HOW CAN A LEADER GUIDE OUR SEARCH FOR THE HOLY GRAIL?
THE LONGITUDINAL RELATIONSHIP BETWEEN SATISFACTION AND
PERFORMANCE AND THE IMPACT OF LEADER BEHAVIORS

A Thesis in
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ABSTRACT

Coined the ‘Holy Grail’ of organizational behavior (Landy, 1989), researchers and laypeople alike have been fascinated with the link between employee satisfaction and performance. While meta-analyses have in fact demonstrated a link between the two (e.g. Judge et al., 2001), the directionality of this relationship and the contextual factors that influence the relationship are still in question. Therefore, the current paper revisits and extends this question by (1) investigating the causal direction between satisfaction and performance at the store level of analysis across multiple stores of a single organization, (2) looking at two specific performance measures that are practically important (store profitability and customer-related performance), and (3) examining the contextual factor of leadership to understand its impact on the satisfaction-performance relationship. Data was collected from 328 stores within a large retail organization over the course of two years (2003 and 2004). Results suggested a significant causal relationship between stores’ employee satisfaction at time 1 and stores’ customer-related performance dimensions at time 2. However, no significant relationships were found between stores’ financial performance at time 1 and stores’ employee satisfaction at time 2. Further, leader behaviors did not moderate these relationships. Interestingly, however, leader behaviors positively impacted stores’ employee satisfaction, which caused an increase in customer-related performance measures, which positively related to stores’ financial performance. Implications of these causal findings are discussed.
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Today is the first day of the rest of my life.
Chapter 1

INTRODUCTION

The idea that a satisfied worker would also be a productive worker has been a critical area of organizational research for almost a century. Coined the ‘Holy Grail’ of organizational behavior (Landy, 1989), researchers and laypeople alike have been fascinated with the intuitive appeal of this link (Brief & Weiss, 2002; Fisher, 2003; Weiss & Cropanzano, 1996). Interest in how a worker’s attitude about their job links with their performance on the job has spawned a tremendous amount of research. In fact, a literature search on a psychological search engine yields over four thousand articles; efforts to combine this data in looking at overall patterns have resulted in several well-known meta-analyses since the early twentieth century (e.g. Brayfield & Crockett, 1955; Iaffaldano & Muchinsky, 1985; Judge, Thoresen, Bono & Patton, 2001). Even with all of the prolific writing that has been done on the topic, researchers’ thirst for understanding the theoretical nature of this link is not quenched and various conceptualizations of how worker attitudes affect job performance continue to grow.

While meta-analyses have in fact demonstrated a link between the two (e.g. Judge et al., 2001), the directionality of this relationship and the contextual factors that influence the relationship are still in question. Therefore, the current paper revisits and extends this question in two primary ways. First, I investigate the causal direction between satisfaction and performance across multiple stores of a single organization. Understanding which of these variables leads to the other is crucial in providing organizations with the knowledge of where to focus their interventions in efforts to maximize success. In addition, in order to understand what “success” looks like, the
current research looks at two specific performance measures that are practically important: store profitability and customer-related performance. While these variables are both used as measures of success for organizations, they are meaningfully distinct. Therefore, I discuss the theoretical rationale for differential hypotheses regarding these two measures and test whether satisfaction leads to latter changes in performance or vice versa, depending on the proxy for performance used.

As part of looking at this relationship from an organization’s point of view, I examine the relationship at the store level, looking over time at how different performance measures may impact the causal relationship they have with stores’ levels of employee satisfaction. This is an extension from vast amounts of past research that has paid less attention to this level so far. Studying these variables at this organizational-level is unique from the individual-level, as it is not simply the sum of individual-level performance that determines store success. Multiple other factors come into play when looking at satisfaction and performance at the store-level, and in order to explicate this relationship correctly these higher-order processes must be examined. Further, it is practically useful to examine the satisfaction-performance link at the organizational level. It is at the store or organizational level at which training and development programs may be employed, as this is the level at which their work can have the greatest return on maximizing profits and pleasing customers. Therefore, I second the proposal that “perhaps it is time to shift more attention on this issue to the organizational level” (Ostroff, 1992).

A second major contribution of the current paper is examining additional contextual factors operating within organizations that may affect the relationship. While
typically theorists talk about the satisfaction-performance link as if it exists in isolation, this view may contribute to our lack of clear understanding of how these variables relate (Bernhardt, Donthu, & Kennett, 1999; Judge et al., 2001; Ryan, Schmit, & Johnson, 1996). While research examining possible third variables is limited, it has been suggested that understanding the impact of third variables that exist in organizational life may give us further insight into the satisfaction-performance relationship (Judge et al., 2001). Therefore, the current paper extends research in another way by examining one of these possible variables: leader behavior. The leader within an organization can have an important impact on organizational dynamics, including how satisfied the employees are as well as how well the organization performs overall (Wright, Gardner, Moynihan, & Allen, 2005). The leader is ultimately accountable for an organization’s success, and it makes practical sense that we would focus our attention here when looking at factors that would affect the satisfaction-performance relationship. Further, we divide leader behaviors into two categories based on the recipients of such behavior, customer-directed and employee-directed, in understanding how the types of behaviors differentially impact the satisfaction-performance relationship, depending on the measure of performance. Uncovering this additional variable and investigating how it impacts the satisfaction-performance will enable us to make concrete practical suggestions as to where to target development of leaders’ skills in efforts to increase outcomes of interest.

Background on Satisfaction-Performance Relationship

Interest in the relationship between job satisfaction and worker productivity began when organizations became interested in mood and emotions in the workplace (Brief & Weiss, 2002). Starting in the 1930s, classic studies investigated workers’ feelings and
how they may affect their work (see Brief & Weiss, 2002, for a review). For example, Hersey (1932) found a clear relationship between daily affect levels and daily performance. Soon, affect at work became synonymous with job satisfaction (Brief & Weiss, 2002). In fact, one of the most commonly used definitions of job satisfaction defines the construct as affective, suggesting it is “a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experiences” (Locke, 1976). As an affective state, the study of satisfaction and productivity of employees at work falls under a more general literature termed the Happy-Productive worker thesis (Wright & Cropanzano, 2000), or the idea that positive affect influences individual productivity. However, researchers have reconsidered job satisfaction as not only being an affective state, but also consisting of a cognitive component as well. In incorporating both of these dimensions into the definition of job satisfaction, Brief (1998) defined it as “an internal state that is expressed by affectively and/or cognitively evaluating an experienced job with some degree of favor or disfavor.” Therefore, job satisfaction is distinguished from happiness at work because it is an attitude that considers both the affective and cognitive dimensions, whereas happiness is purely an affective state (Brief & Weiss, 2002; Weiss & Cropanzano, 1996).

Further, some researchers suggest that dispositional tendencies influence how satisfied people are at work, implying that job satisfaction and general temperament mutually influence one another (Arvey, Renz, & Watson, 1998). These researchers assert that individual differences account for job satisfaction, as some employees will be more satisfied than others based on their personality. However, measuring happiness in the general sense may be unproductive from an organizational point of view, such that there
is little that can be done to increase an employee’s dispositional affect (Ledford, 1999). Further, because the current paper examines these variables at an aggregated level of analysis, I take a more situational/contextual view of job satisfaction and focus primarily on the situational influences of one’s job that influence their job satisfaction (Wright & Cropanzano, 2000). By focusing on the approach to “happy worker” as a cognitive measure of employees’ group-level satisfaction with the context of their work or job, we have a clearer understanding of the object of the positive feelings. We also feel more confident that the organization may have some control over these feelings, as there may be aspects of the job that could be affected by the organization in efforts to increase employees’ satisfaction. It should also be noted that a moderate correlation exists between individuals’ happiness and their level of satisfaction (e.g. $r = .35$, Wright & Cropanzano, 2000), suggesting that these two variables are not completely distinct. In the current paper, we explicitly focus on employee attitudes and performance as they pertain to the workplace.

Given the intuitive appeal of the relationship between satisfied and productive workers (Fisher, 2003), it was surprising that the first meta-analyses on the topic revealed a very weak relationship across studies. In 1955, researchers published a paper in which they reviewed studies looking at the link between job satisfaction and job performance, as well as to other behavioral outcomes (Brayfield & Crockett, 1955). These authors concluded the relationship was minimal to nonexistent. While there were several methodological problems with their review (e.g. a small number of only published studies), this work was probably the most cited review of the ‘Holy Grail’ up until 1984. Similarly, Vroom (1964) found a small correlation between the two variables ($r = .14$)
across many studies; however, again, methodological problems existed (e.g. Vroom mixed both employee-level and work-group level studies in his results).

Improvements in meta-analytic techniques, and twenty more years of research on this topic, led to different conclusions in the next round of meta-analyses. A meta-analysis performed in 1984 was the next large review, where authors found an average corrected correlation of .31 between a measure of overall job satisfaction and performance (Petty, McGee, & Cavendar, 1984). Later, researchers conducted another meta-analysis where an average true score correlation of .17 was found (Iaffaldano & Muchinsky, 1985). This correlation, however, was obtained by averaging together the correlations of studies that each used different facet measures of satisfaction (including satisfaction with pay, satisfaction with coworker, satisfaction with promotion, etc). Interestingly, when one confines these analyses to a measure of overall job satisfaction the corrected correlation becomes .29, more similar to the one found by Petty et al. (1984). Most recently, a meta-analysis conducted in 2001 found that the mean corrected correlation between overall job satisfaction and job performance was estimated to be .30 (Judge et al., 2001). Thus, across studies and methods, there seems to be a consistent positive, though moderate to weak, relationship between job satisfaction and performance.

Fisher (2003) identified some of the factors that continue to intrigue researchers and lay people concerning this relationship, including (1) the level of analysis at which studying the satisfaction-performance relationship makes most practical sense, (2) the multiple definitions that could be used when referring to *performance* and the
implications they could have for organizations, and (3) the directional relationship between the two variables, which would help target where to begin change efforts.

Levels of Analysis

One factor that has varied the way people think about the satisfaction-performance relationship is the level of analysis at which these variables are examined. Most of the research on this hypothesis has used the individual employee as the unit of analysis (Harter, Schmidt, & Hayes, 2002; Judge et al., 2001; Schneider, Hanges, Smith, & Salvaggio, 2003). However, some researchers suggest this may not be the most appropriate level to find the relationship and to have a practical impact. For instance, Fisher (2003) found support for a relationship between happy and productive at the within-person level of analysis, such that when respondents reported feeling better than usual compared with how they typically feel, they also reported they were performing better than how they typically perform. Further, she concludes with the idea that the people also tend to think of the relationship at higher levels of analysis than usually assessed in satisfaction-performance research. Some theorists agree with this and maintain that examining satisfaction and performance at the individual level of analysis may be too restrictive and ultimately unreliable (e.g. Ostroff, 1992). These researchers suggest that individual performance may be constrained by many other factors they all have in common (the same manager, environment, location, etc.), and that studying the variables at the individual level allows for too many distractor variables to interfere (e.g. individual ability and personality), thus making these measures less reliable (Harter et al., 2002).
However, limitations can also be found when working at the organizational level of analysis. For instance, organizational-level satisfaction and performance may not simply the sum of individual-level behaviors (Guzzo, 1988; Guzzo & Shea, 1992). The interactive effect of employees working together could have additional influences on satisfaction and performance that an additive model alone would not capture. The complexity of moving from individual-level data to higher-levels of analysis is an issue that has been discussed in the literature on HR practices and firm performance (see Becker & Gerhart, 1996; Delaney & Huselid, 1996). For instance, some researchers imply that HR practices do follow an additive model, such that there is an identifiable set of specific best practices for managing employees that have additive, positive effects on organizational performance (e.g. Schmidt, Hunter, & Pearlman, 1981). However, others believe that individual practices have limited ability to generate competitive advantage, but in combination can enable a firm to realize its full competitive advantage such that HR practices may be more (or less) than the sum of its parts (e.g. Barney, 1995; Huselid, 1995). According to Becker and Gerhart (1996), while studying the relationship of these variables at the organizational or firm level provides the most generalizable and direct test, there is still confusion over the specific processes by which this value is created.

Thus, while methodologically neither the individual or organizational level of analysis is perfect, the practical significance of studying these variables at the organizational level leads me to focus on this level. Because surveys of employee satisfaction are typically reported to the organization at the organizational level and because interventions are made at the store-level versus being designed for individual employees within the store, it makes sense to study the relationship at this higher level
rather at the micro, individual level (Harter et al., 2002). According to some authors, this is originally what researchers of the Hawthorne studies and other early scholars intended when first looking at the satisfaction-performance relationship (Schneider et al., 2003). It is at this higher level that the current paper focuses its attention.

Looking at job satisfaction in particular, research supports the idea of a store-level satisfaction, such that employees who are subjected to the same organizational unit have the same situational and environmental influences and therefore shared attitudes regarding the job within the store (Judge & Hulin, 1993; Ryan et al., 1996). While individual difference variables regarding satisfaction may vary to a degree within each store, the social information processing theory takes a more situational approach to job satisfaction, suggesting that cues from others in the environment will give employees information on their levels of satisfaction. This theory proposes that a person's reaction and satisfaction with his or her job depends mainly on what they learn from the cues that others (such as co-workers) in the environment are giving off (Salancik & Pfeffer, 1978; Thomas & Griffin, 1983). Therefore, employees within the same store should experience the same physical and social cues, resulting in a shared level of job satisfaction.

