

Managers' leadership, compensation and benefits, and departments' performance: Evidence from upscale hotels in Australia

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ABSTRACT

As hotels strive to improve their management practices, managers' leadership style has been recognized for its influence on hotel departments' performance. Focusing on the practice of transformational and transactional leadership, this study investigates the role of compensation and benefits in the relationship between leadership style and hotel performance at the department level. Results of a self-administrated questionnaire survey of hotel department managers (food and beverage, and rooms) of four and five star hotels in Australia suggest that managers' perceived compensation and benefits mediated the effect of both transformational and transactional leadership on department financial, non-financial, and sustainable performance. This study's findings help clarify the mechanisms underlying how leadership works to improve performance and highlight the importance of well-designed compensation and benefits systems in hotels.

1. Introduction

Most large branded hotels are owned by a range of publicly listed companies. These companies contract with hotel management firms to manage the hotels, taking advantage of established brand names as well as systems and processes such as reservations, internal control, and staffing. In return, the hotel management firms promise the hotel ownership company an attractive return on its investment (Turner & Guilding, 2010). In establishing the relationship, the investing company may choose one hotel brand over another with the expectation of maximizing its return on investment and shareholders' value, whereas the hotel management firm will understandably focus on strengthening the hotel firm's brand equity. Such conflicting outlooks pose performance challenges for the specific hotel's management, which has to please both the ownership company and the hotel management firm (Nam, Ekinci, & Whyatt, 2011). In more operational terms, hotel managers have to deal with intense market competition and fluctuation in demand for hotel products and services. Perishability and the tight time lines between acquisition of materials, production, and the consumption cycle also create urgency in making short- and long-term decisions (Patiar & Mia, 2008a, 2008b). This situation compels hotels to introduce effective performance management systems and establish a work environment that strongly motivates and incentivizes employees.

Leadership contributes to the dynamics of business operations in

terms of achieving objectives and effectively managing employees (Patiar & Mia, 2009), and the type of leadership in an organization or department can have profound and extraordinary effects on subordinates' satisfaction levels and performance. Two prevalent leadership styles—transactional and transformational leadership—are widely used in all types of businesses, including hotels (Bass, 1985). Transactional leaders tend to monitor the responsibilities of their subordinates/followers and offer rewards for effort and performance, whereas transformational leaders inspire followers to place the well-being of the organization above their own self interests.

Research on the influence of leadership style on business performance has largely focused on financial indicators (Asree, Zain, & Razalli, 2010; Brown & Arendt, 2010) or a combination of financial and non-financial indicators (Maiga & Jacob, 2003; Patiar, Davidson, & Wang, 2012). As an example, the sustainability movement is presently forcing the hotel industry to develop more comprehensive performance measurement systems, as hotels are facing increased pressure from stakeholders, including the government and consumers, to follow sustainable practices (Jayawardena, Pollard, Chort, Choi, & Kibicho, 2013). Hence, embracing sustainability is considered a multi-purpose strategy for hotels to build and maintain brand reputation and consumer trust (Boerner, 2010), especially as customer satisfaction is positively influenced by a hotel's sustainable development practices (Prud'homme & Raymond, 2013). Measuring and reporting sustainable

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performance through the Global Reporting Initiative or through corporate social responsibility actions has become common (Jayawardena et al., 2013). However, the question of how leadership styles influence sustainable performance remains under-explored.

While effective leadership is generally acknowledged to lead to better performance, little empirical research has found support for the positive effects of transformational leadership in terms of improving employee job satisfaction and commitment (Belias & Koustelios, 2014; Braun, Peus, Weisweiler, & Frey, 2013); customer satisfaction (Judge & Piccolo, 2004; Patiar & Mia, 2009); service climate and relationships (Liao & Chuang, 2007); and performance at departmental and organizational levels (Braun et al., 2013; Wang, Oh, Courtright, & Colbert, 2011). Further, limited evidence supports the role of transformational leadership in improving financial performance (Barling, Weber, & Kelloway, 1996). In the hotel context, the performance improvements that have been found were related to non-financial and sustainable performance, but not to financial performance (Patiar & Wang, 2016).

The complexity of hotel performance and its determining mechanisms call for theoretical exploration of leadership practice in service organizations (Patiar & Wang, 2016). Against this background, we believe a compelling need exists to examine the relationship between leadership style and a comprehensive set of performance indicators, and to explore the role of factors that can influence the relationship between leadership and performance. Thus, the purpose of this research is to investigate the effects of transactional and transformational leadership styles on hotel departments' financial, non-financial, and sustainable performance and assess the role of compensation and benefits in the leadership–performance relationship.

2. Literature review and hypotheses development

2.1. Leadership styles and Performance

Transactional leadership and transformational leadership concepts were introduced to explain the secrets of being an effective leader (Bass, 1985; Burns, 1978). Transactional leaders concentrate on their bargaining power with followers, who receive tangible rewards for work done well (Bass, 1985; Howell & Avolio, 1993). These leaders focus on managing the overall organization and its performance as well as promoting compliance from their subordinates through both rewards and punishments. Moreover, transactional leaders emphasize task completion by paying attention to subordinates' insufficiencies and differences in their performance output. Transactional leadership comprises three dimensions: (1) contingent rewards, which link recognition and rewards to the attainment of mutually agreed-upon goals and depend on clarifying expectations and providing necessary resources; (2) active management by exception, which involves regularly monitoring subordinates' performance, identifying variations, and taking preventive action; and (3) passive management by exception, in which the leader intervenes only when something is not going according to plan, such as when performance targets are not being met.

In comparison, transformational leaders inspire their subordinates by sharing a vision and instilling a high level of enthusiasm to accomplish business goals. Five factors characterize transformational leadership (Bass, 1985): (1) idealized influence in the form of attributes, providing a charismatic vision that inspires others to follow; (2) idealized influence in the form of behavior that inspires others to follow; (3) inspirational motivation of others to commit to the vision; (4) intellectual stimulation by encouraging innovation and creativity; and (5) individualized coaching of followers in terms of specific needs.

