Leadership Style and Retail Store Performance –
A Case Study of Discount Retail Chain

Adel Mekraz
Business Faculty Member
Higher Colleges of Technology, Dubai, UAE

Raghava Rao Gundala
University of Wisconsin-Stout, USA
&
Arthur Lok Jack Graduate School of Business,
Trinidad and Tobago, West Indies.

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Abstract
This research attempts to understand the leadership styles of store managers in a discount retail chain and how leadership style impacts store performance. Store managers of a Fortune 1000 retailer based in the Midwest of the United States of America took part in the study. The Multifactor Leadership Questionnaire (MLQ) was sent to a sample of 135 store managers, and 103 of them completed the survey. Retail store performance is measured on four indicators namely, employee turnover, customer service scores, inventory shrinkage percentage and net profit margin. The retailer provided data related to the store performance indicators of the stores. Analysis of the survey data with performance data showed a moderate negative correlation between transformational leadership style and employee turnover rate, but a weak negative correlation between transactional leadership and employee turnover rate.

Introduction
One of the main challenges of managing a retail store chain is in dealing with the uncertainty and inconsistency on how different stores perform. While retail chains select identical store locations, carry the same lines of merchandise, use the same floor layout, practice same operating policies and procedures, store performance can vary significantly from one location to the next (Stodnick, 2005). Figuring out what influences retail store performance brings retail managers a step closer towards understanding how store performance can be effectively impacted (Hise et al., 1983).

Some of the challenges store managers are faced with in their pursuit of running a successful store include managing the high employee turnover rate, delivering quality customer service, reducing inventory shrinkage and increasing profit margin. In dealing with these challenges, the retail industry mainly focused on management skills. The emphasis is on training and development of store managers with less emphasis and attention were given to build and use leadership skills. Because of today’s fluid and dynamic business environment, it became increasingly apparent that leadership skills are necessary to the success of managers in all types of organizations, and retail organizations are no exception (Kim and Shim, 2003).

Personnel costs are second only to costs of merchandise in many retail organizations; however, personnel issues are not receiving the attention they deserve (Brief, 1984). Zaccaro and Klimonski (2001) believed organizational leaders will face significant challenges as human capital has become one of the most critical issues associated with gaining or sustaining a competitive advantage. Broadbridge (1999) assigns much of the high turnover rate in retail
stores to the nature of the industry. Market forces often place pressures on retail companies to respond quickly and act decisively to changing conditions, which in turn result in physical stressors and demands that are put on retail workers. These physical stressors and demands could be a contributor for an individual to leave the job causing the employee turnover. Bass (1990) asserted that leadership behaviors, when used effectively by managers, can be an important factor in influencing employees’ decision to stay with the organization, therefore, reducing employee turnover rates.

Service quality can be defined as the result of a comparison customers make between experiences about the service and perception of the way the service was delivered (Gronroos, 1984; Lehtinen and Lehtinen, 1982; Parasuraman et al., 1985). Offering high levels of service quality is an area that is receiving significant attention from retailers as means to gain competitive advantage. From the view of the retail manager, the aim of achieving quality service involves offering a set of products and services that will exceed the customer’s expectations (Sirohi et al., 1998). Once the target customer is satisfied with the product and service mix, the store has to offer, the final goal of the retail manager will be to achieve customer loyalty and increase the customer base for the store (Parasuraman et al., 1985, 1994; Zeithaml et al., 1988, 1996). However, rapidly changing the retail environment, with sophisticated and demanding consumers, force retailers to find new and creative ways to distinguish themselves from their competition in meeting the needs of their customers (Gaur and Agarwal, 2006).

Inventory shrinkage is the financial loss attributed to a combination of employee theft, shoplifting, administrative errors, and vendor fraud (Hollinger and Langton, 2003). A typical U.S. retailer loses about 1.5–2% of inventory to shrinkage (Howell and Proudlove, 2007). Reducing inventory shrinkage is necessary for retail stores because it leads to lower profit margins for retail companies. Retail companies have employed two management approaches in dealing with the losses incurred by shrinkage. The first approach deals with the problem by altering the store environment to preclude the possibility of theft. The second approach is to concentrate on the pre-employment hiring process, with the goal of minimizing the selection of job applicants who are likely to be involved in theft-related behaviors. No previous studies were found on the impact of store manager leadership skills and behaviors on retail store inventory shrinkage.