Emotional contagion is another theory which would suggest that affective states such as mood may be communicated among individuals within a unit (Hatfield, Cacioppo, & Rapson, 1994). Because attitudes can be passed from person to person, satisfied employees may engender even more satisfied employees, just as dissatisfaction may be spread amongst co-workers.

A few studies have employed the organizational-level of analysis when looking at the satisfaction-productivity link. Ostroff (1992) examined the satisfaction-performance
relationship at aggregate levels using a sample of 298 schools and found significant relationships between satisfaction (teacher satisfaction) and performance (student productivity) (average \( r = .26 \), depending on measure of performance used). Another study investigating restaurants in a regional chain used a cross-lagged approach over a two year time period and found store’s employee satisfaction level to relate to store effectiveness (Koys, 2001) (average \( r = .24 \), depending on measure of performance). A recent study by Schneider et al. (2003) was another one of the few to examine this relationship at an aggregate level. At the organizational level of analysis, Schneider and colleagues’ (2003) data also revealed a significant relationship between satisfaction and performance (average \( r = .27 \), depending on measure of profits used and time lag).

**Operationalizations of Performance**

Another factor that generates further questioning regarding the nature of the satisfaction-performance relationship is how performance has been operationalized over the years (Fisher, 2003; Judge et al., 2001; Wright & Cropanzano, 2004). Some of these operationalizations include self-rated performance, supervisor-rated performance, firm performance, and customer satisfaction (e.g. Ryan et al., 1996). In fact, one study looked at student test scores and teacher turnover as indicators for productivity for schools (Ostroff, 1992).

One of the debates that has occurred regarding which measure to use revolves around the use of objective measures of performance (e.g. firm’s financial productivity) as opposed to subjective measures (e.g. supervisor ratings). Some researchers argue that objective measures, such as financial productivity, are the variables that are of most interest to organizations and therefore should be used (Denison, 1990; Schneider et al.,
2003). For example, Ledford (1999) expressed that these types of objective measures are still better than using subjective supervisor ratings of work behavior and suggested subjective measures of performance are a fatal flaw in the happy-productive research arena. Other researchers agree that subjective ratings may be biased, such that supervisors may be motivated to evaluate employees based on other goals besides being accurate, resulting in rater errors such as halo effects (Ledford, 1999; Murphy & Cleveland, 1995). Research has noted that “more objective or quantitatively oriented measures of performance be used whenever possible” (Wright and Cropanzano, 2000). Therefore, one of the indicators of performance I investigate is financial productivity at the store-level. While individual-level productivity is important, organizations as a whole typically look to maximize their revenue in order to gauge their success. If one store is not performing as well as another, that store is given more attention and root causes are identified.

However, others suggest that firm-level financial indicators are not appropriate indicators of employee or store level performance. This is because there are many factors that contribute to financial outcomes that are unrelated to controllable human behaviors, as we typically conceptualize performance. For example, the market within which stores operate, along with their location, size, busyness, age, and store-level initiatives may alternatively contribute to the financial profitability of a store (e.g. Ryan et al., 1996). Further, profitability is not something employees within an organization do; financial results are really better understood as an outcome or result of employee performance. Thus, while some have tested financial profitability under the rubric of performance (e.g. Ryan et al., 1995; Schneider et al., 2003), it may in fact better be understood as a second-
level outcome, or outcome of performance. As a result, financial profitability is investigated in the current paper separately from other indicators of performance important to organizations.

Performance as defined by store customers is another measure of store success (Heskett, Sasser, & Schlesinger, 1997). In fact, in a survey of 700 top executives in the United States, 64% indicated customer satisfaction was their first priority, while the other 36% suggested that it was one of their top priorities (Bernhardt et al., 1999). Therefore, in addition to store profitability, I will also be assessing customer-related performance measures tapping into employees focus on customers and customers’ satisfaction on a store-by-store basis. Because retail organizations provide service in addition to tangible products, understanding what variables will enhance these complex customer service exchanges is critical in predicting organizational effectiveness and success (Ford, 2000). It is these perceptions that are important indicators of customers’ willingness to return to the store and tell others about their experience with the store (Zeithaml, Parasuraman, & Berry, 1990). According to Ostroff (1992), general agreement exists that internal (a store’s assessment of productivity) and external (others’ evaluations of success) criteria are needed for a more comprehensive evaluation of organizations. The current study focuses on store profitability (internal) and customer performance behaviors (external).

While using these two indicators of performance when investigating the satisfaction-performance relationship is nothing new, what *is* new is my interest in looking at how these variables are different and may differentially impact their relationship with work attitudes. Researchers have been known to lump together both profitability of the store and customer-related performance measures as both equally
representing organizational performance. I suggest that this is erroneous in that they are not the same thing. In fact, some research has suggested that the two may have a negative or zero correlation (Schneider, 1991; Tornow & Wiley, 1991; Zeithaml et al., 1990). While at first this may seem counterintuitive, there are several reasons why this may happen. For example, an organization could go through a major cost cutting initiative, saving money but decreasing customers’ evaluations of the store because they do not have the selection they used to carry (Bernhardt et al., 1999). On the other hand, the service profit chain would suggest a consistent positive relationship, such that when customers are satisfied and loyal they would return to stores with more frequency and therefore increase sales (Heskett et al., 1997). When researching these two performance measures, not only should they be examined separately, but they could also have unique relationships with satisfaction as discussed below.

Directionality

The question of whether satisfaction acts as the predictor of performance or performance as the predictor of satisfaction is important for the practical conclusions. Theoretical rationale exists to support both causal directions. Unfortunately, empirical testing of the causal nature has been limited due to researchers typically relying on cross-sectional data, such that satisfaction is assessed at the same time as job performance data is obtained. According to several researchers in this area and in other areas of psychology, causal inferences based on cross-sectional data are problematic and potentially illegitimate (see James, Mulaik, & Brett, 1982). The challenge has been to examine the causal nature of these variables by gathering data over time (longitudinal,
panel or cross-lagged designs) in order to test the two competing directional hypotheses; unfortunately, these studies are rare (Harter et al., 2002; Wright et al., 2005).

In the current study I suggest different causal relationships based on the distinct definitions of the performance variables. While in the past both financial profitability and customer-related performance measures have typically been grouped together under the rubric of performance, the uniqueness behind these variables could suggest different causal relationships with satisfaction. Because of the mixed findings surrounding the variables of interests, “we can only conclude that the direction of causality between employee satisfaction and organizational effectiveness is still an open question needing further research” (Koys, 2001, p. 111). Therefore, the current study proposes unique directional relationships between stores’ employee satisfaction and performance in the eyes of the customer experience, as well as stores’ employee satisfaction and performance in terms of objective financial data.

A Satisfied Store Leads to Higher Customer-related Performance

Happy workers may indeed be more productive when “productive” refers to customer-related performance. Social exchange theory suggests there is an exchange of socio-emotional benefits between employees and their organization (Blau, 1964). The way this exchange relationship works is that employees who are satisfied with their job in an organization feel a personal attachment to the organization and feel obligated to reciprocate in some way. The employees’ positive attitudes may suggest behavioral reciprocation via enhanced job performance. However, job requirements may not allow for much variability in task performance, as performance may be limited by ceiling effects, and thus it is unlikely to vary due to job attitudes (Fisher, 1980). Therefore,
workers that feel the desire to reciprocate because of their satisfaction with their job would typically do so with “extra” behaviors that will repay the organization above and beyond what is expected (Bateman & Organ, 1983; George, 1991; Ostroff, 1993; Eagly & Chaiken, 1993). Employees, seeking an outlet for these positive feelings, find that organizational commitment behaviors (OCBs) can contribute to the general functioning of the work environment. Thus, OCBs, from an exchange theory perspective, are means for employees to reciprocate fair treatment from the organization. Contextual behaviors demonstrated by satisfied employees within a store, including going above and beyond to help customers, volunteering and supporting other peers in order to free them up to assist customers, and being extra polite and courteous, could all enhance a customers’ experiences when visiting that store (Podsakoff & MacKenzie, 1997; Schneider, Ehrhart, Mayer, Saltz, & Niel-Jolly, 2005). Overall, when employees’ satisfaction inspires them to go beyond their call of duty in face-to-face interactions with customers, customers’ expectations are immediately exceeded (Bettencourt, Gwinner, & Meuter, 2001; George & Bettenhausen, 1990; Wayne, Shore & Linden, 1997; Yoon & Suh, 2003). Therefore, it logically follows that stores with higher levels of job satisfaction than other stores should have more employees demonstrating these types of behaviors in the aggregate.

My assumption, based on the work of organizational theorists, is that employees who are satisfied, committed, and well adjusted will be more willing to … give their services wholeheartedly to the organization, than dissatisfied employees, who will be more likely to satisfy minimum expectations of required behavior (Ostroff, 1992, p. 965)

From a social psychology perspective, others have noted that prosocial gestures are most likely to occur when a person experiences a generalized mood state characterized by
positive feelings (Clark & Isen, 1982; Bateman & Organ, 1983; Isen, 1970, 1987; Isen & Baron, 1991). In fact, Williams and Shiaw (1999) reported that the amount of positive affect currently experienced by employees significantly influenced their intention of performing specific organizational citizenship activities. After controlling for historical OCB, individual demographic characteristics, and the traits of positive/negative affectivity, Williams and Shiaw (1999) found that the willingness of employees to perform OCB increased as their self-reported mood at work became more positive.

Additional theoretical rationale suggests there are both intentional and unintentional means by which satisfied employees within a store enhance customers’ experiences. The service profit chain model suggests that employee satisfaction leads to customer satisfaction through intentional means (Heskett et al., 1997). According to this model, employee satisfaction leads to conditions that enhance customers’ perceptions of value towards the store, and that value perception would lead to customer satisfaction and loyalty. These researchers note that it is through employees’ interests to deliver results and value to customers that the customers feel the effects, are satisfied with the store or organization, and respond positively to customer-related performance evaluations.

In addition, the satisfied attitude could also spread to customers through unintentional means. Emotional contagion is a phenomenon that suggests that when people are in certain moods, that mood is often communicated to others (Hatfield, Cacioppo, & Rapson, 1994). These researchers propose that emotional states and attitudes can be passed from person to person through both conscious and unconscious induction. Based on the process of emotional contagion, customers see smiling, satisfied employees, which leads the customers to mimic the smiles, leading to the customers’
self-perceptions and feelings of satisfaction and happiness with the encounter (Hatfield et al., 1994). Therefore, to the extent that a store has satisfied employees that demonstrate their satisfaction through physical cues, customers interacting with these store representatives catch their satisfied emotion and interpret their experience with the store as a satisfactory one. Because the mimicry involves “facial expressions, vocalizations, postures, and movements”, it seems likely that emotional contagion would be especially pronounced when employees have face-to-face interactions with customers (Hatfield et al., 1994, p. 151). In fact, previous research has supported that ‘‘service with a smile’’ impacts customers’ impressions of the service encounter (Grandey, Fisk, Mattila, Jansen, & Sideman, 2005; Pugh, 2001; Tsai, 2001). Therefore, stores with more satisfied employees could unintentionally increase customers’ evaluations of stores performance simply because customers are put in a good mood by store employees and associate their experiences with the store as positive ones.

There are several empirical studies that have found support for the causal path from employee satisfaction to customer-related performance at the unit level of analysis. Using data collected over time and at the store-level across restaurants in a chain, Koys (2001) found that employee satisfaction ratings during year one predicted an increase in customer satisfaction at year two, after controlling for customer satisfaction at year one \((b = 0.62, p < .01)\). The reverse causal direction (customer satisfaction predicting employee satisfaction) was not supported by the data \((b = 0.39, p > .10)\). Schmit and Allscheid (1995) used Bagozzi’s (1992) attitudes-intentions-behavior model to demonstrate that employee satisfaction at work in a service-oriented organization (attitudes) positively influenced their intentions to provide quality service to customers (intentions), which
then led to the increase of actual customer service behavior (behavior). Therefore, I propose:

**Hypothesis 1a: Time 1 store-level employee satisfaction predicts changes in time 2 customer-related performance.**

It should be noted that others have proposed the alternative direction: that performance (defined as customer satisfaction) influences employees’ satisfaction within a store. This may be because “service industry jobs where contact with customers is greater than contact with peers or supervisors may be ones where attitudes are influenced by forces external to the organization” (Ryan et al., 1996, p. 875). Rather than variables internal to the organization affecting employees’ satisfaction, in some service organizations external customers will have more of an effect on the situations that determine employee job satisfaction. This may be more likely the case for organizations where employees primarily interact with external customers (e.g. customer call center) and have little contact with internal organizational members. Ryan et al. (1996) found that time one customer satisfaction influenced time two employee satisfaction as opposed to vice versa (employee satisfaction causing customer satisfaction). However, because these authors looked at branches of a financial services organization where employees spent a majority of their day interacting only with customers via the phone, the context and internal organizational members may have been less likely to influence work attitudes than in other jobs (Koys, 2001; Schmit & Allscheid, 1995). With the majority of employees’ interactions being only with customers, and a minority being with
variables internal to the workplace, influences of customers would be stronger and the causal direction would be reversed: the extent to which customers were happy and satisfied would impact the satisfaction of employees within a unit. However, given the nature of retail stores where employees interact face-to-face with many organizational members as well as customers, I propose store performance as defined as customer-related measures is an outcome rather than a cause of stores’ levels of employee satisfaction.

**Hypothesis 1b:** The relationship of time 1 store-level employee satisfaction and time 2 customer-related performance is stronger than the relationship between time 1 customer-related performance and time 2 store-level employee satisfaction.

