PERCEPTIONS REGARDING THE IMPACT OF SERVANT LEADERSHIP ON ORGANISATIONAL PERFORMANCE IN THE EASTERN CAPE

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Abstract  
Servant leadership has gained significant popularity in the modern age, and is set to become progressively more relevant in the future. Servant leadership, however, remains largely under-researched, with no consensus on a formal definition or theoretical framework found in the literature. This study sets out to investigate perceptions regarding the impact of servant leadership on organisational performance in the Eastern Cape Province. The study utilised the novel approach of the balanced scorecard (BSC) to measure organisational performance. The BSC approach consists of measuring perceptions of financial performance, customer performance, internal process performance, and learning and innovation performance. A quantitative research design was utilised for the study and yielded 428 usable questionnaires through non-probability convenience sampling. The empirical results reveal that servant leadership positively and significantly influenced financial performance, customer performance, internal process performance, and learning and innovation performance, based on the balanced scorecard.

Key Words: Servant leadership, organisational performance, balanced scorecard

JEL Classification: J24, J53, L25
1. INTRODUCTION

The concept of servant leadership has gained momentum in organisations and academia, with sufficient evidence to show that organisations with servant leaders have more empowered and higher performing employees, who are satisfied and committed. Lett (2014) explains that as times change, so do views on leadership behaviour. In light of the current demand for people-centred and more ethical leadership, servant leadership may well be what organisations need. Hunter et al. (2013) and Kaul (2014) concur that several of Fortune magazine's 100 Best Companies to Work for in the United States of America name servant leadership as a core company value. The authors note that the reason for this trend includes servant leaders’ ability to promote increased collaboration and creativity among employees, which helps organisations gain and maintain competitive advantage. The outcomes of servant leadership are important to study as it enables the evaluation of how this form of leadership leads to more productive employees and, ultimately, more profitable organisations (Rubio-Sanchez, Bosco & Melchar, 2013).

2. PROBLEM STATEMENT

Low organisational performance, and more specifically productivity, contributed considerably to the negative economic trends in South Africa, with the country experiencing the lowest labour productivity levels in 46 years (Jones, 2014). Similarly, labour productivity has declined in the Eastern Cape Province and contributed to the weakening in economic growth in 2013 of 2.4 percent per annum, in comparison to 2008 (DEDEAT, 2013). Sim and Koh (2001) cautions that traditional performance measurement systems are too narrowly focussed on financial measures and functional level performance and, as a result, they often fail to enhance long-term business success. Ireland, Hoskisson and Hitt (2012) state that this concern is addressed by utilising a balanced scorecard (BSC) approach, consisting of measuring financial performance, customer performance, internal process performance, and learning and innovation performance.

For South Africa to remain competitive, effective leadership is required (Bezuidenhout & Schultz, 2013). However, a number of managerial approaches have been attempted in South Africa, with relatively limited success (Kuada, 2010). Muchiri (2011) and Brubaker (2013) identified the need for research into servant leadership, stating that the topic is unexplored and under-researched in Africa, and research has not produced generally accepted findings.
Against the background of the afore-mentioned problem statement, the main research question of the study is: *To what extent can servant leadership be utilised by organisational leaders to improve organisational performance based on the balanced scorecard approach?*

3. PURPOSE OF THE STUDY

The purpose of this study is to investigate perceptions regarding the impact of servant leadership on organisational performance in the Eastern Cape Province.

4. LITERATURE REVIEW

The following sections serve to clarify the operationalisation of the study variables and to provide a theoretical overview of the constructs. Findings from previous research are also discussed.

