

**Job Satisfaction as a Mediator of the Effects of Psychological Climate Perceptions on Job Performance in Service Firms**

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**Abstract**

The study investigates how work attitudes (e.g. job satisfaction) mediate the relationship between psychological climate perceptions (in particular service climate, team support, and job security) and work outcomes (i.e., job performance). The results of a survey of 874 front-line service employees show that service climate, team support and job security indirectly contribute to job performance via job satisfaction. Managers of services firms are advised that positive employee perceptions of the organization as a customer service-centric, job-secured, and team-supportive work environment result in higher job satisfaction, which in turn enhances job performance.

Keywords: psychological climate perceptions, job satisfaction, job performance

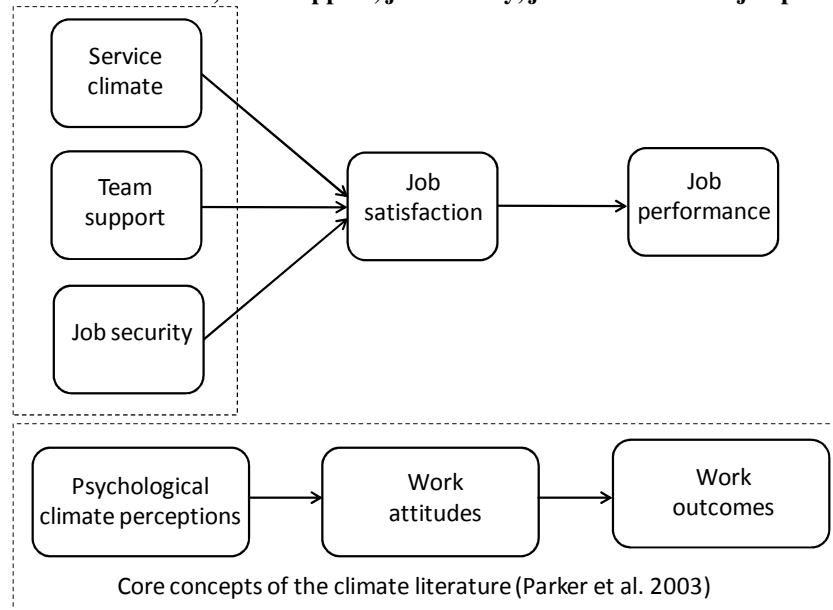
## **Job Satisfaction as a Mediator of the Effects of Psychological Climate Perceptions on Job Performance in Service Firms**

### **Introduction**

The importance of satisfied and efficient frontline service employees to achieve customer satisfaction and loyalty is well established in the services marketing literature (Heskett et al. 1994). The performance of frontline service employees is a function of individual and environmental factors (Donavan et al. 2002), and this paper focuses on the work environment.

Psychological climate perceptions (e.g. work environment) and work outcomes (e.g. job performance) are two salient sets of individual-level constructs in organizational behaviour research (Brown and Leigh 1996; Parker et al. 2003; Schneider et al. 1998). There are two competing views on the nature of the climate-outcome link. The direct effect view posits that employees are more likely to perform better if they have positive psychological climate perceptions of their work environment (Borucki and Burke 1999; Johnson 1996; Schneider et al. 1998; Liao and Chuang 2004). The indirect effect view looks at mediators of the climate-job performance link (Brown and Leigh 1996; James 1982; James et al. 1990; Kopelman et al. 1990; Meyer et al. 2002; Parker et al. 2003). The underlying logic of this view is that favourable employee perceptions of workplace environments result in positive work attitudes (e.g. highly motivated, stronger commitment), which in turn enhance job performance (Brown and Leigh 1996). These mediators include an individual's work motivation, work commitment, job satisfaction, and job involvement (Brown and Leigh 1996; James and James 1989; Kanfer 1990; Parker et al. 2003).

Despite the growing interest in mediating variables in linking psychological climate perceptions to job performance, previous studies on the climate-performance link have largely ignored which particular aspects of climate are important or unimportant for frontline service employees (Wilderom et al. 2000). Against the situational referents view in categorising psychological climate (e.g. Jones and James 1979), we support the view that a central component of individual psychological climate perceptions is a valuation of the work environment (James et al. 1990; James and McIntyre 1996). This value- or need-based classification scheme provides a more psychologically meaningful foundation for examining the effects of psychological climate perceptions on work attitudes and job performance (Parker et al. 2003). As such, we further argue that those climate components that more predict job performance are the ones that are more heavily loaded with job satisfaction. For frontline service employees, we see service climate, team support, and job security as essential components of psychological climate perceptions. Drawing on the climate-attitudes-outcome framework proposed by Parker et al. (2003), we propose a theoretical framework (see Figure 1) that integrates service climate, team support, and job security to explain job satisfaction and job performance of frontline service employees. The aim of this paper is therefore to examine in how far the effects of the work environment on the job performance of frontline service employees are contingent on job satisfaction.