**Financial Profitability Leads to a Satisfied Store**

When looking specifically at financial indicators of performance, I propose the opposite effect: a store’s performance affects the satisfaction of employees within that store. Based on motivational models and theories of job satisfaction, such as expectancy theory and discrepancy theory, feedback informing employees of a store’s success results in satisfaction (Carver & Scheier, 1981; Vroom, 1964). For example, discrepancy theory suggests that individuals compare their current situation (e.g. current store profitability) to their goals (e.g. organizationally set goal of profitability); the discrepancy between the two is what affects employees’ levels of satisfaction (Lawler, 1971). However, when a store has reached some specified level of profitability, employees will have reached the set goal. The perceived outcomes of achieving such goals, which may be intrinsic
(feeling good about achieving the goal that was set for the store, feeling of being a part of a “winning team”) and/or extrinsic (bonuses, verbal commendations/feedback), elicit feelings and attitudes about the effort they put in to their job in general (Hackman, 1987; MacKenzie, Podsakoff & Ahearne, 1998; Porter & Lawler, 1968). It is through these types of rewards that financial performance would lead to stores’ employees feeling more satisfied on average. This idea is supported by a meta-analysis conducted by Podsakoff and Williams (1986), such that the relationship between performance and satisfaction was stronger when rewards for performance were present than when not.

While at the organizational level, high performance stores can provide multiple extrinsic rewards its employees, it cannot be assumed that all employees within a store (e.g. front-line employees) will see direct, financial rewards from an increase in the organization’s profits. The way these employees may see the effects of firm-level success may be through communications and feedback from their manager on how their performance contributed to the store in efforts to rally the troops in being even more engaged in their work. Further, store success may result in increased resources at employees’ disposal and a focus on creating a better environment in general for employees to operate in. Additionally, a profitable store might have an enhanced reputation and be viewed as more attractive, leading to an increase in the number of applicants, decrease in the number of attritions, and higher levels of satisfaction being reported by those who are currently employed (Schneider et al., 2003). By being a part of a winning team, employees within a store would not have fears associated with future downsizing or imminent termination.
In support for store level profitability causing employee satisfaction at the store level, a cross-lagged study examined both of these variables in 35 companies over the course of 8 years (Schneider et al., 2003). These researchers found that objective firm performance (return on assets and earnings per share) predicted overall store level job satisfaction better than the reversed causal direction. The robustness of this time lagged study shows empirical support for the idea that organizational profitability is a better predictor of employee satisfaction than employee satisfaction is of organizational profitability. Therefore, I predict:

Hypothesis 2a: Time 1 store profitability predicts a change in time 2 store-level employee satisfaction.

It should be noted that theories at the individual level of analysis have oppositely suggested that individual employee satisfaction causes individual employee performance, although a limited amount of research has been conducted testing this unidirectional path (Judge et al., 2001). The reason for this proposed direction may simply be due to the motivation or extra effort employees would have because they have positive affective feelings associated with their job. However, at the store-level of analysis where firm productivity is used as a measure of performance, I believe that customer-related performance would be the proximal outcome of employee satisfaction while financial profitability would be a more distal criterion. This is because a store’s level of employee satisfaction would more powerfully affect the store’s customers through employee effort directed toward helping and other organizationally productive behaviors over which they
have the autonomy to demonstrate (Hypothesis 1). It would be the outcome of this type of performance that could be measured through store profitability. Therefore, based on this review, I propose financial indicators of performance will have a stronger influence on stores’ levels of employee satisfaction than vice versa. Thus, when thinking about productivity as store profitability, a productive store is a happy store.

**Hypothesis 2b: The relationship of time 1 store profitability with time 2 store-level employee satisfaction is stronger than time 1 store-level employee satisfaction with time 2 store profitability.**

**Leader Behavior as the Missing Link**

As mentioned earlier, research investigating the satisfaction-performance link has excluded the examination of multiple contextual variables that affect employees’ working life. The current paper takes a deliberate look at one of these important variables, leader behaviors, in order to understand how leaders of stores in which employees work could affect the satisfaction-performance relationship. In the Judge et al. (2001) review piece, several models are reviewed that could help in further elucidating how other variables affect the satisfaction-performance relationship. One of the theoretical perspectives offered is that satisfaction and performance are moderated by other contextual variables that change the way we think of the relationship. According to these authors this model is “by far the most common means of investigating the job satisfaction-job performance relationship” (p. 379). However, another perspective is that there are contextual variables that act as confounds of the relationship, in other words, variables that cause both
satisfaction and performance, creating a spurious relationship between satisfaction and performance that is actually due to extraneous, unmeasured variables (also see Wright et al., 2005). Leader behaviors have certainly been shown to relate to both satisfaction and performance, and thus could be examined as potential confounds. I will discuss this possibility further below. However, first, I investigate the role of leader behaviors as substantive part of the model that change the way we think about the causal pattern between satisfaction and performance. Further, I examine distinct dimensions of leader behavior that might differentially impact the employee satisfaction-performance relationship.

**Leader Behaviors as Moderators Influencing the Satisfaction and Performance Relationship**

It has been suggested that the satisfaction-performance relationship may be moderated by several variables. In Judge et al.’s (2001) most recent meta-analysis, they found a credibility interval that was relatively wide (from .03 to .57), indicating that there was substantial variation in the individual correlations across the 312 studies and that moderators might be present. One of the many contextual variables that exists in organizational life that could affect the satisfaction-performance link at the store level is the manager or leader of the store.

Several leadership theories would support the idea that specific leader behaviors moderate the relationship between satisfaction and performance. For example, contingency models of leadership are based on the assumption that different behavior patterns of leaders will be effective in different situations, suggesting that the same
behaviors are not always viewed as optimal in all situations. For example, Fiedler’s work predicts that a task-oriented style of leadership is most effective when situations are highly favorable or highly unfavorable, whereas leaders who are more relationship-oriented are most effective under conditions of moderate favorableness (Fiedler, 1967). Further, path-goal theory (Evans, 1970; House, 1971) proposes that leaders can inspire greater satisfaction and higher performance in subordinates by influencing them to believe valued outcomes can be attained through effort; however, certain aspects of the situation, such as subordinate attitudes or possibly profitability of a store, determine the optimal amount of each type of leader behavior for improving important outcomes. Based on expectancy theory of motivation, this theory proposes that certain behaviors elicited by leaders under specific organizational conditions increases one’s motivation and performance.

Additionally, leadership substitutes theory (Kerr & Jermier, 1978) suggests that the impact that formal leaders can have within a specific organizational context will change depending on certain aspects within that situation. According to this theory, while certain characteristics of subordinates may require specific leader behaviors in order to have a desired impact on performance, other characteristics may make certain leadership behaviors redundant or irrelevant. Interestingly, both the path-goal and leadership substitutes theories of leadership have been criticized for “reliance on categories of leader behavior that are defined too broadly” (Yukl & VanFleet, 1992, p. 170) and “it is likely that stronger support would be found for the theory if some key propositions were restated in terms of more narrowly defined behaviors” (p. 169). As a result, in order to make specific predictions on how leader behaviors may moderate the
satisfaction-performance link, more narrowly defined dimensions of leadership behaviors are discussed. To my knowledge there has been little work differentiating how different leader behaviors influence the relationship between employee satisfaction and performance. I propose that discriminating between different types of leader behaviors will help us understand how they influence the satisfaction-performance link and give us insight as to what kind of behaviors leaders should focus on in order to maximize the outcomes of interest.

Early leadership studies sought to categorize leadership behaviors in general into dimensions that made practical sense. For example, Ohio State University in the 1950s factor analyzed subordinates’ perceptions of their leader’s behavior and found two independent categories: people-oriented behavior (behaviors like worker support, intrinsic motivation, and team building) and task-oriented behavior (goal setting, monitoring, and directing behaviors)(Tett, Fox & Palmer, 2003). Similar dimensions have been found by Fiedler (1967), the leadership studies at the University of Michigan, and Stogdill (1963). While this simple two-factor taxonomy provided a good starting point, “these broadly defined behaviors are too abstract to provide a basis for understanding how leaders handle the specific role requirements confronting them” (Yukl & Van Fleet, 1992). Therefore, through efforts to classify leaders’ behaviors based on different job responsibilities, Yukl proposed an integrated taxonomy with 14 categories that could apply to any leader or manager (see the Managerial Practices Survey, Yukl, Wall, & Lepsinger, 1990); some behaviors include clarifying, informing, consulting, and mentoring.
The current paper investigates two types of leader behaviors that theoretically impact the proposed relationships between employee satisfaction and performance at the store level. Understanding the types of leadership behaviors that could moderate these relationships could help organizations identify behaviors demonstrated by leaders that will enhance the criteria that is of most interest to them.

*Customer-directed Leader Behavior*

The first causal relationship proposed in this paper hypothesized that employee satisfaction at the store level will have an impact on customer-related performance measures a year later. Based on the social exchange theory (Blau, 1964), I have suggested that satisfied employees look for ways to repay the organization that are outside of their in-role requirements. From a role modeling perspective, I propose that to the extent leaders within the store demonstrate behaviors that are directly aimed at serving, helping and satisfying customers, subordinates will have a focus to direct their “repayment”. Based on Bandura’s (1977; 1986) social learning theory, behavioral modeling is an important means of teaching new behaviors and modifying outcomes. Specifically, this theory suggests that “virtually all learning phenomena, resulting from direct experience, can occur vicariously by observing other people's behavior and the consequences for them” (Bandura, 1986, p. 19). Further, when employees work in settings where these types of behaviors are more frequent, there should be increased modeling opportunities for workers to observe these types of behaviors. Leaders that demonstrate these behaviors will be emulated by their subordinates, and thus employees will display higher levels of the same behaviors (Ehrhart, 2004). Others agree, suggesting that helping behaviors are especially influenced by role models (Berkowitz,
1970; Krebs, 1970). Some of the assumptions made in path-goal theory of leadership suggest that leader behaviors provide guidance around how employees should behave (House, 1996): “leader behavior will enhance subordinate task relevant abilities to the extent that the leader….serves as a role model from which followers can learn appropriate task relevant behavior” (House, 1996, p. 335).

In addition, with leaders and subordinates demonstrating behaviors that are helpful to customers, a strong climate for service may be developed (Schneider, White, & Paul, 1998). According to a study by Schneider, Salvaggio, and Subirats (2002), the interaction of service climate and climate strength predicted customer satisfaction. Their sample consisted of employee and customer survey data from 134 bank branches, collected in 1990 and 1992 from employees and in 1990 and 1993 from bank customers. While this research looked at four different dimensions of climate as related to customer perceptions of service quality, results found that only one of these dimensions of climate, managerial practices (defined as the branch manager’s behaviors that support the delivery of service) demonstrated a significant main effect on each of the customer experiences scales as well as a significant interaction with strength on the customer experiences scales, for both concurrent and predictive data sets. This suggests that to the extent leaders engage in behaviors directed at increasing the satisfaction of customers, the stronger the service climate strength, resulting in positive customer experiences.

Therefore, based on aspects of the social learning theory (Bandura, 1986), propositions made by the path-goal theory of leadership, and service climate research, the more leaders demonstrate an orientation toward helping customers, the more likely satisfied employees will be to engage in similar customer-oriented behaviors than less
satisfied employees, when expressing their satisfaction to the organization. Conversely, the more leaders do not value helping customers or making customer satisfaction a goal, the weaker the relationship should be since expressions of satisfaction will be more variable. Therefore, I propose:

**Hypothesis 3**: Leaders’ customer-oriented behaviors will moderate the relationship between employee satisfaction at time 1 and customer-related performance at time 2, such that the relationship will be more strongly and positively related when leaders are more customer-oriented and more weakly related or non-existent when leaders are less customer-oriented.

**Employee-directed Leader Behavior**

Leader behaviors could also affect the relationship between store profitability and employee satisfaction. Previously it was suggested that the reason higher store profitability leads to increased employee satisfaction. The discrepancy theory of job satisfaction (Hackman & Lawler, 1971; Lawler, 1981; Bandura & Locke, 2003) would support this notion. Discrepancy theory suggests that one’s level of job satisfaction is the result of the difference between the actual outcome a person receives and the expected outcome level. A comparison in which an actual outcome level was lower than an expected outcome level would result in dissatisfaction, whereas an actual outcome that is closer to the expected outcome would result in greater satisfaction (Lawler, 1973). Applied to work, the more employees’ achieve their desired work outcomes, the more that they will hold positive job attitudes and exhibit positive job behaviors.
However, the direct relationship between store performance and satisfaction is contingent upon the idea that employees get feedback about the fruits of their labor. Satisfaction will only be affected if employees are made aware that they attained/did not attain their goal. Therefore, the more a leader gives feedback to his or her employees, the greater the likelihood that employees will become aware when the store is successful (or unsuccessful), resulting in some level of satisfaction. Other discrepancy models, for example control theory (Carver & Scheier, 1981) and feedback intervention theory (FIT) (Kluger & DeNisi, 1996), support this notion and suggest that satisfaction will be affected when employees compare feedback of their performance to goals or standards (Atwater & Brett, 2005). In fact, numerous organizational communication studies have investigated the relationship between intraorganizational communication and employee job satisfaction and, in examining diverse communication variables, have noted the communication style of employees’ immediate supervisor as an important factor affecting employee job satisfaction (King, Lahiff, & Hatfield, 1988).