4.1. Servant leadership

Servant leadership is defined as the set of leadership behaviours exhibited through placing the needs of subordinates before the leaders’ needs (Spears, 2004). Authors ascribe the engagement of followers by servant leaders to various theories. Servant leaders influence a culture of service by directly encouraging follower engagement in serving behaviours, and indirectly by modelling desired behaviours, based on social learning theory (Liden, Wayne, Liao & Meuser, 2014). The servant leader's attentive focus on the development of employees helps to fulfill the three basic psychological needs of autonomy, competence and relatedness, which is understood according to the theory of self-determination (Chiniara & Bentein, 2015). Social exchange theory (SET) holds that social exchange translates into a series of interactions between parties that are in a state of reciprocal interdependence, and these interactions ultimately generate reciprocal obligations (Saks, 2006). Based on reciprocal obligations of SET, servant leaders drive improvements in organisational performance through employees by enabling a climate of knowledge-sharing in the organisation (Song, Park & Kang, 2015).

Van Dierendonck and Nuijten (2011) note that the implementation of servant leadership in organisations is hindered by giving too much attention to the “servant” aspect, and not enough attention is paid to the “leader” aspects of the concept. The authors suggest that equal attention is paid to both serving the followers and focussing on the leadership aspect. To achieve this, the authors derived the following characteristic to describe effective servant leadership:
Empowerment - Nurturing an attitude of self-confidence and pro-activity among followers, giving them a sense of personal power.

Accountability - Holding people accountable for performance that is within their span of control.

Standing back - Servant leaders move out of the limelight when a task has been successfully completed.

Humility - In order to overcome individual limitations, servant leaders encourage contributions from followers.

Authenticity – Constitutes the congruency between the servant leader’s commitments and intentions, both publicly and privately.

Courage - Servant leaders are courageous by relying strongly on convictions and values to mediate actions.

Interpersonal acceptance - Servant leaders are willing to forgive offenders’ mistakes, offenses, and move on after arguments.

Stewardship - Servant leaders exhibit a willingness to take responsibility for the larger organisation.

The afore-mentioned characteristics were adopted as the operationalised definition of servant leadership in this study.

Servant leadership in the workplace was found to improve productivity, increase customer satisfaction, reduce turnover, improve safety, increase loyalty, and an overall improvement in employee engagement (Whorton, 2014). The improvement of these organisational outcomes drives operational performance and profit. Joseph and Winston (2005) emphasise that managers can improve organisational performance through the practice of servant leadership behaviours that increase trust in the manager and in the organisation. Melchar and Bosco (2010) concur that servant leadership is an important factor for growth in net profit, through the promotion of a culture that increases this income.

4.2. Organisational performance

Organisational performance is considered to be a multi-dimensional concept and the measurement thereof is a critical aspect of organisational leadership, as continuous improvement relies on the ability to continually evaluate the organisation’s performance (Shahin, Naftchali & Pool, 2014). Organisations risk jeopardising future organisational performance, however, by over-emphasising financial performance at the expense of overall strategic performance (Ireland et al., 2012). For this reason, several authors report that organisations are effectively

Financial performance

The Financial performance variable selected for this study was measured through testing perceptions of organisational profitability. Profitability is defined as the efficiency with which an organisation utilises its capital to generate turnover (Els, Erasmus, Viviers, Alsemgeest, du Toit, Ngwenya & Thomas, 2014). Previous studies found that servant leader behaviours predicted organisational performance as measured through the profitability metric of return on assets (Peterson, Galvin & Lange, 2012).

Customer performance

Customer performance relates to the assessment of an organisation’s ability to anticipate customers’ needs and the effectiveness of service practices (Ireland et al., 2012). In this study, Customer performance was operationalised and measured by two underlying variables: customer satisfaction and customer loyalty. Customer satisfaction is defined as the specific measure of whether customer perceptions meet or exceed customer expectations (Hoffman, Czinkota, Dickson, Dunne & Griffin, 2004). Customer loyalty is defined as the repeat or consistent purchase behaviour and favourable attitudes that result from psychological decisions made by customers (McCain, Jang & Hu, 2005). Jaramillo et al. (2009) found that Servant leadership positively influenced Customer performance by creating a genuine focus on the customer, and enhanced positive job outcomes and salesperson wellbeing. Through social learning, followers emulate the servant leader’s behaviour, which ultimately leads to a culture of customer service, or service climate, in the organisation (Liden et al., 2014).

