Leadership Style and Incentives

by Pablo Casas-Arce and Asís Martínez-Jerez

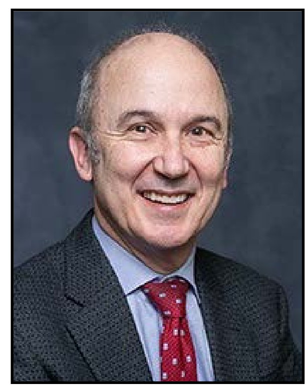
Summary

Effective leadership is essential for a business's success, but each organization has its own leadership culture, and each team leader has their own management style. The challenge for hospitality firms is to create incentives that work for both team leaders and team members. An incentive plan involving sales contests was implemented at a financial services firm to allow observation of the interaction of incentives, leadership style, and company culture. The test manipulation involved who received the rewards—the employees only or both the manager and employees. In general, the sales results depended on the leaders' styles. Incentives that included the manager had a greater effect on the employee outcomes for transactional managers (who offer employees specific rewards) than on managers who used a more general inspirational approach. With this knowledge in hand, hospitality firms can work toward identifying and employing managers who fit the firm's leadership culture.

ABOUT THE AUTHORS

Pablo Casas-Arce is an associate professor at the W.P. Carey School of Business at Arizona State University, where he has been teaching Managerial Accounting and Control at the undergraduate and graduate levels (both in the Master of Accountancy and MBA programs). Pablo's research lies at the intersection of accounting, economics, and strategy, and focuses on the study of the economics of organizations. He works on the design of control, incentive, and information systems and their relationship to business performance. His research has been published in the *Journal of Political Economy, Management Science, The Accounting Review, Journal of Accounting Research*, and *Journal of Economics and Management Strategy*, among others.

Pablo holds a BA in conomics from Pompeu Fabra University and earned his PhD and MA in Economics from Harvard University. Prior to joining ASU, he was a postdoctoral researcher at the University of Oxford and Nuffield College, a member of the Department of Economics and Business at Pompeu Fabra University in Barcelona (Spain), and a research fellow at the Public-Private Sector Research Center at IESE Business School.



Francisco de Asís Martínez-Jerez (Asís) joined the Cornell Nolan School in July 2020, after spending seven years at the University of Notre Dame and almost 20 years at Harvard Business School. In his research and consulting activities, Asís focuses on the design of customer centric organizations for performance. In current projects Asís is exploring how firms may combine AI with employee wisdom to improve decision outcomes, how to design incentive systems to leverage the leadership style of middle managers, or how to promote initiatives that shape a company's culture.

At the Nolan School, Asís teaches courses on strategy implementation, performance measurement, and managerial accounting, and he is currently developing a course on casino strategy.

A native of Alicante, Spain, Asís earned his undergraduate degrees in Law and Business Administration at ICADE-Madrid, his MBA from Harvard Business School, and his Ph.D. in Business Economics from Harvard University. His professional experience includes working for La Suisse Assurances in Lausanne, Switzerland, and consulting for McKinsey & Co. in Europe and Latin America. He currently serves on the Boards of Directors of E.D. Bullard and Asclepii, and consults firms throughout Europe and the Americas.

In 2005, Asís received the HBS-MBA Class Award for Teaching Excellence, the Jim Bulloch Award for Innovation in Management Accounting Education in 2010, the top teaching awards at the Mendoza College of Business in 2016, 2017, and 2020, teaching awards at the Nolan School of Hotel Administration in 2023, and the Notable Contribution Award to the Management Accounting Literature in 2019. Asís enjoys the company of his lovely wife, María José, and often escapes to New York city to visit his daughters, Victoria and Aitana.

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Most hospitality organizations are aware of the need to develop strategies to improve operations by promoting teamwork and rewarding the collective achievements of their employees.

Such promotional efforts generally focus on incentives for the team as a whole, and not the individual. Sales, customer satisfaction, and loyalty program enrollment targets are often set for the hotel team or the restaurant crew, rather than for individual team members. However, it is also common for those in leadership positions to work toward their own separate incentives. The assumption underlying this approach is that leaders or managers provide motivation for frontline workers to provide excellent service.

The team leader, typically a middle manager, provides essential support in this matter by encouraging team members to exert their highest effort. Needless to say, this is not the only dimension of the manager's job. Coordinating actions, transferring information, and curbing free-rider behaviors become central to the managers' responsibility of getting the best outcome from their team.

In this context, hospitality firms need to design a reward system that motivates leaders and subordinates alike and encourages behaviors that make the team's output exceed its members' individual contributions. In this paper, we address a key dimension of this organizational design challenge—namely, should the manager have a bonus different from that of the team, when the goal is linked to the same team targets? This is a question separate from other issues, such as whether the system should reward the output of the property or that of the individual member, or whether the reward should be cash or an experiential tangible team reward, such as a bowling outing or a pizza party.

Offering a specific reward to the team leader means that the manager will most likely apply more effort to their managerial duties. However, the unknown element associated with the separate manager bonus is the impact it may have on the team culture. On the one hand, team members may not care if their boss gets a separate reward. But on the other hand, they may lose their commitment to achieving the common goal if they see that the manager is the one who reaps a special reward as a result of their common effort.