Stores where leaders are focused on providing regular feedback to his or her employees would likely increase the chances that employees would become aware and affected by the success of the store. Note that the more feedback given by a leader, the stronger the relationship between store profitability and satisfaction; if the feedback concerning the store’s success is negative and employees did not reach the store’s goals, the lower the employees’ satisfaction within that store. However, the less communicative a leader may be with his or her employees, the weaker the relationship between profitability and employee satisfaction.
Therefore, I propose leader behaviors that are more employee-oriented, in terms of focusing on keeping employees informed on store performance, will strengthen the relationship between store profitability and employee satisfaction.

**Hypothesis 4:** Leaders’ employee-oriented behaviors will moderate the relationship between store profitability at time 1 and employee satisfaction at time 2, such that the relationship will be more strongly (and either positively or negatively) related when leaders are more employee-oriented and more weakly related or non-existent when leaders are less employee-oriented.

**Leader Behavior as a Confound**

Another possibility as noted in the literature (Judge et al., 2001; Wright et al., 2005) is that leader behaviors act as a confound of the satisfaction-performance relationship. As Judge et al. (2001) suggest in their review piece, “few studies have formally tested the hypothesis that the job satisfaction-job performance relationship is spurious” (p. 379). Wright and colleagues have recently highlighted leadership as a possible confound, suggesting that “effective leaders cause organizational performance, and they also treat employees well through progressive HR practices” (Wright et al., 2005, p. 419). These authors argue that because leaders contribute toward defining strategic direction, integrating various job activities, coordinating communication between organizational units, and monitoring activities, these behaviors are likely to directly affect performance as well as satisfaction (Wright et al., 2005). Therefore, a spurious relationship may exist.
Others have discussed the strong relationship between leader behaviors causing both satisfaction and performance. As Katz and Kahn (1978) note, “the role of the leader is to provide the necessary incremental information, support, and resources, over and above those provided by the formal organization or the subordinate’s environment, to ensure both subordinate satisfaction and effective performance”. Research consisting of empirical studies and meta-analyses support that effective leadership behaviors are related to both higher levels of employee satisfaction and business unit performance (e.g. Avolio, 1999; Bass, 1998; Bycio, Hackett, & Allen, 1995; Howell & Avolio, 1993; Waldman, Ramirez, House, & Puranam, 2001). A study examining leadership behaviors (including articulating a vision, providing an appropriate model, fostering acceptance of group goals and individualized support) found that they all positively related to general job satisfaction and performance of the 1539 employees surveyed (Podsakoff, MacKenzie, & Bommer, 1996). Meta-analyses found that supportive leader behaviors had a significant correlation with job satisfaction as well as performance (e.g. Lowe, Kroeck, & Sivasubramaniam, 1996; Patterson, Fuller, Kester, & Stringer, 1995).

Thus, it is possible that leader behaviors directly predict both store satisfaction and store performance, and act as a third variable that inflates the actual relationship between satisfaction and performance. However, the majority of studies confirming a positive relationship between leadership behaviors, satisfaction, and performance collect these data at the same point in time, and typically from the same source, such that implications of leader behaviors as causing both satisfaction and performance is yet to be clearly defined (Bass, Avolio, Jung, & Berson, 2003). Thus, in addition to testing moderating effects of leader behaviors, I contribute to this literature by identifying
whether the relationships of satisfaction and performance exist while controlling for leader behaviors, as discussed above. Therefore, I propose:

*Hypothesis 5: Causal relationships found between satisfaction and performance will still exist after controlling for leader behaviors.*

**Summary of Current Paper**

In seeking to clarify the relationship between employee satisfaction and organizational performance, this paper contributes theoretically to the literature in several ways. Based on a review of the satisfaction-performance link, this paper replicates recent research by testing the causal nature of this relationship, examined at the store level of analysis and through longitudinal, multi-wave measurement overtime. Not only are there a limited number of empirical studies that have examined the relationship at an aggregated level, it is also of practical importance to understand how store performance could affect or be affected by the levels of satisfaction within the store. In extending research in this domain, I make two unique theoretical contributions. The first is the distinct mechanisms that link satisfaction with different conceptualizations of performance. While previous research may not have fully considered the impact the definitions used have on the results found, this paper carefully dissects the conceptual differences between store financial profitability and customer-related performance measures, suggesting each may causally relate to employee satisfaction differently due to their fundamental differences. While both profitability and customer-related performance
are critical to a service organization’s understanding of productivity, these two variables are distinct and must be treated so

As a second theoretical contribution, leadership behaviors are taken into consideration to help us better understand the satisfaction-productivity relationship. So often leaders are described as having a substantial impact on the behavior of their subordinates – this paper looks carefully at how this may happen. In doing so, I uniquely combine the satisfaction-performance and leadership literatures to better understand how leaders’ behaviors change the satisfaction-performance links. I also look to certain types of these behaviors to understand how they affect the employee satisfaction-productivity differently. Identifying these types of leadership behaviors and the substantial impact they could have on their constituents’ satisfaction and store’s performance will be imperative information to impart onto organizations looking to maximize success. Alternatively, the proposition that leader behaviors may simply confound the relationship is also tested in order to further demonstrate the importance of looking at leader behaviors as a substantive part of satisfaction-performance relationship.
Chapter 2

METHODS

The current research was conducted in a large retailer of home improvement products, equipment, and services, with 175,000 employees operating 1,255 stores across 49 states. The full sample I had access to included data from 328 stores from five divisions and 23 regions across the United States. For 2003, only 276 stores’ data were obtained, while in 2004, all 328 stores had data.

Design

A predictive design (as described by Wright et al., 2005) is employed in the current study. While some research investigating causal links have done so using a post-predictive design (measuring the predictor after the criterion), retrospective design (asking respondents to recall the predictor that existed prior to the criterion period), and contemporaneous design (gathering the predictor during the criterion period, such that the criterion includes time before, during, and after the predictor), the current study tests causal relationships by looking at predictors at a point in time that are temporally precedent to the criteria (Wright et al., 2005). Further, the current study controls for preceding levels of the criteria of interest in order to predict the change over time.

Measures

*Store-Level Employee Satisfaction*

The organization of interest used an instrument called the Gallup Workplace Audit (GWA; The Gallup Organization, 1992-1999) to measure store-level employee job satisfaction. The audit is composed of 12 items that measure employee evaluations of work characteristics (see Appendix A). They were developed through focus groups,
research, and management and scientific studies of the aspects of employee satisfaction and engagement that are important and influenced by the manager at the business-unit or work-group level. The 12 items are asked of each employee within the business unit (i.e. store) with five response options (1 = strongly disagree, 5 = strongly agree). Paper-pencil surveys were handed out halfway during the fourth quarter of the company’s fiscal year during both years of interest (Time 1 = October 2003; Time 2 = October 2004). After 3 weeks, the surveys were collected and responses were averaged to the store level by the organization.

While the Gallup Workplace Audit is not a traditional I/O psychology measure used to assess job satisfaction, it is similar to cognitive evaluation facet measures such as the Minnesota Satisfaction Questionnaire or the Job Descriptive Index. The GWA taps more directly into employees’ cognitive evaluations of the job as opposed to some traditional job satisfaction measures that assess employees’ happiness or affect in general. In fact, Brief (1998) suggested that cognitions correlate more strongly (average $r = .70$) with job satisfaction than does affect (average $r = .43$). Further, the GWA is a facet measure that is averaged together and expressed as one global measure of job satisfaction. This method is similar to the Ryan et al. (1996) approach where aspects of the job employees might be satisfied with are measured, however combined together to represent “morale”.

Research has found that the GWA items explain most of the variance in lengthier overall job satisfaction and employee opinions surveys, and therefore is a similar underlying construct (Harter et al., 2002; Mount, Colbert, Harter, & Barrick, 2000). A meta-analysis of 4,172 store level correlations found the convergent validity between
longer surveys measuring facets of job satisfaction and the 12 items of engagement from
the GWA was found to be $r = .77$ (at the business unit level, $N = 8,127$). Further, this
research showed the correlation between overall employee job satisfaction (measured by
one item asking the participant how satisfied they are with their place of work) and
performance (measured as a composite performance including customer satisfaction,
profitability, productivity, turnover and safety) was $r = .37$ (after corrections made) while
the correlation between the GWA and performance was $r = .38$ (after corrections made)
(Harter et al., 2002), suggesting they have similar predictive validity.

In the current study, data collected from stores in 2003 show an average response
of 3.54 on the 1 to 5 scale ($sd = 0.26$, $min = 2.71$, $max = 4.67$), and in 2004 an average of
3.00 ($sd = 0.29$, $min = 3.00$, $max = 4.67$). Because the individual item-level responses
were not available from the participating organization, I can not assess for the reliability
of the scale using the current sample. However, previous research on this instrument
using a sample of 4,172 business units found a Cronbach’s alpha of .91.

*Store Performance*

Two general types of store performance were obtained: customer-related
performance measures and financial indicators.

*Customer-related performance.* Given that this organization is a retail store, part
of its performance is based on customer service. As part of this organization’s customer-
oriented program, four measures of performance related to customers are obtained for
each store: (1) employee responsiveness to customer needs, (2) evaluations by “mystery”
shoppers, (3) customer satisfaction surveys, and (4) lack of customer complaints. These
four dimensions of customer-related performance divide into two constructs: the actions
of employees directed towards customer (responsiveness and mystery shopper) and the customers’ experience of these actions (customer satisfaction surveys and lack of customer complaints). While the first group may be more related to the actions of employees do to assist customers, the later grouping is the customers’ reactions as a result of these behaviors. Further, even within the groups there are differences. For example, while responsiveness is an objective measure (measured by time), mystery shoppers are more subjective (measured by personal evaluations). While combining these four into one overall construct of customer-related performance may allow for a more robust measure, because they may be tapping different aspects of the customer service experience, I chose to investigate them individually.

The organization uses a proprietary point system to objectively convert behaviors into points for the purposes of organizational measurement, with fewer points corresponding to poorer customer-related performance and more points corresponding to better customer-related performance. These data were collected during the fiscal years (February 2003 through January 2004 for fiscal year 2003, and February 2004 through January 2005 for fiscal year 2004), and then converted to store-level points.

The first measure used to gauge customer-related performance is responsiveness to customers. Responsiveness is a dimension of customer-related performance identified as critical by previous researchers investigating customer service quality (Parasuraman, Zeithaml & Berry, 1985; 1988). In the current study, responsiveness is measured by a behavioral measure. In each retail store, customer service stations are placed within the aisles. When customers have a question, they press a button at the station which prompts employees to come and answer the customers’ questions. When the employee arrives at
the station, they deactivate the call button. The length of time it takes for employees to respond is the indicator of responsiveness. Points are then assigned based on the length of time, with ranges of lengths of time corresponding to a certain number of points, from 0 (slowest to respond) to 6 (fastest to respond) points. In the current sample, \( M = 0.84 \) points for 2003 (\( sd = 0.82 \)), and \( M = 0.81 \) points for 2004 (\( N = 328, sd = 0.83 \)).

The second measure, *mystery shopper*, also assesses the customer service behavior of employees. Verbal and visual cues demonstrated by employees have been touted as information that affects customers’ perceptions of service transactions (Pugh, 2001; Rafaeli, 1989). This measure is obtained by individuals who are hired by the retail company to visit the stores playing the role of a customer, or “mystery shoppers”. These undercover shoppers evaluate the stores in the following three areas: (1) greeting (“Welcome to ___”), (2) directionals (“That can be found in isle 2”), and (3) checkouts (“Did you find everything you need?”). These confederates fill out a form where they check off which of these behaviors the employees engaged in. The more of these behaviors witnessed by the mystery shopper corresponds to points awarded on a -1 to 3 scale. In the current sample, the mean for 2003 was \( M = 1.43 \) points (\( sd = 1.07 \)) and for 2004 was \( M = 1.51 \) (\( sd = 1.16 \)). Mystery shoppers evaluate each store once per store for each fiscal month.

*Customer satisfaction survey* is the third measure of customer-related performance. As opposed to the previous two measures that evaluate customer-service based on employees’ behaviors, this survey assesses the customers’ perceptions of the experience they had when visiting the stores. These surveys are composed of responses from customers via an internet or telephone survey. An invitation to respond to this
survey is generated on random customer receipts when they check-out of the stores. The invitation asks customer to go online or call a 1-800 number to respond to the survey, for which, in exchange, the customer will receive a certain percentage off their next purchase from a store. The items on the survey assess the satisfaction customers experienced during their last visit to the store. With this measure, the reactions correspond to a certain number of points that are then awarded to that store. Different scales were used for this measure over the course of the two data collection periods (scale of -6 to 6 in 2003, -1 to 3 in 2004). The mean number of points awarded based on customer satisfaction surveys in 2003 was $M = 0.21$ ($sd = 1.50$) and for 2004 was $M = 0.73$ ($sd = 0.81$).

Finally, lack of customer complaints is another measure of the perceptions of the customers and their experiences visiting the store. It is measured as the absence of negative customer comment cards, letters, emails and phone calls received by the organization’s customer care department. With this measure, the fewer of these complaints received corresponded to more points. Like above, different scales were used for this measure over the course of the two years (-3 to 3 for 2003; -1 to 3 for 2004). The mean number of points awarded in 2003 was $M = 0.85$ ($sd = 1.28$), and was $M = 1.06$ ($sd = 1.24$) for 2004.