**Figure 1 – Effects of service climate, team support, job security, job satisfaction on job performance**

### Theoretical Background and Hypotheses

*Service climate* refers to “employee perceptions of the practices, procedures, and behaviors that get rewarded, supported, and expected with regard to customer service” (Schneider et al. 1998, p. 151). In a good service climate, employees are more likely to provide good service (Liao and Chuang 2004). This is because given a climate for service, employees realize that achieving superiority in customer service is expected, desired, and rewarded. We extend this view and propose that the perceived service climate determines job performance because of associated job-related feelings (Patterson et al. 2004) such as job satisfaction. Job satisfaction refers to an emotional state resulting from the evaluation of one’s job experiences (Locke 1976; Harrison et al. 2006).

Another important element of psychological climate perceptions that help explain differentials in job performance is *team support*. Team support refers to the degree to which employees believe that the team values their contribution and cares for their well-being (Bishop et al. 2000). Some social exchange theorists argue that employees who perceive high levels of support from their peers are more likely to outperform those who do not (Bishop et al. 2000; Eisenberger et al. 1990). We therefore propose that individual employees who perceive their teammates as supportive and concerned for their well-being (Griffin et al. 2007), are more satisfied with their job which in turn enhances their performance.

*Job security* is the psychological state in which employees vary in their expectations of future job continuity within a firm (Pearce 1998; Kraimer et al. 2005). Job security is an important extrinsic job factor that helps service firms to enhance work productivity (Giles & Field, 1982). Importantly, employees with high perceptions of job security are more satisfied with their jobs (Ashford et al. 1989). We argue that the positive job performance impact of job satisfaction

hinges on the level of perceived job security. The proposed effects are summarised in the following hypotheses:

H1: *Job satisfaction mediates the effect of service climate on job performance.*

H2: *Job satisfaction mediates the effect of team support on job performance.*

H3: *Job satisfaction mediates the effect of job security on job performance.*

## Methodology

The sample consists of 876 usable responses from frontline service employees recruited through an Australian online panel, and covers over 20 different service industries. All respondents spend at least 40% of their working time in immediate customer contact, with 51.9% spending more than 80% interacting with customers. 44.6% were male and 55.4% female.

We measured *service climate* with six items adapted from Schneider et al (1998), rated on a five-point Likert-type scale (1, “poor,” to 5, “excellent”). Respondents rated the level of *team support* with seven items modified from De Jong et al. (2004), and *job security* on a three-item scale adapted from Oldham et al. (1986), both on a five-point scale (1, “strongly disagree,” 5, “strongly agree”). We measured *job satisfaction* with twelve items on a seven-point scale (1, “extremely dissatisfied,” to 7, “extremely satisfied”) adapted from Hackman and Lawler (1971). *Job performance* was measured using seven items adapted from Babin and Boles (1998) and Ng et al. (2005). The employees were asked to rate their own performance on a five-point Likert scale (1, “strongly disagree,” to 5, “strongly agree”). All indicators in the outer-measurement models had acceptable bootstrap critical ratios ( $> 1.96$ ) with loadings (0.59 to 0.88) above the recommended 0.5 (Hulland 1999). Average variance extracted (AVEs) values for all constructs were uniformly acceptable ranging from 0.52 to 0.71. Composite reliabilities of constructs ranged from 0.77 to 0.94, above the 0.70 threshold (Hulland 1999). We also found that discriminant validity is evident as the square root of the AVEs (ranged from 0.72 to 0.84) was greater than all corresponding correlations of the constructs (ranged from 0.11 to 0.56).

## Results

To test hypotheses 1, 2, and 3, we estimated six models following the procedures suggested by Baron and Kenny (1986) and Sobel (1988). Hypothesis 1 states that job satisfaction is a mediator of the relationship between service climate and job performance. As the results in Table 1 show, service climate positively influences job performance (Model 1,  $\beta=.18$   $t=4.88$ ) and job satisfaction (Model 2,  $\beta=.67$   $t=28.43$ ). Job satisfaction also positively influences job performance (Model 2,  $\beta=.36$   $t=7.68$ ). Comparing Model 1 and Model 2, the positive effect of service climate on job performance in Model 1 becomes insignificant ( $\beta=.18$  vs.  $\beta=.07$ ) in Model 2.

We found similar support for Hypotheses 2 and 3. Team support positively influences job performance (Model 3,  $\beta=.22$   $t=5.80$ ) and job satisfaction (Model 4,  $\beta=.55$   $t=17.41$ ), which in return influences job performance (Model 4,  $\beta=.29$   $t=6.15$ ). There is also a positive link between job security and job performance (Model 5,  $\beta=.0.14$   $t=4.31$ ), as well as job satisfaction (Model 6,  $\beta=.51$   $t=19.12$ ), and between job satisfaction and job performance (Model 6,  $\beta=.36$   $t=8.92$ ). For both team support and job security, the inclusion of job satisfaction as a mediator renders the

relationship with job performance insignificant (see Model 3 vs. 4,  $\beta=.22$  vs.  $\beta=.05$ , for team support; Model 5 vs. 6,  $\beta=0.14$  vs.  $\beta=0.08$  for job security). We also undertook a Sobel's (1982) test and found that the increase in  $R^2$  of job performance attributable to the mediating effects are significant at 0.05. We can therefore conclude that job satisfaction fully mediates the relationship between service climate, team support, and job security respectively, and job performance.

