

Strategic Leadership in an Emerging Market:

Impact on the Quality of Firm's Servicing and Firm Performance

In an emerging market scenario, most market segments are characterised by supply imbalances and miscalculations. Therefore, strategic leadership becomes essential for generating superior performance on multi-dimensional criteria, and thus for gaining possibly sustainable competitive advantage...



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Over the recent years, there has been a growing interest in strategic models of leadership, as opposed to the traditional behavioral approaches (Vera & Crosson, 2004). The significance of strategic leadership heightens in an emerging market context (Gupta, 2007). In an emerging market scenario, most market segments are characterised by supply imbalances and miscalculations. In many segments, the firms lack relevant resources and technologies to meet the demand. In other segments, attempts by one firm to resolve the resource and technology issues are met with quick copycat imitations from other players. The early movers seek to preempt

the demand through rapid capacity expansion, and with the entry of additional competition, the market quickly forces price-based rivalry. Therefore, strategic leadership becomes essential for generating superior performance on multi-dimensional criteria, and thus for gaining possibly sustainable competitive advantage. Strategic leadership allows a firm to build not just positioning capabilities, but also operational capability for quickly and flexibly exploiting the existing positions before the competition catches up.

There is limited understanding of the path through which strategic leadership translates into superior performance. In this article, we develop and examine the hypothesis that strategic leadership may allow a firm to offer superior quality servicing and to build positioning capability, and thereby enable superior performance on multi-dimensional criteria.

The paper is organised as follows. After introducing the need for the study, we next draw on prior literature for explicating the concept of strategic leadership. Then, we advance hypotheses relating strategic leadership, quality servicing, and firm performance. Thereafter, research site and the sample are described, and operational measures are specified. Results of the

measurement model and the path models for testing the hypotheses follow. The major findings are discussed. In conclusions, the limitations of this research are reflected upon, and directions for future research are identified.

Concept of Strategic Leadership

Strategic leadership: Different views

At a very basic level, strategic leadership may be conceived as deciding and directing appropriate strategic activities, oriented towards generating and sustaining a firm's competitive advantage and value addition. Nutt and Backoff held that, "Strategic leadership makes the motivation and purpose explicit... The entire organisation and its ecology must be taken into account when an enterprise-wide change is to be made. Thus, strategic leadership can be thought of as a process of guidance that sets a new strategy in place."

Put differently, strategic leadership alters the business-as-usual attitude in the organisation by challenging the current practices and getting the key people to face up to the need for strategic change. After setting the strategic vision, the strategic leader seeks to get it adopted by de-

veloping a “language of leadership.” Future is invented by clarifying that the exciting possibilities of the vision also connect to people’s needs and aspirations, enabling others to act through their participation and collaboration, and maintaining momentum by providing milestones and celebrating team accomplishments. The strategic agenda is shaped by seeking a fit between the position that is wanted and the skills available, using a positive self-regard (*what leaders and their organisations do well*), compensating for the weaknesses, and moving ahead through trust based on accountability, persistence, and consistency. Strategic partnerships are forged with the exemplary followers to co-create strategic change, and offering support for enhancing their productivity. These guidance processes help strategic leaders reframe the strategy for various interest groups by creating a bigger space, one that has more variety, through a synthetic program. Filters are switched to clarify the aspects of the strategy that deal with the needs of various interest groups, and context is switched to clarify the need for change (Nutt & Backoff, 1993).

There is, however, more to strategic leadership than just directing and guiding. At a broader level, strategic leadership is a combination of elements involved in leadership, strategic planning, and customer and market focus, also referred to as the leadership triad by Malcolm Baldrige National Quality Award (MBNQA) in the United States.

Without a clear understanding of the internal and external contingencies, the leadership directives and guidance for generating a superior overall performance may be severely dysfunctional. The awards recognise that, “Senior leaders must set organisational direction and seek future opportunities for the organisation. If the leadership is not focused on customers, the organisation as a whole will lack that focus as well.” (Vokurka, 2001: 14). Considerable empirical support exists for the use of Baldrige model. Meyer and Col-

lier (2001), for instance, provide statistical evidence that many of the performance relationships and causal inferences implied by the Baldrige Health Care model are observed in US hospitals.