Internal process performance

Internal process performance evaluates the processes that organisations are required to emphasise in order to successfully utilise their competitive advantage (Ireland et al., 2012). In this study, it was assessed by evaluating perceptions regarding organisational productivity and quality levels. Productivity is defined as the organisation’s ability to effectively manage process outputs as a proportion of process inputs. Quality is defined as the sum of features and characteristics of a product or service, which bears on its ability to satisfy stated or implied customer needs (Heizer & Render, 2013).
Learning and innovation performance

The *Learning and innovation* perspective considers the ability of the organisation to improve its performance and adapt to change (Perkins, Grey & Remmers, 2014). Organisational learning is defined as the process of collecting, sharing and interpreting information, to promote organisational outcomes. The empirical results of the study conducted by Choudhary, Akhtar and Zaheer (2013) show that servant leadership improves organisational performance through organisational learning.

5. HYPOTHESES OF THE STUDY

Based on the literature reviewed and models by Russel and Stone (2002), van Dierendonck and Patterson (2015), and Brubaker (2013), the following hypotheses were formulated and will be subjected to empirical testing in this study.

H$_1$: There is a positive relationship between *Servant leadership* and *Financial performance*.

H$_2$: There is a positive relationship between *Servant leadership* and *Customer performance*.

H$_3$: There is a positive relationship between *Servant leadership* and *Internal process performance*.

H$_4$: There is a positive relationship between *Servant leadership* and *Learning and innovation performance*.

6. RESEARCH METHODOLOGY

6.1. Research paradigm and approach

This study followed the positivistic research paradigm and conclusions were drawn through logical reasoning which involved building hypotheses from existing literature relating to the variables in the hypothesised model. The existing knowledge was thereafter subjected to empirical scrutiny by collecting quantitative data by means of questionnaires administered to respondents (Ghauri & Gronhaug, 2010).

6.2. Population and sampling

The population of this study consisted of all employees of privately owned and for-profit business organisations situated in the Eastern Cape Province of South Africa. A total of 556 000 people was employed in the Eastern Cape metropolitan areas during the time of the survey at the end of July 2016 (StatsSA, 2016).
Based on the extent and the geographical area that the population covers, the non-probability sampling method was used for this study. Convenience sampling was employed, as readily accessible organisations from the online business directories were approached to participate in the study (Zikmund, Babin, Carr & Griffin, 2009). Employees from these organisations, and others that were known and easily reachable by the researcher and field workers, were selected to participate in the study. Furthermore, snowball sampling was used to identify additional respondents for inclusion in the study.

6.3. Data collection

Secondary data was collected by means of extensive literature reviews of the study variables, using national and international library databases of peer-reviewed journal articles, reports, books and internet sources. Primary data for this study was collected by means of the survey method using a combination of self-administered paper-based questionnaires and online questionnaires. Based on a targeted sample size of 400 responses, a total of 600 paper-based and 209 web-based questionnaires were distributed to eligible respondents in the Eastern Cape.

6.4. Questionnaire design

The questionnaire used in this study was a combination of self-constructed questions generated from the literature review, as well as reliable and valid items adapted from previous studies. The first section of the questionnaire consisted of items measuring perceptions regarding servant leadership, and the second section measured organisational performance. The third section of the questionnaire solicited biographical information related to the respondents’ age, gender, ethnicity, and qualification.

6.5. Data analysis

The first step of analysing the data involved determining the validity and reliability of the questionnaire. Content validity was ensured by submitting the questionnaire to experts in the fields of leadership and organisational performance. The constructs of the hypothesised model in this study were subjected to factor analysis in order to determine convergent validity. The tests of unidimensionality were performed and enabled the creation of summated scales. Principle component analysis (PCA) was used as the factor extraction method. Unrotated factors were used to assess the construct validity of the measuring instrument (Zikmund et al., 2009; Hair, Black, Babin & Anderson, 2014). The retention of factors was determined by applying the Kaiser-Guttmann rule which
holds that factors having an explained variance (eigenvalue) greater than one is considered significant and may be retained for further interpretation (Kaiser, 1991; Zikmund et al., 2009; Hair et al., 2014). The eigenvalues therefore reflect the amount of common variance accounted for by the respective number of items (StatSoft, 2013). The internal consistency method calculating Cronbach’s coefficient alpha was used to assess the reliability of the measuring instrument for this study. A coefficient value of 0.70 for each factor was deemed acceptable (Nunnally & Bernstein, 1994).