Empirical evidence of a leadership style's influence on performance is inconsistent. Transformational and transactional leadership both had positive effects on business performance in for-profit organizations (Lowe, Kroeck, & Sivasubramaniam, 1996) as well as non-profit organizations (Rowold & Rohmann, 2009). However, other research failed to establish a relationship between transactional leadership and

individuals' behavior or business performance (Rothfelder, Ottenbacher, & Harrington, 2013). Furthermore, while transformational leadership tends to be more effective than transactional leadership in achieving the best work performance from subordinates (Rowold & Rohmann, 2009), transactional leadership tends to work well when businesses are operating in highly competitive and dynamic environment and need to ensure compliance with rules and regulations (Clarke, 2013) and when management is engaged in short-term projects (Tyssen, Wald, & Spieth, 2014).

Incentives and bonuses are not sufficient to motivate employees and need to be accompanied by realistic support and performance feedback (Beer et al., 2004). While researchers have observed a strong relationship between transformational leadership and individual behavior (Belias & Koustelios, 2014; Braun et al., 2013) and business performance (Howell & Avolio, 1993; Patiar & Mia, 2009; Wang et al., 2011), limited evidence has emerged for a relationship between transactional leadership and individuals' behavior and business performance (Podsakoff, Bommer, Podsakoff, & MacKenzie, 2006; Podsakoff, Podsakoff, & Kuskova, 2010).

2.2. Compensation and benefits, and Performance

Offering employee compensation and benefits (CB) is a critical performance management strategy, and not surprisingly large luxury hotels tend to offer more favorable employee benefits than other hotels (Kline & Hsieh, 2007). Compensation refers to “all the extrinsic rewards that employees receive in exchange for their work,” such as wages, bonuses, and benefits (Byars & Rue, 2006, p. 249). Benefits can be monetary, such as health insurance and paid leave, or non-financial, such as flexible work arrangements and well-being programs to increase employee morale, satisfaction, and commitment (Nankervis, Compton, & Baird, 2008). Incentives and bonus plans not only attract committed employees but encourage individuals to apply more effort, resulting in improved performance (Eisenhardt, 1989; Ghazanfar, Khan, & Bashir, 2011). Hotel employees generally receive low pay, possibly owing to the transient nature of the workforce and the casualization of jobs (Kensbock, Jennings, Bailey, & Patiar, 2013), which contribute to high employee turnover in hotels at both the operational and managerial levels (Davidson & Wang, 2011). Therefore, employee retention is critical, because service oriented business success depends heavily upon a stable workforce to deliver quality customer service (Davidson & Wang, 2011).

Research supports the basic assumption of agency and economic theories that output increases when agents are rewarded for exceptional performance. For example, incentive pay for hotel managers and bonuses for front-line employees led to significant improvements in non-financial performance outcomes, particularly customer satisfaction, which is a leading indicator of financial performance (Banker, Potter, & Srinivasan, 2000). In a related study, results showed that the implementation of incentive plans among retail stores' sales consultants led to increased sales over a period of time (Banker, Lee, & Potter, 1996).

Other research on the hospitality industry has shown that a well-designed CB package can increase employee job satisfaction and motivation. For instance, managers are motivated by job security, bonuses, and career advancement, whereas front-line employees are motivated by pay, bonuses, and job-related benefits (Meudell & Rodham, 1998). Importantly, providing attractive pay and benefits help strengthen businesses by improving employee retention and attracting talented employees who are able to deliver quality customer service leading to high profitability (Torres & Adler, 2012). Similarly, researchers have reported a strong relationship between pay, CB, and hotel performance (Namasivayam, Miao, and Zhao (2007). Certainly, the delivery of quality customer service can help build a strong brand and lead to improvements in overall business performance (Jung & Yoon, 2013).

In developing incentives and CB systems, the performance

management system should emphasize broad-ranging financial and non-financial indicators (Chenhall & Langfield-Smith, 2007). Additionally, preservation of fairness in distributing incentives and CB is crucial for ensuring effectiveness of performance assessment system as well as attaining performance targets (Davila, 2003). Research shows positive links between incentives and compensation, and performance (Byun, Kim, & Shin, 2009; Gomez-Mejia, Berrone, & Franco-Santos, 2014). However, research also reveals that if employees perceive the reward system to be unfair, performance may decline (Eijkenaar, 2013).

2.3. Performance

As organizational performance is multidimensional (Phillips, 1996) and its determinants may vary in different contexts, consideration of performance across an organization's intangible and knowledge-based assets has gained importance in organizational planning. Managers have moved beyond mere financial measures to include non-financial measures to broaden operational capacity, and non-financial measures have a greater weight than financial on organizational operations (Schiff & Hoffman, 1996). Common measurement methods have enabled an asset-based approach to knowledge management, where intellectual assets are identified, closely followed by a focusing of attention on increasing their value (Turban, Leidner, McLean, & Wetherbe, 2007). Another model is the “balanced scorecard” (Kaplan & Norton, 1996), an approach that balances customers, processes, and innovation against financial outcomes. These measurement methods reflect an organization's reasoning across intangible and knowledge-based assets to provide company valuations, identification across areas that require management attention, and justification for knowledge management activities.

Stakeholders' concern over sustainability has resulted in the application of sustainable performance measurements in the hospitality industry (Gadenne, Mia, Sands, Winata, & Hooi, 2012). Triple-bottom-line sustainability requires a hotel's performance management system to embrace a comprehensive set of measures covering economic, social, and environmental pillars of sustainability. In practice, the economic indicators, including both financial and non-financial performance measures (i.e., customer value performance and employee value performance), are repeatedly considered more important than social and environmental indicators and are monitored more closely (Mihalič, Žabkar, & Cvelbar, 2012). However, as high levels of social and environmental responsibility can increase a hotel's financial performance (i.e., profit) (Rodríguez & del Mar Armas Cruz, 2007), greater attention should be paid to the assessment of departments' performance.

2.4. Hypotheses development

The above review of literature provides theoretical support for a direct influence of leadership and CB on hotel department performance. Effective leadership—both transactional and transformational—can affect operational effectiveness and business performance. Similarly, a hotel's CB system can be important in incentivizing employees, influencing their behaviors, and improving hotel performance. However, the review also demonstrates that few empirical studies have produced conclusive results as to the effects of leadership on various performance dimensions of departments' performance. Also lacking is empirical testing of the role of CB strategies, despite their importance. Consequently, more research is needed with respect to hotel CB strategies to achieve significant improvements to hotel businesses (Torres & Adler, 2012). Moreover, our literature search failed to locate any research on how the relationship between transactional leadership and subordinates' CB may influence comprehensive performance outcomes in hotel departments.

