an interaction. These effects, however, seem to generalize in terms of exchange relationships between leaders and employees, and to lead

to positive attitudes and behaviours in customer interactions. Such exchange relationships are captured by the concept of LMX, which describes positive relationships between leader and follower as characterized by trust, respect, and mutual obligation. Such relationships require successful emotion management on the side of the leader, and lead to positive job-related attitudes. Service employees transfer such positive attitudes to other interaction partners – the customer – within personal interactions, and thereby contribute to positive service evaluations from the customer.

However, the main impact of leadership in this regard seems to be focused on avoiding, preventing, and suppressing negative emotions, and on service employees with a generally high level of negative affectivity – at least, some of the studies we reviewed here seem to demonstrate this (Chuang et al. 2012; Medler-Liraz and Kark 2012). In the opposite direction, this would imply that employees with already high levels of intrinsic motivation or positive affectivity would show appropriate service behaviour regardless of transformational leadership or LMX. This is in line with some more general findings on positive affectivity and core self-evaluations as substitutes for transformational leadership (Gilmore et al. 2013; Nübold et al. 2013). In such situations, transformational leadership and LMX would be rather redundant and would thus only reinforce what (service) employees would do anyway.

5.2 Implications for practice

The findings reviewed in this paper have some implications for service management practice. They suggest that a major leadership task in the service sector is the selection of employees who have high levels of positive affectivity and intrinsic motivation for working with customers. For the assessment of positive affectivity, validated scales such as the Positive and Negative Affect Schedule (PANAS; Watson et al. 1988) can be used. Intrinsic motivation and customer orientation can be assessed using work simulations; however, selection cannot be successful in every single case, which is why the work of leaders in service organizations is not limited to selecting employees. Rather, leaders have to acknowledge other aspects in their work as leaders. First, they should emphasize a positive service climate and the role of high-quality service in terms of service leadership. However, while leaders should find a way to emphasize high-quality service as the overarching goal of work, it is important that this emphasis does not contradict human resource practices. For example, if leaders emphasize the importance of high-quality service, employees who create such high-quality service should be those who receive the largest amounts of reward. In leadership training it can be learned to be sensitive for such relationships.

Moreover, leaders should learn to develop their sensitivity towards employees with a disposition to experience negative emotions. Via leadership training, they should learn to use techniques and strategies of interpersonal emotion management in the sense seen in the study by Little et al. (2016). Besides specific exercises for detecting relevant cues, leaders should learn how to use appropriate, largely problem-focused strategies, such as modification of the situation and cognitive change.

It is important for leadership training that it is not only transformational leadership that is propagated as the best choice of leadership behaviour. As we have shown, transformational leadership – and intellectual stimulation in particular – can also have negative consequences as it, for example, fosters role ambiguity rather than role clarity. The main reason for this may be the high level of personal identification with the leader induced by transformational leadership, which is not always desirable from the organizations' point of view and may lead to different expectations from direct leaders and other representatives of the organization. Therefore, the rather short-term focus of transformational leadership on the service employees' emotions should be complemented with a focus on long-term development of positive relationships between leader and employee in terms of LMX. Here, leaders should learn how to invest in such positive relationships with their followers; hence, they should learn how important it is to provide information and social support, and to give attention to followers' needs, abilities, etc., to be successful.

5.3 Implications for future research

The field of leadership in the service sector is currently suffering from some important research gaps. Above all, it remains unclear as to whether transformational leadership or LMX incrementally contribute to explaining outcome variable variance beyond other, more production-focused management activities – in other words, whether the augmentation effect of transformational leadership also occurs in leading service employees, and whether this effect is driven by the additional effects of transformational leadership and LMX on aspects of the social relationship between employees and customers. In order to enable meta-analyses to examine this effect, many more studies in the field of service work are needed.

Another research gap pertains to the role of service climate as a mediator in the relationship between leadership and service behaviour. The respective finding is important in that it shows that the leader is not the only important source of influence. Rather, to be effective, leadership behaviour needs to be supported by respective human resource practices that are in line with the direction of leadership. Research thus far, however, has been rather silent

about the effects of contradiction between leadership behaviour and human resource practices. Assumingly, such contradiction would foster the experience of role ambiguity and cynicism toward leaders or the organization as a whole.

Finally, the effects of a positive relationship between leader and employee on customers have not been sufficiently investigated to date. Although initial findings have demonstrated the effect of LMX on service performance in the sense of the employees' ability to solve customers' problems, the indirect effects of LMX on customers, particularly with respect to economically relevant outcomes, mediated via employee experiences, attitudes, and behaviours, have not yet attracted sufficient attention within service research.

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