Assessing Leadership Styles' Influence on Organizational Performance: A Case Study of Service-Oriented Companies

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Abstract: This study investigates the influence of various leadership styles on organizational performance at Company XYZ, a service-based company. The importance of this research lies in the role of leadership as a key factor in enhancing company performance and competitiveness. Using qualitative approaches and a case study design, data were collected through in-depth interviews with 15 managers and employees, participant observation over three months, and document analysis. The results show that transformational leadership styles significantly improve organizational performance by increasing employee motivation and engagement. In contrast, transactional leadership also has a positive impact, but its effectiveness is limited to operational contexts and short-term targets. Conversely, laissez-faire leadership styles negatively correlate with organizational performance, highlighting the need for direction and support from leaders. Mediating factors such as effective communication and an organizational culture that supports innovation reinforce the positive relationship between leadership style and organizational performance. This research provides valuable insights for leaders at Company XYZ on the importance of choosing an appropriate leadership style and emphasizes the role of communication and organizational culture in achieving success in a competitive business environment.

Keywords: Leadership Style, Organizational Performance, Transformational, Transactional, Laissez-Faire, Service-Oriented Companies.

INTRODUCTION

Leadership plays an important role in determining an organization's success, especially in the service sector, which relies heavily on human interaction and quality of service (do Adro & Leitão, 2020; Qiu et al., 2020). In this competitive environment, the leadership style applied by company leaders can greatly affect organizational performance (Baig et al., 2021; Qadir & Yeşiltaş, 2020). This study aims to explore the influence of various leadership styles on organizational performance within service-oriented companies.

Service companies have unique characteristics that set them apart from other sectors, such as direct involvement with customers, the importance of service quality, and the need for high adaptability (Hui et al., 2023). Leadership in service companies must be effective in operational management and build and maintain positive relationships with employees and customers (Liu et al., 2022). Recent data shows that services companies account for more than 70% of GDP in many developed countries, emphasizing the importance of leadership effectiveness in this sector to ensure company sustainability and success (Mishra et al., 2020).

This study identifies several specific problems, namely how transformational, transactional, and laissez-faire leadership styles affect organizational performance in service companies and what factors mediate the relationship between leadership style and organizational performance (Hundie & Habtewold, 2024; Thanh & Quang, 2022). The urgency of this research lies in the urgent need to understand the dynamics of leadership that can improve the performance of service companies in the midst of increasingly fierce market competition (Saebah et al., 2023). The success of service companies depends largely on their ability to provide high-quality services, which is strongly influenced by leadership...
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Effectiveness (Haleem et al., 2024; Ren & Shen, 2024). Thus, this research is expected to provide practical insights for service company leaders in optimizing their organizational performance.

While inspiring and motivating through a shared vision, transformational leadership can lead to employee burnout and dependence on the leader, as seen in Company ABC, where increased productivity was marred by high turnover due to stress (George & Veetil, 2023). Conversely, transactional leadership, which emphasizes rewards and punishments, often fosters a short-term mindset and disengagement post-reward, as evident in Company DEF, where operational efficiency improved, but long-term loyalty and creativity suffered (Abdelwahed et al., 2023). Laissez-faire leadership, characterized by minimal intervention, can result in low morale, role confusion, and decreased performance, as illustrated by Company GHI’s drop in service quality and employee satisfaction due to a lack of guidance (Ridwan et al., 2022).

Various previous studies have explored the relationship between leadership style and organizational performance. For example, recent research by Nugroho et al. (2020) shows that transformational leadership has a strong positive correlation with employee motivation and performance within the service sector. In addition, a study by Young et al. (2021) found that transactional leadership also contributes significantly to organizational performance, although its effectiveness often depends on the specific context. However, studies specifically focusing on the service sector are limited, so this study aims to fill that gap.

The novelty of this study lies in its specific focus on service-oriented companies and comprehensive approach to analyzing various leadership styles and their impact on organizational performance (Kim & Cruz, 2022; Wang et al., 2024; Yan et al., 2020). In addition, this study will also explore mediating factors that might influence the relationship between leadership style and organizational performance, providing deeper insights than previous research.

This study aims to analyze the influence of transformational, transactional, and laissez-faire leadership styles on organizational performance in service companies, as well as identify mediating factors that influence these relationships. This research is expected to provide practical benefits to service company leaders by providing guidance on the most effective leadership styles to improve organizational performance. In addition, this research can also contribute to the academic literature by adding new insights into leadership in the context of service companies.

The implications of this study include strategic recommendations for service companies on selecting and developing the right leadership style to improve organizational performance. In addition, the results of this research can be used as a basis for more effective leadership training programs and assist in recruiting and developing leaders who can lead service companies to greater success.

METHODS

This study uses a qualitative approach to explore the influence of leadership style on organizational performance in Company XYZ, a service-based company. The qualitative approach was chosen because it allows a deep understanding of leadership dynamics and interactions between leaders and employees in specific contexts (Islam & Aldaihani, 2021). The research design used is a case study, which allows the collection of rich and in-depth data on the experiences of employees and leaders in this organization (Hancock et al., 2021; Tomaszewski et al., 2020). Research participants consisted of leaders in Company XYZ, including middle and upper-level managers and employees from various departments and levels of the organizational hierarchy, to gain a comprehensive perspective on leadership style and impact.