In this study, we conceptualize compensation and benefits as a mediator of leadership style's influence on performance. Leadership involves actively monitoring performance and communicating goals,

expectations, and rewards. Research shows that lack of clarity about CB can result in subordinates' differing interpretations of what is expected of them (Gerhart & Rynes, 2003), causing a gap between the perceptions of the leader and those of the subordinates regarding job requirements and performance targets. Effective leaders are able to articulate to each subordinate what the job entails and the performance targets the subordinate needs to attain in a given period of time, and provide necessary resources to reach those targets (Bass, Avolio, Jung, & Berson, 2003). Such leaders are in a strong position to impartially appraise subordinates' performances and establish clear lines of communication and a shared understanding among the parties (Bass et al., 2003). When an effective CB plan is linked to specific task requirements and goals, leaders may have less need to communicate and clarify expectations.

Although empirical evidence is limited as to how leadership styles influence CB, a main dimension of transactional leadership—contingent rewards—emphasizes providing employees with material or psychological benefits contingent on the fulfillment of job obligations or task requirements (Walumbwa, Wu, & Orwa, 2008). This tenet suggests that the CB system within an organization is developed on the basis of the manager's contingent reward behaviors. Therefore, transactional leadership may significantly influence CB policies. In fact, the contingent reward dimension of transactional leadership can have a positive effect on individuals' job satisfaction (Rothfelder et al., 2013): transactional leadership, particularly through the contingent reward dimension, assisted in motivating employees (Chaudhry & Javed, 2012) and improving employee job satisfaction and performance (Podsakoff et al., 2006; Rothfelder et al., 2013; Walumbwa et al., 2008; Wang et al., 2011). Therefore, the contingent reward dimension of transactional leadership and the payment of rewards and compensation can be seen as a positive reinforcement of followers' appropriate behavior as well as yielding benefits to the organization (Rezvani, Khosravi, Subasinghage, & Perera, 2012).

Although transactional and transformational leadership have been conceptualized as representing opposite ends of a continuum (Burns, 1978), good leaders should be both transformational and transactional (Bass, 1985). This principle may explain why transformational leadership is also highly correlated with the contingent reward dimension of transactional leadership (Judge & Piccolo, 2004). An effective compensation system promotes satisfaction and a sense of well-being, which then acts as an affective mechanism to underpin transformational leadership's influence on employees' task performance, citizenship, and innovative behaviors (Ng, 2017).

The above review suggests that leadership style influences three dimensions of organizational performance—financial, non-financial, and sustainable—and that this effect is mediated through perceived compensation and benefits (Fig. 1). More specifically, we propose:

H1. Hotel department managers' perceptions of their general manager's transactional leadership will have a positive and significant indirect effect on the respective department's (a) financial performance, (b) non-financial performance, and (c) sustainable performance through their perceived compensation and benefits.

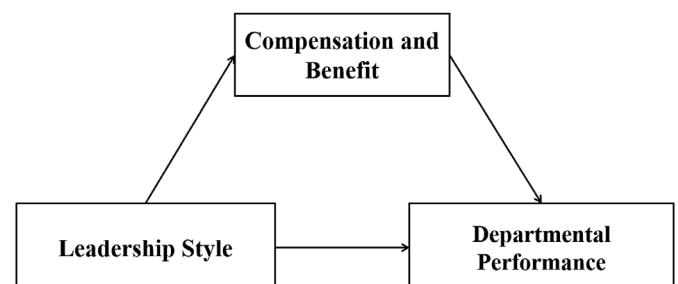


Fig. 1. The conceptual model.

H2. Hotel department managers' perceptions of their general manager's transformational leadership will have a positive and significant indirect effect on the respective department's (a) financial performance, (b) non-financial performance and (c) sustainable performance through their perceived compensation and benefits.

3. Methods

3.1. Scale development

Our study employed a questionnaire that includes measurement scales for hotel departments' performance, transactional leadership, transformational leadership, compensation and benefits, as well as questions related to respondents' social demographics and the hotels they work for. This section provides details on the measurement scales for performance, leadership styles, and CB. See Appendix 1 for the full list of measurement items for transformational and transactional leadership, compensation benefits and hotel departments' performance.

3.1.1. Performance scale

We based managers' subjective and perceptual measures of performance on three grounds: extensive use of self-reported subjective performance measures (e.g., Gadenne et al., 2012; Wang, Chich-Jen, & Mei-Ling, 2010); empirical evidence suggesting no apparent differences between subjective and objective performance measures (e.g., Covin, 1991; Dess & Robinson, 1984; Patiar & Mia, 2008a, 2008b; Winata & Mia, 2005); and the difficulty of obtaining objective measures that hotels normally consider confidential (Patiar & Wang, 2016). The use of subjective self-reporting of departmental performance is justified, particularly for the jobs that are of non-routine nature (Brownell, 1986; Milani, 1975). Moreover, subjective self-reporting performance measures tend to be more accurate than superior's ratings because (i) there is no issue of 'halo' effect; (ii) they are more reliable; and (iii) they allow respondents to be truthful in their responses when anonymity and confidentiality is maintained (Patiar & Mia, 2008a, 2008b; Winata & Mia, 2005).

Hotels' main purpose is to provide visitors with shelter (accommodation) and refreshments (food and beverage). Large fine hotels normally organize their operation by appointing key managers to oversee aspects of rooms and food and beverage, and these managers form part of a hotel's senior executive decision-making team. Moreover, these department managers are responsible for the hotel's respective profit centers (i.e., operating budget to generate revenue, manage expenses, and aim for a profit). All activities related to the operating budget form a part of the department manager's key performance indicators and accordingly are used in assessing the department's performance. Similar practices occur in management accounting (Gadenne et al., 2012; Langfield-Smith, 2006) as well as hospitality management fields (Mia & Patiar, 2001; Patiar & Wang, 2016).

We developed our performance scale from the literature (Gadenne et al., 2012; Gupta & Govindarajan, 1984; Patiar et al., 2012; Patiar & Wang, 2016) and included 15 items measuring the average room rates, occupancy rate, operational budget, employee job satisfaction, employee turnover, employee training and development, improvement in process and services, market share, customer satisfaction, energy saving/waste, use of environmentally friendly materials, support for local community, and use of local suppliers. Respondents rated the extent to which their general manager was satisfied with their department's performance in each of the performance indicators during the past two years on 7-point Likert scales (1 = not at all satisfied, 7 = highly satisfied).