Based on the factors created in the previous steps, the data analysis continued by calculating the descriptive statistics including the mean and standard deviation, in order to condense the data. Regression analyses were conducted to test the hypothesised relationships between the study variables. The data was analysed using the MS-Excel and Statistica (version 12) software packages.

7. EMPIRICAL RESULTS

The following sections presents the empirical results of the study.

7.1. The demographical data

The majority of the respondents (44%) were aged between 20 and 29 years, and 61% were female. In terms of the ethnic classification, the majority of the sample were coloureds at 33%, followed by Africans at 31% and whites who constituted 30% of the sample. In terms of educational qualifications, the majority of the respondents (29%) had a grade 12 certificate, followed respondents in possession of a national diploma (21%) and a bachelor’s degree (16%).

7.2. Validity and Reliability

The results of the tests of unidimensionality for validity, and internal consistency for reliability are presented in Table 1.
TABLE 1: Validity and reliability results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Retained items</th>
<th>Factor loadings</th>
<th>Eigen</th>
<th>% Total variance</th>
<th>Cronbach’s alphas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servant leadership (SERV)</td>
<td>16</td>
<td>-0.445 -0.865</td>
<td>9.333</td>
<td>58.3</td>
<td>0.945</td>
</tr>
<tr>
<td>Financial performance (FINP)</td>
<td>5</td>
<td>-0.606 -0.764</td>
<td>2.649</td>
<td>52.9</td>
<td>0.777</td>
</tr>
<tr>
<td>Customer performance (CUSP)</td>
<td>5</td>
<td>-0.716 -0.860</td>
<td>3.269</td>
<td>65.3</td>
<td>0.859</td>
</tr>
<tr>
<td>Internal process performance (INPRO)</td>
<td>5</td>
<td>-0.808 -0.843</td>
<td>3.411</td>
<td>68.2</td>
<td>0.881</td>
</tr>
<tr>
<td>Learning &amp; innovation performance (LEARN)</td>
<td>5</td>
<td>-0.729 -0.840</td>
<td>2.965</td>
<td>59.3</td>
<td>0.824</td>
</tr>
</tbody>
</table>

In terms of validity, the factor loadings presented in Table 1 indicates the correlation between the original variable and its factor. Hair et al. (2014) state that factor loadings greater than 0.30 can be considered significant if the sample size is greater than 350. The sample size for this study was 428 and a criterion of 0.40 was used as the cut-off point for valid factor loadings to determine construct validity. Hair et al. (2014) further notes that loadings equal to or greater than 0.50 are considered practically significant, and loadings exceeding 0.70 indicate well-defined structure.

Based on the results in Table 1, sufficient evidence of convergent validity for the variables in the hypothesised model was provided, as all the loadings were greater than 0.40. The factor loadings further conform to the criterion of being practically significant, with all loadings being greater than 0.50 (Hair et al., 2014). The lowest eigenvalue was reported for Financial performance at 2.649 and the highest value was Servant leadership at 9.333. For the items measuring each variable, the percentage of total variance explained was the lowest for Financial performance at 52.9% and the highest for Internal process performance at 68.2%. The operationalisation of all the variables therefore remained unchanged, as no items were disregarded or deleted from the original variables.