To address this issue, we partnered with a financial services firm to launch a pilot program that comprised several sales contests among the firm's branch offices. In some contests, we gave a reward to the branch employees and a more sizeable reward to the branch manager. In other contests, we gave the reward only to the branch employees.

The outcome of this methodology is multi-dimensional. At root, however, we discovered that the effectiveness of a reward to incentivize team leaders depends on the managers' leadership style. In general, we found that teams exert more effort and achieve better performance levels if there is a reward given to the team leader. In other words, middle managers matter, and the performance of subordinates improves if managers are motivated to work hard to support their incentive efforts. Furthermore, the effect of the manager award is stronger if they manage with a *quid pro quo* style. That is, the effect was stronger when managers motivated their subordinates directly by giving them rewards for achieving successes and issuing penalties for missing goals.

Not inspired. In contrast, when managers used an inspirational style to appeal to the greater good of the team, the positive effect of the leader's award almost disappeared. Instead, there was an increase in employee skepticism. When team members receive an inspirational speech from their manager asking them to walk the last mile or make a final effort for the team so the group can meet the target for the period or win the contest, the message is not as well received when the manager is individually rewarded. If the manager is going to receive a personal benefit from the team effort, the idea of everyone working together falls on deaf ears. In the view of the subordinates, the manager's message is not genuine, but feeds a self-serving interest in winning the award, and, as such, fails to inspire them.

Our research findings suggest two paths of action for firms that aim to nurture high-performing teams.[1] First, the top leadership of the firm should use the resources they have today to achieve the highest performance they can. Second, they need to configure the firm for future success. In the current moment, firms have to engage and motivate today's team of middle managers to move the organization toward its strategic objectives. In doing so the top leadership choices of incentive systems and rewards must align with the skills and style of current middle managers. Looking at the future, firms should also proactively and strategically design and configure the firm they want to become. This configuration includes identifying the type of leadership style they want in their managerial team. Shaping the style of a firm's leaders is a long-term endeavor that starts with the recruitment of new talent and advances with the design of training plans and promotion and reward decisions that emphasize the development of the desired leadership traits.

1 Casas-Arce, P. and A. Martínez-Jerez, 2022, "Leader Effects in Competition among Teams: Evidence from a Field Intervention," *The Accounting Review*, 97(1): 99-122.

As a starting point, a hospitality firm can inventory its managers' leadership styles.

Leadership styles. As a starting point, a hospitality firm can take inventory of current managerial talent and learn its managers' leadership styles. Although one may have personal preferences for certain styles of managers, in the short term it is more effective to align the firms' control systems, in this case its reward system, to the style of the managers than to try changing their leadership styles. Firms have available numerous models of leadership, such as servant leadership, transformational leadership, transactional leadership, and authentic leadership. These and other models can be applied to assess a firm's managerial types, using such engineered survey instruments as the Servant Leadership Scale, the Multifactor Leadership Questionnaire, or the Organizational Leadership Assessment.[2]

Without trivializing the intellectual contributions of the different theories, a firm should understand where its managers are on a leadership style spectrum that underlies these theories. At one end are the managers who mainly rely on extrinsic motivators and tangible rewards to spur their subordinates into action (transactional leaders). At the other are managers who appeal to the intrinsic values of their team members to

2 For example, see: Robert C. Liden, Sandy J. Wayne, Zhao Hao, and David Henderson, "Servant leadership: Development of a multidimensional measure and multi-level assessment," *The Leadership Quarterly*, 19 (2008) 161–177; B.M. Bass and B.J. Avolio, (1995). Multifactor Leadership Questionnaire (MLQ) APA PsycTests; https://doi.org/10.1037/t03624-000; and James A. Laub, Assessing The Servant Organization: Development of the Servant Organizational Leadership Assessment (SOLA) Instrument (1999), Florida International University dissertation.

give their best effort for the good of the team (servant leaders). All managers use both levers to a certain extent, but some managers use one lever more than the other.

As a general rule, if the company's managerial style is mostly transactional, the firm may emphasize the incentive awards to the leader. Giving a special recognition to the general manager who excels in customer satisfaction (or any other performance metric) will increase the property's performance, as property managers will strive to win the award and push their teams accordingly. Team members who respond to the promise of tangible rewards will understand the rules of engagement and will respond appropriately to incentives and to the manager's direction.

If, on the other hand, the most common managerial style in the company is the servant leader, incentives would need to be adjusted, based on our research findings. If managers appeal to the heart rather than the gold in their motivational talks, then the firm would be best served minimizing the rewards to the manager, thereby reducing the differentiation between incentive rewards for managers and team members. In this instance, the reward structure could be such that the leaders participate in the award to the team or receive an award that is comparable in size to that received by the team members. Such a structure may impel the manager to give that extra effort for the win while also maintaining the team's good vibes. In this setting, recognizing only the manager's effort or creating a large pay gap between managers and subordinates may result in a deterioration of team spirit and lead to poor productivity.

In closing, our research indicates that once a company has a picture of its managers' operating style, the firm can take steps to develop a management group that resonates with the company's management approach, for improved operations and profitability. ■

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