A factor analysis using principal axis factoring with oblimin rotation extracted three performance factors: financial, non-financial, and sustainable performance (variance explained = 64.325%, KMO test statistic = 0.906, $p < .01$). This method is suitable when the purpose of

the factor analysis is to identify latent dimensions among the variables, and when dimensions are not necessarily uncorrelated with each other (Hair, Black, Babin, Anderson, & Tatham, 2006). Reliability test results were satisfactory, with Cronbach's alpha values of 0.890, 0.895, and 0.868 for financial, non-financial, and sustainability performance factors, respectively (Hair et al., 2006). See Appendix 2 for the factor solution for performance measures.

3.1.2. Transformational and transactional leadership scales

We adapted transformational and transactional leadership items from Bass and Avolio's (1997) revised Multifactor Leadership Questionnaire (MLQ-Form 5X), which was validated by Patiar and Mia (2009). Participating managers indicated the degree to which each statement represented their general manager's transformational and transactional leadership behavior on a 7-point scale (0 = not at all to 6 = frequently if not always, recoded as 1 to 7 in the data analysis).

The three transactional leadership dimensions are labelled LS-CR (contingent reward), LS-MEA (management by exception (active)), and LS-MEP (management by exception (passive)). Factor analysis returned a one-factor solution for LS-CR (KMO test statistic = .820, $p < .01$; variance explained = 72.08%, Cronbach's alpha = .867) and LS-MEA (KMO test statistic = 0.719, $p < .01$; variance explained = 53.66%, Cronbach's alpha = .704). For the third dimension, LS-MEP, the KMO test and Cronbach's alpha values are relatively low (KMO test statistic = .611, $p < .01$; variance explained = 42.94%; Cronbach's alpha = .544), but may be acceptable in some circumstances (Field, 2013). The measures were accepted since the scale items are adapted from previous studies and this study has a small sample. Factor analysis of transformational leadership items (LS-TRANSF) returned a one-factor solution after three items were deleted owing to their low communality and factor loading scores (KMO test statistic = .928, $p < .01$; variance explained = 68.09%, Cronbach's alpha = .970).

3.1.3. Compensation and benefits scale

The scale measuring compensation and benefits includes twelve items related to a hotel's merit pay and reward system for performance, ability to communicate CB to employees, resources availability, opportunities for personal development, and rewards for adapting to organizational goals (Berger and Berger (2015)). A factor analysis using principal axis extraction with oblimin rotation extracted a single factor (KMO test statistic = 0.914, $p < .01$; variance explained = 65.37%, Cronbach's alpha = 0.951).

3.2. Sampling frame

Potential participants were managers of food and beverage departments (F&B) and room departments in four- or five-star hotels in Australia. These managers were targeted because of their wide budget responsibility (for a profit center) and comprehensive knowledge of their department's performance, and were members of their hotel's executive management team. Moreover, these two departments are often the hotel's largest in terms of area occupied, number of employees, and revenue generated (Gunlu, Aksarayli, & Perçin, 2010), and the respective department managers have a close association with their general manager in terms of performance. Therefore, the F&B and room department managers are in a strong position to assess their general manager's satisfaction with their departments' performance.

3.3. Data collection

To identify a pool of suitable hotels, we used the Royal Automobile Club of Queensland's (RACQ) annual Accommodation Guide. RACQ is a leading automobile club in Australia with more than 1.2 million members, and its accommodation guide lists star-rated accommodation types across Australia. We used the RACQ guide to select 146 four- or five-star hotels offering full service with 100 or more bedrooms in

major cities of Australia. These hotels were more likely to have specific F&B and room departments and respective managers.

The questionnaire was subjected to a pre-test with two hospitality and two management accounting professors, four post graduate hospitality management students as well as four hotel managers. All participants supported the terminologies, instructions and the relevance of each and every item. Four hotel managers who participated in the pre-test were excluded from the final survey.

Permission to conduct the survey was obtained from the general managers of the 146 hotels through telephone calls. Questionnaires for F&B managers and room department managers were mailed to each hotel's general manager, requesting them to encourage their department managers to participate in the study. Each questionnaire was accompanied by a cover letter explaining the purpose of the research, a consent form, and a self-addressed reply-paid envelope. Of the 292 department managers from the 146 hotels who were invited to participate, 84 managers completed the questionnaire, giving a response rate of 28.8%. Two cases were identified as multivariate outliers based on Mahalanbis D^2 , resulting in a sample of 82 responses for analysis. The small sample size is acceptable because it includes all major national and international upscale hotel brands operating in Australia and because the industry size is relatively small.

Given the sample size, we adopted Baron and Kenny's (1986) regression approach for testing the mediation effect. We incorporated the resampling method of bootstrapping, which is recommended for small to medium-sized samples (e.g., 50–100), and adopted Sobel' test for mediation effect, requiring a sample size of 50–100 to detect a medium to large effect (MacKinnon, Lockwood, Lockwood, West, & Sheets, 2002). The sample size is sufficient for regression analysis to test hypotheses since the desired ratio of observations to independent variables is between 15 and 20 observations for each independent variable (Hair et al., 2006). The sample size also satisfies the requirement for factor analysis, having a subject to variable ratio greater than five (Hair et al., 2006) with the exception of transformational leadership, which has a subject/variable ratio marginally below 5 (82 subjects for 17 items). This size is not an issue given that all initial communalities are greater than 0.673. When communalities are high (0.6 and above), the quality of the factor solution in terms of replicability and recovery of population factors is always good, regardless of sample size (MacCallum, Widaman, Zhang, & Hong, 1999, 2001). The questionnaire design ensured respondents' anonymity and used different anchors and scale endpoints to measure different constructs so as to reduce evaluation appreciation problems and common method bias (Podsakoff et al., 2006).

4. Results

4.1. Respondent profile

The sample is fairly evenly split between F&B department managers and room department managers (Table 1) and is dominated by males (81%), reflecting the gender imbalance in management positions in hotels (Mooney & Ryan, 2009). Respondents are reasonably evenly spread across age groups and qualifications. The majority of respondents worked in a medium-sized to large hotel (95.2%), and close to 60% of the respondents supervised 30 subordinates or more.

Following Hair et al. (2006), we calculated composite measures (i.e., the mean of all items measuring the construct) for transformational leadership (LS-Transf), transactional leadership-contingent rewards (LS-CR), management by exception (active) (LS-MEA), management by exception (passive) (LS-MEP), CB, and three performance dimensions. These composite measures were used in the subsequent regression analysis for hypothesis testing. Table 2 summarizes the descriptive statistics, correlations, and reliability test results for these measures.