In Table 1, the Cronbach’s alpha coefficients for all the dimensions of both servant leadership and organisational performance analyses were greater than 0.7, therefore sufficient proof of reliability were found. The highest Cronbach’s alpha coefficient was 0.945 for Servant leadership, and Financial performance was found to have to lowest coefficient value at 0.777.
7.3. **Descriptive statistics**

The descriptive statistics illustrated in Table 2 were used to summarise the central tendency of the data by measuring the mean, and dispersion of the data around the mean by calculating the standard variation. The data was collected by anchoring the items of the questionnaire on a seven-point Likert scale. The Likert scale in the questionnaire was given as: 1-strongly disagree; 2-disagree; 3-disagree somewhat; 4-neutral; 5-agree somewhat, 6-agree and 7-strongly agree.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servant leadership</td>
<td>5.30</td>
<td>1.18</td>
</tr>
<tr>
<td>Financial performance</td>
<td>5.53</td>
<td>0.94</td>
</tr>
<tr>
<td>Customer performance</td>
<td>5.62</td>
<td>1.01</td>
</tr>
<tr>
<td>Internal process performance</td>
<td>5.60</td>
<td>1.05</td>
</tr>
<tr>
<td>Learning &amp; innovation performance</td>
<td>5.61</td>
<td>0.99</td>
</tr>
</tbody>
</table>

From Table 2 it is evident that the lowest mean score was found for *Servant leadership* at 5.30 and *Customer performance* had the highest mean at 5.62. The mean scores indicate that respondents agreed somewhat with all the items measuring the different variables of the study.

7.4. **Regression analysis**

Table 3 reports the regression results for the influence of *Servant leadership* on the dimensions of organisational performance based on the balanced scorecard.

<table>
<thead>
<tr>
<th>Variable</th>
<th>FINP</th>
<th></th>
<th></th>
<th>INPRO</th>
<th></th>
<th>LEARN</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>p-value</td>
<td>b*</td>
<td>p-value</td>
<td>b*</td>
<td>p-value</td>
<td>b*</td>
</tr>
<tr>
<td>SERV</td>
<td>0.000</td>
<td>0.427</td>
<td>0.000</td>
<td>0.468</td>
<td>0.000</td>
<td>0.529</td>
</tr>
<tr>
<td>Model statistics</td>
<td>F= 94.83; p&lt; 0.05</td>
<td>F=119.63; p&lt; 0.05</td>
<td>F=165.15; p&lt; 0.05</td>
<td>F=218.29; p&lt; 0.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>R² = 0.182</td>
<td>R² = 0.219</td>
<td>R² = 0.279</td>
<td>R² = 0.338</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The results of the regression analyses in Table 3 reveals that Servant leadership explain 18.2% of the variance in Financial performance (R² = 0.182), 21.9% of the variance in Customer performance (R² = 0.219), 27.9% of the variance in Internal process performance (R² = 0.279), and 33.8% of the variance in Learning and innovation performance (R² = 0.388). Furthermore, Servant leadership explain a significant proportion of the variance in the dependent variable Financial performance (F = 94.83; p < 0.05), and was found to have a significant and positive impact on Financial performance (b* = 0.427; p < 0.05). Financial performance in this study was measured by soliciting perceptions regarding the organisation’s profitability. This finding therefore indicates that Servant leadership is predicted to significantly improve organisational profitability.

From Table 3, it is further evident that Servant leadership explain a significant proportion of the variance in the dependent variable Customer performance (F = 119.63; p < 0.05). Servant leadership also had a significant and positive impact on Customer performance (b* = 0.468; p < 0.05), and this suggests that Servant leadership behaviours are predicted to increase Customer performance. Customer performance in this study was measured by evaluating perceptions related to customer satisfaction and customer loyalty. The results therefore suggest that demonstrating servant leader behaviours in the workplace will lead to significant and positive improvements in customer loyalty and customer satisfaction.