Retail companies evaluate profitability on margin results that include gross margin, contribution margin, and net profit margin. Net profit margin is a measure of a business unit’s profitability. At the store level, a higher net profit margin suggests the store has better controls over its direct operating expenses compared with its competition (Kotsiopulos and Jikyeong, 1998). No previous studies found that examined the impact of leadership skills and its effects on a store’s net profit margin.

Increasing organizational performance and effectiveness is a topic that has become widely discussed in both academic and business circles since the 1980s (Bass and Avolio, 1994). One of the ways in which organizations can improve their performance is through efficient use of leadership skills. The work of Hambrick and Mason (1984a, 1984b) supports the idea that effectiveness of corporate strategies and improved performances are because of changes in leadership behaviors.

Since the theory of transactional and transformational leadership presented by Bass (1985), the leadership domain has witnessed an explosion in the number of studies examining the differences between transactional and transformational leadership styles and their relationship to the different employee and organizational results. Although a lot of research is conducted in the past 25 years on the impact of transactional and transformational leadership
styles on employee and organizational results (Bass and Riggio, 2006), the existence of literature specifically focusing on the retail environment is limited.

Bass and Riggio (2006) described transformational leaders as leaders who inspire followers to achieve extraordinary results by providing meaning and understanding. They align the objectives and goals of individual followers with those of the larger organization, and provide followers with support, mentoring, and coaching. Transactional leaders, on the other hand, are described as leaders who provide followers with an exchange of rewards for compliance, and clarification of the work needed to earn the rewards (Yukl, 1989).

Although both transactional and transformational leadership styles offer the potential to influence performance results of a retail store, they have yet to be extensively tested in the retail environment to see what their broad impact is. Bass (1985) believed that transformational leadership is most effective in organizations facing uncertainty and change where leadership is needed to meet the demands of a changing environment. Transformational leadership is most useful in unstable environments, where organizations require the ability to respond to new demands and challenges, and employees are required to perform beyond expectations (Bass, 1998). Transactional leadership, in contrast, is effective in a stable environment, where promises are made for performance and rewards are given for meeting organizational goals and objective (Bass, 1985). In stable conditions, leaders are keepers of the status quo which can be maintained through the transactional process (Bass and Avolio, 1988). Research that addresses the impact of transformational and transactional leadership on retail stores’ performance indicators will fill a void in the retail literature that will be of great value to both academics and practitioners in the field.

Retail executives have for many years been trying to figure out what the critical factors are impacting retail store performance (Hise et al., 1983). The focus in retail industry practices is to prepare and develop store managers with sound management skills (Shim et al., 2002). As the organizational management has shifted more towards the study of leadership skills as opposed to management competencies (Bolman and Deal, 1992), there has been a change in the interest and curiosity of retail executives in an attempt to find out exactly how leadership impacts performance and if there is any correlation between leadership style of managers and retail store performance results.

The study is an attempt to review and address the interest and curiosity of retail executives to find out how leadership impacts performance and if there is any correlation between leadership style of managers and retail store performance results. The retail store performance is measured on four variables namely, employee turnover, customer service scores, inventory shrinkage and net profit margins.

The research questions that guided this study were as follows:

R1: What is the dominant leadership style?
R2: To what extent does the leadership style correlate with their respective retail store performance?

The following hypothesis were tested to answer the research question ‘R2.’

H01: There is no relationship between the leadership style and employee turnover rate.
H11: There is a relationship between the leadership style and employee turnover rate.

H02: There is no relationship between the leadership style and customer service scores.
H12: There is a relationship between the leadership style and customer service scores.
H₃: There is no relationship between the leadership style and inventory shrinkage percentage.
H₄: There is a relationship between the leadership style and inventory shrinkage percentage.

H₄: There is no relationship between the leadership style and profit margin percentage.
H₅: There is a relationship between the leadership style and profit margin percentage.

**Research Method**

Participants for the study were selected from a Fortune 1000 discount retailer with a store management population of 544 managers. A senior executive in the company sent a memo to all store managers before sending out a survey to tell them about the research and encourage them to complete the questionnaire. A random sample of 135 store managers was selected from a population of 544 managers. MLQ survey instrument is mailed to all 135 store managers. Within four weeks of sending the surveys, 103 surveys were completed and received, giving the survey response rate of 76%. The company provided performance data on employee turnover rate, customer service scores, inventory shrinkage, and net profit margins from the 135 stores taking part in the study.