Given the small sample and to avoid the over-fitting problem

Table 1
Sample profile.

Variables		n	%
1. Gender	Male	68	81
	Female	16	19
2. Age	21–30	22	26.2
	31–40	38	45.2
	41–50	20	23.8
	Over 50	4	4.8
3. Highest qualification	School leaving certificate	13	15.5
	Diploma in hospitality	34	40.5
	Bachelor's degree	32	38.1
	Master's degree	5	6.0
Job identity	F&B manager	41	48.8
	Rooms manager	43	51.2
7. Years of experience in hotel industry	1–3 yrs	2	2.4
	4–6 yrs	4	4.8
	More than 6 yrs	78	92.9
5. Number of rooms	Under 100	4	4.8
	101–199	32	38.1
	200–299	26	30.9
	300–399	11	13.1
	400 and above	11	13.1
4. Number of subordinates	< 30	34	40.5
	30–59	20	23.8
	60–99	20	23.8
	100+	10	11.9

(Tabachnick & Fidell, 2007), we carefully selected variables for regression analysis. Results of correlation analysis, independent samples t -tests, and ANOVA suggest that performances do not vary as a result of years of experience (F values ranging from 0.314 to 1.335, p values $> .05$), education (F values ranging from 0.481 to 1.801, p values $> .05$), age (F values ranging from 0.421 to 1.143, p values $> .05$), or department (F&B or room) (t values ranging from 0.282 to 1.875, p values $> .05$). However, male and female managers differ in terms of their performance perceptions (t -values ranging from 2.707 to 3.248) = 0.943, $p > .05$). Therefore, we performed regression analysis, including gender as an explanatory variable.

4.2. Hypothesis testing using regression with bootstrapping

We used the Process macro for SPSS (Hayes, 2013) to estimate regression parameters (i.e., Model 4 in Process) with bootstrapping, a resampling method that is robust to violations of assumptions and provides more accurate tests of indirect effects for small to medium-sized samples (Field, 2013). Fig. 2 and Tables 3–6 summarize the procedure and results of the regression analyses. A significant mediation effect of CB exists if (1) the leadership dimension (i.e., LS-CR, LS-MEA, LS-MEP, LS-TRANSF) predicts CB (path a), (2) CB predicts performance (path b), and (3) when paths a and b are controlled, the previously significant relation between LS dimension and performance (path c) becomes not significant (perfect mediation) or significantly weaker (partial meditation). Path c' denotes the LS-performance relationship after controlling for CB. All estimated regression models were significant (p values $< .01$). The mediation effect is interpreted on the basis of confidence interval, not significance level. Estimates are based on 5000 bootstrap samples (Preacher & Hayes, 2008).

As Table 3 shows, LS-CR through CB has a significant indirect effect on financial performance, $b = 0.2273$, bias-corrected and accelerated confidence interval (BCa CI) [0.1043, 0.3795], non-financial performance $b = .3342$, BCa CI [0.2199, 0.4754], and sustainable performance, $b = 0.3763$, BCa CI [0.2174, 0.5658]. The calculated intervals do not contain zero, indicating significance of the mediation effect of CB (Field, 2013; Preacher & Hayes, 2008). CB partially mediated the effect of LS-CR on financial performance, but had a full mediation effect on the other two performance dimensions. The mediation effects were confirmed by the Sobel test results with the z scores being significant

Table 2
Descriptive statistics, correlations, and reliability test results (N = 82).

Variables	Mean	SD	1	2	3	4	5	6	7	8
1 Transformational leadership	5.483	1.183	0.970							
2 Contingent rewards	5.552	1.182	.925**	0.867						
3 Management by exceptions (active)	5.150	.982	.463**	.463**	0.704					
4 Management by exceptions (passive)	3.823	1.085	-.409**	-.332**	-.159	0.544				
5 Compensation and benefits	4.642	1.359	.709**	.689**	.465**	-.307**	0.951			
6 Financial performance	5.175	1.094	.641**	.639**	.310**	-.259*	.611**	0.890		
7 Non-financial performance	5.117	.958	.711**	.685**	.454**	-.236*	.762**	.770**	0.895	
8 Sustainable performance	4.979	1.089	.582**	.559**	.432**	-.272*	.668**	.618**	.647**	0.868

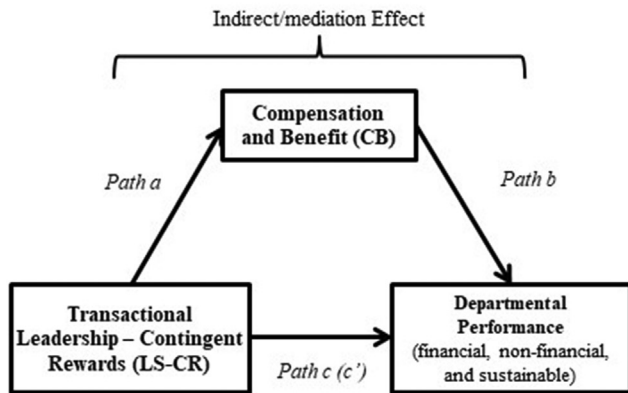
Note: ** denotes significance at the 1% level. The bold diagonal elements are the reliabilities of the constructs. Off-diagonal elements are the correlations between constructs.

($p < .01$) for all three performance dimensions. In contrast, CB fully mediated the effect of LS-MEA and LS-MEP on all three performance dimensions. Results in Tables 4 and 5 demonstrate that the coefficients for LS-MEA and LS-MEP are significant (p values $< .01$) in path c for the three performance dimensions, suggesting that two of the transactional leadership dimensions have a significant direct effect on performance. The effects become not significant after controlling for CB (p value $> .05$). The mediation effects are confirmed by the BCs' CI ranges and the Sobel test statistics. These results support H1a across the three transactional leadership dimensions.