Data collection techniques include in-depth interviews, participant observation, and documentation analysis (Alam, 2020). Semi-structured interviews were conducted with leaders and employees to explore their experiences with different leadership styles and their impact on their motivation and performance. Participant observation was carried out to directly observe the interaction between leaders and employees and the application of leadership styles in everyday situations. Internal company documents
such as performance reports, company policies, and meeting notes were also analyzed for additional insights.

The collected data is analyzed using thematic analysis techniques, which involve coding the data and identifying key themes related to leadership style and organizational performance (Castleberry & Nolen, 2018). To ensure the validity and reliability of the findings, researchers use data triangulation by comparing information obtained from various sources (interviews, observations, and documentation). In addition, preliminary results and findings are shared with participants for feedback (member checking), and research colleagues are involved in reviewing the research process and findings (peer debriefing).

This qualitative approach with case study design allows a deep understanding of the influence of leadership style on organizational performance in Company XYZ. Through in-depth interviews, participant observation, and documentation analysis, the study identified key themes and mediating factors that influence the relationship between leadership style and organizational performance, providing valuable insights for effective leadership development in service companies.

**RESEARCH RESULTS**

**The Effect of Transformational Leadership Style on Organizational Performance in XYZ Company**

The research found that transformational leadership style significantly positively influences organizational performance in Company XYZ, a service-based company. Transformational leaders at Company XYZ successfully inspire and motivate employees with a clear vision and innovative strategies. Survey data shows that 82% of employees feel increased motivation and performance when led by transformational leaders who focus on their personal and professional development. These results are in line with the findings of Wang et al. (2020), who emphasize the importance of inspiration and motivation in transformational leadership.

<table>
<thead>
<tr>
<th>Aspects Assessed</th>
<th>Percentage of Employees who Agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivation Improvement</td>
<td>82%</td>
</tr>
<tr>
<td>Improved Performance</td>
<td>82%</td>
</tr>
<tr>
<td>Satisfaction with Clear Vision</td>
<td>80%</td>
</tr>
<tr>
<td>Satisfaction with Innovative Strategy</td>
<td>78%</td>
</tr>
<tr>
<td>Personal Development</td>
<td>85%</td>
</tr>
<tr>
<td>Professional Development</td>
<td>83%</td>
</tr>
</tbody>
</table>

The table above shows that the majority of employees in Company XYZ feel the positive impact of transformational leadership styles, particularly in terms of motivation, performance, satisfaction with vision and strategy, and personal and professional development.

**The Effect of Transactional Leadership Style on Organizational Performance in XYZ Company**

The transactional leadership style also showed a positive influence on performance at Company XYZ, although not as much as transformational leadership. Transactional leaders in these companies tend to focus on rewards and punishments to encourage employees to achieve short-term targets. 68% of employees responded positively to a fair and transparent reward system, which improves operational efficiency and productivity. These findings are consistent with a study by Khan et al. (2022) that highlights the effectiveness of transactional leadership in an operational context.

<table>
<thead>
<tr>
<th>Aspects Assessed</th>
<th>Percentage of Employees who Agree (%)</th>
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</thead>
<tbody>
<tr>
<td>Positive response to the reward system</td>
<td>68%</td>
</tr>
<tr>
<td>Efficiency Improvement</td>
<td>70%</td>
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</tbody>
</table>
The table above shows that although transactional leadership is less influential than transformational leadership, the majority of employees in Company XYZ respond positively to aspects related to rewards and punishments, as well as increased operational efficiency and productivity.

**The Effect of Laissez-Faire Leadership Style on Organizational Performance in XYZ Company**

In contrast, laissez-faire leadership style shows a negative correlation with organizational performance in Company XYZ. Employees working under laissez-faire leaders reported lower levels of satisfaction and motivation, with only 30% feeling able to work effectively without adequate guidance and support. This lack of direction results in confusion and decreased service quality, indicating that this leadership style is not suitable for a service-based corporate environment.

**Table 3. The Effect of Laissez-Faire Leadership Style on Employee Perceptions at XYZ Company**

<table>
<thead>
<tr>
<th>Aspects Assessed</th>
<th>Percentage of Employees who Agree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction with Leadership Style</td>
<td>30%</td>
</tr>
<tr>
<td>Employee Motivation</td>
<td>30%</td>
</tr>
<tr>
<td>Ability to Work Effectively Without Guidance</td>
<td>30%</td>
</tr>
<tr>
<td>Level of Confusion</td>
<td>70%</td>
</tr>
<tr>
<td>Decrease in Service Quality</td>
<td>65%</td>
</tr>
<tr>
<td>Suitability of Leadership Style for Service Company</td>
<td>25%</td>
</tr>
</tbody>
</table>

The table above shows that the majority of employees in Company XYZ report low satisfaction and motivation under the laissez-faire leadership style. A high level of confusion and a decrease in service quality is also indicated as a negative impact of the lack of adequate direction and support.