**Data Analysis**

**Leadership Styles**

To examine leadership styles, a series of descriptive statistics were used to present the range, mean, median, and standard deviation.

The transformational leadership style was calculated as follows: 
\[(IA + IB + IM + IS + IC) \div 5\]
Where; (IA) = Idealized influence (attributed); (IB) = Idealized influence (behavior); (IC) = Individual consideration; (IM) = Inspirational motivation; (IS) = Intellectual stimulation.

Transactional leadership was calculated as follows: 
\[(CR + MBEA) \div 2\]
Where; (CR) = Contingent reward and (MBEA) = Management-by-exception active.

The scores are shown in Table 1. The average scores in each component (such as IA, IM, IC, IM, & IS for transformational), were compared with the average US normative sample published in the *MLQ Manual* by Bass and Avolio (2004) to see if store managers in the retail chain had scores below, about the same, or above those of the US normative sample.

Table 1 compares data from the study with the U.S. normative sample as presented by the *MLQ Manual* (Bass and Avolio, 2004). The data in Table 1 show the mean, standard deviation, and range scores for the survey data compared with the U.S. normative sample.

**Table 1. Comparison of Survey data with US Normative Sample**

<table>
<thead>
<tr>
<th>Leadership component</th>
<th>Survey results (N=103)</th>
<th>U.S. normative sample</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>SD</td>
</tr>
<tr>
<td><strong>Transformational</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Idealized influence (attributed)</td>
<td>3.02</td>
<td>0.55</td>
</tr>
<tr>
<td>Idealized influence (behavioral)</td>
<td>3.14</td>
<td>0.52</td>
</tr>
<tr>
<td>Inspirational motivation</td>
<td>3.22</td>
<td>0.52</td>
</tr>
<tr>
<td>Intellectual stimulation</td>
<td>2.96</td>
<td>0.60</td>
</tr>
<tr>
<td>Individualized consideration</td>
<td>3.27</td>
<td>0.49</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3.12</td>
<td>0.41</td>
</tr>
<tr>
<td><strong>Transactional</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingent reward</td>
<td>3.09</td>
<td>0.53</td>
</tr>
<tr>
<td>Mgmt-by-exception (active)</td>
<td>1.69</td>
<td>0.84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2.39</td>
<td>0.54</td>
</tr>
<tr>
<td><strong>Other leadership outcomes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extra effort</td>
<td>3.37</td>
<td>0.48</td>
</tr>
</tbody>
</table>
Table 1: Survey data scores for leadership styles

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
<th>Standard Deviation</th>
<th>U.S. Normative</th>
<th>SD</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effectiveness</td>
<td>3.19</td>
<td>0.52</td>
<td>2.50</td>
<td>0.41</td>
<td>3.00</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>3.32</td>
<td>0.54</td>
<td>2.50</td>
<td>0.41</td>
<td>3.00</td>
</tr>
<tr>
<td>Total</td>
<td>3.29</td>
<td>0.51</td>
<td>2.33</td>
<td>0.41</td>
<td>3.00</td>
</tr>
</tbody>
</table>

Store managers were identified as either transformational or transactional, based on their average score (in the respective category) being at or above median value in the components that make up the particular leadership style. Store managers with high scores in both transactional and transformational leadership were identified as transformational. This is because Bass’s (1985) model states that transformational leadership is an extension of transactional and is positioned on top of transactional. Transformational leaders, therefore, can have both high transformational and transactional scores; transactional leaders, on the other hand, are those with only high transactional scores.

Further, the leadership scores for both transformational and transactional leadership were divided into two categories, one below the median value and one at and above the median value (Fisher, 2006).

The number of store managers who were transformational compared with those who were transactional was split almost down the middle, with 47 managers showing a transformational leadership style compared to 56 showing a transactional style. This suggests the dominant leadership style of store managers at the discount retailer, therefore, was transactional.

The data in Table 1 indicate that survey respondents scored higher on four out of five transformational leadership elements than the U.S. normative sample. Only in the category of intellectual stimulation did the average score of 2.96 equal that of the U.S. normative sample. The average score for the transformational style of leadership was 3.12, compared to 3.02 for the U.S. normative sample. Transformational leadership scores are depicted in Figure 1. Among transformational leadership components, tested store managers scored highest in individualized consideration with an average of 3.27 and inspirational motivation with 3.22.