*Store Profitability.* In order to measure store-level financial performance, two measures within each store were examined: (1) sales and (2) net income before taxes (NBT). These were both obtained at the close of both the 2003 and 2004 fiscal years (January). For 2003, the stores’ sales average was $M = $40,000,000 ($sd = $9,529,876.99), and ranged from $20,000,000 to $70,000,000. For 2004, the sales average was $M = $40,000,000 ($sd = $11,338,970.99). The average net income before
The average net income before taxes was $M = 3,772,229 (sd = 2,283,150.57), and ranged from $-1,383,488 to $10,000,000, for 2003. For 2004, the average net income before taxes was $M = 3,923,995 (sd = 2,787,212.34), and ranged from $-2,025,034 to $13,335,611.

**Leader Behaviors**

To assess the effectiveness of store managers, the participating organization used Personnel Decisions International’s (PDI) TalentView® of Performance. TalentView® is a multi-rater performance measurement tool based on the competencies understood by PDI through research and application to be predictive of success at multiple managerial levels. TalentView® is designed to allow the organization to compare the behavioral performance of its people and is typically completed by the employee in question, the boss, peers and direct reports of the employee.

Because TalentView® is completely customizable, there is limited reliability research conducted on the particular leader questions used by the current organization, as these exact leadership dimensions have not been used by other organizations in understanding their leaders’ abilities. However, there has been previous research conducted on the validity of TalentView®. In assessing criterion-related validity, the behaviors assessed by TalentView® were correlated with independent measures of leader performance including: gets the job done, produces high quality work, meets and exceeds goal, gets work done on time, accomplishes a great deal, an effective manager overall and overcomes obstacles to achieve results. Based on a pilot study with 2,434 managers, correlations between these measures of overall leader performance (assessed by managers’ bosses) and TalentView® dimensions (assessed by other raters) yielded significant, positive correlations.
For the organization in question, the store manager, store manager’s boss, peers of the store manager and direct reports to the store manager completed the 360° behavioral assessment in October of 2003. Responses were recorded on a one to seven scale, 1 = not at all effective at this behavior and 7 = highly effective at this behavior. In the current study, I chose to focus on the survey responses of the direct reports rather than the other perspectives. The store manager’s boss and peers are not necessarily in the same store as the manager and his or her employees, so have less opportunities to observe the behaviors of interest to this study. I also did not include the store manager’s self-ratings; while the store manager may perceive himself or herself as effective at demonstrating these behaviors, I am more interested in the behaviors of these managers as perceived by his or her subordinates. The median of direct reports per store completing these assessments of store leaders was 6, with 2 being the minimum and 10 being the maximum. As will be discussed below, only those stores with sufficient levels of agreement among the direct reports were included in the current study.

The customized TalentView® used by the organization has 25 behaviors that it assesses of each leader. However, I am only interested in two of these skills: customer-directed (behaviors having to do with exceeding customer expectations) and employee-directed (behaviors that involve encouraging open communication with one’s employees) (see Appendix A for items). The first scale, measuring a leader’s focus on customers, had five items (α = .97). A sample item from this measure is “consistently and proactively searches for significant ways to improve customer service.” The second scale, which assessed a leader’s ability to communicate openly with his or her co-
workers, had four items ($\alpha = .95$), and included items such as “proactively shared timely updates and information with relevant parties.”

Control Variables

Store busyness, measured by the actual number of customers that bought an item from each store during each fiscal year, was controlled for in the current analyses due to the potential effect it could have on store profitability, as well as employee satisfaction and customer-related performance. Stores that are busier also have higher store profitability, lower customer service and potentially lower employee satisfaction (Grandey, Fisk, Matilla, Jansen, & Sideman, 2005; Pugh, 2001; Sutton & Rafaeli, 1988; 1990). Therefore, to minimize this variable from being a confound, I chose to control for it. Because I had store busyness measured at both time 1 (2003) and time 2 (2004), I controlled for this variable as measured at the same time as my DVs (time 2), as it is this period of time about which I am trying to explain variable. It should be noted that busyness is highly related to store profits; thus, controlling for busyness is a very conservative test of my predictions. I also run analyses without this control in an exploratory way (reported below).

I also control for the effect of my dependent variables at time 1 (2003) in each regression equation. Because I was interested in the amount of change my independent variables at time 1 (2003) had on my dependent variables at time 2 (2004), this was an important step.

Aggregation Issues

Many studies have aggregated individual level variables to represent a shared construct at the group or organizational level. According to Ryan et al. (1996), “any
study that operationalizes shared attitudes as an aggregation of attitudes measured at the individual level must consider whether sufficient theoretical and empirical support exists for treating the aggregating as an organizational level variable” (emphasis added, p. 856).

Theoretical rationale for studying job satisfaction at an aggregated level of analysis has been presented (Judge & Hulin, 1993; Ryan et al., 1995). In summary, because of the shared environment in which employees work, employees tend to have some agreement within unit for workplace attitudes. Empirically, because this variable is an aggregate of individual-level responses, within-group agreement should be demonstrated. However, in regards to employee satisfaction, it is not possible to do so within the current study because individual level responses are not available. Nevertheless, the studies reviewed in the current paper provide the reader with empirical rationale for examining these particular job attitudes at the higher-levels of analysis in customer service organizations. In the studies reviewed, interrater-agreement levels of employee satisfaction typically surpassed the standard levels (i.e., rwg > .70). For example, in Ryan et al. (1996), the average rwg was .73 for their job/company satisfaction attitude measure. Koys (2001) found rwgs of .84 and .72 for employee satisfaction. Schneider et al. (2003) found an rwg of .76 for their overall job satisfaction measure. In combination, there is strong theoretical and empirical support for studying employee satisfaction as a shared construct among co-workers within a store.

Individual level responses were available, however, for the measuring of leader behaviors. Since there were multiple raters of leader behavior at each store, I computed rwgs to assess within-store agreement to determine if aggregation was in fact appropriate. Aggregation is justified when the average rwg coefficient is greater than .70 (James,
Demaree, & Wolf, 1984). Reliability analyses were conducted for each store manager on each of the leader behaviors of interest. The average level of agreement for managers’ open communication behaviors was $\alpha = 0.86$, and the average store $\alpha = 0.88$ for managers’ customer focus behaviors.

Analyses

To examine the hypotheses of interest, I used hierarchical multiple regression. For Hypotheses 1a and 2a, I was interested in the effect of my independent variables on the change in my dependent variables a year later at time 2 (2004), above and beyond the effect of store busyness. Therefore, I entered my control variables in step 1: store busyness variables measured at time 1 (2003) and time 2 (2004) and the time 1 (2003) measure of my dependent variable. In step 2 of each regression equation I entered the independent variable as assessed at time 1 (2003). Hypotheses 1b and 2b each required a comparison of strength between the predicted directional regression equations and the alternative directional hypotheses (with the reverse causal ordering). Therefore, regressions were run with the original independent and dependent variables in the opposite places. To compare which directional hypothesis explained more of the variance, the change in $R^2$ was compared. I should also add that different regression equations were run for each profitability (sales and net income before taxes) and customer-related performance variables. Because they look at different aspects of the larger construct, I felt it important to treat them separately.

Hypotheses 3 and 4 looked at the impact of a third variable (leader behavior) on the relationship between my independent and dependent variables. Therefore, I conducted a test of moderation using Baron and Kenny’s (1986) research. To do this
analysis, I first centered my variables and conducted steps 1 and 2 noted above (Aiken & West, 1991). I then regressed the dependent variable on the leader behavior of interest for step 3. Finally, I created a cross product between the centered variables and entered this in step 4. By centering the variables before creating an interaction term, I reduced multicollinearity between the two and the interaction term which could render more meaningful interpretations.

Hypothesis 5 was examined by controlling for leader behaviors to see if causal relationships found between satisfaction and performance still exist. This was only conducted on relationships between satisfaction and performance that were supported by the data. In addition to steps 1 and 2 in the regression equation, I entered leader behaviors in step 3 to control for this variance. I then entered the IV in step 4 to see if it still accounts for a significant amount of variance in the DV. The models of each of the hypothesized relationships are depicted in Appendix B.
Chapter 3

RESULTS

Table 1 presents descriptive statistics for and intercorrelations among the variables of interest. As expected, store busyness in 2003 and 2004 was significantly and negatively correlated with several of the customer-related performance measures, and significantly correlated in a positive direction with all of the store profitability variables. Also, most of the variables assessed at time 1 (2003) significantly correlated with the same variable assessed a year later (2004), suggesting that controlling for these variables at time 1 was an important step in understanding the unique variance explained in variables at time 2 by other variables at time 1. In fact, only one variable (mystery shopper) did not relate to itself from time 1 to time 2, indicating it did not have substantial test-retest reliability. Further, because it was uncorrelated from other measures of customer-related performance, we cannot be clear what this variable is actually assessing and, therefore, it was dropped it from further analyses.

Satisfaction and Performance Analyses

In general, store-level employee satisfaction was significantly correlated with customer-related performance measures, however it was not correlated with store profitability. Employee satisfaction also significantly and positively correlated with both store managers’ behaviors of open communication and customer-focus. Tables 2-6 present the data from the multiple regression equations.

*Store-level employee satisfaction and customer-related performance*

Hypothesis 1a, which states that store-level employee satisfaction at time 1 predicts changes in time 2 customer-related performance, beyond the busyness of the
store, was supported by regression analyses (see Table 2). Stores’ ratings of employee satisfaction in 2003 predicted a significant amount of the variance in stores’ employee responsiveness \( (b = 0.24, \Delta R^2 = 0.05, p < 0.001) \) and customer satisfaction survey results \( (b = 0.18, \Delta R^2 = 0.03, p < 0.01) \) a year later (2004), beyond the level of these variables in 2003. This suggests that as stores had more satisfied employees there was a corresponding increase in customer-related performance during the following year while those with dissatisfied employees saw a decrease in customer-related performance.

Results, however, were not supportive of this relationship when examining the other measure of customer-related performance. Though significantly correlated with a lack of customer complaints in 2004, store-level satisfaction in 2003 only explained a marginal amount of variance in how many complaints stores received when controlling for the number of complaints received the previous year \( (b = 0.09, \Delta R^2 = 0.01, p < 0.10) \). Thus, while employee satisfaction was associated with this variable to some extent, the number of complaints stores receive from year to year stayed fairly consistent regardless of satisfaction.

Hypothesis 1b suggested that the relationship of employee satisfaction at time 1 and customer-related performance at time 2 is stronger than the reverse causal pattern. Therefore, regression analyses were performed with time 1 customer-related performance predicting time 2 store-level employee satisfaction and the results were compared with the satisfaction predicting performance results (see Table 3). When controlling for time 1 store-level employee satisfaction, none of the stores’ customer-related performance indicators uniquely predicted how satisfied store employees were a year later (employee responsiveness: \( b = 0.01, \Delta R^2 = 0.00, p > 0.10 \), customer satisfaction survey: \( b = 0.01, \Delta R^2 = 0.00, p > 0.10 \).
\( \Delta R^2 = 0.00, p > 0.10, \) lack of customer complaints: \( b = 0.00, \Delta R^2 = 0.00, p > 0.10 \). These results suggest that employee satisfaction stayed fairly consistent and was not changed by the customer-related performance the year prior.

To test if the relationships between store employee satisfaction predicting customer-related performance were in fact stronger than customer-related performance predicting employee satisfaction, the \( R^2 \)’s of these competing regression equations were compared. As demonstrated above, time 1 satisfaction predicted a significant amount of variance in the time 2 customer-related performance variables (e.g. employee responsiveness: \( \Delta R^2 = 0.05, p < 0.001 \), customer satisfaction survey: \( \Delta R^2 = 0.03, p < 0.01 \)), while the time 1 performance variables did not explain a significant amount of variance in time 2 satisfaction.

**Store Profitability and Store-level Employee Satisfaction**

To test Hypothesis 2a, I conducted hierarchical linear regression analyses using time 1 store profitability to predict stores’ employee satisfaction results at time 2, controlling for stores’ employee satisfaction the previous year (time 1) (see Table 4). The bivariate correlations were generally non-significant. Similarly, regression results did not support this hypothesis. Specifically, time 1 store profitability, including sales and net income before taxes, did not explain a significant amount of the variance in time 2 store satisfaction (sales: \( b = -0.15, \Delta R^2 = 0.01, p < 0.10 \); net income before taxes: \( b = -0.11, \Delta R^2 = 0.00, p > 0.10 \)). Further, the hypothesized relationship predicted a positive relationship between the two (the more profitable the store, the greater the store-level employee satisfaction), while these results suggested a negative trend between the two variables (albeit non-significant).
There was also interest in testing Hypothesis 2b: that the relationship between time 1 store productivity and time 2 store-level employee satisfaction is stronger than the causal effect of store-level employee satisfaction (time 1) on store profitability (time 2). Regression analyses showed a non-significant effect of time 1 store satisfaction on time 2 store profitability controlling for time 1 (sales: \( b = 0.01, \Delta R^2 = 0.00, p > 0.10, \text{ net before taxes: } b = 0.03, \Delta R^2 = 0.00, p > 0.10 \) (see Table 5). The current set of data did not support any causal relationship between store-level employee satisfaction and store productivity, as measured by sales and net income before taxes.