At a still broader level, the concept of strategic leadership also incorporates the operational process dimension, recognising the operational support to enable enactment of the leadership throughout the organisation, and responsiveness to internal and external contingencies. MBNQA includes process management as one of the categories in evaluating the practices supporting higher organisational performance, besides other categories that include leadership, strategic planning, and customer and market focus (Baldrige National Quality Program, 2009). However, MBNQA puts process management into a separate results category. Research in the strategy area suggests that process management is integral to the knowledge management of an organisation, and that strategic advantage of a firm often resides in the processes of a firm and the ability of a firm to codify, coordinate, develop, and deploy these processes (Johnson et al., 2002).

Strategic leadership in an emerging market

The concept of strategic leadership is based on two inter-related views: (a) Great Leader view, and (b) Great Group view (Ireland & Hitt, 1999).

The senior leaders enjoy substantial decision-making responsibilities, and use discretion – or the latitude for action – to make ‘strategic choice’ and influence the organisation’s success (Child, 1972). The discretion is greater in the emerging markets, where the number of plausible options multiplies and it becomes increasingly difficult to identify a valuable alternative (Hambrick & Finkelstein, 1987). In such markets, great leaders are ones who rely strategically on the learning of a broader group (Ireland & Hitt, 1999).

Great leaders are able to share responsibility for leading and managing business units, sharing information and know-how with others, and seeking mutual influence among all engaged in the formation and achievement of the firm’s direction.

In most of the successful organisations, senior leadership tends to be distributed among diverse top management team members, having different knowledge sets and skills, and sharing the responsibility to create a viable future for their firm (Hambrick & Mason, 1984). In the emerging markets, strategic aspects of leadership need to be distributed down to each member of the organisation. Ireland and Hitt (1999) assert, “Top managers who facilitate the development of great groups – groups in which strategic leadership takes place among a range of people with different talents – have shifted the locus of responsibility to form adaptive solutions to issues from themselves to the organisation’s full citizenry.” Each member of the great group is involved in enacting the culture of continuous innovation, and generation and dispersal of knowledge throughout the organisation and its extended networks.

The emerging markets are embedded in hyper-turbulence, ambiguity, and complexity. Such markets demand strategic leadership for constructing heightened value-generation capabilities. Through strategic leadership “an organisation can be mobilised so that it can adapt its behaviors and exploit different growth opportunities.” (Ireland & Hitt, 1999) Indeed, when strategic leadership processes “are difficult for competitors to understand and, hence, to imitate, the firm has created a competitive advantage.” (Ireland & Hitt, 1999)

Dimensions of strategic leadership

Two sets of capabilities are essential for enacting strategic leadership in emerging markets: positional and operational. Porter (1996) provides a complementary approach, when he classifies strategic capabilities into strategic positioning and operational effectiveness. The positional capabilities are ones that allow the firms

to position themselves in attractive arenas. We identify three types of positional capabilities: absorptive capacity, adaptive capacity, and discriminating capacity. The operational capabilities are ones that allow the firms to function effectively in their selected arenas. We infer operational capabilities based on the operational effectiveness criteria.

Absorptive capacity. To discern and exploit diverse, experiential knowledge endowments, the firms need to direct the development of relevant ‘absorptive capacity’ - the capacity to recognize new information, assimilate it, and apply it toward productive ends (Cohen & Levinthal, 1989). The absorptive capacity rests on prior related knowledge, which must be built through research and development and other formal and informal ways of knowledge acquisition. The cost of learning about the tacit knowledge embedded in different parts inside and outside the organisation is often quite high, and the process of extending one’s competencies into related knowledge domains may take substantial time. The existing capability

platforms in the emerging markets are rarely well understood; knowledge resides more in the minds and experiences of the leaders and group members, and is not much routinised and standardised as readily reusable organisational repository. Therefore, guiding of knowledge generation is an integral function of strategic leadership in the emerging markets.