### Discussion and Implications

This study underlines the importance of a positive work environment for frontline service employees. The results show that the work environment, in particular team support, the firm's service climate, and job security, has a strong positive indirect effect on job performance mediated by job satisfaction. The direct effect of the examined work environment aspects on job performance is however negligible. As frontline staffs are the face of the service firm, understanding their job performance is crucial for customer satisfaction and the financial performance of the firm.

Our study indicates that the influence of a positive work environment on job performance is contingent on job satisfaction, which confirms existing research stating that employee satisfaction leads to better service behaviors (Hoffman and Ingram 1992). We also show that service firms can enhance the job satisfaction of frontline service employees by creating a positive work environment. Firstly, in line with existing research (e.g. Schneider et al. 1998) we find that service climate is a corner stone of frontline service employees' job satisfaction. Service climate plays a major role in customers' service quality perception, overall satisfaction, and repeat purchase behavior. Secondly, good customer service is usually a team effort. The support of team members is therefore equally important as good service climate, but might also contribute to the perceived service climate (de Jong et al. 2004). Thirdly, a sense of secure employment in their current job, even if the economic climate is less favorable, further contributes to the job satisfaction of frontline service employees.

In addition to its mediating role, job satisfaction may also have indirect and delayed effects resulting from higher levels of employee retention (Rust et al. 1996) resulting from a positive work environment. Experienced long-serving frontline service employees tend to have better knowledge, are more efficient, and have been able to build rapport with customers. Especially in high-contact services this will lead to better job performance and ultimately higher customer satisfaction.

Further research could explore the relative importance of service climate, team support, and job security in creating a satisfying work climate that will enhance job performance. Moreover, the climate-satisfaction-performance link might differ for different service industries, and for different levels of customer service experience of staff. Existing research has also investigated how individual characteristics of the frontline service employee affect job satisfaction and job performance (e.g. Babin and Boles 1998; Lusch and Serpkenci 1990). An interesting extension of this work is to explore the interaction of work environment/climate with individual characteristics, and climate-employee fit to maximize job satisfaction and performance.

**Table 1 Hypotheses 1, 2, and 3<sup>1</sup>: structural equation parameter estimates (t-value)**

Independent variables	Endogenous variables								
	Hypothesis 1			Hypothesis 2			Hypothesis 3		
	Model 1	Model 2		Model 3	Model 4		Model 5	Model 6	
	Job performance	Job satisfaction	Job performance	Job performance	Job satisfaction	Job performance	Job performance	Job satisfaction	Job performance
Service climate	0.18** (4.88)	0.67** (28.43)	0.07 (1.46)	–	–	–	–	–	–
Team support				0.22** (5.80)	0.55** (17.41)	0.05 (1.23)	–	–	–
Job security				–	–	–	0.14** (4.31)	0.51** (19.12)	0.08 (1.86)
Job satisfaction	–	–	0.36** (7.68)	–	–	0.29** (6.15)	–	–	0.36** (8.92)
<i>Controls</i>									
Firm size (log)	0.05 (1.36)	–	0.04 (0.96)	0.08** (2.22)	–	0.03 (0.79)	0.10** (3.15)	–	0.02 (0.74)
R-square	0.04	0.44	0.11	0.06	0.31	0.11	0.03	0.26	0.11
<b>Sobel t-Test</b>				<b>Test of increases in R<sup>2</sup> (<math>\Delta R^2</math>) of job performance</b>					
▪ Hypothesis 1: SE <sub>indirect effect</sub> = 0.24; z-score = 7.34, p < 0.01				▪ $\Delta R^2_{\text{Model 1-2}} = 0.07^*$ ( $F_{\text{Model 1-2, 1, 870}} = 68.43 > F_{\text{critical}} = 3.84$ )					
▪ Hypothesis 2: SE <sub>indirect effect</sub> = 0.03; z-score = 5.79, p < 0.01				▪ $\Delta R^2_{\text{Model 3-4}} = 0.05^*$ ( $F_{\text{Model 3-4, 1, 870}} = 48.88 > F_{\text{critical}} = 3.84$ )					
▪ Hypothesis 3: SE <sub>indirect effect</sub> = 0.02; z-score = 8.14, p < 0.01				▪ $\Delta R^2_{\text{Model 5-6}} = 0.08^*$ ( $F_{\text{Model 5-6, 1, 870}} = 78.20 > F_{\text{critical}} = 3.84$ )					

<sup>1</sup> We followed Baron and Kenny's (1986) procedure and estimated Models 1, 2, 3, 4, 5, and 6 to test the hypotheses; \*p < 0.05; \*\*p < 0.01

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