Leader Behavior Analyses

*Moderating effect of Customer-directed Leader Behaviors*

Hypothesis 3 suggested that the extent to which store managers were customer-focused would impact the relationship between store-level employee satisfaction predicting customer-related performance. After conducting hierarchical multiple regression to investigate the moderation hypothesis, results revealed no support for the predicted relationship with any of the customer-related performance measures (employee responsiveness: \( b = 0.05, \Delta R^2 = 0.00, p > 0.10 \); customer satisfaction survey: \( b = 0.03, \Delta R^2 = 0.00, p > 0.10 \); lack of customer complaints: \( b = 0.06, \Delta R^2 = 0.00, p > 0.10 \) (see Table 2). This suggests that the nature of the relationship between employee satisfaction and customer-related performance did not vary based on the extent to which the stores’ leaders demonstrate customer-focused behaviors. Hypothesis 3 is therefore not supported.
Moderating effect of Employee-directed Leader Behaviors

Hypothesis 4 suggested that the extent to which stores’ leaders demonstrate open communication behaviors as perceived by their direct reports will affect the relationship between store profitability (time 1) and stores’ employee satisfaction (time 2). However, hierarchical multiple regression analyses did not support this hypothesis (see Table 4). Adding the interaction term did not predict above and beyond the main effects of store profitability (time 1) and the level of leaders’ open communication (sales: $b = 0.02$, $\Delta R^2 = 0.00$, $p > 0.10$, net before taxes: $b = 0.01$, $\Delta R^2 = 0.00$, $p > 0.10$). This suggests that the nature of the relationship between store profitability and store-level employee satisfaction did not vary based on the extent to which the stores’ leaders demonstrate open communication with their employees. Hypothesis 4 is therefore not supported.

Leader Behaviors as a Confound

Significant correlations existed between the leader behaviors and both store satisfaction and store performance measures. Therefore, it was critical to determine if the causal relationships demonstrated above still exist when controlling for leader behaviors in the analyses. Hypothesis 5 was proposed to rule out the notion that leader behaviors are the cause of a spurious relationship between satisfaction and performance. Because the current set of data demonstrated a causal relationship between store-level employee satisfaction and two customer-related performance dimensions a year later, an analysis was run to control for effects of leader behaviors (combining the two dimensions of leader behavior used in the current sample) with these variables to see if a significant, causal relationship still exists. Regression analyses supported Hypothesis 5 (see Table 6). After controlling for store busyness, customer-related performance at time 1, and all
leader behaviors of interest, employee satisfaction at time 1 continued to predicted a significant amount of variance in customer-related performance measures a year later at time 2 (responsiveness: $b = 0.23, \Delta R^2 = 0.04, p < 0.001$; customer satisfaction survey: $b = 0.19, \Delta R^2 = 0.03, p < 0.01$). These data suggest that while leader behaviors may cause employee satisfaction, they are not the cause of the satisfaction-performance link previously found and the relationship is not due to these particular leader behaviors. Instead, employee satisfaction continued to predict customer-related performance after controlling for both customer-directed and employee-directed (communication) leader behaviors.
Table 1. *Correlation Matrix*

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<th>3</th>
<th>4</th>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td>4. Employee Satisfaction (2004)</td>
<td>3.68</td>
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<td></td>
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<tr>
<td>5. Responsiveness (2003)</td>
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<td>-0.14*</td>
<td>0.27**</td>
<td>0.16*</td>
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<td>-0.16**</td>
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<td>0.12*</td>
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<td></td>
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<td>-0.02</td>
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<td>0.12*</td>
<td>0.09</td>
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<td>8. Lack of customer complaints (2003)</td>
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<td>0.24**</td>
<td>0.03</td>
<td>0.13*</td>
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<td>-0.18**</td>
<td>0.37**</td>
<td>0.42**</td>
<td>0.55**</td>
<td>0.13*</td>
<td>0.11</td>
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<td>0.18**</td>
<td>0.18**</td>
<td>0.37**</td>
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<td>0.27**</td>
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<tr>
<td>12. Lack of customer complaints (2004)</td>
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<td>1.24</td>
<td>-0.07</td>
<td>-0.15**</td>
<td>0.20**</td>
<td>0.23**</td>
<td>0.20**</td>
<td>0.05</td>
<td>0.03</td>
<td>0.55**</td>
<td>0.27**</td>
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<tr>
<td>13. Actual Sales (2003)</td>
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<td>0.87**</td>
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<td>-0.06</td>
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<td>-0.14*</td>
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<tr>
<td>14. Net Income Before Taxes (NBT) (2003)</td>
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<td>2,335,832.01</td>
<td>0.85**</td>
<td>0.78**</td>
<td>0.04</td>
<td>-0.04</td>
<td>-0.06</td>
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<td>0.11</td>
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<td>-0.10†</td>
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<td>11,338,970.99</td>
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<td>-0.11†</td>
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<td>0.03</td>
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<td>-0.17**</td>
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<td>16. Net Income Before Taxes (NBT) (2004)</td>
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<td>2,378,212.34</td>
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<td>0.87**</td>
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<td>17. Store Managers’ customer focus behaviors</td>
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<td>-0.03</td>
<td>0.40**</td>
<td>0.33**</td>
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<td>0.21**</td>
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<td>18. Store Managers’ open communication behaviors</td>
<td>5.99</td>
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*Correlation Coefficient*

†: Significant at the 0.05 level
**: Significant at the 0.01 level
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<tbody>
<tr>
<td>10. Mystery shopper (2004)</td>
<td>1.51</td>
<td>1.16</td>
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<tr>
<td>11. Customer satisfaction survey (2004)</td>
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<td>12. Lack of customer complaints (2004)</td>
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<td>0.02</td>
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<td>0.93**</td>
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<td>17. Store Managers’ customer focus behaviors</td>
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<td>0.09</td>
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<td>0.01</td>
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<tr>
<td>18. Store Managers’ open communication behaviors</td>
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** $p$<.001, * $p$<.05, † $p$ <.10
Table 2. Employee Satisfaction (time 1) predicting customer-related performance (time 2) and the moderating effect of customer-focused leader behaviors.

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<th>Controls</th>
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<td></td>
<td>DV in 2003</td>
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<td>0.55**</td>
<td></td>
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<td>Step 2</td>
<td>Employee Satisfaction (ES) (2003)</td>
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<td>0.36</td>
<td>0.05**</td>
<td>0.18*</td>
<td>0.17</td>
<td>0.03*</td>
</tr>
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<td>Customer-focused leader behaviors (CFLB)</td>
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<td>0.17</td>
<td>0.00</td>
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<tr>
<td>Step 4</td>
<td>ES x CFLB</td>
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<td>0.00</td>
<td>0.03</td>
<td>0.17</td>
<td>0.00</td>
</tr>
</tbody>
</table>

** p<.001, * p<.05, † p<.10
Table 3. *Customer-related performance (time 1) predicting employee satisfaction (time 2).*

<table>
<thead>
<tr>
<th>Step</th>
<th>Variable</th>
<th>$b$</th>
<th>$R^2$</th>
<th>$\Delta R^2$</th>
</tr>
</thead>
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<td>Controls</td>
<td></td>
<td>0.32</td>
<td>0.32**</td>
</tr>
<tr>
<td></td>
<td>Busyness 2004</td>
<td>-0.03</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employee Satisfaction (ES) (2003)</td>
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<td></td>
</tr>
<tr>
<td>Step 2</td>
<td>Responsiveness (2003)</td>
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<td>0.00</td>
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<tr>
<td>Step 2</td>
<td>Customer Satisfaction survey (2003)</td>
<td>0.01</td>
<td>0.32</td>
<td>0.00</td>
</tr>
<tr>
<td>Step 2</td>
<td>Lack of Customer Complaints (2003)</td>
<td>0.00</td>
<td>0.32</td>
<td>0.00</td>
</tr>
</tbody>
</table>

** $p<.001$, * $p<.05$, † $p<.10$.**
Table 4. *Store profitability (time 1) predicting employee satisfaction (time 2) and the moderating effect of open communication leader behaviors.*

<table>
<thead>
<tr>
<th>Step</th>
<th>Predictor</th>
<th>Coefficient</th>
<th>$R^2$</th>
<th>$\Delta R^2$</th>
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<td>0.32**</td>
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<tr>
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<td>Business 2004</td>
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<td></td>
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<td>0.32</td>
<td>0.01†</td>
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<td>Step 3</td>
<td>Open-communication leader behaviors (OCLB)</td>
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<td>0.01</td>
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<tr>
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<td>Sales x OCLB</td>
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<tr>
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<td>NBT x OCLB</td>
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** $p<.001$, * $p<.05$, † $p<.10$
Table 5. *Employee Satisfaction (time 1) predicting store profitability (time 2).*

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<tr>
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** $p<.001$, * $p<.05$, † $p<.10$
Table 6. *Employee Satisfaction (time 1) predicting customer-related performance (time 2) after controlling for leader behaviors.*

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**$p<.001$, *$p<.05$, †$p<.10$**
Chapter 4

DISCUSSION

The current paper set out to investigate the satisfaction-performance link with attempts to replicate and extend research in this ever-intriguing area of Industrial/Organizational psychology. Based on data collected from hundreds of stores in a large, national retail organization over a two-year period, the current paper looks at competing causal hypotheses between employee satisfaction and organizational performance at an aggregated, store level of analysis (e.g. Schneider et al., 2003). Because the majority of research on the satisfaction-performance link has been hypothesized and tested at the individual level of analysis (Harter et al., 2002; Judge et al., 2001; Schneider et al., 2003), this paper examines this relationship at the unit level. Further, while previous methods testing the ‘Holy Grail’ relationship have mainly been correlational approaches, this research also looks across time at multiple waves of data collection to investigate the causal effect of variables from one year to another.

Additionally, the current paper extends research in this domain in two significant ways. First, two operationalizations of performance are examined (profitability and customer-related measures), and unique propositions are made based on their distinctive characteristics. While previous research has typically either only examined one of these measures of performance (e.g. Schneider et al., 2003), or lumped these operationalizations together to make overarching hypotheses regarding the relationship between satisfaction and performance (e.g. Ostroff, 1992), the uniqueness of the variables are discussed in depth in order to extend our understanding of both of these performance dimensions that are deemed important to service organizations. Second, the current study
takes a broader view of the satisfaction-performance thesis by examining how outside influences, namely leaders or managers within stores, impact the proposed relationships in unique ways.

On Satisfaction Causing Performance

The current study hypothesized that store-level employee satisfaction would predict customer-related performance a year later, beyond the initial levels of customer-related performance. Based on the social exchange theory (Blau, 1964), stores with employees who are satisfied with their organization and unit will be more likely to reciprocate this satisfaction by doing extra behaviors to repay the organization that may ultimately affect customers’ experiences within the stores. These behaviors typically include the employee going beyond the role-prescribed tasks typical of their job, as it is the extra effort behaviors over which they have more control and autonomy (Bateman & Organ, 1983; George, 1991; George & Bettenhausen, 1990; Koys, 2001; Ostroff, 1993). Emotional contagion theory and the service profit chain model, which suggests that employee satisfaction leads to customer satisfaction, also support this effect of satisfaction predicting customer-based indicators of performance at the store level (Heskett et al., 1997).

The data in the current study supported the hypothesis that the store level of employee satisfaction has a causal effect on customer-related performance a year later (Hypothesis 1a). Stores with higher levels of employee satisfaction at time 1 were more likely to engage in behaviors that ultimately improved customers’ experiences later, compared to stores with less satisfied employees. Not only was this relationship tested over time using a predictor that was temporally precedent to the criteria, but employee
satisfaction explained some of the variability in the *change* in performance from time 1 to time 2.

Specifically, two customer-related performance measures were directly caused by employee satisfaction the previous year: responsiveness and results from the customer satisfaction survey. First, satisfied stores had employees that, a year later, responded to customer request for help at a faster rate compared to stores that were less satisfied. This suggests that store satisfaction at one time had a causal effect on objective measures of customer-oriented behaviors as demonstrated by employees during the following year, beyond the level of these behaviors as witnessed the prior year. Second, subjective measures of customer-related performance measures were also predicted by stores’ levels of employee satisfaction. Customers gave stores higher evaluations on customer satisfaction surveys when stores had more satisfied employees a year prior. Specifically, the more stores’ employees reported being satisfied, the more customers of those stores responded that they were happy and satisfied with the service provided by employees within that store the following year.

However, the data also revealed store employee satisfaction was not significantly predictive of the two other customer-related performance measures. One of the measures was how many complaints stores receive over the course of a fiscal year. Interestingly, what is unique about this variable is that it taps into customers’ negative experiences (or lack of) with stores they have visited. The emotions literature has suggested that positive and negative affect are not on a continuum, but in fact two independent dimensions (Watson, Clark, & Tellegen, 1988). Similarly, others have proposed that positive and negative affective outcomes and responses have different, non-overlapping antecedents,
such as Herzberg, Mausner, and Snyderman’s Two Factor Theory (1959) and Weiss & Cropanzano’s Affective Events Theory (1996). While I am predicting that employee satisfaction predicts positive reactions from customers, negative outcomes may be predicted by something else. For example, lack of products and understaffing may be reasons why customers complain that have little to do with employee behavior. Because customer complaints only measures negative experiences, this may explain why they are not predicted by employee satisfaction.

Stores’ levels of employee satisfaction also did not relate to mystery shoppers’ feedback of their experiences with the stores they visited. The unique feature regarding this variable that may explain the lack of findings is that this is the only customer-related performance dimension that does not involve authentic employee-customer interactions. As described earlier, mystery shoppers are confederates that are hired by the organization to simulate real customers to appraise customer service behaviors such as greetings and directions. Interestingly, this measure is also unrelated to each of the other methods used to understand a store’s customer-related performance collected in the same year (2004), suggesting that while organizations use mystery shoppers as a way to evaluate stores’ customer-related performance, they may in fact be unrelated to the experiences of customers who visit the stores. This may be because the criteria against which confederates evaluate stores are not evaluated in the same way as real customers assess these encounters.