Adaptive capacity. In addition, the firms also need to focus on the ‘adaptive capacity’ for sense making and navigating through their diverse and complex milieu, so that they may effectively service their fluid markets and customers. The adaptive capacity rests on applied creativity to transcend adversity, by building an acute ability to grasp context and resilience (Bennis & Thomas, 2002). The ability to grasp context helps firms connect with their constituents, by recognising how very different group of people will interpret a situation, and thus putting each situation in broader strategic perspective (Bennis & Thomas, 2002). And the resilience helps firms sustain their optimism and hope, and to preserve through the devastating

situations, for enacting exemplary entrepreneurial scenarios. Adaptive capacity helps promote entrepreneurial leadership for proactive, surefooted response to new opportunities in the face of uncertainty and hyper-turbulence (Gupta, Macmillan & Surie, 2004).

Discriminating capacity In emerging market situations where the value of knowledge is prone to rapid erosion and imitation, it is also important to develop discriminating capacity – the capacity to discern the applications of diverse knowledge bases by abstracting their distinguishing features and codifying their quality assessment. The ability to distinguish implies capacity to classify into abstract categories, such as light (*day and night*), sound (*loud and soft*) and color (*black and white*). The ability to assess implies capacity to codify the quality, such as ground (*how fertile?*), air (*how clean?*), and water (*how drinkable?*). Greater abstraction and codification facilitates greater diffusion, i.e. enables wider availability of exploitable knowledge within a firm (Boisot, 1998). The knowledge in the emerging markets lies largely in an uncoded and concrete state. The diffusion of knowledge depends on it first becoming both abstract and highly codified. Once abstracted, knowledge may be applied to the wide range of situations; and once codified, the knowledge is de-linked from the subject for transmission as guiding rules (Boisot, 1998). The discriminating capacity often tends to develop through a close attention to the target customer groups, and by seeking to solve their problems and address their needs.

Operational effectiveness

In most emerging markets, hardly any institutional systems exist for protecting the property rights of a firm on its knowledge endowments. Consequently, the competitive landscape tends to be asymmetric, where a firm must be mentally prepared to deal with the firms who may strive to free ride on others’ knowledge. A symmetric landscape is one where all the players abide by the same rules of the game; while an asymmetric landscape is one where some individual players tailor-make their own rules of the game that they



would not be able to if the institutional system had been proficient. In an asymmetric landscape, when a firm is expected to gain overwhelming strength and dominance, rivals may seek to attack its positioning capability, trying to find ways to exploit and undermine the psychological and competitive advantages that its superior positioning provides (Williams, 2003). The firm competing in such environments, therefore, needs to develop a high degree of operational effectiveness in realising superior quality of servicing, and in accomplishing superior performance on multi-dimensional criteria.

Performance Effects of Strategic Leadership

In the organisational behavior literature, two major types of leadership are usually identified: transactional leadership and transformational leadership. The transactional leaders seek to trade one thing for the other; they specify clear objectives and goals to follow, and reward the followers for accomplishing these objectives and goals. The transformational leaders, on the other hand, raise the consciousness of the members about the significance of the higher mission of the organisation, and emphasise the unity of constituency and organisational purpose. They act to alter the organisational initiatives, to go beyond the pressing objectives.

Transactional leadership may limit a firm's ability to transcend the tyranny of their existing markets and customers. It is likely to encourage a firm to exploit its existing knowledge and capabilities. The transformational leadership, on the other hand, may cause the firm to pursue initiatives that are not necessarily grounded in its existing knowledge and capabilities, and that do not necessarily solve the problems of existing markets and customers. Transformational leadership fosters (a) an open culture, (b) an organic structure, (c) flexible systems and procedures, and (d) a prospector like strategy focused on ag-

gressive growth. In contrast, transactional leadership fosters (a) a closed culture, (b) a mechanistic structure, (c) rigid systems and procedures, and (d) a defender-like strategy focused on stability.

A combination strategic leadership model may allow the firm to both explore new learning as well as exploit existing learning, and thereby enhance its effectiveness in diverse situations and help sustain and renew its competitive advantage (Vera & Crosson, 2004). A combination strategic leadership may help a firm from the emerging market to accelerate its value-generation process, and to have an opportunity to catch up with far better endowed competitors from the industrial markets. Consider, for instance, the challenge of codification and standardisation of learning, and sharing and transfer of learning within and across the organisation. Both transactional and transformational leadership may be effective in as-

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suming this challenge, though in quite distinct ways. While the transactional leadership is likely to use bureaucratic systems that are rule bound and not alterable by individual perspectives, the transformational leadership frequently relies on informal systems that are inherently flexible in evolving to incorporate new learning, and in handling intuitive learning. Strategic leadership thus may enable differentiated systems for promoting new learning & reinforcing current learning.