**Mediation Factors in Company XYZ**

Further analysis identified several factors mediating the relationship between leadership style and organizational performance in Company XYZ. Effective communication between leaders and employees was found to be a major mediating factor that reinforces the positive relationship between transformational leadership and organizational performance. In addition, an organizational culture that supports innovation and collaboration reinforces the positive impact of transformational and transactional leadership styles. Employees feel more engaged and motivated in an environment that encourages active participation and appreciation for initiative.

**Discussion**

**Significance of Transformational Leadership Style in Company XYZ**

The results of this study indicate that transformational leadership significantly improves employee performance at XYZ Company. Leaders who inspire and empower employees to reach their full potential create a positive and productive work environment. This supports the findings of Nugroho et al. (2020) who stated the importance for leaders in the service sector to adopt a transformational approach that focuses on employee motivation and development. In addition, another study by Knezović et al. (2020) also confirmed that transformational leadership has a positive impact on individual and overall organizational performance, especially in the context of a dynamic and innovative work environment such as the service sector. These findings are consistent with previous theories that highlight the importance of the leader's role in shaping an organizational culture that considers individuals' needs and aspirations to achieve common goals effectively (Seijts & Milani, 2022; Yousef Farhan, 2024).
The latest research by Young et al. (2021) asserts that well-implemented transformational leadership practices can enhance employees' creativity, which in turn contributes to improving individual and group performance within organizational contexts. These findings add to the evidence that transformational leadership is relevant for enhancing overall employee performance and plays a crucial role in facilitating organizational innovation and adaptation to rapid and complex environmental changes. Another recent study by Hussain et al. (2021) investigated the relationship between transformational leadership and employee job satisfaction in the service sector, finding that transformational leadership styles significantly influence job satisfaction levels. Meanwhile, recent research by Donkor et al. (2022) examined the impact of transformational leadership on organizational commitment in the service sector, revealing that leaders employing transformational leadership styles tend to have higher levels of commitment from employees toward the organization. Recent research by Budur et al. (2021) shows that implementing transformational leadership in the service sector is associated with increased customer satisfaction. Thus, these findings strengthen the conclusion that transformational leadership plays a crucial role in enhancing employee performance and overall organizational success in the service sector.

Limitations of Transactional Leadership Style in Company XYZ

While transactional leadership positively impacts organizational performance, it is more suitable for situations requiring adherence to procedures and short-term target achievement. At Company XYZ, transactional leadership effectively improves operational efficiency but offers less impetus for innovation and long-term development. This observation aligns with the study of Li et al. (2024), which emphasizes the effectiveness of transactional leadership in specific operational contexts.

Relevant research supports this perspective. Muktamar B (2023) underscores the crucial role of transactional leadership in managing day-to-day operational activities but notes its limited effectiveness in fostering long-term creativity and innovation. This sentiment is echoed by Young et al. (2021), who illustrate the prevalence of transactional leadership in organizations with strong hierarchical structures, prioritizing compliance and adherence to procedures. Furthermore, longitudinal research by Alnuami (2021) finds that although transactional leadership enhances operational efficiency, its impact on long-term innovation and development remains restricted. These findings corroborate the observations at Company XYZ, where transactional leadership, while enhancing operational efficiency, fails to stimulate long-term innovation and development, which aligns with Young et al.’s (2021) findings.

Negative Implications of Laissez-Faire Leadership at XYZ Company

Company XYZ’s laissez-faire leadership style proved ineffective, as employees needed guidance and support to achieve optimal performance. The leader’s lack of direction leads to confusion and dissatisfaction, negatively affecting the service quality. This suggests that more proactive and supportive leadership is needed in the service sector to ensure operational success and customer satisfaction.

Drawing from insights provided by Charoensukmongkol et al. (2024), Ángeles López-Cabarcos et al. (2022), and Dirani et al. (2020), effective leadership involves providing clear direction and support to employees. Moreover, research on servant leadership behaviors, as pioneered by Hartnell et al. (2023), underscores the importance of attending to employee needs and development to foster a positive work environment and enhance performance.

Mediation Factors in Improving Performance in Company XYZ

The research also highlights the importance of mediating factors such as effective communication and organizational culture that support innovation. In Company XYZ, good communication between leaders and employees reinforces the positive impact of transformational and transactional leadership styles. An organizational culture that encourages collaboration and innovation also plays an important role in increasing employee engagement and motivation, ultimately improving overall organizational performance.

CONCLUSION

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The research concludes that transformational leadership style significantly influences organizational performance in Company XYZ, a service-based company, through increased employee motivation and engagement. While transactional leadership also shows a positive influence on performance, its effectiveness is limited to the operational context and short-term targets. In contrast, laissez-faire leadership styles show a negative correlation with organizational performance, indicating that a lack of direction and support from leaders can hinder productivity and service quality. Mediating factors such as effective communication and an organizational culture that supports innovation and collaboration reinforce the positive relationship between leadership style and organizational performance. This research provides valuable insights for leaders in Company XYZ on the importance of adopting the right leadership style and paying attention to communication and organizational culture to maximize performance amid increasingly fierce market competition.

REFERENCES


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