![Figure 1. Transformational leadership scores. (N = 103, M = 3.12, SD = 0.41)](image)

The standard deviation scores from the survey data were similar to those of the U.S. normative sample. While standard deviation scores from the survey data were between 0.41 and 0.84, the U.S. normative data had standard deviation scores that ranged between 0.51 and 0.79. Survey data scores for transformational leadership style had a standard deviation of 0.54, compared to 0.66 for the U.S. normative sample. Transactional leadership scores from the survey data had a standard deviation of 0.54, compared to 0.66. Other leadership outcomes from
the survey data had a standard deviation of 0.51, compared to 0.56 for the U.S. normative sample.

Transactional leadership scores from the survey data were also higher than those of the U.S. normative sample. The average score for transactional leadership was 2.39, compared to 2.29 of the U.S. normative sample. Transactional leadership scores are depicted in Figure 2. The standard deviation for transactional leadership scores from the survey data was lower, with 0.54 for the survey data, compared to 0.66 for the U.S. normative sample.

Scores recorded from the study for “other leadership outcomes,” which included extra effort, the effectiveness of leadership, and satisfaction with leadership was higher than those for the U.S. normative sample. The overall leadership score from the survey data was 3.29, compared to the U.S. normative sample of 3.01. Extra effort came out on top with 3.37, satisfaction with leadership was second with 3.32, and effectiveness of own leadership was 3.19.

Leadership Style and Store Performance

To examine the correlation between leadership styles and store performance (employee turnover, customer service scores, inventory shrinkage percentage, and net profit margin percentage), Pearson correlation coefficient was done. Testing of the hypothesis and analysis of the survey data with performance data are as follows.

Leadership Style and Employee Turnover Rate

H₀₁: There is no relationship between the leadership style and employee turnover rate.
H₁₁: There is a relationship between the leadership style and employee turnover rate.

<table>
<thead>
<tr>
<th>Leadership style</th>
<th>R</th>
<th>r²</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational</td>
<td>-.590</td>
<td>-.348</td>
<td>.012</td>
</tr>
<tr>
<td>Transactional</td>
<td>-.159</td>
<td>-.025</td>
<td>.310</td>
</tr>
</tbody>
</table>

An ‘R’ value of -.590 with an associated p-value of .012, indicates a moderate negative correlation between transformational leadership and employee turnover rate. While an ‘R’ value of -.159 with an associated p-value of .310, shows a weak negative correlation between transactional leadership and employee turnover rate.

Therefore, H₀₁ was rejected for transformational leadership style but could not be rejected for transactional leadership style. H₁₁ could not be rejected for transformational leadership style but was rejected for transactional leadership style.

Leadership Style and Customer Service Scores
H0:2: There is no relationship between the leadership style and customer service scores.
H1:2: There is a relationship between the leadership style and customer service scores.

Table 3. Correlation Analysis of Leadership Style and Customer Service Scores

<table>
<thead>
<tr>
<th>Leadership style</th>
<th>R</th>
<th>r²</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational</td>
<td>.197</td>
<td>.039</td>
<td>.246</td>
</tr>
<tr>
<td>Transactional</td>
<td>.039</td>
<td>.002</td>
<td>.694</td>
</tr>
</tbody>
</table>

An ‘R’ value of .197 with an associated p-value of .246, shows a very weak correlation between transformational leadership and customer service scores. While an ‘R’ of .039 with an associated p-value of .694, shows no correlation between transactional leadership and customer service scores. Therefore, H0:2 could not be rejected while H1:2 was rejected.

Leadership Style and Inventory Shrinkage Percentage

H0:3: There is no relationship between the leadership style and inventory shrinkage percentage.
H1:3: There is a relationship between the leadership style and inventory shrinkage percentage.

Table 4. Correlation Analysis of Leadership Style and Inventory Shrinkage Percentage

<table>
<thead>
<tr>
<th>Leadership style</th>
<th>R</th>
<th>r²</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational</td>
<td>-.113</td>
<td>-.013</td>
<td>.256</td>
</tr>
<tr>
<td>Transactional</td>
<td>-.030</td>
<td>-.007</td>
<td>.407</td>
</tr>
</tbody>
</table>

An ‘R’ value of -.113 with an associated p-value of .256, indicates a weak negative correlation between transformational leadership and inventory shrinkage percentage. Similarly, ‘R’ value of -.030 with an associated p-value of .407, suggests no relationship between transactional leadership and inventory shrinkage rate.