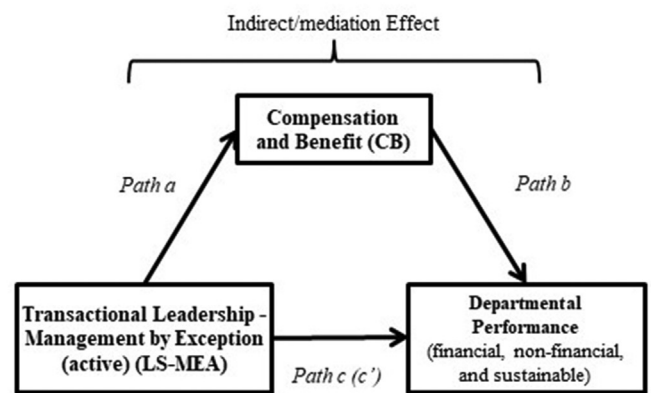
According to Table 6, LS-TRANSF's direct effect diminishes in size

but remains significant after controlling for CB for financial and non-financial performance dimensions. However, its effect on sustainable performance becomes not significant. Evidence shows a significant full mediation effect of CB on financial performance, $b = 0.2047$, BCa CI [0.0332, 0.3929], and non-financial performance, $b = 0.3347$, BCa CI [0.1766, 0.5092], and a significant partial mediation effect on sustainable performance, $b = 0.3345$, BCa CI [0.1490, 0.5029]. A Sobel test produced significant z scores for financial performance ($z = 2.5629$, $p < .05$), non-financial performance ($z = 4.6006$, $p < .01$), and sustainable performance ($z = 3.9811$, $p < .01$), confirming CB's mediation effect on all three performance dimensions,

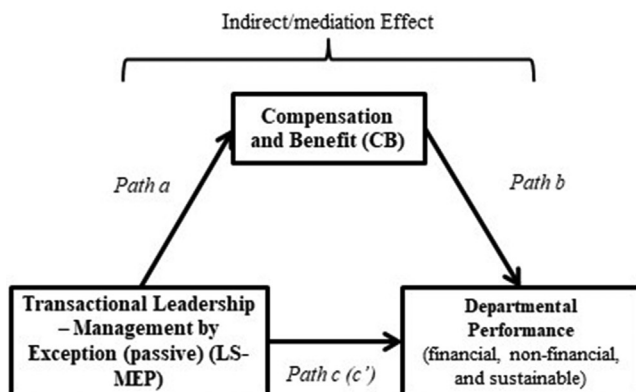
(A) Contingent rewards



(B) Management by exception (active)



(C) Management by exception (passive)



(D) Transformational leadership

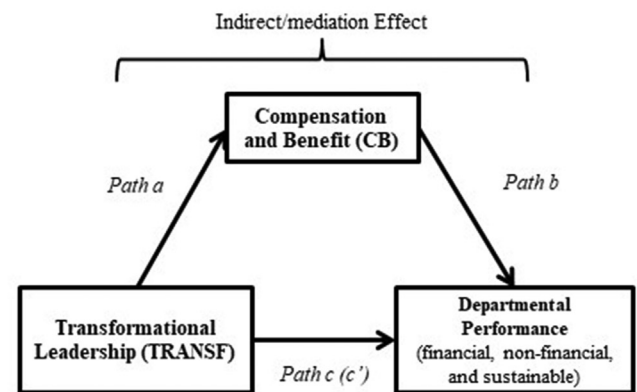


Fig. 2. The mediation models.

Table 3
Regression analysis results: LS–CR.

Path	Financial		Performance Dimension		Sustainable	
	b	Confidence Interval	Non-financial		b	Confidence Interval
			b	Confidence Interval		
Path a: LS-CR → CB	.8328 **	–	.8328**	–	.8328**	–
Path b: CB → Performance	.2729**	–	.4013**	–	.4518**	–
Path c: LS-CR → Performance	.5487**	–	.5181**	–	.4444**	–
Path c': LS-CR → Performance controlling for CB	.3214**	–	.1838	–	.0682	–
Mediation effect of CB (a*b)	.2273	[.1043, .3795]	.3342	[.2199, .4754]	.3763	[.2174, .5658]
Sobel test statistic (z score)	2.7765**	–	4.8163**	–	4.2605**	–
Gender	-.3534	–	-.3528	–	-.5820*	–

Note: *significant at the 5% level **significant at the 1% level.

supporting H2a.

5. Discussion and implications

5.1. Discussion

This study hypothesized that the effects of leadership style on hotel department performance are mediated through department managers' perceived compensation and benefits offered by the hotel. Regarding H1, findings show a significant mediation effect of CB on the relationship between transactional leadership and performance. This effect holds true for all transactional leadership dimensions—contingent reward, management by exception (active), and management by exception (passive)—and occurs across all three performance dimensions—financial, non-financial, and sustainable performance. While CB partially mediated the effect of contingent reward on financial performance, in all other cases it had a full mediation effect, implying that the association between transactional leadership and performance can be explained largely by hotels offering compensation and benefits. Supporting H2, the results reveal a significant mediation effect of CB on the relationship between transformational leadership and department performance. The mediation effect is partial for financial and non-financial performance dimensions. However, compensation and benefits were able to fully mediate transformational leadership's effect on sustainable performance.

5.2. Implications

5.2.1. Theoretical implications

This study has both theoretical and practical implications. The hospitality industry is managed according to a highly bureaucratic organizational structure with widespread use of a strict chain of command. In particular, managers use the principles of scientific management to improve productivity at the expense of employees' general well-

being (Kensbock et al., 2013, 2015). Hotels' practice of relying on bureaucratic organizational structures restricts worthwhile structural changes (Torres & Adler, 2012)—a reality likely underpinned by the perceived effectiveness of transactional leadership, which this study and prior work provide evidence for (Bass, 1985; Howell & Avolio, 1993). As these research findings show, all three types of performance were directly affected by transactional leadership, adding to the literature arguing for the use of transactional leadership in hotels.

This study also clarifies the nature and underlying mechanism of leadership style's effect on performance, an area that has evoked repeated calls for investigation (e.g., Patiar & Wang, 2016; Wang et al., 2011) but so far has generated few empirical insights. Our study suggests CB as a critical factor in understanding the role of leadership in performance management. While transactional and transformational leadership styles can both influence performance dimensions, their effect is significantly likely due to transactional leaders' emphasis on a well-designed CB plan, which large luxury hotels generally offer to their staff (Kline & Hsieh, 2007).

Transactional leadership is based on the path-goal theory, incorporating (a) goal-setting theory suggesting that individuals can be motivated by setting challenging and realistic goals and offering appropriate rewards and (b) expectancy theory explaining why individuals dedicate more energy for attaining set goals (House, 1996). In other words, department managers will exert effort to accomplish goals only if they are sure they will be recognized and receive a worthwhile incentive, such as a raise in salary, a bonus, or a promotion. These rewards will likely inspire them to engage with their work sincerely and improve the chances of accomplishing department performance goals. Our findings are consistent with the path-goal theory, and shows that leaders' effectiveness is achieved through the degree of CB managers believe they will receive for accomplishing performance goals.