It was also predicted that the satisfaction predicting performance effect is stronger than the reverse causal direction (Hypothesis 1b). The data supported this hypothesis, as performance at time 1 was did not cause a change in satisfaction at time 2. This result
suggests that performance, as defined by the customer experience, did not cause employee satisfaction at the unit-level a year later. While previous research has found support for this directional relationship (Ryan et al., 1996), the sample used in the current study may be why we find different results. Ryan et al. (1996) used an organization where employees’ interaction was mainly with customers (employees were constantly on phone calls with customers who were in collections) as opposed to customers as well as internal organizational members (e.g. typical retail stores where employees interact face-to-face with both internal employees and external customers). “Jobs where contact with customers is greater than contact with peers or supervisors, may be ones where attitudes are influenced by forces external to the organization” (Ryan et al., 1996, p. 875). Because the situation may be a primary determinant of employee satisfaction, when customers are a primary part of the situation, it seems plausible that they will be a situational influence on the attitudes of a unit (Ryan et al., 1996). Further, because Ryan et al.’s (1996) study involved employees calling/taking calls from customers who had personal financial problems and/or problems with the processing of their payments, it might be that the level of customer satisfaction was more consistent (consistently low) and strong than the various levels of satisfactions that employees in a home improvement retail store encountered. Therefore, the strength of customers’ dissatisfaction could have a stronger impact on employees’ levels of satisfaction than vice versa.

On Performance Causing Satisfaction

While it was predicted that profitability of stores at time 1 would have an effect on employee satisfaction at time 2, the current study revealed no causal relationship
between how much money stores bring in and stores’ levels of employee satisfaction a year later. The data suggest that not only did a causal pattern not exist, but these two variables were unrelated (see Table 1 for correlations between employee satisfaction, actual sales and net income before taxes for both 2003 and 2004). Theory used to support this hypothesized relationship suggested that stores’ financial success must be communicated to employees in order to see the effects on their levels of satisfaction a year later. It is through this feedback that employees would have an awareness of when the store is doing well and valuing that success based on the resulting intrinsic (e.g. feeling good about being a part of a winning team) and/or extrinsic rewards (e.g. possibility of a raise)(Porter & Lawler, 1968; Vroom, 1964). Several previous studies have found support for store profitability causing employee satisfaction, including a large meta-analysis conducted by Podsakoff and Williams (1986) and a longitudinal study by Schneider et al. (2003). Nevertheless, the current study did not find support for a direct relationship.

In the current study, it may be that employees were unaware of the success (or lack of success) of their store. However, other studies have found a relationship between store performance and employee satisfaction, without directly measuring feedback. In thinking about how the current study differs from other studies which found a relationship between time 1 profits and time 2 satisfaction (e.g. Schneider et al., 2003), it may be that organizational success influences some aspects of what makes employees satisfied at work, but not others. In Schneider et al.’s (2003) work, they found that unit-level profitability related to satisfaction with pay, satisfaction with job security, and overall job satisfaction (as measured by three global items assessing overall satisfaction
with job and with company). However, in the current study, satisfaction was assessed with respect to one’s boss, co-workers, and their own self-development. While a successful store might increase employees’ security with their job, may result in some amount of bonuses or raises, and may make the organization seem like a more attractive place to work, it may not have a direct effect on employees’ relationship with one’s peers and boss.

An alternative explanation for null findings may be that employees in these types of jobs are not tied to financial outcomes of the store. Because employees were front-line sales clerks, some of which may be working part-time, they may see their job as short-term and may not define it as a “career.” Without attaching valence to store goals or not seeing their importance, employees may not be as affected by financial outcomes. Therefore, the sample used in the current study may be another reason why I did not find expected results.

Further, it was also predicted that this causal ordering would be stronger than the reverse directional path: employee satisfaction causes profits (Hypothesis 2b). The data revealed no support for the reverse causal path, suggesting that employee satisfaction at time 1 did not predict how profitable stores would be a year later.

However, it should be noted that the present study controlled for store busyness in all analyses in attempts to control for the size of the store as a confound. Because stores that are busier could affect employee satisfaction, customer-related performance and store profitability, I thought it was important to control for this variable. Nevertheless, because store busyness was measured as the number of people who bought at least one item from the store, it is measuring a similar construct to store profitability. In fact,
correlational results show strong, positive correlations between store busyness in 2003 and 2004 with sales and net income before taxes in both 2003 and 2004 (store sales: \( r = .71 - .89 \); net income before taxes: \( r = .74 - .87 \)). Therefore, in controlling for store busyness and profitability at time 1, I may actually be taking away most of the variance of net income before taxes and sales at time 2, leaving little variance for employee satisfaction to predict. While correlational results do not suggest controlling for busyness is suppressing the store performance-employee satisfaction relationship (as busyness and employee satisfaction are not correlated), to be thorough I re-ran hypotheses involving store productivity without controlling for store busyness.

Without controlling for store busyness during time 1 and time 2, Hypothesis 2a (profitability at time 1 predicting employee satisfaction at time 2, controlling for employee satisfaction at time 1) still found no support for this causal pattern (sales: \( b = -0.07 \), \( \Delta R^2 = 0.01, p > .10 \); net income before taxes: \( b = -0.06 \), \( \Delta R^2 = 0.00, p > .10 \)). In re-testing Hypothesis 2b, I regressed profitability onto employee satisfaction to data supported this causal pattern (time 1 employee satisfaction predicting time 2 profitability measures) while not controlling for store busyness. Again, regression analyses revealed no support for this directional relationship (sales: \( b = -0.00, \Delta R^2 = 0.00, p > .10 \); net income before taxes: \( b = 0.01, \Delta R^2 = 0.00, p > .10 \)). Therefore, the number of people who buy items in a store as well as the amount they buy does not have an effect on how satisfied employees are a year later.
On the Role of Leadership in the Satisfaction-Performance Link

As part of taking an extended, broader view of the satisfaction-performance link, the current study investigated how a contextual variable affecting stores’ environments, leaders’ behaviors, affects the relationship between employee satisfaction and performance. With both directional hypotheses, I predicted that leader behaviors affect the proposed relationships in different ways.

First, it was proposed that leaders’ customer-directed behaviors moderate the relationship between unit-level employee satisfaction and customer-related performance. According to the social exchange theory (Blau, 1964), satisfied employees are looking for ways to repay the organization when they are satisfied. Based on the ideas of role modeling, to the extent store leaders demonstrate behaviors directed at customers, the stronger the causal relationship between employee satisfaction and customer-related performance. Instead, however, the data revealed that the degree to which leaders are customer-focused did not affect the relationship between employee satisfaction at time 1 and performance as related to the customers in time 2, such that whether leaders were customer-focused or not, the same positive, causal relationship existed between employee satisfaction and customer-related performance. The implications of this finding is that stores characterized by satisfied employees will tend to be more likely to engage in behaviors that likely to increase customers’ satisfaction within the stores regardless of whether their leader is engaging in these behaviors, than stores with less satisfied employees. Leaders engaging in more customer-focused behaviors is not going to make stores with satisfied employees more or less likely to help customers. Importantly, though, customer-directed leader behaviors were directly related to employee
satisfaction, some of the customer-related performance dimensions, and marginally with store sales. While the degree to which store leaders demonstrated customer-focused behaviors did not moderate the satisfaction-performance relationship, these bivariate correlations suggest they, instead, may have a direct effect on both satisfaction and performance variables (discussed more below in regards to leader behaviors as a confound).

It was also of interest to look at the impact of leader employee-directed behaviors on the relationship between performance (as defined by profitability) and employee satisfaction. The extent to which leaders openly communicate with their employees was proposed to increase the relationship between store profitability and employee satisfaction. Employees with more communicative leaders should be more likely to hear about how their store is faring; based on discrepancy models (Carver & Scheier, 1981; Lawler, 1973) employees hearing their store is successful should be more satisfied, while those hearing their store is less profitable should be less satisfied. However, this moderation hypothesis was not supported by the data in the current study, as leaders’ open communication behaviors did not affect the relationship between performance and employee satisfaction. Therefore, the extent to which leaders communicate with their employees does not change the way profitability affected employee satisfaction a year later. However, store managers’ open communication behaviors directly related to employee satisfaction and some customer-related performance measures. Again, it may be that store leaders have a direct impact on satisfaction and performance versus a moderated relationship. Nevertheless, overall the current study did not find support for any of the leadership behaviors of interest (customer-directed behaviors and employee-
directed behaviors) having a moderating relationship on the proposed links between satisfaction and performance.

It should be noted, however, that leader behaviors were measured by a different source than the other variables. In the current study, direct reports of store managers (section managers within the retail store) were the population that evaluated the leaders. However, when it came to assess employee satisfaction, this was measured by capturing the satisfaction levels of the section managers, as well as all lower levels within the store down to front-line cashier. Therefore, it may be that the behaviors of a store manager are unable to impact the lower levels, as they are several levels below and may have little access to the store manager. The different perspectives used when evaluating leader behaviors and employee satisfaction may be a reason why I did not find moderating effects. However, because I found some direct effects between leader behaviors causing employee satisfaction, there may be a trickle down effect, such that store managers affect section managers which ultimate has an effect on front-line employees. However, this hypothesis cannot be tested.

It was also of interest to rule out the proposition that leader behaviors act as a confound and are the sole reason for any direct, causal relationships between satisfaction and performance. The data revealed that, in fact, leader behaviors did significantly relate to employee satisfaction and two of the eight customer-related performance measures (four measures for both 2003 and 2004). However, after controlling for leader behaviors, employee satisfaction at the store level still accounted for a significant amount of the variance in employee responsiveness and customer satisfaction reports a year later. Therefore, it may make more sense to think of leader behaviors as having a direct impact
on store level employee satisfaction, which in turn causes customer-related performance. Theories of perceived organizational support propose a direct relationship, as effective and caring leaders’ behaviors may cause employees to perceive higher organizational support which increases employees’ feelings of satisfaction (Eisenberger, Huntington, Hutchison, & Sowa, 1986; Wayne et al., 1997). Based on social exchange theory, employees may want to reciprocate as a result of these positive feelings and perform with extra effort in exchange (Blau, 1964; Shore & Wayne, 1993).

Additional Analyses

As another extension of the previous research investigating the causal link between satisfaction and performance, the current paper distinguished between operationalizations of performance, making unique predictions for two distinct meanings of performance (profitability versus customer-related performance). Examining the correlation matrix, the two operationalizations of performance (store profitability and customer-related performance) were related to each other in unique and interesting ways. For example, we see negative correlations between lack of customer complaints in 2003 and 2004 and actual sales for 2004 (complaints in 2003: $r = -0.14, p < 0.01$; complaints in 2004: $r = -0.23, p < 0.001$). The negative relationship suggests that the fewer complaints stores receive the less money the store makes; said differently, the more complaints stores receive, the more sales they have compared to stores that receive fewer complaints. My initial thought was that this relationship may be confounded by store busyness, as busier stores would receive more complaints and have more sales. However, correlational analysis do not support a relationship between store busyness and lack of customer complaints (see Table 1, only one of four correlations significant), and
exploratory regression analyses showed that even after controlling for store busyness in 2004, lack of customer complaints in 2003 predicted sales in 2004 ($b = -0.14$, $\Delta R^2 = 0.02$, $p < 0.001$). An alternative explanation could be that stores within this organization have a very effective way of responding to complaints. While some stores might get a lot of complaints, employees within this organization may be very good at turning these negative situations into positive opportunities and act on these complaints as a way to change and improve their performance. In contrast, it may also be that those customers who complain more also tend to spend more money at the store in general. While controlling for busyness eliminates variance due to the number of people who buy something at the store, it does not control for how much each customer spends. For example, while two stores may both have 500 customers who buy something a day, one store may have customers who buy higher-end items and therefore have higher sales. Therefore, it could be that stores who have customers that buy higher-end items also have customers who are more likely to complain. The concepts of entitlement might suggest one reason for those who spend more money feeling as though they deserve more than customers who spend less money, and therefore are more likely to complain. These ideas are simply conjecture, and need to be examined further in future research.

However, the data also revealed a significant positive correlation between customer satisfaction surveys in 2003 and net income before taxes in 2004 ($r = 0.14$, $p < 0.05$). Customer satisfaction surveys tap into the perception of satisfaction customers have regarding the store they visited. The more likely customers respond favorably in the aggregate, the more likely they will return to the store and ultimately spend more money at the location.
At a minimum, the fact that some measures of customer-related performance relate to store profitability in different ways highlights the author’s interest in breaking down *performance* into these two dimensions. Putting both indicators under the larger construct of *performance* could yield ambiguous and confusing results, and should be examined separately in order to understand the interesting relationship these constructs have with other important variables present in service organizations. Others have suggested the differences between different operationalizations of performance (Schneider, 1991; Tornow & Wiley, 1991; Zeithaml et al., 1990); the results of the current paper support this idea.