Transactional leadership allows a firm to reproduce learning that is well codified and well understood. Such learning is generally biased towards what seems to work, resulting in 'architecture of simplicity', i.e. monolithic cultures, systems, and processes focused on a single worldview and specialised in a limited set of skills (Vera & Crosson, 2004). In service situations, the role of quality servicing of customers in influencing performance is generally well known. Transactional leadership, as codified in the operating pro-

cesses of the firm, may guide the employees to deliver high quality of services, and thereby contribute to higher performance. Especially in environments prone to rapid maturity in market segments on account of low entry barriers and price-based competition, transactional leadership thrives by strengthening existing structures, culture and strategies, and by exploiting and refining current ways of doing things.

Transformational leadership, on the other hand, is more fruitful with reference to avenues where the firm is experiencing major difficulties and disappointments, and where the need is for greater openness to change, debate and diversity. Several factors other than quality of servicing may influence the overall performance of service organisations. The employees may need to strike a fine balance between devoting extra time for improved quality perception, and escalating cost of such extra time that may actually end up hindering customer's perception of quality. Transformational leadership, by heightening the sensibility and criticality of the core mission, may guide the organisation to higher performance through initiatives and behaviors that may complement the quality of servicing objective. Particularly in turbulent environments, transformational leadership motivates individuals to see the environment as a source of opportunity, to overcome their resistance to change, and adopt new learning.

In summary, strategic leadership may support ambidextrous learning, through a combination of transactional and transformational effects, and thus support higher performance in the turbulent and volatile emerging market situations.

Hypotheses

Strategic leadership and Quality of firm's servicing

Employee beliefs, values and practices, as nurtured by a firm's strategic leadership behaviors, are the foundation that defines an organisation's culture. Over the past decade, considerable attention has been placed on a specific aspect of organisation's culture, termed as the 'quality' or 'service' culture (Gryna, 1999).

Bowen and Lawler (1992) have con-

tended that motivated, empowered employees who perceive a customer service culture to exist in their organisations might be expected to have a more favorable view of the service quality provided by the firm. In subsequent research, employee perceptions of empowerment have been found positively linked to the employee perceptions of organisation's service quality (Goodale, Koerner & Roney, 1997). Similarly, employee motivation, vision, and organisation learning have been reported positively linked to the employee perceptions of firm's service quality (Hayes & Hill, 2001).

More generally, strategic leadership is oriented towards enacting a culture of trust, involvement and commitment in moving towards best practices. It enables a proactive pursuit of continuous improvement, and a unity of purpose transcending narrow divisional boundaries. It ensures that the strategic planning processes are appropriately informed by and respond to the firm's operating capabilities, customer requirements, and community needs. Emphasis is placed on measuring customer satisfaction and quality performance, solving customer complaints, routinizing and improving business practices, and incorporating new technologies and market requirements into the business processes (Cook & Verma, 2002). All these elements of strategic leadership should create a positive and meaningful culture of quality and service in the organisation, and enhance the quality of firm's servicing. By being responsive to both internal and external contingencies, and through appropriate guiding behaviors and operational processes, strategic leadership should contribute to a firm's servicing quality. Therefore, we hypothesise:

Hypothesis 1(H1): The stronger a firm's strategic leadership, the better the quality of firm's servicing.