Transactional leaders promote productivity and achievement through tangible rewards and punishments (Bass, 1985; Howell & Avolio, 1993). Relatedly, the path-goal theory asserts that transactional

Table 4
Regression analysis results: LS-MEA.

Path	Financial		Performance Dimension		Sustainable	
	b	Confidence Interval	Non-financial		b	Confidence Interval
			b	Confidence Interval		
Path a: LS-MEA → CB	.5974 **	–	.5974**	–	.5974**	–
Path b: CB → Performance	.4416**	–	.4668**	–	.4420**	–
Path c: LS-MEA → Performance	.2726*	–	.3808**	–	.4085**	–
Path c': LS-MEA → Performance controlling for CB	.0088	–	.1020	–	.1444	–
Mediation effect of CB (a*b)	.2638	[.1221, .5094]	.2789	[.1427, .4619]	.2641	[.1321, .4440]
Sobel test statistic (z score)	3.3746**	–	3.8176**	–	3.4866**	–
Gender	-.6371*	–	-.4936**	–	-.6105**	–

Note: *significant at the 5% level **significant at the 1% level.

Table 5
Regression analysis results: LS-MEP.

Path	Financial		Performance Dimension		Sustainable	
			Non-financial			
	b	Confidence Interval	b	Confidence Interval	b	Confidence Interval
Path a: LS-MEP → CB	-.3956**	–	-.3956**	–	-.3956**	–
Path b: CB → Performance	.4149**	–	.4925**	–	.4601**	–
Path c: LS-MEP → Performance	-.2735**	–	-.2205*	–	-.2864**	–
Path c': LS-MEP → Performance controlling for CB	-.1094	–	-.0257	–	-.1044	–
Mediation effect of CB (a*b)	-.1641	[-.3200, -.0485]	-.1948	[-.3569, -.0636]	-.1820	[-.3164, -.0613]
Sobel test statistic (z score)	-2.6505**	–	-2.8954**	–	-2.7574**	–
Gender	-.6742**	–	-.5244**	–	-.6762**	–

Note: *significant at the 5% level **significant at the 1% level.

leaders are obliged to communicate expectations effectively to their subordinates during the planning, implementing, and controlling stages, and then reward the achievement of expectations (Vera & Crossan, 2004). Transactional leaders therefore concentrate on standardizing policies and systems, linking those with set goals (thereby satisfying Maslow's lower order needs) and experiencing improvements in performance. They would prioritize the development of a CB plan. In this study, compensation and benefits indeed fully mediated the effect of all three dimensions of transactional leadership on performance dimensions, with one exception. Other studies also support the positive effect of the contingent reward dimension of transactional leadership on employee job satisfaction (Rothfelder et al., 2013); motivation (Chaudhry & Javed, 2012); and performance (Rothfelder et al., 2013; Walumbwa et al., 2008). All of the above effects are beneficial for the long-term success of hotels.

5.2.2. Practical implications

Practically, our results mean that hotels must establish a well-designed CB system because the system functions much like transactional leadership to motivate department managers to achieve their performance goals. In contrast, CB did not fully mediate the effect of transformational leadership, indicating its inability to fully replace the benefits of transformational leadership. Transformational leadership qualities thus remain an important recruitment criterion for hotel managers. This aspect is supported by prior work pointing out that combining the two leadership styles can result in performance that surpasses expectations (Bass & Avolio, 1990; Beer et al., 2004).

This study also addresses another important but under-explored area of leadership and performance management: the recent management focus on sustainable performance dimensions. Compensation and benefits fully mediated the effect of both transformational leadership and transactional leadership styles on sustainable performance. These findings may indicate that CB constitutes an effective way of promoting sustainable performance as it can replace the effect of leadership. It

could also be that department managers have little intrinsic desire to pursue socio-cultural and environmental sustainability, or to achieve sustainable performance in their respective departments unless they are explicitly instructed to pursue sustainability and are rewarded for doing so. Another possibility is a lack of specific green transformational leadership in the hotel industry, given that sustainability is a relatively new performance dimension that requires a creative environment, resource commitments, and service innovation beyond the offering of conventional accommodation services (Mittal & Dhar, 2016). Hotels therefore are encouraged to direct resources and internal policies toward sustainable performance.

While CB is a critical consideration in performance management, its mediating effect is only partial with regard to the effect of transformational leadership on financial and non-financial performance dimensions, which measure financial gains as well as customer and employee satisfaction. Therefore, hotels must place great importance on transformational leadership as it is able to achieve what CB cannot achieve. In contrast, transactional leadership becomes redundant once an appropriate level of CB is in place.

6. Limitations and future research directions

As this study focuses on department performance and upscale hotels, future studies could beneficially extend the study design to performance at varying levels of an organizational structure and to other types of hotels. Research has noted the effect of organizational factors such as ownership, size, location, and industry sectors on the human resource management area of compensation and benefits (Ding, Akhtar, & Ge, 2006). Small, budget accommodation establishments often have a simpler management structure and different types of leaders and reward systems. Their employees may also differ from those in larger upscale hotels in terms of motivation, identification with the organization, and career goals. A study comparing small to medium-sized hotels with large hotels would generate further insights on the nature of

Table 6
Mediation effect of LS-TRANSF.

Path	Financial		Performance Dimension		Sustainable	
			Non-financial			
	b	Confidence Interval	b	Confidence Interval	b	Confidence Interval
Path a: LS-TRANSF → CB	.8131**	–	.8131**	–	.8131**	–
Path b: CB → Performance	.2518**	–	.3650**	–	.4114**	–
Path c: TLS-TRANSF → Performance	.5384**	–	.5296**	–	.4675**	–
Path c': TLS-TRANSF → Performance controlling for CB	.3336**	–	.2328**	–	.1330	–
Mediation effect of CB (a*b)	.2047	[.0332, .3929]	.3347	[.1766, .5092]	.3345	[.1490, .5029]
Sobel test statistic (z score)	2.5629*	–	4.6006**	–	3.9811**	–
Gender	-.4581	–	-.3884*	–	-.5697*	–

Note: *significant at the 5% level **significant at the 1% level.

the influence leadership style has on organizational performance. In addition, this study treated compensation and benefits as one construct without differentiating its various components, such as guaranteed versus variable pay, wage versus nonwage benefits, and equity-based compensation. Future research needs to further delineate the role of compensation and benefits in influencing hotel performance by

comparing the effects of its various components.