When looking at these results in sum, interesting causal relationships seem to emerge. The relationships found between customer-related performance and financial profitability, taken together with other relationships found in the current study, suggest a possible causal model between the all variables of interest. Specifically, I found evidence to suggest that leader behaviors may directly lead to store employee satisfaction. I also found store employee satisfaction (time 1) to cause employee responsiveness (a customer-focused behavior characterized as an OCB for this type of worker) and store customer satisfaction (perceptions of these behaviors) at time 2. Lastly, the data revealed correlations between time 1 store customer satisfaction and time 2 store financial outcomes. Therefore, as a final post-hoc analysis, I tested a model linking these variables together in a causal flow (see Appendix C). As one can see, all paths proved to be significant.

Interestingly, a similar model was proposed and supported by Scheneider et al. (2005) where they looked at a unit’s (store’s) leader service behavior and its cause on the
unit’s service climate, which then caused unit customer-focused OCBs, causing unit customer satisfaction and finally unit sales. They, too, found causal relationships between these variables. While their study looked specifically at a unit’s service culture as having an effect on customer satisfaction and ultimately sales, the current study looks even broader at this causal phenomenon, suggesting effective leader behaviors in the general sense relate to employee satisfaction, which affects how quickly employees are motivated to respond to customer needs, in turn affecting customer satisfaction and ultimately store profits for that unit. As mentioned earlier in this paper, financial performance measured at the store level is more likely a performance outcome of individual employees’ performances (employee responsiveness) rather than performance in and of itself.

Limitations

While the methods used in the current study had some strengths compared to other happy-productive worker studies, there were some critical limitations. First, the author had limited control over which measures were used and how they were used in collecting the data from the organization. Because archival data was used, some of the specific pieces of information of interest were unattainable. For example, with the data given received from the organization, I was unable to assess for within-group agreement for the employee satisfaction measure. While I proposed theoretical and empirical rationale for interrater agreement regarding employee satisfaction, establishing sufficient levels of agreement would have contributed to the soundness of the current study (James, Demaree, & Wolf, 1984). Further, the author only had access to the points awarded to each store for the customer-related performance measures and not the raw data.
Second, there are several additional variables that should have been controlled for that the author did not have access to, including location of store, number of employees within a store, and age of store. While I controlled for store busyness due to the impact it could have on my other variables of interest, examining additional characteristics of each store may suggest that the satisfaction-performance relationship varies by store context.

Third, the job satisfaction measure employed in the current study was a bit unusual from typical measures in the Industrial/Organizational psychology arena. Because the participating organization was using an industrial measure of employee satisfaction, rather than an academic measure, it may be that results found in the current study are different than those that use more traditional measures of employee satisfaction. However, it should be noted that research comparing the GWA survey and traditional measures of job satisfaction demonstrated strong, positive relationships. Further, some relationships between satisfaction and performance were supported using the GWA; this reduces the chance that the GWA is problematic.

Overall, the limitations with the current sample may be outweighed by the strengths. The above constraints (e.g. limited control) are common when using a real, operating organization as a sample. Using the participating organization, I was able to go beyond typical lab studies and arrive at findings that might be generalized to other service organizations where face-to-face interaction with customer is the norm. Further, I was able to gather data from over 200 stores and across multiple time periods.

Research Implications

The current study delivers multiple messages for future research. The results lend further support for the satisfaction-performance relationship existing at the unit level of
analysis. While most research on the ‘Holy Grail’ has examined the link at the individual level of analysis (Harter et al., 2002; Judge et al., 2001; Schneider et al., 2003), this study provides further evidence of the relationship between these two variables in the aggregate. This level of analysis has been proposed to be the original intention of research investigating the satisfaction-performance link; some authors suggest that the individual level may be too constrained or be unreliable (Ostroff, 1992) and others believe that individuals acting together can enable an organization to realize its full competitive advantage (Huselid, 1995). The more we understand about how satisfaction and performance affect one another at the unit level of analysis, the better able we will be to predict organizational success. Future research should continue to investigate these links at a unit and even organizational levels of analysis.

Studying satisfaction, for example, at higher levels of analysis could also enable researchers to investigate if satisfaction strength affects the relationship between satisfaction and performance. Along the lines of Schneider et al.’s (2002) climate strength, the agreement within a store may impact other variables at the store level. While typical research on the satisfaction-performance link has assumed a shared-level of satisfaction, one could also look at the variability of satisfaction within units and its implications. With this kind of data, one could investigate if stores with weak agreement regarding satisfaction have an impact on later performance or vice versa.

Further, the data in the current study was collected at two points of time, fiscal years 2003 and 2004, allowing the author to draw causal relationships between multiple variables. Because we had measures of both satisfaction and performance variables at time 1 and time 2, I was able to look at competing hypotheses for causal patterns.
Further, because data collection points were so distal from each other (DV$s collected a year after the IV), effects may have been hard to find. The fact that I still found significant relationships is telling of the overall strength of these links. In future studies examining causal relationships, it would be beneficial to continue in this aim and collect data from even more than two points of time. By looking at satisfaction and performance relationships over multiple time periods, one might obtain a clearer picture of the true relationship between these variables. In addition, there could have been a larger, environmental influence that affected the results in a certain way during the time period of data collection (2003 and 2004) that was distinct from other time periods. Having data collected over multiple periods could reduce this error variance.

I examined two specific dimensions of leadership based on theoretical reasoning for why they would moderate specific relationships with performance. It is possible that different leader behaviors moderate the satisfaction-performance relationship, such as leaders’ ability to be collaborative, influential, and organize/structure work. There are also other conceptualizations of leadership that might be useful when categorizing leader behaviors, such as transactional, transformational, charismatic, and visionary leaders. Examining these other, more well-established categories of leader behaviors may be useful in determining their relationship with the satisfaction-performance link.

There are numerous additional historical and contextual variables that may have an impact on the happy-productive worker thesis. For example, while Wright and colleagues (2005) noted that leaders could cause both satisfaction and performance, they also suggested that organizational culture could also influence both variables. Judge et al. (2001) mentioned research supporting role ambiguity, self esteem, job involvement,
and organizational commitment as third variables causing both satisfaction and
performance, suggesting other factors may support the spurious nature of the happy-
productive worker thesis. Also in their meta-analysis, Judge et al. (2001) review several
variables that have been investigated as moderators of the satisfaction-performance,
including reward contingency, job complexity, organizational tenure, and affective
disposition. For example, while in the current study rewards linked with financial
performance was not assessed, it could be that if employee rewards are tied to
organizational outcomes than there would be a stronger relationship with satisfaction.
This line of research has been suggested by previous researchers who propose that
financial success causes employee satisfaction (Schneider et al., 2003) and is supported
by the research by Porter and Lawler (1968). However, in general, because “very few of
these moderators have been tested in more than one study”, it is difficult to assess their
validity (Judge et al., 2001, p. 380). Therefore, more systematic investigations on the
variables moderating or confounding the satisfaction-performance relationship would
help us further understand the true nature of the satisfaction-performance relationship in
organizational life.

In addition, our understanding of the construct of performance continues to grow.
At the individual, unit, and organization alike, there are several ways to capture and
measure performance. There is general agreement that internal (a store’s assessment of
productivity) and external (others’ evaluations of success) criteria can be used to obtain a
comprehensive evaluation of service organizations (Ostroff, 1992). Interesting, contrary
to what one would assume, various measures of performance may not link with
satisfaction in a similar pattern (Schneider, 1991; Tornow & Wiley, 1991; Zeithaml et al.,
Results of the current study provided additional support for this idea. While satisfaction causes later performance as defined by customer-related responses, it may have a weaker, more distal relationship with performance as defined by store profitability. This highlights the importance of researchers who are investigating the satisfaction-performance link to clearly specify the performance measures of interest.

Practical Implications

As long as organizational goals include increasing performance, practitioners will be interested in the findings presented in this paper. The current study takes the research on the ‘Holy Grail’ relationship between satisfaction and performance and tests it in a functioning retail organization with 328 stores. The data suggests that stores’ leaders affect that stores’ employees levels of satisfaction. Further, those stores that have higher levels of satisfied employees will see the benefits in terms of how quickly employees will work to satisfy customer needs, how positively customers’ react to their experiences within that store, and ultimately financial benefits. In order to remain competitive, customer evaluations of stores continues to be an important criterion of successful performance in sales organizations (Schmit & Allscheid, 1995), and the current study demonstrates that store-level employee satisfaction is strong enough to affect these criteria a year down the road. This research would suggest to sales organizations that putting in effort to increase stores’ satisfaction, possibly through their leaders, will have a pay-off in regards to customer satisfaction.

Further, it is also of interest that some dimensions that organizations use to quantify performance are unrelated to each other. While stores may look at mystery shoppers as a way to understand customer satisfaction and how customer-oriented
employees are, this may not be an appropriate measure. Organizations that rate stores based on the combination of customer based criteria (as the sample organization used in this study does) may not be seeing the true story.

In addition, knowledge that leaders’ behaviors within stores cause stores to have higher levels of employee satisfaction is of use to organizations. Rather than assuming leaders’ behaviors may change the link between satisfaction and performance (as the moderation hypotheses would have suggested), it seems that the leader would directly affect stores’ levels of satisfaction. However, the notion that leader behavior acts as a confound and the relationship between satisfaction and performance is a spurious one is also unsupported by the current data; instead, leader behaviors were found to cause employee satisfaction which then leads to customer-related performance. This suggests that stores’ leaders would not have a direct impact on performance, but instead affect performance through the other employees within the store. Therefore, the leader dimensions included in the current study, such as customer-focus and open communication with employees, are important criteria in understanding how leaders will affect employee satisfaction. Organizations that select and promote leaders based on these qualities will see the benefit in terms of increased employee satisfaction and performance down the road.

Conclusion

While the study of the relationship between satisfaction and performance is one of the most common investigations in Industrial/Organizational psychology for almost a century, the search for the “Holy Grail” continues. The current study adds to a growing number of research studies investigating the causal relationship of satisfaction and
performance at the store-level of analysis over time. Further, I extend research in this area in two unique ways: (a) by distinguishing between two common conceptualizations of performance and investigating the different causal patterns associated with both and (b) taking an in-depth look at the role leader behaviors play on the relationship, playing the role of a moderator as well as a confound. Overall, the results provide evidence for specific leader behaviors influencing employee satisfaction at the store level, which causes customer-related performance a year later. Therefore, in guiding organizations on how to maximize employee satisfaction and performance, it would be wise to focus efforts on the leader of the store. Because investigations into the happy-productive worker thesis have avoided the examination of multiple contextual factors, this study highlights the notion of taking some of these variables into account. Specifically, while leaders have not been thoroughly examined as a crucial role in the satisfaction-performance link, it may be time to start integrating these two literatures in more depth in order to understand where organizations can focus their effectors in maximizing important outcomes.
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Appendix A. Survey Items

Employee Satisfaction (measured with Employee Engagement survey)
1. I know what is expected of me at work.
2. I have the materials and equipment I need to do my work right.
3. At work, I have the opportunity to do what I do best every day.
4. In the last seven days, I have received recognition or praise for doing good work.
5. My supervisor, or someone at work, seems to care about me as a person.
6. There is someone at work who encourages my development.
7. At work, my opinions seem to count.
8. The mission/purpose of my company makes me feel my job is important.
9. My associates (fellow employees) are committed to doing quality work.
10. I have a best friend at work.
11. In the last six months, someone at work has talked to me about my progress.
12. This last year, I have had opportunities at work to learn and grow.

Exceed Customer Expectations
1. Consistently and proactively searches for significant ways to improve customer service.
2. Ensures a level of customer service that is differentiated from the competition.
3. Proactively seeks out frank customer feedback and probes deeply to surface and understand the tough issues.
4. Creates systems and processes that make it as easy as possible for customers to do business with the company.
5. Consistently ensures that customer issues are fully and effectively resolved.

Encourage Open Communication
1. Proactively shares timely updates and information with relevant parties.
2. Chooses the appropriate communication vehicle given the situation (e.g., face-to-face, e-mail, voicemail, videoconferencing).
3. Expresses reactions and opinions with intimidating others, and in ways that invite continued dialog, reactions, and input from others.
4. Creates an environment where honest and open discussion of all issues, even difficult ones, is encouraged and nurtured.
Appendix B. Models of Hypothesized Relationships

Hypothesis 1a

2003

Employee Satisfaction

H1a

Customer-related Performance

2004

Customer-related Performance

Hypothesis 1b

2003

Employee Satisfaction

H1b

Customer-related Performance

2004

Employee Satisfaction
Hypothesis 2a

Hypothesis 2b

Employee Satisfaction

Store Productivity

Employee Satisfaction

Store Productivity

2003

2004

H2a

H2b
Hypothesis 3

2003

Employee Satisfaction

H3 (moderation)

Customer-directed Leader Behaviors

2004

Customer-related Performance

Hypothesis 4

2003

Store Profitability

H4 (moderation)

Employee-directed Leader Behaviors

2004

Employee Satisfaction
Hypothesis 5

2003

Employee Satisfaction

H5

2004

Customer-related Performance
(responsiveness & customer satisfaction survey)

Leader Behaviors
Appendix C. Final model of relationships

Leader Behaviors (2003)

- r = .49**, b = .29*, R² = .17
- ΔR² = .17, p < .001

Employee Satisfaction (2003)

- r = .27**, b = .24**, R² = .36
- ΔR² = .05, p < .001

Employee Responsiveness (2004)


- r = .27**, b = .20*, R² = .17
- ΔR² = .04, p = .001

Store Productivity (net income 2004)

- r = .02, b = .06*, R² = .90
- ΔR² = .003, p < .05
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- Graduate Student Summer Grant ($1,000)
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* A complete list of papers and presentations available upon request