Quality of firm's servicing and Firm performance. Several studies have examined the relationship between the quality of firm's servicing and firm performance. Hendricks and Singhal (2001) report that firms with effective servicing quality, as defined by winning a quality award, outperform the control firms on operating

income-based measures, sales growth measures, and long-run stock price performance or wealth creation measures. Similarly, York and Miree (2004) found that both Baldrige and state quality award winning companies had better financial performance than their peers, both before as well as after winning a quality award. While a firm with superior performance may be able to attract greater resources for investing into improvement of the quality of its servicing; superior performance on multi-dimensional criteria is unlikely unless the firm first delivers superior quality servicing. Therefore, we hypothesise: *Hypothesis 2(H2): The better the quality of a firm's servicing, the greater the firm's performance.*

Strategic leadership and Firm performance

Strategic leadership may influence firm performance not only through the quality of firm's servicing, but also directly. Several strategic leadership initiatives may go beyond the servicing quality imperatives. The strategic management literature calls upon

the leaders to recognise, exploit, build, and sustain the capacities of firms to be heterogeneous and unique. The actions desired from a strategic leader entail shaping a viable future so that the organisation's differentiated bundle of resources, market activities, and portfolio options can be developed, exploited, and appropriated for competitive advantage. Several activities are associated with this sort of strategic leadership, such as "making strategic decisions; creating and communicating a vision of the future; developing key competencies and capabilities; developing organisational structures, processes, and controls; managing multiple constituencies; selecting and developing the next generation of leaders; sustaining an effective organisational culture; and infusing ethical value systems into an organisation's culture." (Boal & Hooijberg, 2000) All these actions are expected to underlie

inter-firm differentials in performance. Therefore, we hypothesise that: *Hypothesis 3(H3): The stronger a firm's strategic leadership, the greater the firm's performance.*

Sample and Operational Measures

Sample

Research site:

We used a Hong Kong-based mid-sized retail and commercial bank as a research site for our study. This bank has a network of retail branches throughout Hong Kong, which help the bank realize growth in infrastructure, customer base, and funding. The infrastructure consists of the distribution channels including branches, ATM, and the phone banking center. The customer base consists of depositors, loan customers, and account holders. Funding includes deposits, both fixed deposit and cartel deposits.

Hong Kong offers a highly turbulent operating environment, due to the ever changing political and socioeconomic conditions within the region. The banking sector has a substantial number of competi-

tors, with just a few occupying the majority of the market share. To gain competitive advantage in such a scenario, senior management of the firm have made significant efforts to transition the retail culture from purely operations orientation to sales and service orientation. They have also modernized the infrastructure, both hardware and software, to realise productivity and efficiency gains. Finally, they have undertaken several initiatives to help improve the overall corporate image of the firm within the community.

Respondents:

Quality culture and the quality of a firm's servicing are often examined from the customer viewpoint (Carmen, 1990; Cronin & Taylor, 1992; Parasuraman et al, 1988). However, studies indicate that front line employees' perceptions are highly correlated with those of customers, not only in

their overall assessment of service quality but also in their evaluation of specific aspects of the organisation's service culture (Schneider & Bowen, 1985). Typically, when employees and customers perceive service quality differently, it is the customer who views the service encounter in a more favorable light. The employees are also likely to be aware of the process and other internal issues that may go unnoticed by the customer, and thus be a more enlightened source of servicing data (Mangold & Babakus, 1991).

The sample included every front-line employee at each retail location of the firm. A total of 147 surveys were returned, with the effective response rate of 97.35%. Response rate for this study was considerably higher than that of typical surveys due to senior management's personal endorsement of the study.

Operational Measures:

Strategic leadership. We rely on the Malcolm Baldrige National Quality Award (MBNQA) framework for developing a measure of strategic leadership. Baldrige framework has been adopted in some form in more than 50 nations for their own quality awards (Baldrige National Quality Program, 2004). Its principle focus is on explicating and promoting high performance management practices that contribute to customer satisfaction and business results. The criteria consist of seven criteria, of which four are used in our measures of strategic leadership: (1) leadership, (2) strategic planning, (3) customer and market focus, and (4) process management. In the MBNAQ, the first three are classified as leadership triad, while the fourth is included in the results classification.

We use the first three variables for measuring a sub-construct – positioning capability, or the aspect of strategic leadership that allows the firm to consider internal and external contingencies while enacting leadership. The leadership processes of change management and continuous improvement are conditioned by the firm's absorptive capacity. The adaptive capacity in turn influences the scope and implementation of strategic planning – a low adaptive capacity implies that the firm

must take a more conservative and incremental approach to planning and strategic positioning. Finally, the discriminating capacity of a firm has a major influence on the selection of the target market and customer focus, and its ability to respond to the differentiated requirements of this target market and customer base.