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Appendix C. Supplementary data

Supplementary data to this article can be found online at <https://doi.org/10.1016/j.jhtm.2019.11.005>.

Appendix A

Items Used in the Questionnaire.

We are interested in finding your perceptions of the extent to which each statement represents your **General Manager's Leadership Behaviours**. Please [✓] against each statement that represents your perception, where 0 = Not at all; 6 = Frequently, if not always.

My General Manager	Not at all						Frequently if not always	
● Helps others to develop strengths	0	1	2	3	4	5	6	
● Talks enthusiastically about what needs to be accomplished	0	1	2	3	4	5	6	
● Acts in ways that build others' respect	0	1	2	3	4	5	6	
● Expresses confidence that goals will be achieved	0	1	2	3	4	5	6	
● Communicates a convincing vision for the future	0	1	2	3	4	5	6	
● Talks about his/her most important values and beliefs	0	1	2	3	4	5	6	
● Encourages pride for being associated with him/her	0	1	2	3	4	5	6	
● Suggests new ways of attempting projects	0	1	2	3	4	5	6	
● Goes beyond self-interest for the good of the group	0	1	2	3	4	5	6	
● Considers the moral and ethical consequences of decisions	0	1	2	3	4	5	6	
● Gets others to look at problems from different angles	0	1	2	3	4	5	6	
● Emphasizes the value of having a collective sense of mission	0	1	2	3	4	5	6	
● Specifies the importance of having a strong sense of purpose	0	1	2	3	4	5	6	
● Re-examines critical statements to query if they are appropriate	0	1	2	3	4	5	6	
● Spends time teaching and coaching	0	1	2	3	4	5	6	
● Seeks differing view point, when solving problems	0	1	2	3	4	5	6	
● Considers an individual to have different abilities and aspirations	0	1	2	3	4	5	6	
● Provides assistance in exchange for their subordinates efforts	0	1	2	3	4	5	6	
● Focuses on irregularities, mistakes and deviations from standards	0	1	2	3	4	5	6	
● Does not interfere until problems become serious	0	1	2	3	4	5	6	
● Specifically discusses the achievement of performance targets	0	1	2	3	4	5	6	
● Concentrates on dealing with mistakes, complaints and failures	0	1	2	3	4	5	6	
● Waits for things to go wrong, before taking action	0	1	2	3	4	5	6	
● Makes subordinates aware what to expect when goal is achieved	0	1	2	3	4	5	6	
● Keeps track of all mistakes	0	1	2	3	4	5	6	
● Shows a firm belief in "if it ain't broke, don't fix it"	0	1	2	3	4	5	6	
● Expresses satisfaction when subordinates achieve their targets	0	1	2	3	4	5	6	
● Directs his/her attention toward failures to meet standards	0	1	2	3	4	5	6	
● Shows that problems must become serious before taking action	0	1	2	3	4	5	6	

We are interested in your views on the **Compensation and Benefits** your hotel provides you. Please [✓] against the degree of your level of disagreement or agreement, where 1 = Strongly Disagree; 7 = Strongly Agree.

My Hotel	Strongly disagree						Strongly agree	
● Provides a merit pay to help me improve my performance	1	2	3	4	5	6	7	
● Provides adequate resources to help me excel my performance	1	2	3	4	5	6	7	
● Communicates clearly the compensation and benefits to me	1	2	3	4	5	6	7	
● Aligns key performance goals that are critical to my job	1	2	3	4	5	6	7	
● Keeps group incentives that are clear and simple	1	2	3	4	5	6	7	
● Rewards for adapting to organizational change	1	2	3	4	5	6	7	
● Rewards for achieving critical competencies needed in my job	1	2	3	4	5	6	7	
● Provides work that itself is the greatest incentive	1	2	3	4	5	6	7	
● Ensures there is sufficient knowledge contribution in the job	1	2	3	4	5	6	7	
● Encourages launch of new approaches in daily work	1	2	3	4	5	6	7	
● Offers ongoing compensation and benefits system	1	2	3	4	5	6	7	
● Rewards adequately for realising measureable goals	1	2	3	4	5	6	7	

We are interested in finding out the extent to which you believe your General Manager (GM) is satisfied with your **Department's Performance** in the key indicators during the past two years. Please [✓] against the best alternative representing GMs assessment of your department's performance, where 1 = Not at all satisfied; 7 = Highly satisfied.

	Not at all Satisfied					Highly Satisfied	
● Extent of market share	1	2	3	4	5	6	7
● Instigation of product, service and process improvements	1	2	3	4	5	6	7
● Achievement of 'Rooms'/'F&B Areas' occupancy targets	1	2	3	4	5	6	7
● Achievement of average 'Room Rate'/'Spend on F&B'	1	2	3	4	5	6	7
● Extent of overall customers' satisfaction	1	2	3	4	5	6	7
● Extent of repeat business	1	2	3	4	5	6	7
● Success of employees training and development programmes	1	2	3	4	5	6	7
● Level of overall employees' job satisfaction	1	2	3	4	5	6	7
● Meeting the operating budget targets	1	2	3	4	5	6	7
● Meeting the cost reduction plans (e.g. materials, employees)	1	2	3	4	5	6	7
● Rate of employee turnover	1	2	3	4	5	6	7
● Extent of local suppliers in sourcing materials	1	2	3	4	5	6	7
● Extent of the environmentally friendly materials use	1	2	3	4	5	6	7
● Extent of support for the local community	1	2	3	4	5	6	7
● Level of environmental budget savings (water/energy/waste)	1	2	3	4	5	6	7

Appendix B

Factor Solution for Performance Measures.

Performance indicators	Non-financial	Social and Environmental	Financial	Variance Explained/ α
Repeat business	.890			52.862%/0.895
Employees' job satisfaction	.782			
Improvements in product, service, and process	.756			
Employees' training and development	.680			
Market share	.668			
Employee turnover	.600			
Customer satisfaction	.586			
Making cost reductions	.569			
Savings on H ₂ O, energy/waste		.838		6.819%/0.868
Environmentally friendly materials use		.805		
Support for local community		.800		
Use of local suppliers		.523		
Average room rate/food and beverage average spend			-.614	4.643%/0.890
Occupancy targets			-.504	
Meeting operational budget			-.479	

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