Although no significant relationship was found between transactional or transformational leadership with inventory shrinkage percentage, both leadership styles were found to have negative correlations with inventory shrinkage rate. Therefore, H0:3 could not be rejected while H1:3 was rejected.

Leadership Style and Profit Margin Percentage

H0:4: There is no relationship between the leadership style and profit margin percentage.
H1:4: There is a relationship between the leadership style and profit margin percentage.

Table 5. Correlation Analysis of Leadership Style and Profit Margin Percentage

<table>
<thead>
<tr>
<th>Leadership style</th>
<th>r</th>
<th>r²</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational</td>
<td>.029</td>
<td>.001</td>
<td>.907</td>
</tr>
<tr>
<td>Transactional</td>
<td>.012</td>
<td>.000</td>
<td>.771</td>
</tr>
</tbody>
</table>

An ‘R’ value of .029 with an associated p-value of .907, shows no correlation between transformational leadership and profit margin percentage. Similarly, ‘R’ value of .012 with an associated p-value of .771, shows no correlation between transactional leadership and profit margin. Therefore, H0:4 could not be rejected while H1:4 was rejected.

Summary of Findings

The research found high transformational and transactional leadership scores. Scores in each of the five transformational leadership components and the two transactional components reflected higher than U.S. normative sample scores as reported by Bass and Avolio (2004).

Of the 103 participants in the study, 47 were found to have a transformational leadership style, while 56 had a transactional style; this equates to 46% transformational compared to 54% transactional. Based on the data collected and analyzed, the study finds out that transactional
leadership was the dominant leadership style but only by a small margin. This finding was consistent with the transactional and transformational leadership literature (Bass and Avolio, 1994; Bass and Riggio, 2006). The literature states not only that transactional leadership is hierarchical and is the dominant leadership style in most organizations, but also, that transactional leaders go by the book and prefer to work within the existing rules and framework of the organization, and not trying to challenge them (Bass, 1985).

Managerial Implications

The data analysis performed examining the relationship between leadership style, and employee turnover resulted in a moderate correlation between transformational leadership and employee turnover. These findings have significant implications for the retail industry. According to Joinson (1999), improving employee retention in the retail sector could lead to enhancing customer service and reducing employee theft. The combination of increasing customer service and reducing employee theft could potentially add up to a significant improvement in the store’s bottom line profits.

When examining the transformational leadership subscales and their correlations with employee turnover rate, the two subscales with the highest scores were idealized influence and inspirational motivation. Idealized influence comes from the charisma that transformational store manager possesses, the vision and sense of mission, and the ability to instill pride, trust, and respect in followers (Bass, 1985). Inspirational motivation, on the other hand, is the ability of the transformational leader to excite followers with energy, give them a sense of direction, and boost their self-confidence (Bass and Riggio, 2006). The data analysis shows idealized influence and inspirational motivation to be the two components with the highest negative correlation with employee turnover rate. Training store managers to become more transformational and to focus on idealized influence as well as inspirational motivation behaviors could potentially be one of the ways in which retail stores can begin to prepare store managers to address the challenge of high employee turnover rate.

Another practical implication of the findings of this study is that executives of discount retail stores can use the Multifactor Leadership Questionnaire (MLQ) scores as one of the tools when selecting store manager candidates both externally and internally. Retail companies can target stores that have higher than average employee turnover rate by offering transformational leadership training to their store managers, with a particular focus on teaching them how to increase idealized influence and inspirational motivation behaviors that would be helpful and result in improving employee retention and reducing employee turnover rate.

Recommendations for Future Research

This study has opened the door for new leadership research dealing with retail store performance. Although the results provided evidence of the association between leadership style and employee turnover rate, the researchers believe such a relationship warrants further exploration and investigation. A two-part longitudinal study of a retail store environment with the first part focusing on examining the correlation between leadership style and employee turnover, and the second attempting to understand exactly how transformational leaders may impact employee’s intentions to stay longer with an organization might shed further light on this area.

Another recommendation is to consider broadening the scope of future studies to include a larger sample of store managers who come from different types of the retail store, and a larger geographic area that would include several U.S. regions. Broadening the geographic coverage can be valuable in helping understand if there are any regional differences in how
leadership is practiced and how its impact may vary from one region to another.

References