Servant leadership explains a significant proportion of the variance in the dependent variable Internal process performance (F = 165.15; p < 0.05), and a statistically significant and positive relationship between these variables exist (b* = 0.529; p < 0.05). Servant leadership is therefore predicted to significantly improve organisational productivity and quality levels associated with internal process performance. In terms of Learning and innovation performance, it is evident that Servant leadership explain a significant proportion of the variance in the model (F = 218.29; p < 0.05), and has a significant and positive influence on Learning and innovation performance (b* = 0.582; p < 0.05). Based on these results, it is predicted that Servant leadership will significantly improve organisational learning and innovation behaviours related to Learning and innovation performance.

7.5. Findings of hypothesised relationships
Table 4 summarises the findings of the hypothesised relationships.
TABLE 4: Hypothesis testing for regression

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₁: There is a positive relationship between Servant leadership and Financial performance.</td>
<td>Accepted</td>
</tr>
<tr>
<td>H₂: There is a positive relationship between Servant leadership and Customer performance.</td>
<td>Accepted</td>
</tr>
<tr>
<td>H₃: There is a positive relationship between Servant leadership and Internal process performance.</td>
<td>Accepted</td>
</tr>
<tr>
<td>H₄: There is a positive relationship between Servant leadership and Learning and innovation performance.</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

8. DISCUSSION

Based on the empirical results and hypothesis testing, it was established that Servant leadership behaviours result in improvements in organisational performance across all four dimensions of the BSC (H₁ – H₄). In line with this finding, a previous study found that servant leader behaviours predicted organisational performance as measured through the profitability metric of return on assets (Peterson et al., 2012). It was also found that Servant leadership positively influenced Customer performance. This finding is in line with previous studies that suggest that servant leaders create a positive service climate that stimulates the helping and sales behaviour of sales staff (Jaramillo et al., 2009; Hunter et al., 2013).

In terms of Internal process performance, servant leaders have a positive impact on the productivity and quality levels of the organisation, through the increased focus on the needs of followers. This, in turn, increase employees’ levels of energy, enthusiasm and stamina. This finding is in line with previous studies that found that higher employee engagement and satisfaction levels lead to increased productivity for organisations with more servant leaders (Kaul, 2014; Whorton, 2014). The relationship between Servant leadership and Learning and innovation performance has also been established in previous studies. It was found that Servant leadership promotes learning in the organisation, through the leader’s impact on the employees learning and growth (Bass, 2000). Through consideration for the needs of employees and providing the needed training through seminars and workshops, servant leaders increase the knowledge capability of an organisation. This, in turn, increases the organisation’s knowledge
and results in an improvement in organisational performance (Choudhary et al., 2013).

9. CONCLUSIONS AND RECOMMENDATIONS

From this study, it can be concluded that Servant leadership has a positive and significant impact on organisational performance. The results suggest that Servant leadership behaviours result in improving organisational performance across all four dimensions (Financial, Customer, Internal process, and Learning and innovation performance) of the balanced scorecard. To create an enabling environment for high organisational performance driven by servant leadership, it is therefore recommended that leaders pay significant attention to serving employees and satisfying their psychological needs for growth and development. It is recommended that HR personnel ensure that each employee has an individual development or career plan. These formal plans should form part of annual performance reviews conducted by organisational leaders, and identify the progress made towards employees’ development and growth objectives. Employees should be empowered through nurturing attitudes of proactivity and self-confidence; through this, a sense of personal power is derived. Employees should be held accountable for performance on aspects that are within their control, and the leader should ensure that expectations are always clear. Organisational leaders should provide the necessary support and recognition to employees, and move to the background when tasks are completed successfully.

It is further recommended that leaders acknowledge their personal limitations and encourage contributions from followers in order to overcome personal shortcomings. It is recommended that performance feedback to organisational leaders should include 360-degree feedback from subordinates. In addition, workplace skills audits should be completed regularly, so as to maintain a good perspective of the talents of employees in relation to the leader’s weaknesses, as identified during performance appraisals. Leaders should maintain authenticity through good alignment between their true-self, as their primary role, and their professional capacity, as their secondary role. Organisational leaders should empathise with employees and find ways to view situations from the employee’s perspective. Leaders should go beyond merely being caretakers of the organisation, but act as role models and lead by example.

REFERENCES