The fourth variable is used to measure another sub-construct – operational capability, or the aspect of strategic leadership that allows the firm to clarify and establish the transactional path for accomplishing well understood goals and objectives.

Several studies have examined empirically the relationship between Baldrige framework and the quality management literature (Saraph et al, 1989; Black and Porter, 1996; Samson & Terziovski, 1999). Pannirselvam et al (1998) report that the Baldrige criteria serve as a useful guide for designing quality organisations as well as providing a systematic and comprehen-

sive evaluation system. Curkovic, Melnyk, Calantone, and Handfield (2000) empirically assessed whether the MBNQA adequately captures the major dimensions of total quality management, and concluded that the MBNQA does indeed capture the concepts of total quality management.

Quality of firm's servicing. In their seminal paper, Parasuraman, Zeithaml, and Berry (1988) identified five dimensions considered by customers in their assessment of a firm's servicing quality:

Reliability: The ability to perform promised service dependably and accurately.

Responsiveness: The willingness to help customers and provide prompt service.

Assurance: The employee's knowledge and courtesy and their ability to convey trust and confidence.

Empathy: The caring, individualized attention given to customers.

Tangibles: The appearance of the phys-

ical facilities, equipment, personnel, and written materials.

The first four of these are the elements of workforce servicing construct, or process, dimensions; and the last one represents workplace servicing construct. Accordingly, we measure quality of firm's servicing culture in terms of two constructs: (a) workforce servicing, that comprises four intangible process aspects of servicing quality, and (b) workplace servicing, that comprises the tangible aspect of servicing quality.

The specific items used for measuring these two constructs are based on the 22-item SERVQUAL instrument published by Parasuraman et al (1988). The SERVQUAL instrument, despite being a subject of many critiques, has been used in numerous studies across a variety of servicing scenarios across the world (Carman, 1990; Cronin & Taylor, 1994).

Firm performance. In the emerging

markets, a firm must perform well on a range of financial and non-financial measures. High volatility and turbulence in these markets challenges the firms to cultivate a strong base of social capital, on the basis of high performance on various non-financial measures. Without social capital, the firm becomes vulnerable to shifts in the competitive and market environment. Moreover, an emerging market firm must be prepared to compete with a range of players in the fragmented market. For gaining legitimacy in such a market, the firm must perform well on multi-dimensional criteria. Accordingly, firm performance is conceptualised to include two dimensions. First, relating to financial/monetary gain, including profit and market share enhancement and cost reduction. Second, relating to non-financial value gain, including product/service quality enhancement, delivery performance, flexibility (*variety*) performance, customer and employee satisfaction, and community impact.

Analysis and Findings Measurement Model

We used LISREL VIII software (Joreskog & Sorbom, 1993) to develop a structural equations model of the survey data. Using the raw data as input to the software, we generated the covariance matrix and, subsequently, the confirmatory factor model using maximum likelihood estimation. Values of 0.94 on two measures of model fit – comparative fit index (CFI) and the Tucker-Lewis index (TLI) – exceed the recommended norm of 0.90 (Bentler and Bonett, 1980), thereby indicating good model fit.

Using confirmatory factor analysis, we assessed the internal consistency of each variable using two measures – construct reliability and average variance extracted. Fornell and Larcker (1981) recommend a value of 0.70 for construct reliability and 0.50 for average variance extracted. However, we found all variables to fall in the acceptable range.

We also assessed the discriminant validity of variables obtained from the confirmatory factor analysis using two different methods. First, we used a method recom-

mended by Anderson and Gerbing (1988) to calculate and examine the correlations for each pair of variables. The null hypothesis that the correlation for each pair of variables is "1" was rejected at the 5% level of confidence, thereby indicating that all variables are distinct.

Next, we compared the square of the correlation estimate for each pair of variables to their average variance extracted. The square of the correlation estimates for each pair of variables was less than their variance extracted, further establishing discriminant validity (Fornell & Larcker, 1981).

Path Model We first specified a saturated model that includes all paths as predicted by the three hypotheses: from two sub-constructs of strategic leadership to two sub-constructs of servicing quality, from two sub-constructs of servicing quality to two sub-constructs of firm performance, and from two sub-constructs of strategic leadership to two sub-constructs of firm performance. This saturated model had a chi square of 360.04, with 341 degrees of freedom (CFI=0.94; TFI=0.94).

To test H1, we tested a restricted nested model, wherein the links from the two sub-constructs of strategic leadership to two sub-constructs of servicing quality were omitted. The fit of this model deteriorated significantly (*chi square* = 28.65, *p*<0.05, *df*=4), indicating support for Hypothesis 1(H1).

To test H2, we tested another restricted nested model, wherein the links from the two sub-constructs of servicing quality to two sub-constructs of firm performance were omitted. The fit of this model deteriorated significantly (*chi square* = 40.68, *p*<0.001, *df*=2), indicating support for Hypothesis 2(H2).

To test H3, we tested two alternative restricted nested models. First, we omitted the link from the positioning capability sub-construct of strategic leadership to two sub-constructs of firm performance. The fit of this model deteriorated significantly (*chi square* = 5.50, *p*<0.01, *df*=1). Second, we omitted the link from the operational capability sub-construct of strategic leadership to two sub-constructs of



firm performance. The fit of this model did not deteriorate significantly ($chi\ square = 3.52, p > 0.05, df = 1$). Thus, H3 is supported for the positioning capability dimension of strategic leadership, but not for the operating capability dimension.

Discussion

The purpose of this study is to assess the role of strategic leadership in an emerging market context, and to clarify the path through which strategic leadership contributes to superior servicing quality, and ultimately to superior firm performance.

After all, our findings provided full support for the hypotheses linking strategic leadership to servicing quality and servicing quality to superior firm performance. We found partial support for the hypothesis linking strategic leadership directly to superior firm performance: while positioning capability was found related to superior firm performance, operational capability was not.

In the case study organisation, operational capability appeared to be oriented towards allocating resources to support

primarily customer servicing initiatives, as opposed to other broader goals of the firm. As noted earlier, strategic priorities of this organisation was on realigning its operations-focused culture to focus on quality customer servicing, as a way to build relationships with the customers and to gain competitive advantage in a turbulent environment. Our findings parallel many other studies where operational capability has been found related to quality (Ahire & Dreyfus, 2000; Flynn et al, 1995; Forza and Flippini, 1998).

Our findings underline the importance of strategic leadership in a turbulent and competitive market such as one for the case study organisation. The strategic leadership at the case study organisation was integral in formulating and identifying new strategies to compete in the marketplace, which evolved into more effective servicing systems and strategies leading to more pronounced quality-oriented at-

titude from the front-line employees. The strategic leadership, however, did not play purely transactional role alone of communicating the transitioned culture well to the front-line employees. It also strived for transformational results by modernising the infrastructure through hardware and software to realise productivity and efficiency gains, and the resulting positioning capability had a direct effect on firm performance.

Conclusion

Our study shows that strategic leadership plays an important role in furthering firm performance, both through enhancement of servicing quality, as well as through support of positioning capabilities that directly contribute to superior firm performance on multiple criteria.

Our study is not free of limitations. First, the study is based on an individual

Strategic leadership is oriented towards enacting a culture of trust, involvement and commitment...

organisational setting, and caution must be exercised in attempting to generalise the results to broader contexts. Second, SERVQUAL instrument used in this study had been initially derived and validated using the US sample. In a validation study in mainland China using data from a department store, Zhao, Bai, and Hui (2002) reported that the perception scores merged into six, not five, dimensions. They suggested that the five dimension model of service quality may not be appropriate for the retail sector of Mainland China. Third, our study used employee perceptions for assessing strategic leadership, servicing quality, as well as organisational culture. There may potentially be common source bias. A common source bias reduces variance in variables, and weakens the empirically observed relationships. Therefore, our findings may be on the conservative side.

Further research can improve upon our research findings by extending the analysis to include additional organisational, sectoral, and cultural settings. More objective and independent measures of firm

performance may also be used.

Our study suggests that the frontline employees are able to recognize the capabilities built through strategic leadership, and their impact on servicing quality and firm performance. ●

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